



Evolving through innovation

Creative power innovates –
values will remain

HCI Capital AG
ANNUAL REPORT 2007

Capital **hci**

Contents

Welcome Address	2
Strategy and Business Model	6
A time of changing strategies	8
Financial Engineering	10
Sales and Marketing	12
After-Sales Services	14
Asset Management and Joint Ventures	16
The HCI Product Range	18
Ship funds	20
Real estate funds	22
Secondary life insurance market funds	24
Private equity funds of funds	26
Asset creation plans	28
Structured products	30
The HCI Share and Investor Relations	32
Employees	38
Group Management Report	42
Business and economic environment	44
Net assets, financial position and result of operations of the HCI Group	54
Human resources	67
Report on material events after the reporting date	69
Risk report	70
Outlook	80
Other information	87
Consolidated Financial Statements	92
Consolidated income statement	94
Consolidated balance sheet	95
Consolidated cash flow statement	96
Consolidated statement of changes in equity	97
Segment reporting	98
Statement of changes in non-current assets	100
Notes to the Consolidated Financial Statements	102
General information	104
Notes to the consolidated balance sheet	114
Notes to the consolidated income statement	123
Notes to the consolidated cash flow statement	129
Notes on segment reporting	129
Other disclosures	130
Statutory Declaration	147
Auditors' Report	147
Report of the Supervisory Board	148
Corporate Governance	150
Financial Calendar, Contact Details, Imprint	153

New products



Benefit from growth in global trade – with capital protection.

New markets



Invest in booming real estate markets of impeccable quality.

New customer groups

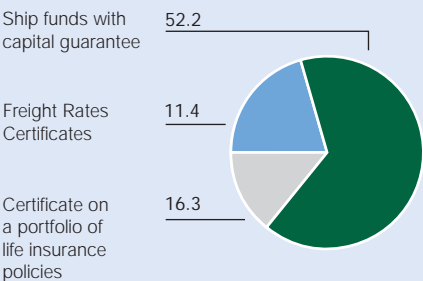


Tailor-made access for institutional investors to container shipping as an asset class.

HCI innovation: HSC Freight Rates Protect Certificate

HCI expanded its new product offer in 2007 by launching capital-protected certificates on the Baltic Dry Index, a reference index tracking global demand for dry bulk shipping capacity. Using these certificates, investors can participate in the high-growth logistics market with a limited investment, without having to acquire a stake in a shipping enterprise. In 2007 HCI placed aggregate equity capital of approx. EUR 80 million in structured products.

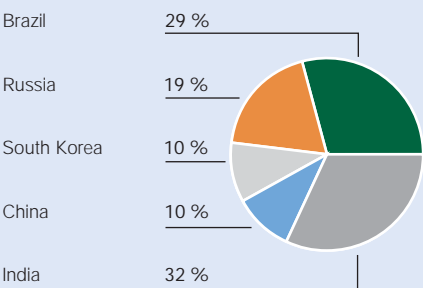
Equity capital placed in 2007 via structured products
EUR mn



HCI innovation: HCI Real Estate BRIC+

Brazil, Russia, India and China – commonly referred to as the ‘BRIC’ countries – rank amongst the fastest-growing economies around the world. This closed-end fund launched by HCI in 2007 marks the first time German investors have the opportunity to invest in these countries’ booming real estate markets. The widely-diversified fund of funds already yielded initial repayments after just a few weeks. The HCI Real Estate BRIC+ fund was awarded several prizes by independent rating agencies and industry publications, recognising its innovative fund structure and outstanding management quality.

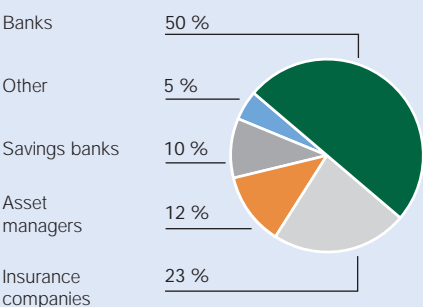
HCI Real Estate BRIC+ – investment allocation as at 31 Dec 2007



HCI innovation: HCI HAMMONIA SHIPPING AG

Expanding business with institutional investors represents a significant source of growth and income potential for HCI. Banks, insurance companies and pension funds in Germany and Austria subscribed shares worth EUR 150 million in HCI HAMMONIA SHIPPING AG, an exchange-listed shipping company. The transaction provided investors with access to the high-growth container shipping market, tailored to their specific needs. For HCI, managing the shipping assets in the portfolio generates sustained income.

HCI HAMMONIA SHIPPING AG – shareholder structure as at 31 Dec 2007



Key financial indicators

Results

	Unit	2007	2006	Change %
Revenues	EUR mn	137.3	145.6	-5.7
Total operating revenue	EUR mn	149.8	166.9	-10.2
Earnings before interest and taxes (EBIT)	EUR mn	40.3	51.1	-21.1
Earnings before taxes (EBT)	EUR mn	40.8	55.2	-26.1
Consolidated net income for the year	EUR mn	30.6	39.5	-22.5
EBIT margin	%	29.4	35.1	-5.7 % pts.

Balance sheet

	Unit	2007	2006	Change %
Total assets	EUR mn	239.9	227.1	5.6
Equity	EUR mn	118.0	123.3	-4.3
Equity ratio	%	49.2	54.3	-5.1 % pts.

Employees

	Unit	2007	2006	Change %
Average number of employees	Number	286	238	20.2
Personnel expenses	EUR mn	28.0	23.9	17.2
Personnel expense ratio	%	20.4	16.4	4.0 % pts.

Share

	Unit	2007	2006	
Earnings per share	EUR	1.27	1.64	
Dividend per share (2007 proposal)	EUR	0.70	1.40	

Company-specific indicators

	Unit	2007	2006	Change %
Customers	Number	101,900	87,700	16.2
New issues	Number	32	26	23.1
Investment volume (aggregate)	EUR mn	13,274	11,960	11.0
Administered trust assets	EUR mn	4,337	3,966	9.4
Trust fees	EUR mn	22.6	22.7	-0.4

The background of the slide features two portraits of a woman with long, flowing, wavy hair. The top portrait is in naturalistic tones, with reddish-brown hair and a pale complexion against a light blue background. The bottom portrait is a more vibrant, stylized version of the same woman, with her hair in shades of magenta and pink, and her eyes and lips in a bright red. The background of the bottom portrait is dark and textured.

Evolving through innovation

HCI has been designing and selling top-quality investment products with an attractive risk/return profile for more than 20 years. Never has the speed of innovation been as high as today. New products, new markets, and new customer groups provide a solid and extensive foundation for HCI Group's successful business model. Providing our customers with the highest quality and creating sustained and profitable growth for our shareholders are the constants in our evolution.



*Dear shareholders of HCI Capital AG,
dear business associates,*

The 2007 financial year, the period under review in this report, was a year of change – change at HCI Capital AG and change on the markets in which we operate. The fact that our company was able to write another chapter in a success story that now spans more than twenty years, and even take some key steps forward as we look to the future, is proof of the HCI Group's excellent positioning, its operational strength, its innovation and its vitality. The title of our 2007 Annual Report – "Evolving through innovation" – highlights HCI's key long-term success factor.

The markets for the origination and distribution of closed-end fund investments were in many cases subject to dramatic fluctuations over the course of 2007. Then, in the summer, came the sub-prime crisis, triggered by the rising number of defaults on subordinated mortgage loans to private households in the USA and the ensuing uncertainty surrounding the valuation of financial instruments based on this type of credit. This called into question the stability of the US real estate markets, created a massive depreciation requirement on the part of international investors, and shook the financial sector across the world. Some initiators of closed-end funds were also indirectly affected by this crisis due to banks adopting a more restrictive lending policy. Three core statements are particularly important to us against this background:



- Closed-end funds are investment products with a term that is typically longer than ten years. Short-term market fluctuations are of little importance to their success. Rather, the investment result is dependent on a sound, long-term product design that also takes account of the sale of the investment.
- The valuation of HCI and its share on the basis of short-term, volatile variables is thus also inappropriate. During the 2007 financial year, HCI once again underlined the robustness of its long-term success factors: many years' experience in the origination and sales markets for investments, outstanding expertise and innovative strength in product design, in-depth knowledge of the needs of sales partners and investors.
- Nevertheless, this is not to say that the HCI Group is not permanently developing its business concept, actively taking on board sustained changes in the markets and capturing new business potential. In 2007 in particular this marked innovative strength opened up additional growth and income opportunities for our company.



Wolfgang Essing – CEO

- October 2007 to date: Chairman of the Management Board of HCI Capital AG
- January 2007 to date: Member of the Management Board of HCI Capital AG
- 2003 – 2006 Managing Partner of zeb/rolfes.schierenbeck.associates consultancy
- 2000 – 2002 Founder and Managing Partner of zeb/sales.consult GmbH
- 1989 – 2000 MLP Finanzdienstleistungs AG



Dr Rolando Gennari – CFO

- 2005 to date: Member of the Management Board of HCI Capital AG
- 2000 – 2004 Member of the Management Board Bankhaus Hesse Newman & Co. AG
- 1991 – 2000 Various executive positions Bankhaus Hesse Newman & Co. AG
- 1987 – 1991 Banca Nazionale del Lavoro SpA, Rome



Dr Oliver Moosmayer – CPO

- 2007 to date: Member of the Management Board of HCI Capital AG
- 2003 – 2007 Managing Director of HSC Hanseatische Sachwert Concept GmbH
- 2000 – 2003 Various positions within the HCI Group
- 1990 – 2000 Hamburg Savings Bank (various departments and branches)

The year 2007 saw the HCI Group move into the high-growth market segment of structured products. From the very start, this new product line contributed some EUR 80 million to the volume of placed equity capital. By issuing guarantee products and certificates, HCI can reach new groups of investors over and above its established customer base, targeting those who are looking for a lower level of risk, shorter investment horizons (even including daily tradability), and a smaller minimum investment when making their investment decisions. This successful innovation is one that will be pursued further on a consistent basis in future.

We are particularly proud of the smooth launch of our listed shipping company HCI HAMMONIA SHIPPING AG. This highlights the effective networking of the different areas of the HCI Group to create value within the framework of an integrated business model: a new product developed by Financial Engineering enables Sales to offer the new target customer group of institutional investors an attractive investment in container shipping, which in turn generates recurring revenues for HCI Asset Management, through managing the shipping portfolio. Generally speaking, we regard the expansion of business with institutional investors as representing a significant source of growth and income potential.

During the 2007 financial year the HCI Group placed EUR 810.6 million of equity capital with private and institutional investors, representing an increase of 25.9 % on the previous year. This growth was supported by the ship and real estate segments, whilst the secondary life insurance market and private equity funds of funds were down on the previous year as a result of market conditions. Consolidated net income for the year amounted to EUR 30.6 million, following a figure of EUR 39.5 million for the 2006 financial year. This decline was due to four factors in particular:

- a structural shift in commission income, from one-off design and sales fees to recurring management fees, reflecting the changed product mix;
- higher personnel expenses attributable to the necessary increase in staffing levels, and due to special effects related to changes in the composition of the Management Board;
- expenses from the consolidation of a real estate finance fund, which was not planned previously;
- non-recurring tax effects.

We will be proposing to the Annual General Meeting on 15 May 2008 that a reduced dividend compared with the previous year of EUR 0.70 be distributed for the 2007 financial year. We are well aware that this move will disappoint short-term investors. However, our commitment is to increase company value on a medium to long-term horizon in particular. A higher dividend distribution would have been possible in principle. Given the higher levels of uncertainty prevailing as a result of overall market developments, however, a sound capitalisation is essential for HCI to actively use the attractive growth potential that is available across all of the company's business lines.

Over the course of 2007 the shareholder structure of HCI Capital AG changed substantially as a result of various developments. HCI Sicar A.G. and Christ Capital GmbH ceased to be shareholders altogether. In their place, the financial investor Corsair Capital LLC, MPC Capital AG and the Peter Döhle Group now hold stakes in the company. The level of free-floating shares remains more or less unchanged at around 55 % of the share capital.

On 12 February 2008 MPC Capital AG announced that it intends to submit a public takeover offer to shareholders of HCI Capital AG in order to acquire their shares against a cash consideration. The takeover offer has not been published at the time of publishing this Annual Report (5 March 2008). We will, of course, comment on this offer as soon as it has been submitted.

The fact that 2007 was a year of change for HCI is also reflected in the composition of the company's executive bodies. Harald Christ and Dr Ralf Friedrichs retired from their positions on the Management Board, with Wolfgang Essing assuming the position of Chairman of the Management Board and Dr Oliver Moosmayer becoming member of the Management Board with responsibility for Product Development. On the Supervisory Board, Karl Gernandt and Alexander Stuhlmann replaced Prof Dr Georg Crezelius and Ralf Hunck. Our thanks go to our colleagues and members of the Supervisory Board who have retired for their work and dedication during such a momentous period.

It is our employees with their high levels of dedication, expertise and creativity that make HCI such a successful company. We would like to thank the entire HCI team for their commitment, contribution, and achievements during the 2007 financial year.

HCI is entering into new business dimensions and is actively and innovatively moulding the future of the company. Providing our customers with the highest quality and creating long-term profitable growth for our shareholders are the constants in our evolution. Our warmest thanks go to you all for having confidence in what we do, and we invite you to accompany us as our partners as we look to the future.

Hamburg, March 2008



*Wolfgang Essing
Chairman of the
Management Board*



*Dr Rolando Gennari
Member of the
Management Board*



*Dr Oliver Moosmayer
Member of the
Management Board*



A time of changing
strategies



Truly successful strategies are flexible and innovative, to adapt to a changing environment. Alexander the Great's Indian campaign, the discovery of space in art, HCI exploring new markets: it is all about venturing into new dimensions.

A time of changing strategies – entering new dimensions.

New products, new target customer groups, new markets: HCI is actively and innovatively shaping the future of the company.

The HCI Group has been designing and selling high-quality financial products for more than twenty years, whilst also offering an increasingly broad range of product-related services. The company's business model with its proven track record encompasses Financial Engineering, Sales and Marketing, After-Sales Services, Asset Management and Joint Ventures. One of HCI's key characteristics is its marked innovative strength, driving forward the development of the company and frequently setting benchmarks for the industry as a whole. In short: evolving through innovation.

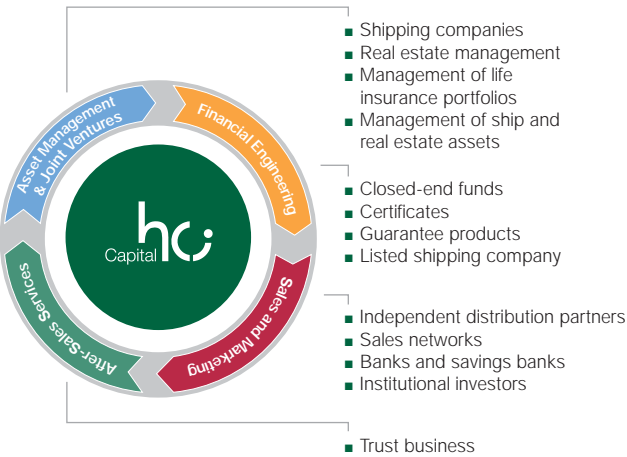
The starting point for many product innovations is Financial Engineering, a discipline that systematically analyses market opportunities and turns these into customised, commercially viable financial instruments – closed-end funds, asset creation plans and structured products. Financial Engineering is also spurred on to develop new products by Sales, which as an interface with the sales markets, absorbs the wishes and requirements of sales partners and investors. The After-Sales Services team is responsible for dealing with investors' commercial and fund-specific questions in a reliable and service-oriented manner. It also deals with any trust management activities. Asset Management and Joint Ventures represent a unique element in the value

added chain at the HCI Group that is unrivalled among the company's competitors. They are an anchor in the origination and sales markets, a platform for the interlinking of products with tie-in services and a source of recurring revenues.

Structured products – a growth area
The year 2007 saw the HCI Group move into the high-growth market segment of structured products: specifically, structured fund products backed by a capital guarantee, and certificates. This innovation was based on the simple yet clever idea of taking market expertise and structuring skills gained over many years to create an additional product line. The range of products launched to date

extends from a certificate that tracks developments in the UK and German secondary life insurance market through to a structured ship fund with capital guarantee. Crucial to the design of the investment products are the respective requirements of the various different groups of target customers: securing of invested capital, full fungibility of investments (by ensuring they can be traded on any day), comparatively short investment term or low minimum investment required, to name just a few examples. Through its innovative products, HCI is acquiring new sales partners and, as a result, new customers.

HCI's business model



Extending the customer base

For many years now, the HCI Group has pursued the strategy of continually increasing its customer base by developing innovative financial products and services that meet the needs of specific customer groups. By offering closed-end funds, we are targeting high net worth investors in particular, who use these investment products to round off their portfolios and/or to further diversify their range of investments and to optimise their income. Our asset creation plans, which have been successfully marketed since 2004, are essentially aimed at young high-income customers who are looking to the long-term accumulation of assets through ongoing payments into an investment product with an attractive return profile. Certificates and guaranteed products are aimed first and foremost at the risk-averse investor groups. Finally, by structuring a listed shipping company for the first time – HCI HAMMONIA SHIPPING AG –, we were also able to successfully attract institutional investors to this asset class during the 2007 financial year.

Expansion of Asset Management

Asset Management activities and Joint Ventures are important elements of the HCI Group's business model. HCI has a unique selling point thanks to its active presence and closely-knit network in the origination markets. The company's sound and in-depth knowledge of the markets means that new product ideas can be recognised and implemented at an early stage. New potential is created by linking up products with complementary services. As a result, additional continuous sources of revenues are tapped. At the same time, Asset Management works in close cooperation with Financial Engineering. In this way, optimum use can be made of synergies in the procurement of investments and product development. Moreover, the activity on the company's operational markets provides the basis for the HCI Group's outstanding expertise in the disposal of investments. This skill in handling exits has a very crucial impact on the overall return of the investment product. Finally, through its Asset Management team, the HCI Group has the ideal springboard from which to enter into international partnerships, as in the case for example of its joint venture with the US real estate investor Behringer Harvard. The share of recurring revenues in the total result for the HCI Group is already the highest recorded by any company in the entire sector. Our aim is to consistently develop our Asset Management activities.

Venturing into new fund dimensions

With its HCI Deepsea Oil Explorer project, involving the financing of a new oil platform for deep-sea exploratory drilling, HCI – together with its partner MPC Capital AG – is opening up a new dimension in project finance. With an investment volume in the region of USD 580 million, this is a real challenge in terms of sales, which is being handled through the parallel use of all distribution channels and through the syndication of the equity capital to be placed together with an experienced competitor in the sector – in a similar approach to that adopted in the banking sector. Through this pilot project, HCI Capital and MPC Capital are building up their expertise, enabling them to implement significantly larger investment projects in the form of closed-end funds in future.

Financial Engineering.

Identifying investment projects and designing cash flow structures, risk profiles and investment periods according to market and investor requirements.

Financial Engineering is responsible for HCI Group's product development, which is critically important to the company's long-term success. In a market environment that is ever more fast-moving, there is a growing need for individually tailored finance and investment opportunities. Structured products extend the market potential for financing and investments by responding flexibly to the needs of both sides. The close link to the origination markets and to the sales partners regularly generates new product ideas and, at the same time, new customer preferences and target groups. All in all, Financial Engineering is the engine driving the HCI Group as it develops from an issuing house for closed-end funds to a system provider offering a diverse range of financial products and services.

Speed, flexibility and quality are the factors of success in volatile markets

The art of Financial Engineering is to acquire investments at the best possible conditions and to turn these into financial instruments that offer investors an attractive return in exchange for an appropriate level of risk. The design process often finds itself caught between the long-term horizon of the planned financial instrument and markets that are subject to major short-term fluctuations. On the other hand, high

levels of market volatility open up opportunities that could not be exploited with traditional instruments alone. In this context, it is Financial Engineering that inputs the ideas and assumes the role of architect. The targeted planning and management of cash flows and their optimisation in terms of such parameters as taxes, transaction costs or risk management requires a high level of experience from our employees in dealing with complex financial issues and an in-depth understanding of the markets and the requirements of our customers. The ability to generate attractive products in an investment environment that is rapidly changing is the key factor in our

company's success. Our many years' experience in the core origination markets of shipping, real estate and life insurance form the foundation on which high-quality investment concepts can be created.

Financial Engineering generates ideas for attractive investment products, and assumes the role of architect.

Investor preferences drive the development of new products

Demand for investment products is driven by a diverse range of influences. In addition to movements on the commodity and capital markets, as well as changes in the regulatory and tax environment, trends with regard to particular product categories also play an important role time and time again. HCI reacts flexibly and in a timely fashion to these trends, such as the strong rise in demand for certificates or products with capital guarantee observed of late, by developing the corresponding investment forms in which the handed-down knowledge of our operational markets is combined with the features of innovative capital market instruments. For instance the HSC Optivita Europe LV Index Certificate offers investors exposure to the secondary life insurance market, all with the usual features of an investment certificate. The certifi-

cate invests in an index tracking a portfolio of British and German life insurance policies. HCI's development in 2007 of the HSC Freight Rates Protect Certificate offers investors a participation in the performance of the Baltic Dry Index. This index tracks the development of freight rates for dry bulk shipping on standard trades, permitting investors to benefit from continued growth in world trade. At the same time, the certificate also comes with capital protection. Finally, the fact that the instrument can be traded on any exchange trading day makes for a flexible investment period. As a result this investment segment – as yet another first by HCI – is now also accessible to those investor groups who previously avoided any direct investment in closed-end funds due to the prohibitively high one-off investments required or long tie-in period. In traditional ship investments, HCI also pursued a new and innovative avenue in 2007 with the launch of HSC Shipping Protect I. To date, investors have only been able to make use of ship investments if they assumed the associated entrepreneurial risk. The fund of funds concept of the HSC Shipping Protect I, however, enables investors to take advantage of tax-optimised return opportunities coupled with broad risk diversification in a security-oriented fixed investment.

Structured Products are therefore a further example of how new product concepts can be used to open up new customer groups to the HCI Group, customers who would not have been reached with the old range of offerings. Financial Engineering is able to design investments in a flexible way in terms of investment period, minimum investments, risk and tradability.

Detailed knowledge of operational markets lends HCI a competitive edge

Thanks to its many years of experience in the origination markets for ships, real estate and the secondary life insurance market, HCI is exceptionally skilled at assessing market trends. This ability is not just an advantage with regard to issuing a new product but is also crucially important when deciding on a commercially attractive exit strategy for investors. HCI's expertise is not just demonstrated by its issuing of 468 funds comprising 492 ships and 76 properties, with an investment volume of more than EUR 13.3 billion, but also in its successful disposal of more than 160 ships. In the real estate sector, the fund property of HCI USA I, a class-A office property in Florida, was sold at the beginning of 2007 – after a term of just three years – at exceptionally attractive conditions. This resulted in a net return for fund investors of in excess of 20 % p.a. Our customers' satisfaction levels are evident from the very high rate of reinvested capital from the funds released as a result of the disposal.

Innovation as the foundation of future growth

By interweaving our innovative skills, Financial Engineering and knowledge of our operational markets with the HCI Group's solid financial strength, we can extend the scope for new projects and build the foundation for future growth.

Sales and Marketing.

Effective sales thanks to a consistently customer-focused approach.

Our consistently customer-focused approach is the secret behind our sales success. The HCI Group took this guiding principle and developed it further in 2007 by introducing numerous measures. The management and organisational structure of Sales, for example, is now clearly based on the three key distribution channels: independent distribution partners, banks and savings banks, and financial sales forces. To target distribution partners more specifically and more personally, we have established six regional areas to cover independent brokers, and further refined our specialisation in the area of banks, savings banks and cooperative banks. In this way we have succeeded in increasing penetration in the individual customer groups, gaining new distribution partners and incorporating changes to customers' needs and market trends even more quickly, turning them into attractive products.

Tightened requirements for advisors strengthens HCI's market position

The entry into force of the European Insurance Mediation Directive in the middle of 2007 signalled a significant tightening of the requirements made for financial advisors in terms of their training and the quality of their advisory services provided. The result of the Directive has also been a greater administrative workload in terms of documenting the advice provided, coupled with increased technical system requirements. This will lead to a concentration process and, at the same time, to a further improvement in advisory quality. From this angle in particular, HCI welcomes this development, as complex investment products can only be sold following appropriate advice from a suitably qualified advisor. HCI actively supports its distribution partners through training offers, both on general investment themes and specific products, fostering closer cooperation. If individual advisors come together to form larger agencies, each can have the opportunity to specialise in a particular type of investment category.

It is the distribution channel of individual advisors and financial brokers that is particularly affected by these market changes. This is an important group, accounting for 58.3 % of sales in HCI products. HCI will provide its partners in this segment with greater support in acquisition and in the staging of customer events, thereby helping to ensure that advisory expertise and quality are increased further.

In the banking sector, by specialising according to the different groups – savings banks, cooperative banks, regional banks or major banks – we have responded to the varying needs of the respective customers. Accounting for 34.5 % of sales, the banking sector is also very important to HCI as a distribution channel and is one that, through the expansion of customer relations, as in the case of the cooperative banks for example, still has a great deal of potential.

Financial sales networks, which accounted for 7.2 % of HCI Group sales in 2007, have excellent placement strength thanks to their broadly diversified access to customers.

With its sales volume split across these three different distribution channels, the HCI Group is already broadly diversified. In addition, business with institutional customers was taken to a new level in 2007 with the establishment of HCI HAMMONIA SHIP-PING AG. Generally speaking, we regard the expansion of business with institutional investors as representing a significant source of growth and income potential.

A further focus of our sales activities lies in the ongoing expansion of our activities in Austria, in particular the acquisition of strong regional distribution partners for the broadening of market access. Furthermore, further opportunities to capture markets in Eastern Europe, which we are keen to exploit to a greater extent in future, will arise via activities in Austria.

Recognised service quality

The intensive dialogue with our target groups and the ability to design products tailored to investor needs are key factors of HCI's success. The provision of good customer service is a further factor. On the sales side, HCI notched up particular successes in product diversification with structured products such as the freight rate index certificate, a ship fund with a capital guarantee, and a certificate based on a portfolio of secondary life insurance policies. In the real estate sector, the volume of the placement of the Real Estate Growth I USA fund in October was raised to USD 111 million on the basis of the keen demand. The services provided by the HCI Group are also acknowledged and appreciated in expert circles. Over recent months HCI has received three major industry awards. At the end of September 2007, HCI was once again voted the top provider out of the 131 contenders in the Closed-End Funds category by the almost 5,000 trade visitors who attended the "funds & finance" trade fair. Also in September, the magazine CASH awarded HCI the Financial Advisors Award for the second time in succession, for the best closed-end foreign real estate fund: the HCI Real Estate BRIC+. Finally, in January 2008, Axel Springer Finanzen Verlag voted HCI the winner of its "Golden Bull" award as fund initiator of the year for 2008. These awards are a further incentive to HCI to continue expanding services for both customers and distribution partners in future.

HCI's position as a premium provider was evident in several awards in 2007.

HCI Academy guarantees high standard of advisory

From the product design phase via HCI's own sales staff through to the advisors working with the end customers at our distribution partners, an intensive transfer of knowledge is constantly in progress. The HCI Academy is a key element of ensuring that the relevant information is conveyed in this chain and that there is detailed knowledge of the products. The initial idea behind the Academy was to guarantee that customers were receiving high quality advisory services from the advisors working at our distribution partners. Increasingly, however, we are also using the training provided by the HCI Academy to train our growing sales team. The number of training events rose to 51 in 2007, with a further increase planned for the future.

After-Sales Services.

Individual, service-oriented after sales as a key component of product quality.

Complex financial products of the kind designed and sold by HCI require a good level of customer service. This is the only way in which to create a high-quality financial service. After-Sales Services form an integral component of the HCI product offer. As we understand it, a customer is entering into a partnership with our company for the entire term of the acquired investment product. Our trust companies look after the customers for contractual terms of between 10 and 20 years. The quality of the ongoing customer service provided is a key contributory factor to customer satisfaction. This has less to do with the schematic processing of administrative tasks and everything to do with offering individual advice on economic and fund-specific matters. The quality of After-Sales Services and smooth customer service represent a competitive advantage, also with regard to nurturing existing and acquiring new distribution partners.

Our aim is to turn customer satisfaction into customer loyalty

The typically long investment horizon of equity or equity-related products makes it inevitable that the quality of the customer service provided throughout the entire period will play a key role in how the investor assesses the investment. HCI has set the standards in this regard for the industry. The scope of the After-Sales Services area covers the entire term of the fund concerned, from the signing of the contract or partnership agreement through to the planned official winding-up and liquidation of the fund company at the end of the investment period. During the investment period, the After-Sales Services team deals with all statutory and regulatory matters on the investor's behalf. These include, in particular, ongoing monitoring and analysis of the

After-Sales Services performance figures

Year	Investors serviced (number)	Funds serviced (number)	Trust assets	Trust and other service fees
2002	23,500	246	EUR 2,038 mn	EUR 10.5 mn
2003	35,200	285	EUR 2,457 mn	EUR 12.6 mn
2004	54,400	314	EUR 3,038 mn	EUR 17.0 mn
2005	74,500	300	EUR 3,501 mn	EUR 21.0 mn
2006	87,700	305	EUR 3,966 mn	EUR 22.7 mn
2007	101,900	306	EUR 4,337 mn	EUR 22.6 mn

annual financial statements, forecasts, budgets and planning of the fund companies; the drawing up of regular interim reports and yearly activity and performance reports; the monitoring of the submission of tax returns by the fund, and the preparation of the required tax statements for the investors.

Product development and sales support closely interlinked

In addition to intensive support for customers throughout the duration of the investment, the After-Sales Services team is also actively involved during the fund design phase in those aspects that will affect subsequent trust management work, as well as in the disposal of the investments at the end of the investment period. This guarantees a product design process that is also as streamlined and as efficient as possible in terms of administration and, at the same time, utilises the available knowledge in the interests of achieving an optimum investment result. In addition, the employees in After-Sales Services are available to investors and the end-customer advisors at all times to answer questions that might arise, for example, in the event of changes to the statutory framework. The success of the HCI strategy and the major satisfaction of our customers is reflected in a high reinvestment rate, with reinvestments accounting for some 20 % of subsequent investments.

The importance of revenue generated in the trust and services business for HCI Group's results is growing continuously.

Stable source of income

The services in the area of After-Sales Services are rendered through the three subsidiaries HCI Hanseatische Schiffstreuhand GmbH, HCI Hanseatische Immobilien Treuhand GmbH and HCI Hanseatische Beteiligungstreuhand GmbH. In this way the trust companies act as an interface between shipyards, real estate managers, target fund managers, banks, distribution partners and our investors. The activities focus on upholding the interests of our investors vis-à-vis the fund companies. As part of the trust management activities, more than 100,000 investors accounting for a total investment volume held in trust of EUR 4.3 billion are currently being looked after. 396 investment objects are being managed in 306 funds. The trust management companies are paid a management fee for their services based on the amount of equity capital under management and the scope of the services, which differs according to investment product. The rise in business volume with regard to placed equity capital means ongoing growth in the management commissions. Revenues from trust management and service activities totalled EUR 22.6 million in 2007. Given this long-term character, the area's results are increasingly contributing to the HCI Group's overall profit and generating recurring revenues. In HCI's value added chain, After-Sales Services are therefore making an important contribution to the company's continued growth and to increasing its earning power.

Asset Management & Joint Ventures.

Strategic knowledge in the origination markets and service expertise are extending the HCI Group's business model.

HCI laid the foundation for the development of Asset Management activities and Joint Ventures in 2003 by setting up HAMMONIA Reederei GmbH & Co. KG in conjunction with Peter Döhle Schiffahrts-KG. The aim was and remains to use operational activity in dry bulk and container shipping to further expand strategic knowledge in these key origination and sales markets in the area of shipping. The joint venture HELLESPONT HAMMONIA GmbH & Co. KG subsequently followed in 2005, with the Hellepont Group and Peter Döhle Schiffahrts-KG as partners. The Hamburg-based company operates in the tanker sector, focusing on the charter operation of tanker vessels and project development. For HCI, this step improved product availability in the tanker sector.

Knowledge in the origination markets makes HCI a sought-after partner for institutional investors

The underlying concept of expanding the value added chain into our origination markets is one that HCI has also applied to the market for life insurance policies and the real estate sector. In the secondary life insurance market, HSC Hanseatische Management GmbH engages in the portfolio management of German life insurance policies, applying a buy-and-manage approach. Similar to HSC Management GmbH, HCI has also established a management company in the UK to secure direct access to the British market. In the real estate sector, we have a very successful presence

A successful track record covering many years, a closely-knit network, and the targeted exploitation of opportunities arising in the investment origination and sales markets optimise results achieved by HCI's products.

through our management company HCI Vastgoed Management B.V. HCI Vastgoed Management has very comprehensive knowledge of real estate in the Netherlands. We also make our real estate expertise available to institutional investors. In 2006, for example, a joint venture was set up with the US real estate investor Behringer Harvard, which primarily purchases properties with high potential for a value increase. Following the necessary renovation and modernisation work, and a change of the tenant structure, these properties are then leased at market conditions. HCI, after in-depth market analysis considering the basic economic and tax situation and the specifics of the property, deals with the purchase, optimisation of the property and real estate management. Alongside regular and careful analysis of the real estate markets and management of the properties, another key aspect of positive fund performance is ensuring that the tenants in the fund properties receive the optimum service. As soon as sustained cash flow from rental income is achieved through restructuring measures within the framework of active asset management, the properties are sold to investors for appropriate returns. Overall, the intended holding period for properties is between three and five years. Four properties have already been purchased and developed over the past two years. In the case of one property, after a holding period of just nine months, it was possible to

realise a successful exit last year. The US partner, Behringer Harvard, based in Dallas, Texas, intends investing a total of EUR 1 billion in property, primarily in Western Europe, over the medium term. Through the joint venture, HCI is expanding its business operations with institutional investors.

General Electric – A new strong partner for HAMMONIA Reederei

In January 2008, General Electric Transportation Finance purchased 32 % of the shares in HAMMONIA Reederei GmbH & Co. KG as part of a capital increase in exchange for a cash contribution. In addition to GE Transportation Finance, the existing shareholders Peter Döhle and HCI continue to hold stakes in the same amount. For some 30 years GE Transportation Finance has been one of the world's leading finance companies in the logistics and transport sector. By investing in HAMMONIA Reederei, it is acquiring direct access to the charter operation of ship investments in container shipping. For HAMMONIA Reederei, the strengthening of equity capital and the excellent access to borrowing opportunities via the AAA rating of the new co-owner significantly increase the scope for future growth. In addition, the clear expansion in business will result in economies of scale. HAMMONIA Reederei will make a disproportionately high contribution to the continued income growth of the HCI Group over the coming years.


HAMMONIA SHIPPING successfully placed with institutional investors

In 2007 HCI extended its product portfolio to include a listed shipping company. HCI HAMMONIA SHIPPING AG is the management holding company for several limited partnerships, which invest in seagoing vessels. This setup enables the company to offer institutional investors a tailored investment opportunity in container shipping, which is a booming sector. Shares in HCI HAMMONIA SHIPPING AG have met with keen demand among institutional investors: total shares worth EUR 150 million were placed during the subscription period. Investors primarily included pension funds, insurance undertakings and banks in Germany and Austria. The capital market-based structure means that investors benefit from daily tradability, straightforward posting to a securities account and the tax benefits of tonnage tax.

The concept chosen for HCI HAMMONIA SHIPPING AG highlights the effective networking of the different areas of the HCI Group to create value within the framework of an integrated business model: a new product developed by Financial Engineering enables Sales to offer the new target customer group of institutional investors an attractive investment in container shipping, which in turn generates recurring revenues for HCI Asset Management, through managing the shipping portfolio.

New perspectives
create new
opportunities





Playing with colours, creating ever-changing patterns and images, is the source for creativity and innovation. New perspectives provide the basis for innovative concepts, help explore market opportunities, and create value – for HCI, our customers, and our partners.

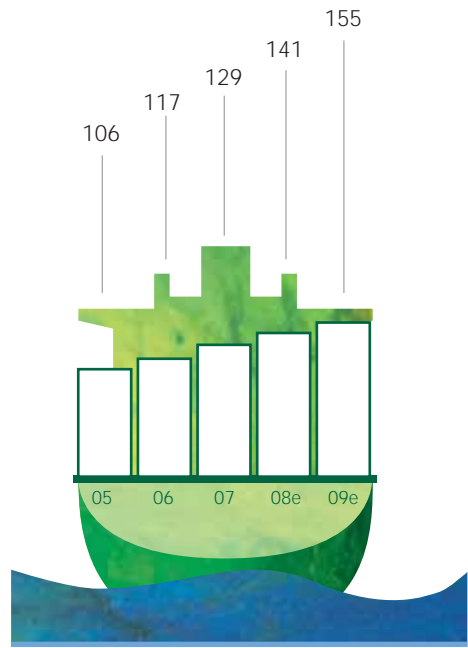
Ship funds – long-term investments with an attractive risk/return profile.

Market knowledge and sound design are the foundation of a successful investment.

The fundamentals for the worldwide shipping markets continued to develop positively in 2007. The drivers of growth were the globalisation of the world economy and expansion of international trading. Transportation costs are an insignificant factor in

comparison with the advantages in terms of production costs to be derived from the international division of labour. This trend is a long-term and a structural change that will not be called in question by short-term fluctuations in the state of the economy. The strong growth in container shipping was maintained in light of the dynamic economic growth in China, India, Russia and the countries of Latin America. The volume of freight in the general cargo and cargo bulk shipping segments benefited from a high demand for transport capacity, particularly from Asia and the Middle East. A corresponding positive movement in charter rates was also recorded in these segments. It is only with regard to tankers that there is currently an excess supply of tonnage and thus low charter rates as a result.

Global maritime container transport
2005–2009 (in million TEU)¹⁾



¹⁾ Standard 20 ft. container box
e = Estimate
Source: Clarkson Research Services Ltd.,
"Container Intelligence Monthly", Feb 2008

The general increase in demand for ships is also due to the increasing need to renew fleets. An increasing number of ships no longer comply with the stricter environmental criteria imposed by ports and – particularly in light of currently very high bunker prices – have an outdated, inefficient propulsion system. In light of this need for renewal investments, combined with growing international trade flows, and given the high utilisation of shipyard capacity worldwide, prices for new vessels have already started to rise. In the case of sought-after ship types, the prices for second-hand and immediately available vessels are, in fact, higher than the order prices for new ships. In this context, HCI positioned itself at an early stage with its

timely commitment to new ships in previous years, with the result that our fund products are benefiting from favourable purchasing prices. In total, HCI has already fully financed more than 80 ships for future projects with a total investment of about EUR 3 billion, involving approx. EUR 1 billion in equity to be placed.

HCI ship funds: market share expanded

Following last year's weaker performance, the market for ship investments developed in a very benign way in Germany in 2007. Overall, the volume of placed equity capital was 41 % up on the previous year, at EUR 3.58 billion. In this growing market, HCI was able to clearly expand its market share with a 55.9 % increase in investments to EUR 598.5 million. This figure includes EUR 150 million placed equity relating to HCI HAMMONIA SHIPPING AG, a shipping company specially designed for institutional investors in the form of a listed public company. The placement success of HCI was also assured by its innovative product range with particular features, as in the case of HSC Shipping Protect I with its capital guarantee for example.

Development of equity placed for ship investments

Year	HCI		Total market ¹	
	EUR mn	Δ %	EUR mn	Δ %
2003	289.0	100.7	2,329.5	58.7
2004	413.7	43.1	2,908.6	24.9
2005	542.1	31.0	2,959.5	1.7
2006	384.0	-29.2	2,546.3	-14.0
2007	598.5	55.9	3,580.0	40.5

¹ Source: Feri Rating & Research AG – Gesamtmarktstudie der Beteiligungsmodelle 2008

All in all, HCI's shipping business issued and successfully placed 23 funds with 32 ships in 2007. Container ships, accounting for 26 ships, made up the greatest share, and in this instance medium-sized sub-Panamax vessels with a capacity of approximately 2,500 TEU. It is our view that the market for this size of vessel will also outperform overall market growth in future as such ships are needed for feeder services at ports that are not big enough for the new large container ships with a capacity of up to 13,500 TEU to dock.

Outlook

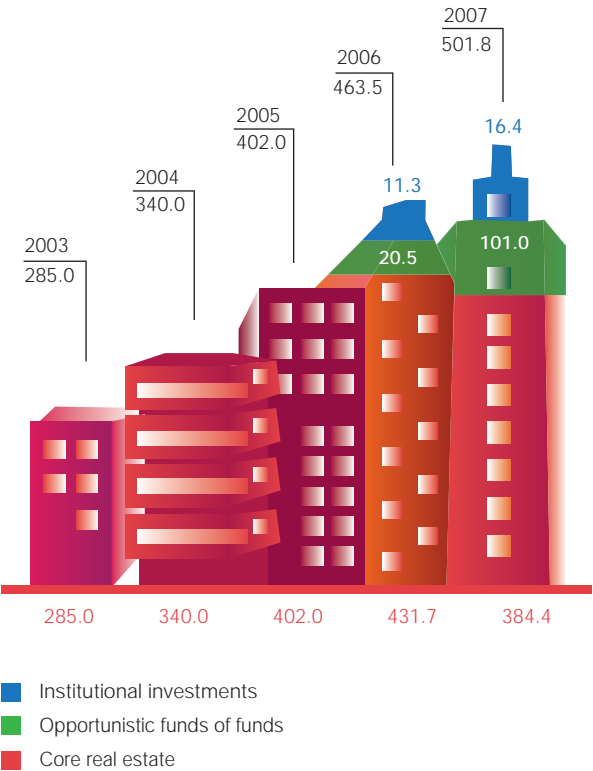
Looking to 2008, we expect to see a slight fall in the total volume recorded on the market for participations in ship ownership. The fears of a recession in the USA, which have led to gloomier prospects for the global economy, and the more restrictive lending policy of shipping mortgage banks that can be expected as a knock-on effect of the sub-prime crisis will curb the supply of shipping investments. Demand should continue to rise, as growing uncertainty on the capital markets – combined with the impending introduction of a definitive withholding tax – will further boost the attractiveness of ship investments, which are subject to tonnage tax. In this environment, the HCI Group will profit from a well-filled asset pipeline consisting of ships that were acquired at an early stage and have been fully financed.

Real estate funds – intelligent concepts that combine property value and return.

Maximum security and optimum prospects are top priorities for HCI real estate funds.

HCI's real estate activities are focused in Austria, the Netherlands and the USA. These are markets where HCI has enjoyed a successful presence for more than ten years investing in first-class core properties, issuing funds of funds and cooperating with institutional investors. There was a very keen level of demand on the investment markets for commercial real estate in our target markets in the first half of 2007 in

Trust capital and institutional equity capital in the Real Estate segment, 2003–2007 (EUR mn)



particular. In some market segments, the lack of availability of properties led to clear price increases and falling returns. During this phase, we used opportunities in classic fund business to dispose of investments at a profit. Towards the end of 2007, the uncertainty on the markets as a result of the sub-prime crisis in the USA meant a reduced willingness to accept risk and a more restrictive lending policy and, as a result, a reduction in market liquidity. Waning dynamism or even temporary falls in demand and prices in some segments or regions will offer HCI attractive investment opportunities in future once again.

HCI Real Estate Funds: growth through innovative concepts

In 2007 HCI floated the HCI Real Estate BRIC+ fund, which, as a fund of funds, invests in a diversified portfolio of real estate opportunity funds in the four BRIC states, namely Brazil, Russia, India and China. The four target funds invested in to date, which invest in the individual countries, differ not just in terms of investment region but also in terms of their investment strategies with regard to the types of property concerned and management approaches. This results in a broad risk diver-

sification. The fund of funds concept provides for a broadening of the investment regions, to include such areas as Mexico and South Korea for example. In selecting target funds, HCI cooperates with the Townsend Group, the largest real estate

investment consultant in the USA. Overall, a term of around nine years is projected for the fund of funds. In the fourth quarter of 2007 already USD 29.4 million of the initial volume have been placed. In October 2007, the HCI Real Estate BRIC+ was voted the winner of the “Financial Advisors Award 2007” by the Hamburg-based media company CASH in the closed-end funds category. The fund was also awarded the rating “A, very good” for fund design and the rating “AA, excellent” for management quality by Feri-Rating & Research GmbH.

Accounting for some 20 % of total real estate fund investments, the US market was most important for HCI in 2007. It should be noted, however, that these significant volumes were placed mainly during the first months of 2007, with some subsequent weakening evident in view of the turbulences affecting financial markets. The German real estate market, which is considered a ‘safe haven’ by many investors, also performed strongly. Total placements of closed-end real estate funds declined by 10.0 %, however, to EUR 4.5 billion in 2007. In this market environment, HCI placed aggregate equity of EUR 101.1 million in the real estate segment during 2007, thereby exceeding the previous year’s result by 20.4%. Clearly, this underlines the success of our innovative product concepts.

Equity placed by target market

	2003		2004		2005		2006		2007	
	EUR mn	Δ %	EUR mn	Δ %	EUR mn	Δ %	EUR mn	Δ %	EUR mn	Δ %
Germany	2,306	15.5	2,211	-4.1	1,525	-31.0	2,124	39.3	1,266	-40.4
USA	1,561	-23.4	1,167	-25.3	773	-33.8	1,062	37.4	1,031	-2.9
Netherlands	308	-23.0	497	61.4	230	-53.8	204	-11.1	105	-48.5
Austria	354	187.5	341	-3.7	231	-32.2	91	-60.6	105	15.4
UK	5	-28.9	283	5144.4	495	74.9	532	7.5	536	0.7
Other international real estate	229	112.5	751	228.2	750	-0.1	951	26.7	1,152	21.2

Source: Feri Rating & Research AG – Gesamtmarktstudie der Beteiligungsmodelle 2008

Outlook

Looking to 2008, HCI expects to achieve further growth through sales in closed-end real estate funds. The calmer mood on the commercial property markets following the sub-prime crisis is likely to open up opportunities for HCI to invest in core portfolios again, at attractive terms. We will also be expanding our business with institutional investors, in cooperation with the US Behringer Harvard Group.

Secondary life insurance market funds – a growing market with attractive returns.

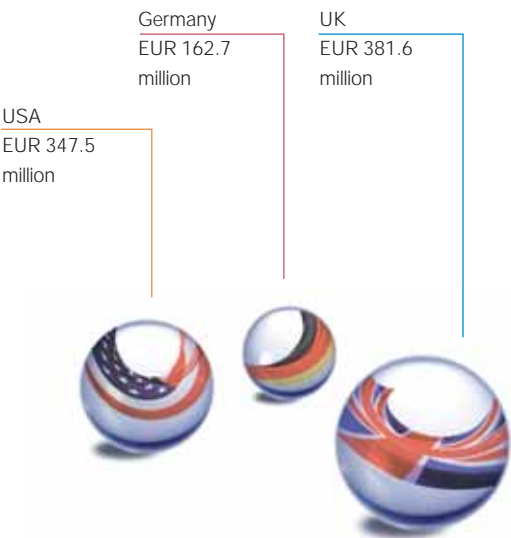
HCI is the only provider with expert knowledge of all three of the major markets – Germany, the UK and the USA.

In the secondary market for life insurance policies, HCI has offered investors investment opportunities in all three of the relevant markets, namely the USA, the UK and Germany. In the UK, as is mainly the case in Germany, policies are primarily taken out in the form of endowment policies as a means of creating capital assets. In contrast, most life insurance sold in the USA takes the form of term insurance used to protect families. The UK market segment is therefore particularly attractive, with life insurance undertakings in the UK having favourable cost structures, thanks to a high degree of cost transparency. Moreover, investment guidelines are less restrictive

compared to Germany, which results in higher rates of return over the longer term due to the higher level of investment in, for example, equities. HSC fund management benefits from excellent market access in the UK through the policy provider “absolute assigned policies Ltd.” (aap), which is the market leader. This has been an important element in HSC’s success with funds placed.

Underlying markets for secondary life insurance market funds in 2007

(Equity placed)



Source: Feri Rating & Research AG – Gesamtmarktstudie der Beteiligungsmodelle 2008

Secondary life insurance markets offer attractive investment prospects

Currently, the UK secondary life insurance market has particular attractive investment prospects to offer, given its reasonable pricing levels. This was the background to HCI launching HSC Optimita X UK in 2007, enabling investors to participate in a UK company designed to acquire and deal in a portfolio of more than 3,200 life insurance policies. Such an approach means that market opportunities can be exploited for a greater return. The HSC Optimita X UK fund offers a high degree of investment security thanks to the

very good credit rating of the UK insurance companies and additional security elements. A large number of policies from different insurance undertakings and with different maturity dates ensures broad risk diversification. Investors benefit from low

entry tax rates, high tax allowances thanks to the German/UK double taxation agreement and high predicted distributions of some 210 %, which can be received practically tax-free up to specified investment thresholds.

In Germany, the secondary life insurance market is marked by a high inventory of insurance policies – however, given the long terms, a comparatively high volume of policies is not maintained to maturity, and cancelled early. This market potential, in conjunction with the high degree of investment security due to what are quite restrictive investment guidelines by international standards, the guaranteed minimum rate of return, and a general increase in investment returns, makes the German secondary market an attractive segment.

With returns on investments in secondary market policies in the US market deteriorating over the past few years due to a high level of demand, HCI is currently adopting a position as an observer. A more balanced relationship between supply and demand with an improvement in the returns achievable can therefore be used to issue new products as required.

Despite attractive product offerings, secondary life insurance market funds were not the main focus of investor interest in 2007, and the volumes placed by HCI in this segment duly fell by 27.6 % to EUR 96.1 million. The overall German market volume was EUR 893.3 million.

Outlook

HCI permanently monitors developments in all three markets of Germany, the UK and the USA, identifying favourable openings for investment products. In Germany, the secondary life insurance markets have firmly established themselves as an asset class. Fluctuating placement figures are typical for what still is a relatively new asset class. Market potential is, however, very high across all three target markets, as to date only a minor portion of cancellations have been handled through the sale of policies on the secondary market. As acceptance of secondary market policies grows as an investment medium, an ongoing rise in volume can be anticipated. On the sales side, we therefore expect sales levels to at least be maintained at the volume of the previous year.

Private equity funds of funds – multi-level selection process limits investment risks.

Fund of funds concepts for corporate investments in growth sectors open up high return prospects with a controlled level of risk.

Private investors cannot generally access direct investments in private equity funds due to the size of investment required. Venture capital does, however, offer an attractive return prospect. Additionally, it is possible to reduce risks by splitting the investment across various different investment companies with different investment focuses. This form of investment is therefore a promising addition to investment portfolios that are geared towards the long term. The HCI private equity funds of funds work by pooling the individual investments and thereby assuming the role of the large-scale investor. HCI has been designing private equity funds of funds since early 2000 and its professional management approach means that it can identify and exploit attractive investment opportunities as they arise on the market. The investments themselves are not made in companies directly but in selected private equity and venture capital target funds which, in turn, invest in a variety of companies. We select these target funds on the basis of strict quality criteria. This due diligence process, during which the past, current and future performance of potential target funds is analysed, is passed by only four to five percent of all candidates. The experience and network of the management team are crucial during this assessment phase. The HCI team has a strong knowledge of the market, a comprehensive network on which to draw, and first-rate connections. Moreover, HCI's investment strategy is designed to optimise the risk/return profile by means of broad risk diversification across the four dimensions of region, sector, investment phase and target companies. As far as the investor is concerned, such a concept means that the portfolio of indirect corporate investments is diversified in several respects, creating an additional risk buffer. Approximately 70 % is invested in private equity with around 30 % being invested in the venture capital segment.

Overview of HCI Private Equity issues

	Placed	Fund volume	Number of target funds	Funds-drawn	Number of companies ¹⁾	Distributions to date
HCI Private Equity I	12/2000	EUR 52 mn	11	100 %	313	77 %
HCI Private Equity II	06/2002	EUR 25 mn	11	100 %	253	67 %
HCI Private Equity III	03/2004	EUR 15 mn	14	100 %	231	35 %
HCI Private Equity IV	09/2005	EUR 16 mn	15	80 %	183	5 %
HCI Private Equity V	12/2006	EUR 51 mn	13	60 %	168	—
HCI Private Equity VI ²⁾	2007	EUR 25 mn	8–12	30 %	150	—

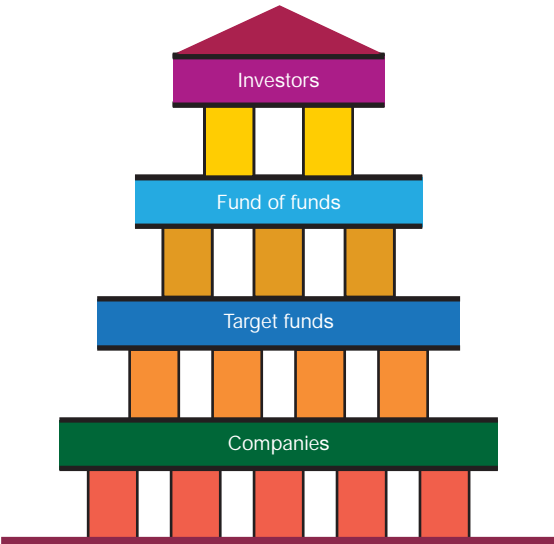
¹⁾ As at 30 Sep 2007 ²⁾ Forecast
Updated: 1 January 2008

Market consolidation after stormy growth

The size of the German market for placements of private equity funds – which had almost doubled each year during the period from 2004 to 2006, with placed equity capital totalling EUR 2.3 billion – declined in 2007 by around 8.7 %, to EUR 2.1 billion.

Nevertheless, the private equity market holds attractive long-term potential. In the form of the HCI Private Equity VI Fund, we offer investors the chance to invest in this attractive market segment. The fund has a planned maturity date of 2017 and staggered payments, with 30 % of the investment amount being paid upon subscription, a further 30 % in September 2008 and 20 % in each of the following Septembers. Right at the beginning of the placement, four target funds were selected: APAX Europe VII, CapVest Equity Partners II, Carlyle Europe Partners III and Thomas H. Lee Equity Fund VI. The investment is made in up to 150 target companies with high growth prospects. During 2007, however, a lower number of corporate takeovers, delayed flotations and liquidity problems temporarily made venture capital business more difficult. Media coverage on the sector led to a general reticence on the part of investors towards private equity products. HCI Private Equity VI fund sales were also affected, with a 65.5 % fall in the placement volume compared to the previous year, to EUR 14.9 million.

Structure of a private equity fund of funds



Outlook

The future prospects for private equity and venture capital will be determined over the next few years by issues such as unresolved company successions, the concentration of large groups on their core areas of business and new lending guidelines (under the Basel II framework). Investors who opt for investments in HCI private equity funds of funds will be able to participate in the above-average return prospects and growth potential of this financing form. As the capital markets return to normal, we expect to see a rise in interest for the private equity sector, leading to a renewed increase in investments in HCI Private Equity Funds.

Asset creation plans – continuous creation of wealth in closed-end funds with a high level of risk diversification.

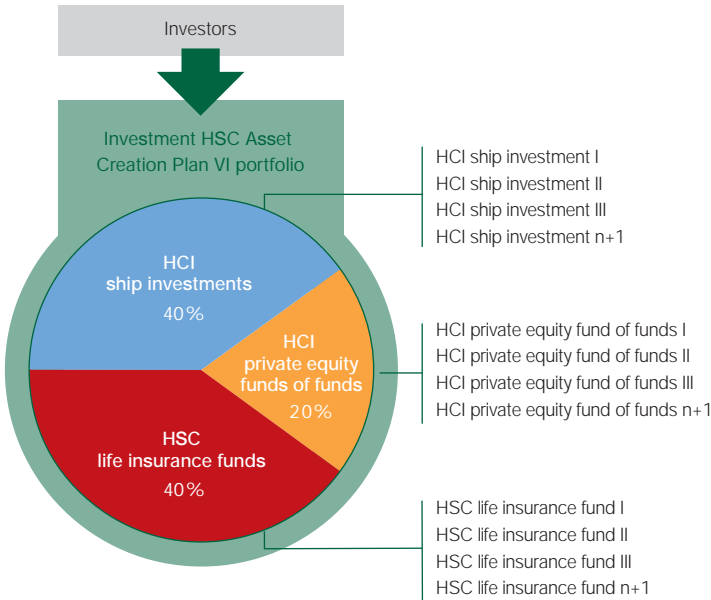
Making investment in closed-end funds more flexible through asset creation plans captures new customer potential.

Investors who are looking to create assets frequently have a need for more flexible investment options, lower entry thresholds and/or an investment that can be made in instalments, as well as perhaps the ability to dispose of the investment earlier than anticipated. A fund of funds concepts makes it possible to combine these features with an underlying investment in shipping participations. HCI, with a view to capturing the customer group of young, high-income investors, has developed the concept of asset creation plans. The concept enables the investor to accumulate assets using closed-end funds in different segments and provides for the investment to be paid into a fund of funds in the form of monthly instalments over a pay-in period of

several years. In turn, this fund of funds invests in individual HCI Group target funds. The fact that the investments are spread over a long period and in various different investment offers means that the risk is broadly diversified for the investor. Subscribers of HSC Asset Creation Plan Shipping I (which was launched in 2004) today hold indirect investments in 60 vessels of different sizes and types, via 16 target funds. With 45 vessels, the main focus is on container ships, which in turn are broadly diversified across a variety of sizes, and hence, applications and markets – ranging from feeder ships with a capacity up to 1,000 TEU to large container carriers with 8,000 TEU or more. The portfolio is complemented by six multi-purpose freighters, six tankers, and three dry bulk carriers, each with different sizes and operational purposes. From a tax point of view, the concept is just as attractive, as the payments at the end of the investment phase can for the greater part be received tax-free. Additionally, new customers’ positive experience of this

HSC Asset Creation Plan VI – portfolio structure

Investment in the HSC Asset Creation Plan VI portfolio



investment category may subsequently lead, at a later stage in their asset creation process, to their making a direct investment in closed-end funds. Alongside private investors, corporate customers are also making increasing use of asset creation plans as part of their company pension schemes.

Flexible design permits varying degrees of risk diversification

In the form of the HSC Asset Creation Plan VI Portfolio, HCI offers an investment product that invests in the three areas of shipping, secondary life insurance market funds and private equity funds of funds and, through this mix, greatly diversifies the associated investment risk. Only 20 % of the amount to be invested is paid at the beginning of the investment term, with the remaining 80 % being paid in 60 monthly instalments. Additionally, special annual payments are also permitted, with regard to which no initial fee is charged. The total duration of the investment is estimated at 21 years, with a return from as early as 2013. HSC Asset Creation Plan VII Shipping, which has the same payment profile and comparable term, is, in contrast, focused solely on ship investments. In this case, the risk is diversified by investing in different types and sizes of vessel with diverging market cycles. One particular feature of the plans is that it is possible to invest in the target fund with no issuing premium due to the fact that no initial fee is levied on special payments. As a result, investing in the target funds via such plans is more cost effective than a direct investment. With placed equity capital of EUR 30.3 million, the subscribed capital in the asset creation plans almost tripled compared with the previous year. Since the asset creation plan product line was introduced in 2004, a total of more than 4,000 customers have been acquired in Germany and Austria for the various different investment products in this segment. With its product offering of asset creation plans based on ship investments, HCI has a unique selling point, helping it to stand out from the competition.

Outlook

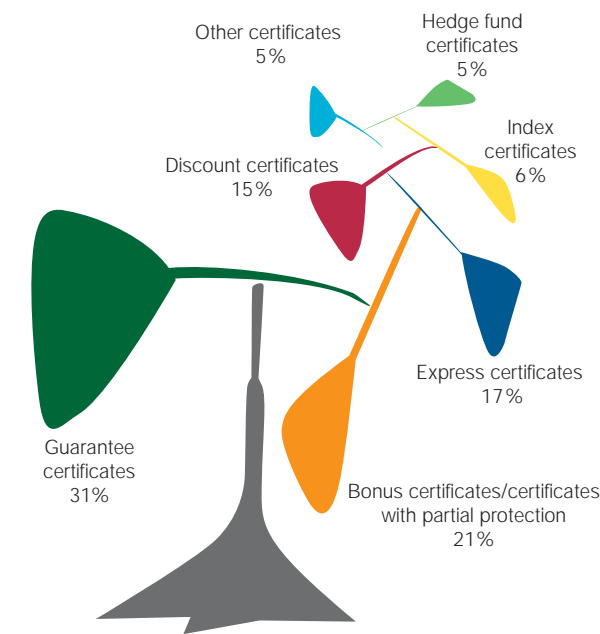
Building on the successful product history since 2004, our asset creation plans are growing increasingly popular among our sales partners. The increasing risk diversification over the course of the investment is a key sales argument in this regard. For investors with a long-term investment horizon, there is an additional incentive to enter into new investments in light of the fact that the taxation of capital income is set to change as of 2009, whilst the favourable tonnage tax regime for ship investments will prevail. We are therefore confident that we will again be able to increase the volume of placed capital in 2008. Further measures to make the investment concept more flexible will also help us to achieve this aim.

Structured products – active design of cash flows through innovative investment concepts.

Tailoring investment opportunities and risk profiles to customer requirements.

Demand for structured products has grown dynamically over the past few years, as these instruments enable investment features such as cash flows, risk/return profile and investment term to be designed in a tailored way. This flexibility means that investment products can be specifically designed for new target groups. HCI established its new “Structured Products” product line in late 2006 with the first certificate offered by HSC based on the German and UK secondary life insurance market. For the first time in the history of the HCI Group, a certificate was used as a special form of investment to realise a capital investment product. The product line is not exclusively composed of certificates however. It also includes investments in which proven investment classes are combined with typical components of structured products such as guarantee components or other hedging elements. By way of example, the underlying investment is made in the form of a closed-end fund, with additional protection provided through a capital guarantee. In this way we can offer an attractive product to investors who require a high level of security.

The market for structured investment products in Germany



Total market volume: EUR 142.9 bn
Source: Derivative Forum, Marktstatistik per November 2007

A very successful market launch
In its first full year of offering structured products, HCI was already able to achieve a placement volume of EUR 79.9 million, which represents a major success. HCI launched this new product line with the HSC Optivita Europe LV Index Certificate, which gives investors access

to the secondary market for life insurance via an investment certificate. The certificate invests in an index tracking an actively-managed portfolio of British and German secondary market life policies. The portfolio of life policies is managed by HSC Life Policy Pooling S.à.r.l., a wholly-owned subsidiary of HCI. Returns generated by the portfolio are retained, thus increasing the value of the certificate. The simultane-

ous investment in the German and British secondary life insurance markets combines the high level of security afforded by German endowment policies with the attractive returns available in the UK.

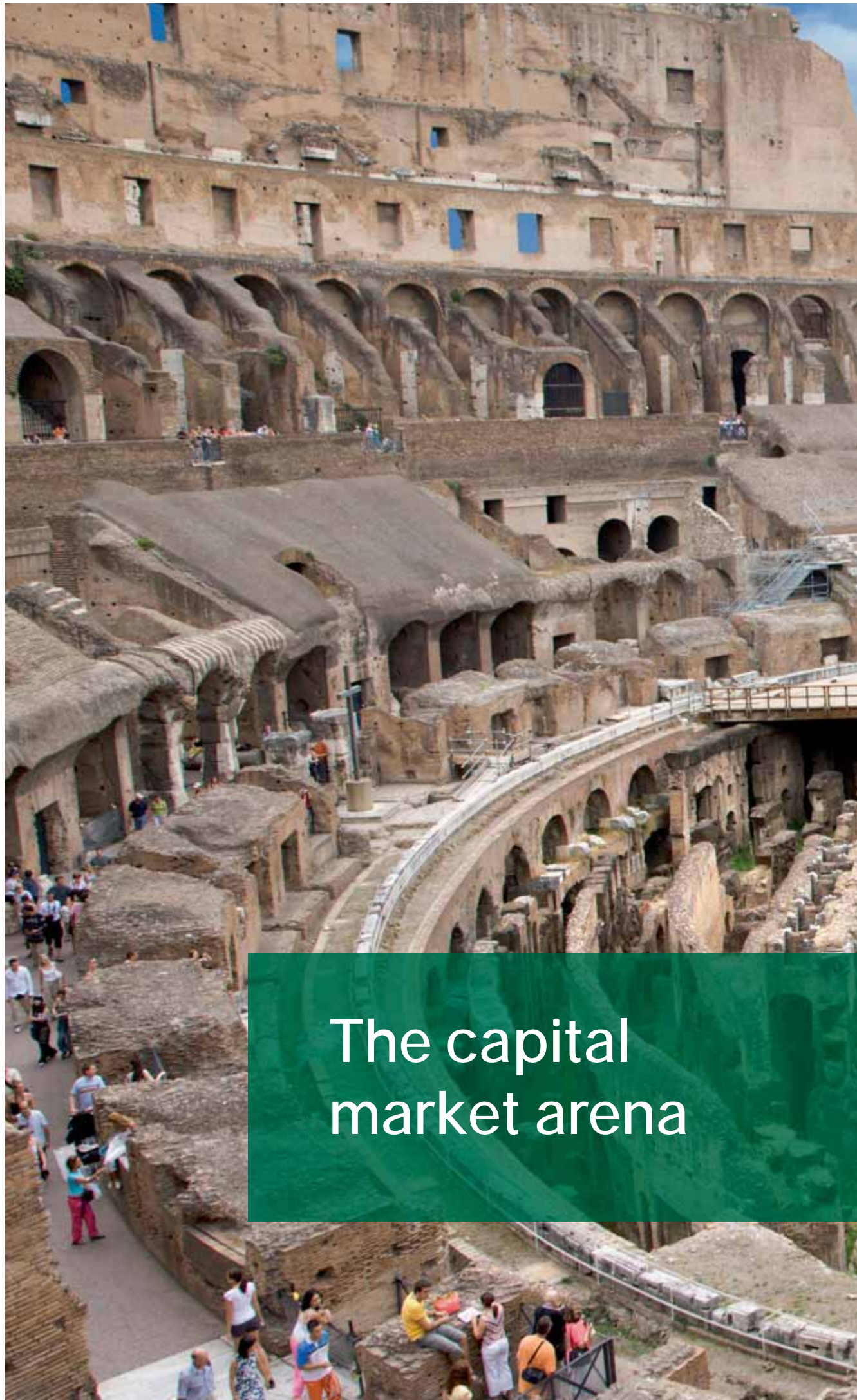
Three further new products followed suit in 2007: the first of these was the HSC Shipping Protect I, through which investors, by means of a fund of funds concept, can participate indirectly in the ship investments offered by the HCI Group and in interest-bearing investments. Of the contributions made, 54.5 % is invested in a commercial holding company that invests in shipping participations. The remaining 45.5 % is invested in a portfolio management company that acquires interest-bearing investments. Repayment of the contributions paid by investors is guaranteed by HypoVereinsbank. The HSC Shipping Protect I having been fully placed, HCI is now offering a successor product in the form of HSC Shipping Protect II.

In addition to HSC Shipping Protect I, certificates based on the Baltic Dry (BDI) freight index were also offered, in the form of HSC Freight Rates Protect Certificates I and II. Such investments enable investors to participate in the performance of freight rates for bulk cargo ships, from a relatively low minimum investment, and with capital protection at the same time.

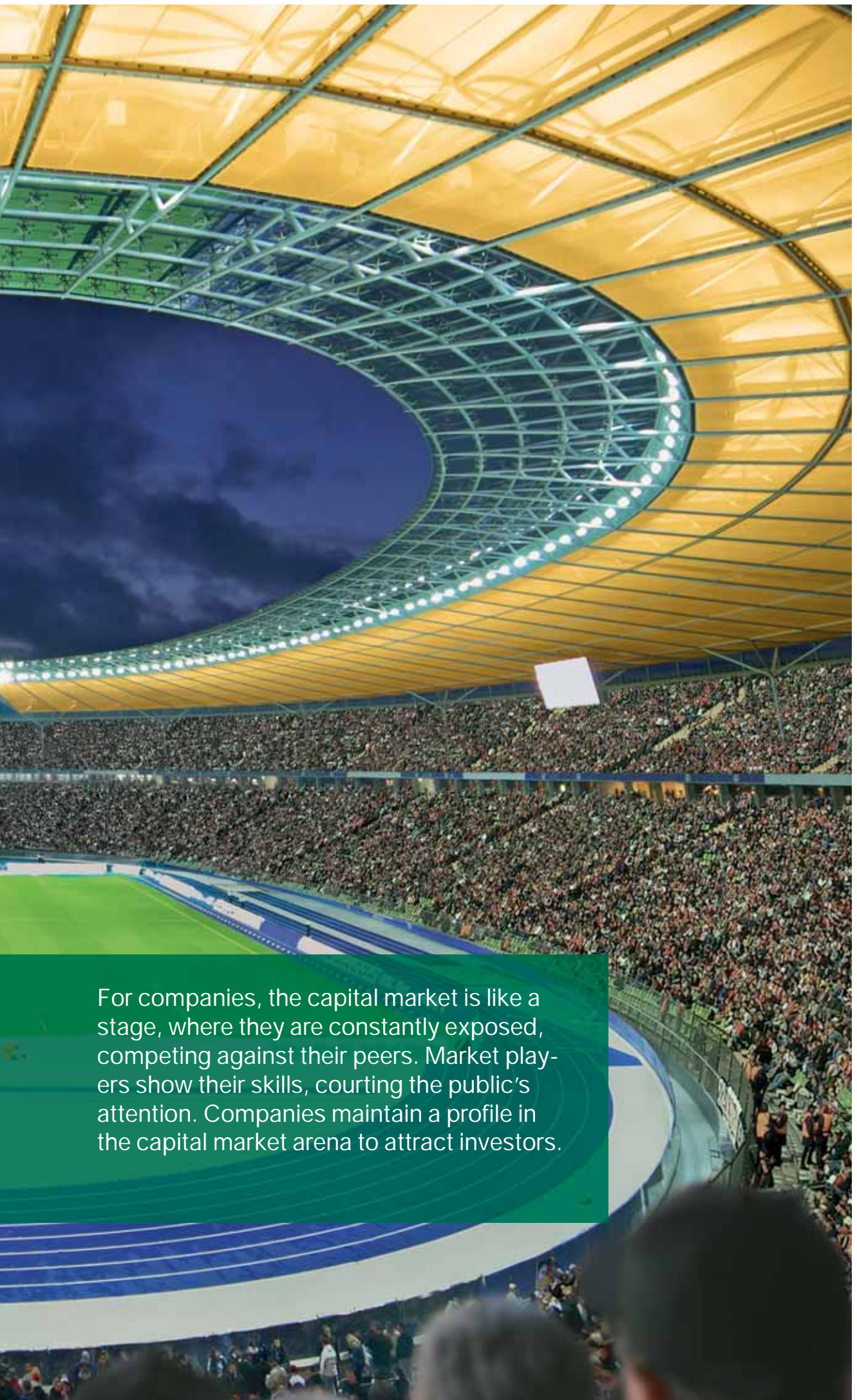
These innovative products meant that HCI was able to attract new target groups particularly effectively: just under 80 % of the investors in the HSC Shipping Protect I guaranteed product were new customers, and also the HSC Freight Rates Protect Certificate I attracted a large number of new customers. This success confirms that HCI's market approach – using innovative investment concepts to capture new investor groups – is the right one.

Outlook

We regard the market for structured products as a growth market and will be systematically expanding the range of products on offer, adding additional innovative investment instruments. The design of a multi-asset protection certificate is planned for 2008, which will combine investments in all three underlying investment categories – shipping, real estate and life insurance policies – with a guarantee feature. Based on the major success of this new product line, we will also be managing Structured Products as a separate division in its own right as of 2008.



The capital market arena



For companies, the capital market is like a stage, where they are constantly exposed, competing against their peers. Market players show their skills, courting the public's attention. Companies maintain a profile in the capital market arena to attract investors.

The HCI Share and Investor Relations – a reliable partner in the capital market arena.

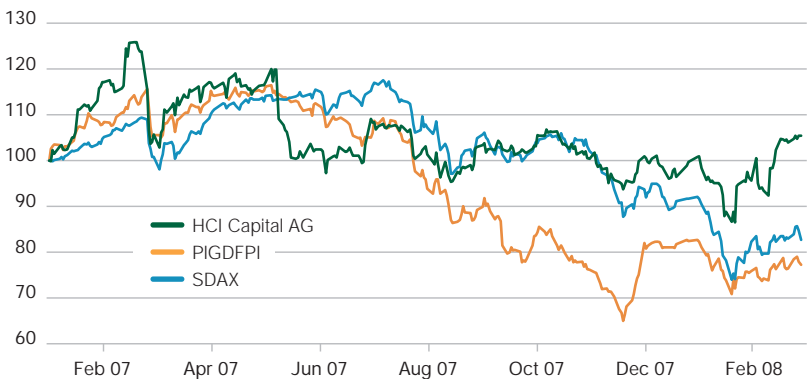
Improving perception of the HCI stock and achieving an appropriate valuation.

The aim of our Investor Relations activities is to raise awareness of HCI Capital AG on the capital market and to improve public perception of the HCI share as an attractive investment. Through ongoing, reliable and open communications with capital market participants, our aim is to boost investors' confidence in the HCI share, and to achieve an appropriate market valuation.

A mixed picture on the equity markets in 2007

The positive economic development in evidence globally also made for an upbeat start to the year on the German equity market in 2007. However, major price swings were to follow. Considered more closely, the picture is more complex: whilst the major international conglomerates included in the DAX were able to mainly record significant rises in their share prices, with the index recording an overall performance of 22.3 % for 2007, the MDAX segment of medium-sized companies only managed 4.9 %, whilst the SDAX segment, which includes the HCI share, was 6.8 % down on the previous year. In other words, investor interest during 2007 was very strongly focused on the blue chips. Additionally, looking at individual sectors, it was financial shares in particular that failed to rank among the investors' favourites in 2007. From the middle of the year onwards, the unsettling of the financial markets caused by the US sub-prime crisis contributed to this. The Prime IG Diversified Financial Performance index, which includes the relevant peer companies in our sector, recorded a year-on-year fall of 17.0 %. At the end of 2007 the HCI share, at EUR 14.90 was at exactly the same level as at the 2006 year-end. This means that the share proved relatively strong compared with both the SDAX and HCI's competitors in the sector. The year 2008 started with strong price declines across all market segments in January, with only a partial recovery in February. The HCI share price tracked these market movements.

Performance of the HCI share compared against the SDAX and Prime IG Diversified Financial Performance index (indexed)



Sideways movement in HCI share price, with strong volatility

The performance of the HCI share was also marked by strong fluctuations over the course of the year. Up 27.5 % on the 2006 year-end price, the highest level for the year was recorded back at the end of February 2007, at EUR 19.00. Also as a result of the general market trend, the HCI share price fell 23.6 % over the period from mid-February to early March. The share then duly recovered to EUR 17.95 by the time of the Annual General Meeting on 10 May 2007. After payment of the dividend, the share price fluctuated and fell back again, hitting its lowest point of the year on 10 August at EUR 13.82. Publication of the positive figures for the first half triggered a renewed price increase to EUR 16.08 over the period from mid-August to mid-October. This level could not be maintained, however. Rather, in what was a weak market environment overall up until mid-November the all-time low for the year was once more put to the test. Positive impetus was generated again from the figures for the first nine months, enabling the share to recover, reaching EUR 14.90 by the year-end. Daily trading volumes in HCI shares fell compared with the previous year, down from 81,000 shares to 59,000 – this figure does not include the changes with regard to the major shareholders due to the fact that the transactions concerned were conducted off-exchange. In January 2008, the HCI share price followed the general market downtrend, to EUR 12.00, from which it recovered up to a level of EUR 15.75. The announcement of a takeover offer by MPC Capital AG on 12 February also contributed to this bounce.

Changes in shareholder structure

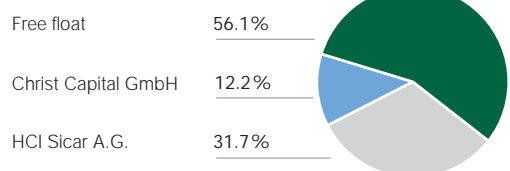
With the exit of shareholder HCI Sicar A.G. in January 2007, HCI Capital AG gained three new major shareholders in the form of MPC Capital AG (15.1%), Peter Döhle Schiffahrts-KG (10.0 %) and Corsair Capital LLC (10.0 %). In addition, in October 2007, Christ Capital GmbH sold its 10.0 % stake to Corsair Capital, which is now HCI Capital AG's largest shareholder, holding a total stake of 20.0 %. The level of free-floating shares fell only slightly as a result of these changes, dropping from 56.1% to 54.5%.

Announcement of a takeover offer

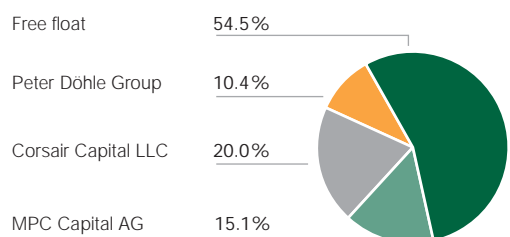
On 12 February 2008 MPC Capital AG announced that it intends to submit a public takeover offer to shareholders of HCI Capital AG in order to acquire their shares against a cash consideration. The takeover offer has not been published at the time of publishing this Annual Report (5 March 2008). We will, of course, comment on this offer as soon as it has been submitted.

Development of the shareholder structure

31 Dec 2006 (rounded)



31 Dec 2007 (rounded)



Lower distribution to safeguard growth potential

We will propose to our Annual General Meeting on 15 May 2008 that a dividend of EUR 0.70 per share be paid for the 2007 financial year. The lower dividend payout per share is designed to preserve the company's growth potential, by maintaining the equity ratio at a sound level.

Dialogue with capital market participants intensified

Our Investor Relations team engages in proactive and open communication with all market participants, be they private investors, institutional investors or financial analysts. Whilst the information needs of private investors are largely met through telephone calls, e-mail contact, our website and also appearances at private investor trade fairs and forums, we further intensified our contacts with analysts and institutional investors over the past year using presentations and both group and one-to-one discussions at the following events:

- Dresdner Kleinwort Mid & Small Cap Financial Seminar, London
- Citigroup Investor Jour Fix, London
- SRC Forum Financial Services, Frankfurt/Main
- Unicredit German Investment Conference 2007, Munich
- German Equity Capital Forum, Frankfurt/Main

In addition to involvement in investor conferences, the Management Board and the Investor Relations team fostered direct relationships with institutional investors at a total of seven road shows over the course of the year in the Benelux countries, Germany, Scandinavia, the UK and the USA. In addition, more than 100 one-to-one talks with analysts and investors were held during 2007. We will also be continuing our investor relations activities in 2008 by participating in various investor conferences and numerous one-to-one discussions on a similar scale.

The long-term success factors of our business model are the key to assessing the HCI share.

The HCI share enjoys broad interest on the capital market, with regular reporting by fourteen analysts from renowned banks and investment companies. An up-to-date overview of analysts' evaluations is available under the Share section in the Investor Relations section of the HCI website. During the past year the HCI share was given a buy recommendation by ten analysts, with four analysts advising investors to hold the share. No analysts advised selling the HCI share.

Our aim: highlighting long-term success factors

In addition to company-specific issues, communication with capital market participants often focusses on current trends in the operating markets for the HCI Group's investments and an assessment of future developments. In particular, short-term fluctuations in the shipping markets or, for example, the current fall-out from the US sub-prime crisis on the local real estate markets are frequently felt to be negative factors for HCI. However, this view does not take account of the fact that HCI's investment activities are as a general rule geared towards the long term. As far as

the long-term success of our products is concerned, short-term market fluctuations are insignificant. One of the key messages that we aim to convey during our talks with analysts and investors, therefore, is to highlight HCI's expertise throughout the entire duration of the investment from the product launch through to exit. These two points are critical to the return ultimately made on investment concepts. In turn, the success of the investment products forms the basis for successful business development in future. It is therefore our aim, when engaging in capital market communication, to steer external perception of HCI more strongly towards long-term success factors.

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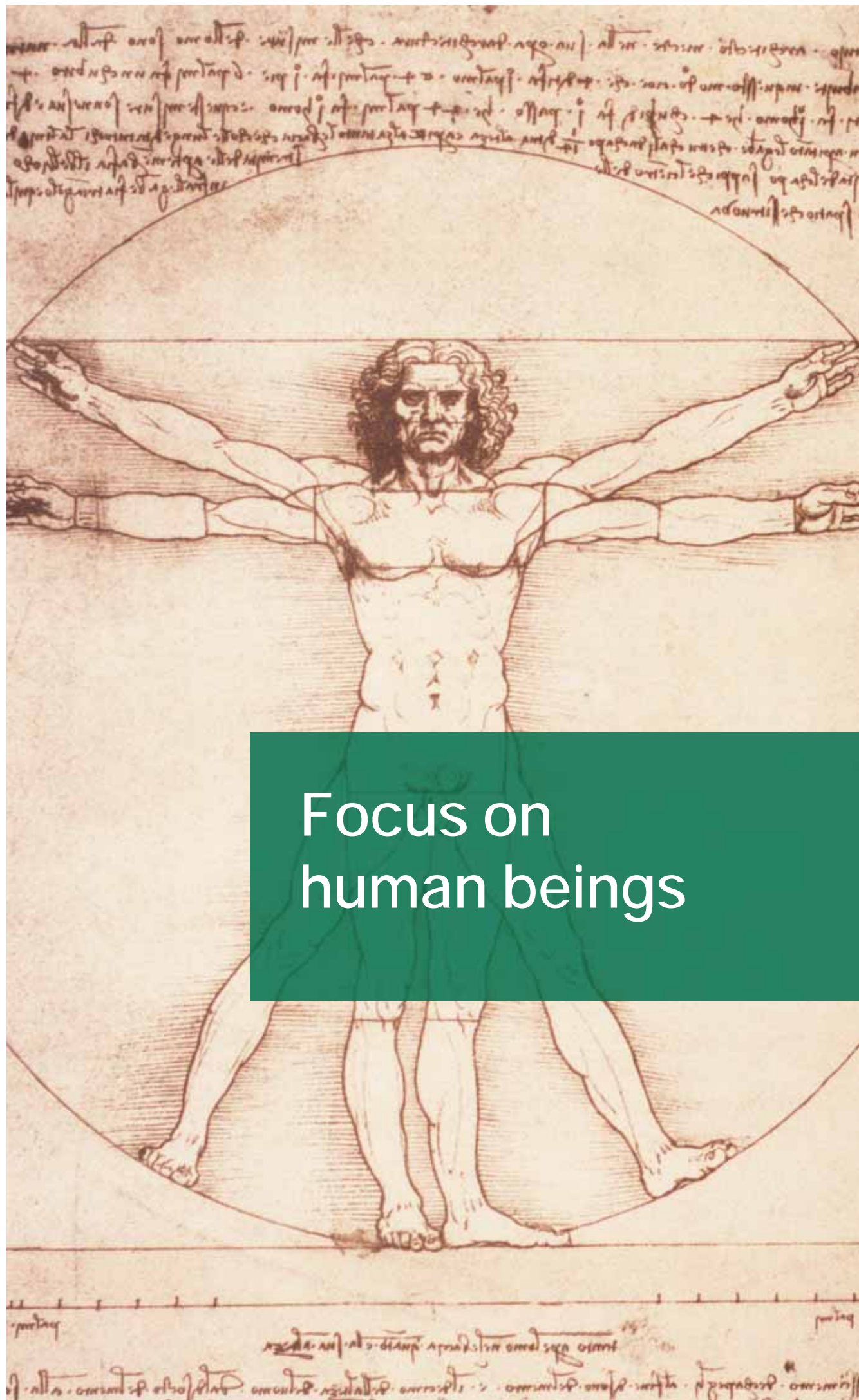
HCI share – master data

Type of shares	No-par-value registered shares ('unit shares')
Market segment	Prime Standard / Regulated Market
Listings	Frankfurt Stock Exchange, Hamburg Stock Exchange
Index affiliation	SDAX, HASPAX
First day of trading / issue price	6 October 2005 / EUR 20.50
ISIN	DE000A0D9Y97
WKN (German Securities ID)	A0D9Y9
Exchange mnemonic	HXCI
Reuters RIC	HXCI:Gn.DE
Bloomberg	HXCI:GR
Common code	022854488

HCI share – key indicators

	2007	2006
Number of shares at year-end (millions)	24.0	24.0
Share capital as at 31 December (EUR mn)	24.0	24.0
End-of-year closing (EUR, Xetra)	14.90	14.90
High (EUR, Xetra)	19.00	20.89
Low (EUR, Xetra)	13.82	12.20
Market capitalisation as at 31 December (EUR mn)	358	358
Earnings per share (EUR, undiluted)*	1.27	1.64
Dividend per share (EUR, 2007 proposal)	0.70	1.40
Total dividends paid (EUR mn)*	16.8	33.6
Dividend yield as at 31 December (%)	4.7	9.4
Price/earnings ratio as at 31 December	11.7	7.4

* Based on 24,000,000 shares



Focus on
human beings



Precision or abstract view? The answer depends on which era you're in. What remains unchanged is that human beings are at the heart of what we think, feel, and do.

Employees – the outstanding achievements of our employees are the basis of our shared success.

The dedication, expertise and creativity of our employees are key competitive factors.

HCI would not be where it is today without the dedication and expertise of its employees. The company's ambitious goals are reliant on the creativity and commitment of our experienced staff. These are the elements that generate innovation and give us our competitive edge. Our employees' expertise in complex markets and the extent to which our staff identity with HCI contribute to the Group's success time and time again on a daily basis. That is why it is crucially important to us that we consistently promote the skills and boost the motivation of our entire team.

Systematically improving skills and motivation

The HCI Group follows a modern approach to HR management with a transparent process designed to broaden employees' skills as part of a continuing process and to boost the motivation of these employees even further. Its "dialogue" tool has been in place for two years now as a means of achieving a uniform approach to HR management, so that the entire HCI team moves in the same strategic direction, with individuals being given the opportunity to progress in their individual areas. All employees have a chance to learn about the company's targets and discuss their performance during an individual structured discussion held on an annual basis with their line manager.

It is our employees with their high levels of dedication, expertise and creativity that make HCI such a successful company.

Motivating employees to attain realistic targets

Individual targets are agreed with each employee. HCI's expectations of its employees are specified in the form of clear targets. How these are actually achieved is determined by the employee, reinforcing the principle of individual responsibility. In addition to individual targets, team targets may also be set. To have a motivating effect, these must be realistic, easy to understand, achievable, and targets which the employee concerned can influence directly.

Identifying development potential

The process of defining employee targets begins with an appraisal of the employee's performance and personal conduct. Measures are then developed on the basis of which the employee's performance can be developed in accordance with their particular skills. Conduct-related assessment criteria cover the four areas of job-related specialist knowledge, customer focus, performance behaviour and social competence, with leadership skills also being appraised in the case of executive members of staff.

Individual employee development measures

Individually tailored employee development measures are drawn up for the employee on the basis of the above stages, with account also being taken of the employee's own ideas and wishes. In this way, HCI is able to develop its employees in line

with the overall needs of the company. At the same time, the fact that the employee's own ideas are incorporated into the plan raises satisfaction levels among our staff, as well as promoting a sense of loyalty to the company. In terms of continuity of staff at HCI, this is an important element.

HCI invests in the expansion of customer service

The average number of HCI Group employees rose by 48 in 2007, to 286. As at the 2007 year-end, the HCI Group had 299 employees (31 Dec 2006: 261 employees). The greatest rises in staff numbers occurred in Corporate Services (+24 %) and After-Sales Services (+23 %). To create the required framework, structurally and in terms of personnel, for further growth of HCI, an additional management level was created below the level of the Management Board. These managerial positions were filled entirely from our existing staff, as were the vacancies created by the promotions. The number of executive employees rose as a result from 19 to 25.

The fact that more than 1,600 job applications were received in 2007 is evidence of just how attractive HCI Capital is as an employer. Due to the strong growth in the company over the last few years and the resulting increase in employees, the average length of service of HCI employees was three-and-a-half years.

Intensive training and continuing professional development

For HCI, training young people is not merely a commercial necessity. It is a social obligation. As at the 2007 year-end, the Group employed 18 trainees in total. The job training rate was 6 %.

The HCI Group promotes continuing education measures on an individual basis and based on the company's needs. Seminar attendance by employees rose from 527 days in 2006 to 880 days in 2007. The company makes use of external seminars and training courses, as well as offering in-house training measures to an increasing extent.


The HCI Academy is open to HCI employees and to the company's sales partners. Introductory seminars in key subjects as well as sales training are on offer to employees. The introductory seminars focus on basic information relating to capital investment in closed-end funds, whilst the expert seminars offer current market and specialist information on the product areas of shipping, real estate and tax.

Thanks and acknowledgement

We would like to express our personal thanks to our employees for their dedication and excellent achievements over the past financial year. It is their hard work, expertise and creativity that make HCI the successful company that it is today.

Exploring new frontiers



A man in a white shirt and dark trousers stands on a small, low-profile metal platform floating in the water. Behind him, a large red and white container ship is docked, with its deck stacked high with colorful shipping containers (orange, red, blue, and grey). In the background, several large blue gantry cranes are visible against a clear blue sky. The scene is set in a harbor or port area.

New frontiers: finding new ways,
broadening one's horizon, exploring
uncharted ground – innovation is the
driving force of HCI's progress.

Management Report of HCI Capital AG and HCI Group for the financial year 2007

A. Business and economic environment

I. Business activities

Diversified product portfolio

The HCI Group was established in 1985 and is one of the leading non-bank-affiliated initiators and providers of closed-end funds in Germany. The Group's product portfolio as at 31 December 2007 encompassed 468 successfully placed investment offers, ranging from closed-end ship and real estate funds, through to secondary life insurance market funds, and extending to private equity funds of funds and structured financial products. In the areas of closed-end investments, the HCI Group also offers risk-diversified fund of funds structures and asset creation plans within the individual product classes. With regard to structured products, the focus is on asset classes with a proven track record, in which HCI can draw on its many years' expertise gained from its business in closed-end funds. In 2007, for example, structured products in the form of certificates based on freight indices, life insurance indices, and ship investments with capital guarantees were offered for the first time.

A broad range of services

The HCI Group's business model is geared towards a deep penetration of the value added chain, from the origination of investments through to the design of closed-end funds and structured products, their distribution and after-sales management, and extending as far as asset management services. This approach is key in achieving a close linkup in the relevant markets, generating synergies between the individual stages in the value added chain and, not least, making a sustained contribution to the creation of value for our customers and our shareholders alike.

The task of searching for and identifying suitable investments is carried out by the teams in the **design departments** of each product area. Depending on the particular product concept, the design departments are supported by experienced partners in this regard where applicable. The process of selecting target funds for real estate fund-of-funds concepts, for example, is managed by the Group's US partner, Townsend Group. Meanwhile, HCI cooperates with Golding Capital Partners on fund of funds concepts in the private equity segment. In the case of ship products, we can rely on our long-term partnerships with more than thirty major medium-sized shipping companies.

To ensure that the products designed by HCI are marketable, investments and products are selected by a product committee composed of representatives from the main operating areas (sales, design, management and Management Board). A highly qualified design team, supported during the product development stage by specialist lawyers, auditors and tax consultants, also generates the impetus needed to develop existing products further and to take new innovative product ideas forward.

With regard to **Sales**, the HCI Group cooperates with various different sales partners, primarily including independent financial agents, banks and financial sales networks. HCI's aim is to make its distribution channels as broadly diversified as follows, thereby reducing its dependence on individual sales partners. This is very clearly documented in the fact that 1,583 sales partners have distributed HCI products in the 2007 financial year. A well-qualified and experienced sales team at HCI ensures that the Group's sales partners are provided with all the support that they need.

Design and sales as components of the company's value added chain are the key drivers in the generation of design fees and sales commissions. Consequently, they crucially influence the Group's sales revenues and gross profit.

After-Sales Service – in other words, managing the invested capital of our investors, who now number more than 100,000 – is a further key element in the value creation process. Closed-end investment models generally have long terms, in some cases significantly in excess of 10 years. The scope of After-Sales Service extends to cover the entire duration of the fund and encompasses, in the first instance, taking care on the investor's behalf of all statutory and regulatory matters in relation to the fund investment. The trust and service charges earned from these activities are another key factor in the HCI Group's sales revenues and gross profit. At the same time, this is a source of income that recurs on an annual basis over a relatively long period of time, which means that it also contributes to the stability of HCI's commercial success.

Through its involvement in various areas of **Asset Management**, HCI also takes on further upstream and downstream services in the value added chain of its financial products. This covers both the management of investments in the funds initiated by HCI in the areas of shipping, real estate and the secondary life insurance market, and its activity in operating and chartering ships with third parties such as through HAMMONIA Reederei GmbH & Co. KG, for example. Asset management is a further strategic anchor for HCI in the relevant markets, generating key momentum for the identification of potential investments, the return-oriented management of the fund products designed and managed by HCI and, not least, active trading in assets (particularly ships and real estate) by the HCI Group itself. From these activities, the HCI Group is increasingly generating recurring income. Moreover, Asset Management also offers opportunities for additional income to be earned from the arrangement of investments.

Extending target customer groups

The HCI Group's product range, in terms of classic closed-end fund investments, is primarily geared towards the investment needs of high net worth individuals. Alongside the long-term profitability of the investment, tax optimisation aspects frequently constitute an important consideration for this target group. Additionally, the minimum investments for limited partner's shares are relatively high compared with other forms of investment.

However, by introducing asset creation plans and structured products, the HCI Group is also capturing new target groups among private customers. These include, for example, customers who are still in the asset creation phase and who, through asset creation plans with regular (and relatively low) contributions, are therefore given easier access to a broadly diversified portfolio of closed-end fund investments, which can then be used as a component of their private pension provision. Included in this group are those customers who are looking to a different kind of access to investments in the shipping sector or the secondary market for life insurance with shorter investment terms, lower investment amounts or a greater degree of risk hedging.

Additionally, in 2006 and 2007, the HCI Group began designing products for institutional investors, both in the real estate sector and in the area of shipping. In the real estate sector, this was carried out exclusively in cooperation with the US real estate investor Behringer Harvard. With regard to shipping, the now listed HCI HAMMONIA SHIPPING AG was placed with a broad range of banks, insurance undertakings and pension funds.

Performance-oriented management

One of the HCI Group's key targets is to maintain the business growth recorded during recent years over the medium and long term. With this in mind, the ongoing diversification of the range of HCI products, services and target customers provides a foundation from which to compensate for market fluctuations in individual fields of business and from which to raise the share of recurring income from trust management activities and asset management on an ongoing basis.

The HCI Group sets its annual targets on the basis of the planned volume of invested equity capital in the individual product segments. This is a key factor in the success of HCI Group's business, determining the gross profit made in the financial year and also determining future ongoing income from trust management and asset management activities.

The second target used for management purposes is the consolidated net income for the year calculated according to IFRS. Using these key figures, the activities of product design, sales, trust management and asset management are strategically planned and subject to ongoing monitoring and management by Controlling.

The third key figure used is earnings before interest and tax (EBIT), a crucial indicator for measuring the performance of the different areas internally and for external use in the form of segment reporting.

Maintaining a high level of credit quality for the HCI Group is another key prerequisite of business and financial policy. Against this background, maintaining a solid equity base is an essential aspect for business management purposes.

The HCI Group is managed and controlled by the Management Board and, at an operational level, by the executive managers and by the managing directors of the subsidiaries in the areas of design, sales marketing, after-sales service and asset management.

For further details of the main subsidiaries and their locations, please refer to the HCI Capital AG Notes for the 2007 financial year.

II. Business development

Global economy expands with high growth rates

The global economy expanded by just under 5.0% in 2007 compared with the previous year, but was not without its up and downs over the course of the year. Whilst the first six months were dominated by announcements of economic success, the second half of the year saw increasing uncertainty on the capital markets due to the sub-prime crisis affecting the private mortgage market in the USA. It was Asia in particular that experienced a boom. India and China were able to achieve gross domestic product (GDP) growth rates of 8.8% and 11.4% respectively in 2007. Economic growth in the Eurozone was 2.6%.

Upturn in Germany

The German economy grew strongly once again in 2007. According to the Federal Bureau of Statistics, the figure for price-adjusted GDP growth was 2.5%. Impetus for growth emanated from abroad and from within Germany itself. Employment reached its highest level in Germany since unification in 1990, with some 39.7 million people in work.

Financial market crisis creating uncertainty – brake applied to interest rate hikes

In terms of direct impact, the US sub-prime crisis affects the banking sector and the international credit markets in the first instance. The resulting uncertainty has led to significant liquidity shortages in interbank business and caused some central banks to intervene. The US Federal Reserve and the European Central Bank in particular both cut key rates or refrained from further interest rate hikes, putting an end to the trend of rising rates. In the Eurozone, the European Central Bank's key rate was to rise by 50 basis points by the middle of the year, up from 3.50% to 4.00%. In the second half of the year, the Fed cut its key rates from 5.25% to 4.25% in a series of rate cuts. Further interest rate cuts followed in the US, to a rate of 3.00%, in the wake of major falls on the equity markets in January 2008. Despite the intervention by the central banks, it is still evident that banks' lending policies are becoming increasingly restrictive in light of the current situation.

Volatile equity markets

The major equity markets performed very positively until the middle of 2007. Then, caught up in the US mortgage crisis, uncertainty grew on the capital markets, with an increase in volatility the result. Despite all of this, both the Dow Jones Industrial

Average (+6.4%) in the US and the leading German indices, the DAX (+22.3%) and MDAX (+4.9%) closed 2007 at a higher level compared to the end of 2006. The SDAX, however, had to cope with declines over the course of the year, and was 6.8% down on its 2006 year-end level. As uncertainty increased over the year, investor interest focused during the second six months on the more liquid large caps, whilst small caps experienced a lower level of demand.

Strong euro – crude oil price at record levels

The euro continued to grow in strength against the US dollar in 2007. Still hovering around the 1.30 US dollar mark at the start of the year, the euro rose continuously over the course of 2007, hitting well in excess of 1.47 US dollars by the year-end.

The price of Brent crude oil also rose strongly in 2007, reaching record levels of well over 90 US dollars a barrel by the end of the year.

Market for closed-end investment models on growth path

In 2007 the initiators of closed-end investment schemes were able to place EUR 12.7 billion of equity capital with investors¹. This result represented considerable year-on-year growth for the sector of 8.7%, only just missing the record level of EUR 12.9 billion set in 2004. Particular emphasis should be placed on the strong growth in investor numbers. At 417,350, the number of people investing in closed-end funds rose by 17.5% compared with the previous year. There was also a significant 16.8% rise in the number of products, with 881 funds on offer. The number of initiators offering such products, also hit a record high, at 395 companies.

Placement results were relatively high in the first half of the year in particular. Whilst the first two quarters, with levels of EUR 3.4 billion and EUR 3.0 billion, were significantly up on the same periods of the previous year, the more reserved mood sparked by the US real estate crisis made its presence felt by the second half of the year. Placement volumes were significantly down on the previous year during the third and also the fourth quarter, at EUR 2.6 billion and EUR 3.7 billion respectively.

The recorded performance was as follows in the segments relevant to HCI Capital AG:

Closed-end real estate funds were again the strongest segment in the sector in 2007, even with a fall of 10.0% on the previous year. With placed equity capital of EUR 4.5 billion (2006: EUR 5.0 billion), this segment accounts for a market share of around 35.2%.

Closed-end ship investments were the subject of particularly keen demand during the period under review, recording strong growth of 38.5% compared with the previous year so that placed equity capital totalled EUR 3.6 billion (2006: EUR 2.6 billion).

¹ Source: Feri Rating & Research AG – Gesamtmarktstudie der Beteiligungsmodelle 2008

Considering the market as a whole, closed-end ship investments therefore accounted for a market share of 28.3% and were the second-strongest segment behind closed-end real estate funds.

Increases were also recorded in secondary life insurance market funds. The total volume of placed equity capital in this segment rose by 5.6% to EUR 893.3 million, which equates to a market share of approximately 7.1%. However, the rise in the total volume can be exclusively attributed to a strong rise in funds with investments in the secondary market for US term life insurance policies, which grew from EUR 97.3 million during the previous year to EUR 347.5 million in 2007. In contrast, funds based on UK and German endowment policies underwent a clear downwards trend, with falls of 18.5% and 41.1% respectively compared with the previous year.

Private equity fund business experienced a slight decrease compared with 2006. The volume of placed equity capital, at EUR 2.1 billion, was some 8.7% down on the EUR 2.3 billion recorded in 2006.

Business performance of the HCI Group

Record result for placed equity capital

The HCI Group was able to end the 2007 financial year with a record result. With placed equity capital of EUR 810.6 million, the previous year's result (EUR 644.0 million²) was surpassed by 25.9%.

A key factor in this success was the HCI Group's greater product diversification within its areas of expertise. The decision to focus design more strongly on products tailored to such investor requirements as capital protection, a high degree of tradability, risk diversification and low investment amounts has resulted in numerous product innovations. The results have been a clear broadening in HCI's private customer basis and access to new investor groups. All of this meant that, over the course of the past financial year, HCI was able to record a placement result of EUR 79.9 million with the introduction of a ship investment with a capital guarantee and certificates in the segments of shipping and the secondary life insurance market, whilst very successfully established the newly created product class of structured products within the space of a year.

A key milestone was also achieved with the first placement of a listed shipping company among institutional investors. HCI HAMMONIA SHIPPING AG has been listed on the Regulated Market of the Hamburg Stock Exchange since November 2007. Institutional investors subscribed to shares in the company worth EUR 150 million, among them HCI Capital AG with shares totalling EUR 7.5 million.

² Due to a change in the methodology for analysing institutional real estate business, the previous year's real estate figure was increased by EUR 3.5 million.

The equity capital placed by the HCI Group during the period under review can be broken down by segment as follows:

In EUR million	2007	2006
Shipping	598.5	384.0
Classic investments	384.9 ¹⁾	384.0 ¹⁾
Structured products	63.6	-
Institutional business	150.0 ²⁾	-
Real estate	101.1	84.0
Classic investments	96.0	72.8 ¹⁾
Institutional business	5.1 ²⁾	11.2 ²⁾
Secondary market life insurance	96.1	132.8
Classic investments	79.8 ¹⁾	132.8
Certificates	16.3	-
Private equity	14.9¹⁾	43.2¹⁾
Total	810.6	644.0

¹⁾Including investments by HSC asset creation plans in ship funds (2007: EUR 24.1 million, 2006: EUR 10.2 million), in real estate funds (2006: EUR 0.6 million), in secondary life insurance market funds (2007: EUR 4.1 million) and in private equity funds of funds (2007: EUR 2.1 million, 2006: EUR 0.2 million)

²⁾ With regard to institutional business, the placed equity capital also includes any equity capital shares of the HCI Group. The fee structure here is based mainly on ongoing management charges and depends on the total placed equity capital, the total investment or other investment key figures. In institutional real estate business, the share of the HCI Group is EUR 1.8 million (2007) / EUR 3.5 million (2006). As at 31 December 2007, HCI Capital AG held shares in HCI HAMMONIA SHIPPING AG in the amount of EUR 7.5 million.

The **shipping** segment was a key contributor to successful placements during the period under review: through classic closed-end ship funds, asset creation plans, structured products and the first-time placement of a listed shipping company among institutional investors, equity capital totalling EUR 598.5 million was acquired, which equates to a rise of 55.9% on the previous year's EUR 384.0 million. Sales to private investors alone were up by 16.8% to EUR 448.5 million (previous year: EUR 384.0 million). Structured products, accounting for EUR 63.6 million of this amount, are included for the first time: a closed-end ship fund with a capital guarantee (HSC Shipping Protect I) and two certificates reproducing the development of freight rates for commodities across various different shipping routes and classes (HSC Freight Rates Protect Certificate I and II). EUR 150 million related to the equity capital placed via HCI HAMMONIA SHIPPING AG.

Also very positive overall was the placement result in the **real estate** segment, with a 20.4% increase in sales to EUR 101.1 million. Closed-end real estate funds for private investors accounted for EUR 96.0 million, up 31.9% compared with the same period of the previous year (EUR 72.8 million). Both the placement success of the Opportunity Fund HCI Real Estate Growth I USA, which was increased from the

original USD 100 million to USD 111 million to cope with the strong demand, and HCI Real Estate BRIC+ launched in October 2007 contributed to this good result. The HCI Real Estate BRIC+ is also designed as a fund of funds, investing in real estate funds in the emerging property markets in Brazil, Russia, India and China. This fund product, which is as yet unrivalled in terms of its global diversification structure, was able to contribute USD 29.4 million to the placement result within a short period of time. The outstanding quality of the HCI Real Estate BRIC+ was acknowledged in October 2007 by the Hamburg-based media company CASH, which voted it the winner of the "Financial Advisors Award 2007" in the closed-end funds category. The fund was also awarded the rating "A, very good" for fund design and the rating "AA, excellent" for management quality by Feri-Rating & Research GmbH.

The placed equity capital in institutional real estate business amounted to EUR 5.1 million and was therefore below the previous year's level (EUR 11.2 million), as well as below our expectations. Due diligence processes were instigated for a series of further attractive real estate projects as part of our joint venture with the US real estate investor Behringer Harvard. However, these were not pursued further during the period under review. In some cases, the change in the requirements made of banks for financing projects in the wake of the crisis on the financial markets meant that the projects were no longer viable options.

Against the background of the current trend on the real estate market in the USA, the HCI Real Estate Finance I product originally planned for 2007 with an intended placement volume in the region of USD 55 million no longer appears to be a marketable venture. The concept behind this fund was to give German investors the opportunity, together with institutional partners in the USA, to invest in a loan portfolio consisting of commercial real estate finance. Whilst these loan investments do not fall into the US sub-prime segment of private mortgages, the market turbulence over recent months means that the probability of successfully placing US real estate loan products in this environment is very low.

The secondary life insurance market segment was able to place EUR 96.1 million of equity capital through secondary life insurance market funds, a certificate based on the development of a portfolio of UK and German life insurance policies (HSC Optivita Europe LV Index Certificate) and asset creation plans. This meant that the result from new business in this product sector, as expected, was down on the same period of the previous year (EUR 132.8 million). Demand tended to be weak for such products, particularly in the case of fund models investing in German life insurance policies. To date only EUR 8.0 million has been placed through HSC Optivita IX Germany, for example. Meanwhile, HSC Optivita X UK, which is geared towards UK life insurance policies, has met with a more gratifying response since its launch in September 2007. It was possible to place EUR 24.4 million of the target volume of EUR 50 million during the period under review. Structured products accounted for a placement volume of EUR 16.3 million in the secondary life insurance market during the period under review.

There were no new issues, as planned, during the fourth quarter of 2007 of the already fully placed certificate.

New business in the segment of private equity funds of funds, with placed equity capital of EUR 14.9 million, was significantly down on the previous year (EUR 43.2 million). This fall can be primarily attributed to the uncertainties on the financial markets, which had a tangible negative impact on demand for investment offers in the private equity sector. Signs of this negative impact began to emerge as early as during the third quarter of the reporting period. Consequently, the result achieved is in line with our expectations.

Looking back at the original HCI Group plan for 2007 with regard to placed equity capital, the placement target of EUR 700 million for classic funds and structured products across all product segments and without including EUR 150 million for the placement of HCI HAMMONIA SHIPPING AG was not quite achieved. The total equity capital placed amounts to EUR 660.6 million, which is still 2.5% higher than the previous year's figure of EUR 644.0 million. Nevertheless, the HCI Group, by real-locating assets to institutional investments in shipping – a lucrative area of the future – and by achieving a record placement volume of EUR 810.6 million as a result, has more than demonstrated its innovative skills and, not least, its placement strength. We regard this as a key step going forward as we work to develop our business model further.

Overall, with this high placement result, the HCI Group has succeeded in further expanding its leading position among Germany's issuing houses. In the strong shipping segment in particular, HCI has demonstrated its position as market leader in terms of placement volume and product diversity during the reporting period. Its total placement volume of EUR 810.6 million puts the HCI Group well within the top four issuers in the market for closed-end investment models during the 2007 financial year³.

New sales and marketing strategy

A key goal of Sales during the reporting period was to improve the organisational structure to achieve a greater level of customer focus in our cooperation with our distribution partners. The management and organisational structure of Sales was realigned and is now clearly based on the three key distribution channels: independent distribution partners, credit institutions (banks, savings banks and cooperative banks) and financial sales networks. To target distribution partners more specifically and more personally, we have set up regional offices to cover independent brokers, whilst further refining our specialisation in the area of banks, savings banks and cooperative banks. In this way we have succeeded in increasing penetration in the individual customer groups, gaining new distribution partners and incorporating changes to customers' needs and market trends even more quickly, turning them into attractive products. In this way, the number of distribution partners operating for HCI in the 2007 financial year rose by 52% compared with the previous year to 1,583.

³ Source: Feri Rating & Research AG – Gesamtmarktstudie der Beteiligungsmodelle 2008

The distribution of equity capital placements in retail business across the different distribution channels also shows that the HCI Group can continue to base its placement performance on a broadly diversified network of distribution partners. A particularly large proportion of the equity capital placed, namely 58.3% (previous year: 40.3%) was arranged by independent financial advisors during the period under review. Credit institutions, accounting for a share of 34.5% of the equity capital placed, were down on their previous year's level of 41.9%, a fall that is primarily attributable to the fact that there were no exclusive funds with major banks during the reporting period. Corresponding, sales via major banks were down, whilst there was a clear rise in the arrangement of investments through savings banks and cooperative banks compared with the year before. Financial sales networks were also down on the previous year, accounting for 7.2% of the placed capital (previous year: 17.8%).

Given that the market for closed-end investment models has evolved primarily into a buyers' market, marketing, alongside sales, is becoming an ever more important element. Against this background, we have integrated marketing activities into our Sales department during the financial year under review. At the same time, we are focusing more closely on the development of marketing campaigns for innovative products so as to increase awareness of these among our distributions partners and in order to communicate the attractive features of these products more clearly. The success of this concept can be seen particularly clearly from the marketing of the HCI Real Estate BRIC+, which created a high level of attention and generated strong demand not least due to a comprehensive marketing campaign.

Expansion of trust and service activities – Number of investors passes the 100,000 mark

The rise in the placement volume also led in the 2007 financial year to a further expansion in the HCI Group's trust and service activities. The placement of fund equity capital among private investors in the shipping, real estate, secondary life insurance market and private equity segments meant that, on balance, the equity held in trust as at the year-end rose from EUR 3,966 million in 2006 to EUR 4,337 million as at 31 December 2007. Meanwhile, the number of investors rose by 16.2% to reach approx. 101,900 (previous year: 87,700). In this way, the basis for sustained income over the term of the fund companies also grew further in the area of after-sales service.

Asset Management grows further in importance

The growing importance of asset management activities at the HCI Group was demonstrated in various respects during the 2007 financial year. Our management activities were progressed further in the shipping, real estate and life insurance segments.

A further key step with regard to asset management was the expansion of our business with institutional investors. Through HCI HAMMONIA SHIPPING AG and institutional business in the real estate sector, a total of EUR 155.1 million in equity capital was placed. This business has a different commission structure to classic fund

business. Institutional business is primarily marked by the ongoing fees received for the active management of the investment, with the arrangement commission being of lesser importance. Consequently, the income will only have a full impact on the HCI Group's result in future financial years. Growth in institutional business is therefore a further important step in increasing the share of recurring income from asset management activities.

Emphasis should also be placed on our shipping company business, conducted within the framework of HAMMONIA Reederei GmbH & Co. KG, a joint venture with Peter Döhle Schiffahrts-KG. In the 2007 financial year, HAMMONIA Reederei GmbH & Co. KG, with additional income from the brokerage of ships, was able to profit particularly effectively from the boom in the container ship market. This applies both to ships from its own asset pipeline and to performance-based commissions from the successful sale of ships from HCI Group closed-end funds.

B. Net assets, financial position and result of operations of the HCI Group

I. Results of operations

1. Results of operations – HCI Group

The key figures relating to HCI Group's results for the 2007 financial year, and the changes compared with the previous year, are listed in the table below:

In EUR million	2007	2006
Revenues	137.3	145.6
Other operating income	13.2	21.3
Changes in inventories	-0.6	0.0
Cost of purchased services	-70.3	-69.1
Personnel expenses	-28.0	-23.9
Other operating expenses	-21.5	-21.1
Result of associates and joint ventures accounted for using the equity method	14.7	2.0
Earnings before interest and taxes (EBIT)	40.3	51.1
Net financial result	0.5	4.1
Earnings before taxes (EBT)	40.8	55.2
Income taxes	-10.2	-15.7
Consolidated net income for the year	30.6	39.5

Revenues fell by 5.7% compared with the previous year from EUR 145.6 million to EUR 137.3 million during the year under review. This fall can be mainly attributed to the decline in design and sales income, down from EUR 117.8 million in 2006 to EUR 105.4 million during the year under review. Whilst the HCI Group was able to

achieve a significant increase in the volume of placed equity capital, the product mix of the placed funds was marked by a noticeable shift in commission structures during the reporting period. In the shipping segment a series of individually structured placements contributed to this trend, with this type of product being characterised by low sales commissions at the outset and, subsequently, higher ongoing commissions and, in some cases, performance-based commissions. In the real estate segment, it was opportunity funds of funds with their lower commissions and margins that dominated. Also, structured products, and certificates in particular, are marked by a low-margin commission structure. No significant advance commissions were generated with the placement of HCI HAMMONIA SHIPPING AG among institutional investors. This is a case where the remuneration primarily takes the form of higher ongoing management charges.

At EUR 22.6 million, trust and service fees only declined marginally from the previous year's figure of EUR 22.7 million. Although management charges fell by EUR 1.0 million compared with the previous year, to EUR 1.8 million, this was mainly due to EUR 1.8 million in non-recurring income generated from real estate brokerage in the previous year.

The strong rise in other income from EUR 2.3 million to EUR 7.5 million is due to higher performance-based income from closed-end funds where defined levels of return were attained in practice. These were generated upon the winding up of the funds after the sale of the fund investments.

Revenues can be broken down as follows:

In EUR million	2007	2006
Fund design and sales revenues	105.4	117.8
Trust and service fees	22.6	22.7
Management revenues	1.8	2.8
Other revenues	7.5	2.3
	137.3	145.6

The cost of purchased services, at EUR 70.3 million, was 1.7% higher than the previous year's figure of EUR 69.1 million. One of the main reasons for the increase – in spite of falling income from design and sales – was the change in product mix with regard to placements. In addition, the increase can also be attributed to the way in which a real estate fund (Hanseatic Real Estate Fund Holland XXV GmbH & Co. KG) was accounted for during the previous year, as it was only possible to record the net margin under revenues with the result that no expenses for purchased services were incurred.

Across all of the product segments, **gross profit** fell from EUR 76.5 million in the previous year to EUR 66.4 million in the 2007 financial year. This development shows that

the HCI Group's ongoing diversification strategy is inextricably linked with a shift in margin structure in the product segments and a move away from one-off sales commissions to regular recurring income from trust, service and management activities, which in some cases will take a few years to have an impact.

Other operating income, at EUR 13.2 million, was well down on the exceptionally high level of EUR 21.3 million recorded during the previous year. Other operating income primarily includes the results from the HCI Group's activity in the area of trading in ships and real estate (asset trading). Whilst these activities are an integral component of the Group's business model, they depend upon market opportunities: therefore, the ability to plan such income on a recurring basis is limited. For the 2007 financial year, other operating income primarily comprised income from the arrangement of real estate in the Netherlands (EUR 8.7 million) and the brokerage of ships (EUR 2.8 million). HCI was able to sell these assets on the basis of attractive conditions in a strong sellers' market, without jeopardising the long-term product availability of the HCI Group's funds. In 2006, the brokerage of ships resulted in exceptionally high levels of other operating income (EUR 18.6 million).

Personnel expenses grew by 17.2% to EUR 28.0 million (previous year: EUR 23.9 million). This increase was primarily due to the significant 20.2% rise in the average number of employees, up from 238 in the previous year to 286 during the reporting period. The rise in the personnel expense ratio (from 16.4% to 20.4%) is related to the hiring programme embarked upon to secure the future growth of the HCI Group. The number of employees working in trust services, for example, was increased due to the growth in the size of fund portfolios and the related large increase in the number of customers. Additionally, special effects resulted from termination agreements in the context of changes in the composition of the Management Board.

In contrast, **other operating expenses** rose only marginally, up by 1.9% to EUR 21.5 million (previous year: EUR 21.1 million). Rental and leasing expenses, as well as general business costs, contributed to this rise. The costs of external advisory services, however, were significantly reduced.

The **result of associates and joint ventures** accounted for using the equity method clearly improved during the reporting period, up by EUR 12.7 million to EUR 14.7 million. The investment in HAMMONIA Reederei GmbH & Co KG made a large contribution to this result, accounting for EUR 12.6 million. In the 2007 financial year, HAMMONIA Reederei GmbH & Co. KG, in addition to income from ongoing charter business, was able to profit particularly effectively from the boom in the container ship market with additional income from the brokerage of ships. The first-time inclusion of NY Credit Operating Partnership LP during the year under review contributed income of EUR 1.5 million.

Operating earnings before interest and taxes (EBIT) were EUR 40.3 million for the period under review (previous year: EUR 51.1 million).

The financial result, at EUR 0.5 million, was lower than in the previous year (EUR 4.1 million). This item was affected by income in conjunction with the closing of financing positions originally intended for an investment in Dutch real estate. The disposal of the real estate meant that the positions could be closed. A rise in interest expenses was evident over the same period, partly due to a rise in the borrowing ratio due to the financing of the acquisition of shares in Aragon AG. Interest expenses were also incurred for the first time in conjunction with the refinancing of the acquisition of shares that HCI Real Estate Finance I GmbH & Co. KG (REF I) holds in NY Credit Operating Partnership L.P.

The HCI Group's tax ratio was 25.0% for the 2007 financial year and thus clearly below the previous year's level of 28.5%. The lower level of tax expenses during the reporting period can be attributed to two main factors. The rise in income from the HAMMONIA Reederei GmbH & Co. KG and its subsidiaries, included in the consolidated financial statements of the HCI Group using the equity method, had a significant effect. Since this income is, for the greater part, not subject to standard taxation but is covered by the tonnage tax, the impact on the Group's tax expenses is relatively minor. The second factor relates to the business tax reform adopted in 2007, on the basis of which deferred taxes as at 31 December 2007 will be valued at the rate of corporation tax applicable as of 2008, i.e. 15.0% as opposed to the 25.0% applied to date. The trade tax base rate was cut from 5.0% to 3.5% and changes with regard to additions and deductions in the calculation of trade tax taken into account. These positive effects were partially offset by one-off tax expenses of around EUR 2.6 million that arose as a result of the findings of the tax investigation at the Bremen site for the assessment periods of 2000 to 2005, of which the HCI Group was notified in February 2008.

The consolidated net income for the year, at EUR 30.6 million, was lower than in the previous year (EUR 39.5 million). This compares with the HCI Group's original target for the 2007 financial year of EUR 31.0 million. This target was raised to EUR 35.0 million in the half-yearly report in light of the expected lower tax ratio and a higher level of other operating income, and then confirmed as at least EUR 35.0 million in the nine-monthly report. These expectations were not met, however, with an actual figure for consolidated net income for the year of EUR 30.6 million. This lower result is primarily due to the one-off tax expenses of around EUR 2.6 million in conjunction with the tax investigation, the precise amount of which was not known until the time of the financial statements as at 31 December 2007 being prepared. Expenses in the amount of EUR 1.8 million were also incurred from the incorporation of REF I into the consolidated financial statements as at 31 December 2007 prepared in accordance with IFRS. This move was prompted by the poor marketability of the company due to the development of real estate markets in the USA.

2. Result of operations of the segments

Shipping

The result of operations in the shipping segment during the reporting period was as follows:

In EUR million	2007	2006
Fund design and sales revenues	81.1	81.3
Trust and service fees	18.1	17.8
Management revenues	0.4	0.0
Other remuneration	6.9	2.3
Revenues	106.5	101.4
Cost of purchased services	-52.7	-47.8
Change in inventories	-0.4	0.0
Gross profit	53.4	53.6
Other operating income and expenses	-19.6	-1.7
Result of associates and joint ventures accounted for using the equity method	12.6	2.3
Earnings before interest and taxes (EBIT)	46.4	54.2

Despite a clear rise in placed equity capital by 55.9%, from EUR 384.0 million to EUR 598.5 million, growth in revenues in the shipping segment was disproportionately low, up 5.0% from EUR 101.4 million in the previous year to EUR 106.5 million. This is primarily due to the change in product mix of classic, closed-end funds and structured products, and the placement for the first time of a listed shipping company. In addition, a change in margin structure was also observed in the high-margin sector of classic, closed-end funds due to a number of individually structured investments. The placement of HCI HAMMONIA SHIPPING AG saw the HCI Group receive EUR 0.2 million from its own sales activities. The main source of income here will be earned over future years from ongoing management charges of 1% p.a. on balance-sheet equity, which is currently EUR 150 million. Management income of EUR 0.4 million was generated during the reporting period. Fund design and sales revenues were therefore relatively stable despite the rise in the placement result.

A considerable increase was recorded in other payment, totalling EUR 6.9 million (previous year: EUR 2.3 million). These payments are based on the contractually agreed participation of the HCI Group in the performance of the funds that it has initiated whenever these funds exceed a predefined rate of return. The payment is made when the fund is wound up after disposal of the investment.

The costs of purchased services in the ship segment were up on the previous year, from EUR 47.8 million to EUR 52.7 million. This figure includes expenses of EUR 3.0 million (previous year: EUR 1.1 million) due as commission to distribution partners in conjunction with the participation of the HCI Group (as referred to above) when predefined return levels are reached.

This gives a figure for gross profit of EUR 53.4 million, which is only slightly below the EUR 53.6 million recorded for the previous year. The fact that the gross profit margin fell from 52.9% in the previous year to 50.1% in the year under review documents the change in margin structure in what was a more broadly diversified product portfolio in the shipping segment. The shipping segment remains the strongest product segment of the HCI Group in terms of margin.

The clear fall in net other operating income and expenses, down from EUR -1.7 million in the previous year to EUR -19.6 million during the reporting period, is primarily due to the following effects. Firstly, the HCI Group earned other operating income of EUR 2.8 million from the brokerage of and/or intermediate trade in ships, which was substantially down on the previous year's exceptionally good result of EUR 18.6 million. At the same time, personnel expenses rose by EUR 2.3 million in the year under review, an increase that was only partly offset by lower depreciation and a fall in other operating expenses.

The increase in the result of associates and joint ventures accounted for using the equity method, to EUR 12.6 million (previous year: EUR 2.3 million) was attributable in particular to HCI Group's share in the results of HAMMONIA Reederei GmbH & Co. KG, which was in turn predominantly due to profit contributions achieved by HAMMONIA Reederei GmbH & Co. KG in ship brokerage.

Overall, EBIT for the shipping segment fell by EUR 7.8 million year-on-year to EUR 46.4 million.

Real estate

The result of operations in the real estate segment during the reporting period was as follows:

In EUR million	2007	2006
Fund design and sales revenues	9.3	8.8
Trust and service fees	2.4	2.7
Management revenues	1.3	2.8
Other remuneration	0.5	0.0
Revenues	13.5	14.3
Cost of purchased services	-7.6	-5.0
Change in inventories	-0.4	-0.2
Gross profit	5.5	9.1
Other operating income and expenses	1.0	-6.6
Result of associates and joint ventures accounted for using the equity method	1.5	0.0
Earnings before interest and taxes (EBIT)	8.0	2.5

A fall in revenues from EUR 14.3 million in the previous year to EUR 13.5 million was recorded in the real estate sector. This was due to the fall in management income from EUR 2.8 million to EUR 1.3 million on the basis of the higher one-off amount earned during the previous year and referred to earlier in the context of HCI Group's results. In contrast, the clear rise in the placement result in the area of closed-end funds generated a rise in fund design and sales revenues, which increased from EUR 8.8 million to EUR 9.3 million. Trust and service fees were slightly below the previous year's level, which had been influenced by special effects.

The rise in the cost of purchased services from EUR 5.0 million in 2006 to EUR 7.6 million was partly due to the rise in the volume of placed equity capital but also due to the fact that the net reporting of revenues in a placement during the previous year led to a lower entry for cost of purchased services. Gross profit fell from EUR 9.1 million to EUR 5.5 million. Overall, the gross profit margin – also affected by one-off effects in relation to the previous year's management fees – was significantly down on the previous year, at 40.7% (63.6%).

The clear rise in other operating income and expenses is mainly the result of the brokerage of Dutch real estate, as a result of which exceptionally high other operating income in the amount of EUR 8.7 million was generated in this segment. The equivalent figure for 2006 was EUR 0.8 million. The real estate in question was three commercial properties, originally intended for inclusion in a fund. After the decision that it no longer appeared reasonable to launch the fund, due to stagnating demand for Dutch real estate funds, the properties were sold at a considerable profit during a phase of strong rises in real estate prices.

The segment reported EUR 1.5 million in income from associates accounted for using the equity method, due to the first-time inclusion at equity of NY Credit Operating Partnership LP in the year under review.

EBIT in the real estate segment, at EUR 8.0 million, was significantly up on the previous year (EUR 2.5 million). In this context, it should be noted that interest expenses incurred for the refinancing of the stake held by REF I in NY Credit Operating Partnership LP are included in the financial result of HCI Group, and thus have no impact on the segment result.

Secondary market life insurance

The result of operations in the secondary life insurance market segment during the reporting period was as follows:

In EUR million	2007	2006
Fund design and sales revenues	13.3	23.0
Trust and service fees	1.8	1.6
Revenues	15.1	24.6
Cost of purchased services	-8.6	-12.4
Change in inventories	-0.1	0.2
Gross profit	6.4	12.4
Other operating income and expenses	-6.4	-6.8
Earnings before interest and taxes (EBIT)	0.0	5.6
Result from investments in funds	3.0	4.0

The lower placement result of EUR 96.1 million (previous year: EUR 132.8 million) meant that there was a clear fall in revenues in the secondary life insurance market segment, down from EUR 23.0 million in the previous year to EUR 13.3 million. There was also a change in the revenue structure due to the introduction of the life insurance certificate.

Gross profit in the secondary life insurance market segment fell accordingly, from EUR 12.4 million to EUR 6.4 million. Due to the change in the product mix, the gross profit margin was cut from 50.4% to 42.4%.

This resulted in an EBIT figure of EUR 0.0 million (previous year: EUR 5.6 million).

The HCI Group receives annual fees with regard to secondary life insurance market funds which, in accordance with their contractual design, are classified as advance dividends. They are therefore included in the financial result as investment income and not included in the calculation of EBIT. These funds provided an investment income in the 2007 financial year of EUR 3.0 million (previous year: EUR 4.0 million).

Private equity

The result of operations in the private equity segment during the reporting period was as follows:

In EUR million	2007	2006
Fund design and sales revenues	1.5	4.8
Trust and service fees	0.4	0.5
Revenues	1.9	5.3
Cost of purchased services	-1.4	-3.8
Change in inventories	0.3	-0.1
Gross profit	0.8	1.4
Other operating income and expenses	-0.3	-1.0
Earnings before interest and taxes (EBIT)	0.5	0.4

The much lower placement result of EUR 14.9 million (previous year: EUR 43.2 million) meant that there was a clear fall in revenues in the private equity market segment, down from EUR 5.3 million in the previous year to EUR 1.9 million.

Gross profit fell to 0.8 million (previous year: EUR 1.4 million) over the reporting period. The gross profit margin in this segment was 40.0% (previous year: 26.4%).

EBIT in the private equity segment was EUR 0.5 million for the 2007 financial year (previous year: EUR 0.4 million).

II. Financial position

In EUR million	2007	2006
Consolidated net income for the year	30.6	39.5
Non-cash income and expenses	1.7	14.6
Change in net working capital	3.4	-6.8
Interest and taxes paid and received	-19.3	-22.9
Distributions received	1.3	1.7
Cash flow from operating activities	17.7	26.1
Cash flow from investing activities	-38.4	-47.4
Cash flow from financing activities	-3.2	-14.7
Net cash inflow/outflow	-23.9	-36.0
Cash and cash equivalents at the beginning of the period	58.6	94.6
Cash and cash equivalents at the end of the period	34.7	58.6

HCI Group once again reported positive cash flow from operating activities for the 2007 financial year. The 32.2% decline in cash flow from continuing operations, from EUR 26.1 million in the 2006 financial year to EUR 17.7 million in the period under review, resulted in particular from changes in cash income and expenses included in consolidated net income for the year. Non-cash results of associates accounted for using the equity method showed a market increase in the 2007 financial year, rising to EUR 13.2 million (2006: 2.0 million). A reduction in funds tied up in net working capital provided a further positive effect.

The net cash outflow from investing activities was mainly attributable to the investment in NY Credit Operating Partnership LP, which accounted for EUR 34.0 million, plus the subscription of shares in HCI HAMMONIA SHIPPING AG (EUR 7.5 million), and a capital contribution in BH & HCI Overschiestraat Holding B.V. (EUR 1.8 million). This was partially offset by the sale of a stake in the Holland XXVI Fund, which yielded a net cash inflow of EUR 7.5 million.

Net cash flow from financing activities included EUR 33.6 million in dividends distributed, set off by EUR 34.5 million borrowed to finance the stake in NY Credit Operating Partnership LP. The EUR 22.0 million bridge finance facility for the acquisition of a stake in Aragon AG, which had been raised in 2006, was refinanced during the 2007 financial year, via a EUR 22.0 instalment loan.

At EUR 34.7 million as at 31 December 2007, cash and cash equivalents were EUR 23.9 million lower than on 31 December 2006.

As part of its business model in the shipping segment, HCI Group raises bridge finance facilities jointly with medium-sized shipowners, reflecting the start-up periods for initiated products. These period can be very long, particularly in the shipping and real estate segments. HCI Group entities granted guarantees and placement guarantees with respect to construction phase loans, equity bridge facility, and foreign exchange or interest rate hedges. The aggregate volume of guarantees and similar obligations by HCI Group as at 31 December 2007 amounted to EUR 317.4 million and USD 1,541.0 million, of which EUR 229.4 million and USD 917.1 million related to loans that had already been disbursed. Placement guarantees totalling EUR 68.4 million / USD 361.8 million were still outstanding, of which EUR 55.0 million / USD 331.2 million related to funds that were not yet at the placement stage.

III. Net assets

The net assets of the HCI Group are analysed as follows:

Assets	December 31, 2007		December 31, 2006	
	in EUR m	in %	in EUR m	in %
Intangible assets, property, plant and equipment, and non-current financial assets	109.5	45.6	64.7	28.5
Non-current receivables and other assets	19.9	8.3	5.0	2.2
Work in progress and finished services	1.8	0.8	2.0	0.9
Current receivables and other assets	65.8	27.4	87.9	38.7
Securities	7.5	3.1	0.0	0.0
Cash and cash equivalents	34.7	14.5	58.6	25.8
Assets held for sale	0.0	0.0	7.5	3.3
Deferred taxes	0.7	0.3	1.4	0.6
Total assets	239.9	100.0	227.1	100.0
Equity and liabilities				
Consolidated equity	118.0	49.2	123.3	54.3
Non-current provisions and liabilities	16.6	6.9	0.6	0.2
Current provisions	1.3	0.5	2.4	1.1
Current liabilities	102.0	42.6	96.8	42.6
Deferred taxes	2.0	0.8	4.0	1.8
Total equity and liabilities	239.9	100.0	227.1	100.0

Total assets as at 31 December 2007 were higher than at the end of 2006, rising by EUR 12.8 million to EUR 239.9 million. This is primarily due to the clear rise in **intangible assets, property, plant and equipment, and non-current financial assets**, which increased by EUR 44.8 million to EUR 109.5 million. The change in this position is attributable to the first-time inclusion, at equity, of NY Credit Operating Partnership LP, recognised in an amount of EUR 31.8 million. Furthermore, the carrying amount of the associates and joint ventures accounted for using the equity method increased, primarily due to the portion of the results of HAMMONIA Reederei GmbH & Co. KG, in the amount of EUR 12.6 million. This contrasted with the scheduled amortisation of capitalised trust and service contracts, in the amount of EUR 1.8 million.

Non-current receivables and other assets, amounting to EUR 19.9 million, include loans granted to investment companies and third parties.

Work in progress and finished services, including capitalised services in conjunction with the design of funds, remained slightly down on the previous year, at EUR 1.8 million.

The fall in current receivables and other assets was due in particular to the 46.1% reduction in current receivables from sales and services from EUR 59.0 million as at 31 December 2006 to EUR 31.8 million one year later. This development was due to the fact that placement volumes were lower at the end of 2007 than was the case the previous year. The management of receivables was also further improved.

The assets held for sale were the shares in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG in the amount of EUR 7.5 million, which were acquired in 2006 and sold in the 2007 financial year.

On the liabilities side, current provisions fell by EUR 1.1 million compared with the previous year from EUR 2.4 million to EUR 1.3 million. This fall was particularly due to the expiry of a performance fee arrangement, with the final EUR 1.6 million payment having taken place in 2006. An increase in provisions for interest rate risks from the relationships within the integrated group of companies in 2002 and 2003 in the amount of EUR 0.4 million had the opposite effect.

Current liabilities rose by EUR 5.2 million during the 2007 financial year from EUR 96.8 million in 2006 to EUR 102.0 million. There was a EUR 35.9 million rise in liabilities due to banks for the financing of the acquisition of shares held by REF I in NY Credit Operating Partnership LP. Meanwhile, the money market loan to refinance the acquisition of shares in Aragon AG, which was in place on 31 December 2006, was replaced by an instalment loan of EUR 22.0 million, so that EUR 16.5 million was posted under non-current liabilities. In addition, trade liabilities fell by EUR 7.3 million, with other liabilities also falling.

The EUR 5.3 million fall in consolidated equity to EUR 118.0 million was due to the consolidated result for 2007 in the amount of EUR 30.6 million minus the dividend-payment for the 2006 financial year of EUR 33.6 million. The equity ratio as at 31 December 2007 fell to 49.2% compared with 54.3% as at 31 December 2006.

IV. Dividends

We will propose to our Annual General Meeting on 15 May 2008 that a dividend of EUR 0.70 per share be paid for the 2007 financial year (previous year: EUR 1.40). On the basis of the year-end price of the HCI share on 31 December 2007 of EUR 14.90, this equates to a dividend yield of around 4.7%.

The reduction in the dividend per share from EUR 1.40 to EUR 0.70 is particularly closely linked to the Management Board's aim of guaranteeing that the HCI Group can utilise growth opportunities by maintaining a sound equity ratio against the background of the changed basic parameters. During the 2007 financial year, the equity ratio fell from 54.3% to 49.2% due to the lower consolidated net income for the year, which was down by EUR 8.9 million from EUR 39.5 million to EUR 30.6 million, and also due to the inclusion of significant borrowed capital items as a result of the consolidation of REF I. The use of available retained earnings of HCI Capital AG

to pay a higher dividend would place a further burden on the equity ratio taking into account the changed basic parameters.

Maintaining a sound level of capitalisation in the long term is crucially important to the Management Board of HCI Capital AG taking into account the changed basic parameters that have arisen over the course of the last financial year and in early 2008, particularly with regard to the following three aspects:

- (1) The expansion of institutional business and greater cooperation with international partners means that the HCI Group's business model is subject to an ongoing process of strategic change. In this cooperation, a high credit rating on the part of all partners plays an important role for the joint structuring of investments and in being able to create favourable financing. Solid equity capital resources and maintaining the HCI Group's financing strength are therefore key prerequisites, ensuring that an image as a strong and reliable partner is portrayed to the cooperation and financing partners for the fund models initiated by HCI. It is one of the HCI Group's key competitive advantages that it is able to offer customers attractive investments at any time irrespective of the market cycle.
- (2) Due to current developments on the financial markets, there has been a sharp increase in the requirements made of banks in terms of the provision of equity capital by the initiators of fund projects and the conditions governing their pre-financing. Good equity capital resources and the sound financial strength of the initiators of fund projects represent an increasingly important success factor in the structuring of attractive fund products. The aim is to ensure that the high credit rating currently enjoyed by the HCI Group among banks is maintained. It will also be viewed as a further essential competitive advantage in a context of restrictive financing conditions in business with closed-end fund products. At the same time, this is a crucial aspect if we are to grow further in our core business.
- (3) In the context of the rising uncertainty surrounding the general market development – particularly in the USA and the resulting impact on global trends – we believe that having solid capital resources is even more important than before.

An increase in the dividend paid per share over and above the amount proposed by the Management Board would have a significant detrimental impact on the competitiveness of the HCI Group in the closed-end fund and structured product market, a market that is characterised by significant growth opportunities. With this in mind, the Management Board regards the proposed dividend payment of EUR 0.70 per share as an important strategic step in the creation of a very good foundation for further growth and, consequently, for increasing shareholder value. At the same time, the proposed dividend based on the 2007 year-end price offers an attractive dividend yield of around 4.7%, which is still well above the average for listed companies.

C. Human resources

I. Employees

Our employees' expertise in complex markets and the extent to which our staff identity with the HCI Group are the very foundation of the Group's success. Once again, during the 2007 financial year, the development of the HCI Group made high demands of our staff in terms of their creativity, their ability to adapt and the underlying value creation processes. To secure continued growth in future, our team of highly qualified and dedicated employees was further expanded in 2007.

Compared to the previous year, the key indicators developed as follows:

	2007	2006
Average number of employees	286	238
Personnel expenses (EUR million)	28.0	23.9

In addition to their salaries, managerial staff and selected employees are also eligible for contractually agreed bonuses, payment of which is dependent on the attainment of annual targets. Schemes enabling managing directors, divisional managers and sales staff to participate in profit and revenues are in place at HCI. Based on the success of the 2007 financial year, a budget was made available for all employees who receive only a salary without any bonus arrangements. HCI managers will use this budget in the first half of 2008 to make a special payment to employees in recognition of outstanding achievement during the 2007 financial year.

II. Remuneration report

In accordance with Section 315, paragraph 2, no. 4 of the German Commercial Code (HGB), the main features of the remuneration system applicable to the Management Board and Supervisory Board of HCI Capital AG in terms of overall remuneration as defined in Section 314, paragraph 1, no. 6 of the HGB are detailed below. The remuneration report complies with the German Act on the Disclosure of Executive Board Remuneration (VorstOG), as well as with the recommendations of the German Corporate Governance Code. It therefore also includes an individual breakdown of the remuneration of the Management Board and the Supervisory Board.

The remuneration of the Management Board is composed of fixed components that are paid irrespective of performance and of variable, performance-related components. The fixed salary paid is based on the job description and area of responsibility of the respective member of the Management Board. The variable remuneration component is paid in the form of a bonus, calculated on the basis of the figure for earnings before taxes (EBT) calculated according to IFRS and posted in the consolidated financial statements. Members of the Management Board receive a percentage share if the EBT recorded is within the predefined range. If the EBT exceeds this

range, the percentage participation is increased, subject to a cap. The Chairman of the Board receives a higher percentage than the other members of the Board in each case. Moreover, a minimum profit-sharing bonus has been contractually agreed with Wolfgang Essing for the 2007 and 2008 financial years.

As a fringe benefit, the members of the Management Board are also each provided with a company car. They also receive a tied payment to cover insurance premiums and are able to subscribe for HCI Capital AG products on the basis of preferential terms for employees.

The Board members' contracts contain commitments in the event that their period of office is terminated prematurely. In the case of Wolfgang Essing, Dr Rolando Gennari, Harald Christ and Dr Ralf Friedrichs, these commitments are based on the remainder of the contractual period in years multiplied by the total of the contractually agreed fixed salary and 50% of the profit-sharing bonus of the previous year. A maximum amount is also stipulated for this settlement payment. A contractual arrangement is in place with Dr Oliver Moosmayer to the effect that any settlement paid will not exceed the maximum of two years' remuneration or the benefits from what could be a shorter residual contractual term. A change-of-control clause has also been agreed in the case of Wolfgang Essing, the design of which corresponds to the above settlement payment rules.

There are no pension commitments. In the event of the death of a serving member of the Management Board, the benefits due for the three subsequent months will be paid to that member's dependents. The total remuneration paid to the Management Board of HCI Capital AG during the past financial year was EUR 5.8 million (previous year: EUR 4.8 million).

The remuneration paid to each individual member of the Management Board can be broken down as follows:

TEUR	Non-profit related remuneration (incl. fringe benefits)		Profit-related remuneration		Total	
	2006	2007	2006	2007	2006	2007
Management Board						
Wolfgang Essing	-	786	-	650	-	1,436
Dr Rolando Gennari	388	347	566	314	954	661
Dr Oliver Moosmayer (since October 2007)	-	99	-	78	-	177
Harald Christ (until September 2007)	1,174	2,357	1,786	0	2,960	2,357
Dr Ralf Friedrichs (until December 2007)	366	893	566	314	932	1,207
Total	1,928	4,482	2,918	1,356	4,846	5,838

Commitments due to members leaving the Board were received during the 2007 financial year by Harald Christ, in the amount of EUR 1,4 million, and by Dr Ralf Friedrichs, in the amount of EUR 0.4 million. The commitment to Dr Friedrichs also encompassed a compensatory payment for a prohibition to compete in the amount of EUR 0.5 million.

The remuneration of the Supervisory Board encompasses a fixed annual component, a fee for attendance at meetings and reimbursement of expenses. No provision is made for a performance-related component.

Members of the Supervisory Board receive an annual payment of EUR 36,000. The Chairman receives two times this amount, with his deputy receiving one-and-a-half times the same amount. The fee paid for attendance at a Supervisory Board meeting is EUR 1,000. The total remuneration paid to the Supervisory Board during the 2007 financial year was EUR 188,000 (previous year: EUR 194,000).

The remuneration of the individual members of the Supervisory Board can be broken down as follows:

TEUR	Fixed Supervisory Board remuneration		Meeting fees		Total	
	2006	2007	2006	2007	2006	2007
Supervisory Board						
Udo Bandow	78	72	6	6	84	78
Karl Gernandt (since May 2007)	-	24	-	3	-	27
Alexander Stuhlmann (since May 2007)	-	36	-	3	-	39
Prof Dr Georg Crezelius (until May 2007)	39	15	6	3	45	18
Rolf Hunck (until May 2007)	59	23	6	3	65	26
Total	176	170	18	18	194	188

No loans have been granted by the company to members of the Management Board or Supervisory Board.

D. Report on material events after the reporting date

An agreement was entered into on 21 December 2007 between the current shareholders of HAMMONIA Reederei GmbH & Co KG (hereinafter referred to as "HAMMONIA"), General Electric Transportation Finance Inc., Stanford (hereinafter referred to as "GETF") and Dr Karsten Liebing on the reorganisation of the shareholder structure. On the basis of this agreement, GETF and Dr Liebing become limited partners in HAMMONIA Reederei GmbH & Co. KG by means of a capital increase. Following

the capital increase, the existing shareholders and GETF will all hold a 32% stake, with Dr Liebing owning 4% of HAMMONIA. The plan is for this agreement to be implemented as soon as it has been approved by the anti-trust authority.

Pursuant to the share purchase agreement of 24 January 2008, HCI Capital AG has acquired 426,700 registered shares in eFonds Holding AG for a purchase price of EUR 6,025,004 and thus holds a 25% stake in the company. The purchase price is to be fully refinanced, and will be due five bank working days after the entry of the capital increase in the commercial register and the issuing of written consent by eFonds Holding AG for the shares sold to be transferred to the buyer. The capital increase was registered in the Commercial Register on 21 February 2008.

MPC Münchmeyer Petersen Capital AG, which holds 15.1% of the share capital of HCI Capital AG, announced its intention on 12 February 2008, in accordance with Section 10, paragraph 1 of the German Takeover Act (WpÜG), to submit a public takeover offer to the shareholders of HCI Capital AG for the purchase of their shares in cash. The purchase price is expected to be EUR 14.22 per share. In this context, MPC Münchmeyer Petersen Capital AG announced that it has entered into an agreement with Corsair III Investments (Luxembourg) S.a.r.l. regarding the acquisition of the latter's 20% stake in the share capital of HCI Capital AG in exchange for MPC Münchmeyer Petersen Capital AG shares. The implementation of this agreement is subject to various conditions, notably the fulfilment of all the conditions of the takeover offer. The Management Board of HCI Capital AG will hold talks with MPC Münchmeyer Petersen Capital AG regarding the individual goals being pursued through the takeover and review the offer price - once this has been published - as well as the conditions of the offer being made by MPC Münchmeyer Petersen Capital AG. The Management Board will issue a statement on the effects of the offer on HCI Capital AG and its customers, other business partners, employees and shareholders in due course.

E. Risk report

The HCI Group has a centrally organised risk management system, which covers all of the Group's activities. Systematic risk identification and assessment, as well as measures to avoid, reduce or limit risks are all integral to this system. The early detection of risks that pose a threat to the future existence of the HCI Group is guaranteed by the system of risk management and the continuous development of this system. The Group's approach to risk management is based on an ongoing analysis of the relevant risk factors, quarterly reporting by the business units and permanent communication between the risk officers and with the Management Board. Regular reports from all areas of the Group provide the Management Board with an effective set of instruments for avoiding and managing risks. Responsibility for updating and compiling all of the relevant information and for maintaining and developing the risk management system lies with the risk manager, who reports directly to the company's CFO. For the purposes of keeping this information up to date, discussions are held with the risk officers to exam-

ine the status, treatment and assessment of known risks and to review business processes for new risks. The areas involved are broken down into segments to extend the information available. This risk analysis is supplemented by the use of indicators for the purposes of early detection of potential risks. All current information is compiled in a database, which is updated every quarter as a matter of course and, in the event of major changes, as considered necessary between reporting dates. The resulting reports are also published every quarter, with any major changes outside these cycles being reported to the Management Board as and when they occur.

Specific risk management tools were implemented at HSC Hanseatische Sachwert Concept GmbH, a subsidiary of HCI Capital AG, to comply with stricter requirements related to the license granted to the subsidiary to provide financial services as defined in section 1 (1a) of the German Banking Act (KWG).

I. Risks related to the market and the business environment

1. Competition in the investment product sector

The investment opportunities offered by the HCI Group compete with a large number of other forms of investment such as investing in open-ended funds, buying shares or other securities, taking out life insurance policies or acquiring real estate. The entire market is in a state of constant flux and is subject to external influences. These different forms of investment vary considerably in some cases, particularly in terms of their risk/reward profile, taxation and how easy they are to sell. Notably, a general rise in interest rates from what remains a low starting point could mean that closed-end funds become a less attractive option compared with other investment products that bear direct interest. The decision of an investor in favour of or against a particular type of investment can also depend on the general market mood, which can make certain forms of investment seem preferential to others, either temporarily or on a long-term basis.

Thanks to its capacity for innovation, the HCI Group is able to maintain the attractiveness of its products on a sustained basis. This is helped by the increasing fungibility of the products on the secondary markets.

2. Dependence on the availability of investment products

The companies in the HCI Group, when designing their products, are reliant on the availability of suitable investments such as ships, real estate or life insurance policies. If general market conditions restrict the availability of such investments and push market prices upwards, this can restrict the profitability of fund structures that are based on those investments.

Particularly in the shipping segment, the HCI Group has a well stocked, highly diversified product pipeline, which counters this risk. In the real estate segment, diversification into fund of funds concepts is extending the range of products and therefore reducing the Group's dependence on asset availability in specialist regional or investment-related markets. As far as the secondary life insurance market segment

is concerned, the HCI Group is in a position to structure funds for life insurance policies on various different markets – the USA, the UK and Germany – and can therefore use the differences between the cycles in these secondary markets to its advantage. Business with institutional investors, structure products and the capture of new asset classes are all further aspects of the HCI Group's diversification strategy.

3. Dependence on the underlying markets and on the cycles experienced on these markets

The essential factors governing the returns achievable on fund products are the purchase price paid for the acquisition of the investment, the income that can be generated from operating the investment and the sale price that can be realised when the fund reaches its maturity date. Some of the markets of relevance to the HCI Group and its funds have proved to be very cyclical in the past, such as the shipping and real estate markets. Cyclical movements in the underlying markets can also impact on the potential sale price of the investment. Similar developments also occur in other product areas in which the funds launched by the HCI Group invest. Ensuring further diversification of the range of products across product areas that are not strongly correlated provides a means of countering this dependence on individual asset groups. Diversification within the individual product areas reinforces this effect.

4. Competition among providers of closed-end funds

Alongside the HCI Group, a number of other providers operate on the closed-end fund market. Some competitors have become specialised in particular product categories or fund structures and, as a result, have built up a leading position for themselves on the market, whilst others can boast a larger product range or major market presence, for example. With its strong brand and high-quality products, the HCI Group has successfully gained an outstanding position in the market.

5. Changes to the taxation provisions applicable to fund products

The profitability of closed-end funds depends to a considerable extent on the tax provisions governing such funds. If the attractiveness of fund products launched by the HCI Group is based on favourable tax treatment of the returns (e.g. tonnage tax), any change in the relevant tax laws can be detrimental to the return made on such fund products after tax, reducing these products' appeal compared with other forms of investment. In the case of funds designed by HCI Group companies where the investment is located in another country, there is the possibility of additional tax risks in relation to the legal situation in that particular country. Consequently, changes in the tax environment in Germany and abroad can have a negative effect on the economic success of funds that have already been placed and on the design of future funds. With regard to fund products that have already been placed, a decline in the return after tax, particularly if this means that the predicted performance is not achieved, can also have a negative effect on the market mood.

6. Change in the legal framework governing the structure and distribution of fund products

The closed-end fund and certificate market is marked by a high level of activity on the part of the policymakers in the interests of investor protection. Particular reference should be made here to the 2004 Markets in Financial Instruments Directive (MiFID), which was transposed into German law with the entry into force of the Financial Markets Directive Implementation Act (FRUG) on 1 November 2007 and which makes provision for additional regulatory requirements in respect of the distribution of certificates by independent financial advisors. Financial advisors who are not licensed under the German Banking Act (KWG) must join a "liability umbrella". In this context, the HCI Group has invested in Aragon AG and, in January 2008, in eFonds Holding AG. Both of these sales platforms provide a liability umbrella for independent distribution, enabling the financial advisors concerned to sell certificates and structured banking products in integrated advisory models. The time and the costs involved in structuring and distributing closed-end funds have increased as a result. The adoption of further regulations or any additional raising of market standards will result in another increase in the time and financial resources required to design and distribute funds. However, any such development in the legal parameters is unlikely to have a major impact on market operators who have many years' experience and a well-established market position.

7. Dependence on general economic conditions

In addition to the economic conditions that are crucial to the investments made, a number of other factors can also have a direct or indirect impact on the economic performance of the funds issued by the HCI Group. These include, in particular, general interest rate levels and foreign exchange fluctuations in the case of funds with payment flows in foreign currencies. The HCI Group takes account of these factors through its active interest rate and currency management policy.

The impact of the US sub-prime crisis on the financial markets is now also affecting some areas of HCI's product lines. The task of arranging finance for new ship project commitments, in particular, is now marked by longer processing times, higher capital costs and, overall, a more restrictive lending policy. It is in this context that the experience, size and credit rating of the issuing house initiating the deal are playing an increasingly important role in ensuring continued growth in this area. The operations of the HCI Group are currently unaffected by this development when launching new ship funds thanks to a well-filled ship pipeline. Looking to commitments to new ships for fund projects in the coming years, one of the key tasks facing the Management Board of HCI Capital AG lies in strengthening the Group's credit rating so that its excellent competitive position can be consolidated further in this area of business. Maintaining a sound capitalisation in the long term is therefore an important target for the HCI Group, and one that the Management Board of HCI Capital AG duly noted in its adjustment of the dividend proposed for the 2007 financial year.

Furthermore, the placement of REF I – originally scheduled for 2007 – could not be carried out during the period under review, due to the current developments on the US real estate markets.

II. Company-related risks

1. Responsibility as a fund initiator, liability risks

The HCI Group companies, which have developed the economic and legal structure of the investment offers themselves, are basically liable for the flawless design of the funds. As a rule, a contract is signed between the respective fund company and the initiator of the fund with regard to the services to be performed. On the basis of this contract, and arising from the fact that individual companies in the HCI Group are acting as fund initiator and publisher of the prospectus, the following risks arise for the HCI Group:

Prospectuses are prepared for the investment offers of the HCI Group. These form the basis of any investment decision made by a potential investor. The companies and individual persons directly responsible for the content are liable vis-à-vis the investors for the completeness, clarity and accuracy of the fund prospectuses. The legal basis of this liability is provided by the provisions of the German Prospectus Act (VerkProspG). The HCI Group has more than 20 years' experience in this field. The highest quality standards are applied in-house during the design phase. Additional support is provided in the form of a comprehensive network of qualified external advisors, ensuring that the requirements of VerkProspG are fulfilled at all times.

Individual companies in the HCI Group act as the investors' trustees in the fund structures of the HCI Group. This is a business area in which there is a particular duty of care, breach of which can render the trust companies liable pursuant to the trust agreements entered into in each case. This is another area in which the HCI Group has many years' experience on which to draw.

2. HCI Group's reputation among investors and market observers

The success enjoyed by the HCI Group also depends on its reputation among investors and the confidence of investors in the expertise of its staff and the quality of its products. The economic failure of an individual fund or product line can be damaging to reputation, irrespective of whether this failure is due to poor design or to unforeseeable developments in the basic economic or legal conditions, particularly with regard to tax law. The HCI Group works to counter this by expanding product innovation, by guaranteeing that the fund performs as detailed in the prospectus by means of qualified management, and by reacting quickly to changes in the environment.

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

With a number of funds, particularly ship and real estate funds at present, the fund company acquires the investment at a point in time at which the investors have not yet invested in the fund and at which the fund does not yet have the equity required to finance the investment. This is why, as a rule, pre-financing using borrowed capi-

tal, such as 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. Generally, these bank loans are only granted in exchange for provisions of suitable security. As the fund company does not yet have the necessary assets at its disposal, various companies of the HCI Group, in addition to other participating cooperation partners, offer the financing banks security, e.g. through corresponding guarantees. The HCI Group has concluded a number of contracts in conjunction with the placement of funds. Securing the claims arising from these agreements were, as at 31 December 2007, guarantees and guarantee-like commitments in the amount of EUR 317.4 million and USD 1,541.0 million, of which EUR 229.4 million and USD 917.1 million for loans that had already been extended. Placement guarantees totalling EUR 68.4 million / USD 361.8 million were still outstanding, of which EUR 55.0 million / USD 331.2 million related to funds that were not yet at the placement stage. If the loans cannot be repaid on schedule, there is a risk that the HCI Group company providing the security will be held liable for non-fulfilment of its loan obligations. The HCI Group counters this risk by means of a diversified range of products that are not mutually correlated. There is also a strong diversification within the different product groups (different ship types/sizes, various different types of ship fund, several foreign markets in the case of real estate funds, e.g. Austria, the USA or the Netherlands), and a suitable quality strategy for the selection of investments and the design of funds. Through the balanced distribution of the placement volume across the three different sales channels, the HCI Group aims to achieve a stable level of product sales.

HCI Group included REF I in its consolidated financial statements in accordance with IFRS for the first time in the 2007 financial year. REF I, in turn, holds a 33.1% stake in NY Credit Operating Partnership LP; US-based NY Life Insurance Company and Canadian holding company ONEX Corporation also hold 33.1% each. BRK MANAGEMENT LLC holds the remaining 0.7%.

The concept behind the placement of REF I, which was originally planned for 2007, was to give German investors the opportunity – together with institutional partners in the US – to invest in a commercial real estate financing portfolio, through REF I's stake in NY Credit Operating Partnership LP.

Against the background of current developments in the US, this product no longer appears to be a marketable venture. Even though the loan investments acquired by NY Credit Operating Partnership LP do not fall into the US sub-prime segment of private mortgages, the market turbulence over recent months means that the potential success of placing US real estate loan products is currently very low. Given the current lack of marketability of REF I, and the resulting assignment of risks and opportunities associated with this entity's business activities to the HCI Group, REF I has been fully consolidated in the consolidated financial statements of HCI Capital AG in accordance with IFRS as at 31 December 2007. Accordingly, NY Credit Operating Partnership LP has been accounted for in the consolidated financial statements of HCI Capital AG as at 31 December 2007 using the equity method.

HCI Capital AG has issued a placement guarantee to REF I in the amount of USD 55.5 million expiring on 31 March 2008, which REF I assigned to HSH Nordbank AG within the scope of refinancing the acquisition of a stake in NY Credit Operating Partnership LP.

The loan portfolio held by NY Credit Operating Partnership LP comprised commercial real estate finance investments with an aggregate carrying amount of approx. USD 415 million as at 31 December 2007, which has meanwhile been reduced to USD 411 million through the sale of a loan with a nominal amount of USD 4 million. Financing exposures are broadly diversified by properties and regions in the US, and have an average residual term of 6.9 years. These are funded by approx. USD 151 million in deposits, plus borrowing facilities of around USD 285 million. Whilst around 80% of the commercial real estate financing portfolio has a fixed rate of interest, the borrowings have a short-term floating rate linked to one-month LIBOR. To hedge the resulting interest rate risk, NY Credit Funding I LLC, a subsidiary of NY Credit Operating Partnership LP, has entered into interest rate swaps, thus switching the variable-rate exposure from the credit facilities into fixed-rate positions.

As at 31 December 2007, the performance of the real estate financing portfolio was in line with projections overall. Profits of USD 6.3 million were posted for the 2007 financial year, and NY Credit Operating Partnership LP distributed USD 2.0 million to REF I during the first half of 2007.

Due to negative changes in the fair value of the interest rate swaps incurred in January 2008, the fund was forced to pledge cash collateral, in order to comply with its contractual obligation to maintain a sufficient 'credit support amount'. The fair value of the swaps suffered from a rapid decline in US capital market yields. In a normal market environment, this yield decline would have increased the valuation of the underlying loan portfolio, balancing the losses on the interest rate swaps. Given the prevailing market situation, however, credit spreads also widened significantly, preventing an appreciation in value of the loan portfolio.

As at 15 February 2008, the margin requirement amounted to USD 13.6 million. In addition, NY Life Insurance Company and ONEX Corporation pledged a USD 20 million guarantee in favour of NY Credit Funding I LLC, the party obliged under the swap agreement, on 19 February 2008. In particular, the purpose of this guarantee is to cover scenarios where additional collateral must be pledged to maintain a sufficient credit support amount. Moreover, the guarantee agreement requires NY Credit Operating Partnership LP to maintain reserve funds of USD 14 million as collateral, in order to retain its ability to act. Beyond these protective measures, there are plans to sell additional loans to further strengthen liquidity.

Credit lines available to NY Credit Operating Partnership LP include a facility of up to USD 300 million maturing on 8 February 2009, provided by Greenwich Capital Financial Products, Inc. (Royal Bank of Scotland Group). On 31 December 2007, this facility was drawn in an amount of USD 231.6 million. An extension was granted in respect of

an additional USD 53.6 million credit facility maturing on 15 January 2008, provided by Merrill Lynch Mortgage Lending, Inc. The purpose of this extension is to permit a partial repayment through the disposal of loans, with the residual principal to be refinanced by the facility provided by Greenwich Capital Financial Products, Inc.

HCI Group is exposed to the following risks from REF I:

NY Credit Operating Partnership LP is exposed to risks affecting the scope and timing of any distributions to REF I. Such distributions are, in turn, used to cover debt servicing payments for the facility provided by HSH Nordbank AG financing the purchase of REF I's stake in NY Credit Operating Partnership LP.

NY Credit Operating Partnership LP's risk exposure includes, but is not limited to, liquidity and interest rate risks from the swap position, as the fair values of the swaps will deteriorate in particular in the event of further falling interest rates. On the other hand, rising interest rates might positively affect the fair value of swaps, generating liquidity and hence, the potential for distributions. A deterioration in the credit quality of real estate loans – especially due to higher loan-to-value ratios or a decline in the debt service cover ratio – could trigger additional margin requirements, which would in turn necessitate the injection of additional liquidity, and would prevent the distribution of profits. Moreover, the credit facility extended by Greenwich Capital Financial Products, Inc., maturing on 8 February 2009, is exposed to liquidity and interest rate risks: rising interest rates and widening credit spreads would burden return on equity, whereas there is a chance for enhancing the investment's profitability with lower interest expenses. Finally, NY Credit Operating Partnership LP is exposed to default risks from the real estate financing portfolio. Any unexpectedly high default rate would negatively affect the loan portfolio's liquidity and profitability. Conversely, a positive performance of the loan portfolio would enhance the credit quality of NY Credit Operating Partnership LP and hence, extend refinancing options and the portfolio's profitability.

The Management Board of HCI Capital AG is currently in discussions with the shareholders and management of NY Credit Operating Partnership LP to explore further options to avoid or reduce the potential risk exposure from this investment. This involves a sale of selected loan exposures by NY Credit Operating Partnership LP, provided this is possible at the respective loan's par value at the minimum, in order to improve the liquidity situation, and to reduce the scope of required liquidity guarantees.

Shareholders receive regular quarterly reports in times of normal portfolio performance. Over and above this, HCI Capital AG independently monitors capital market trends on a daily basis. HCI Capital AG has retained Ackmann-Ziff Real Estate Group to advise on managing the investment in NY Credit; the advisor's sector expertise is to be leveraged in order to gain an additional expert view on market developments, the investment, and further options available.

Based on the financial statements as at 31 December 2007 prepared by NY Credit Operating Partnership LP in accordance with US GAAP, and an expert opinion by The

Debt Exchange Inc. commissioned by the Management Board of HCI Capital AG, the Management Board ascertained that the loan portfolio is free from any significant risks affecting portfolio value. At present, there are no material impairments affecting the loans. Given the good quality of the loan portfolio, the guarantee entered into to secure the credit support amount, and existing refinancing facilities, the Management Board does not envisage credit, interest rate, or refinancing risks to have any material negative impact on HCI Group's net assets, financial position and result of operations. This assessment would need to be reviewed in the event of further deteriorating market conditions, unfavourable interest rate movements, or a deterioration of portfolio performance.

REF I is exposed to liquidity and interest rate risks under the refinancing facility maturing on 31 March 2008. Negotiations on an extension are in progress with HSH Nordbank AG. Within the scope of a letter of intent, HSH Nordbank has already expressed its readiness to extend the maturity of the credit line. In this context, HCI Capital AG intends to make redemptions of USD 13 million in 2008 to further reduce the facility. In the event of liquidity being tied up for a longer period of time, and the resulting prohibition of distributions from the loan portfolio held by NY Credit Operating Partnership LP, HCI Group would be exposed to the risk of having to use other sources of income to safeguard the servicing of debt under the refinancing facility. This would burden HCI Group's liquidity, and might reduce the profitability of the investment.

Given the progress made in the negotiations with HSH Nordbank AG to date, the Management Board of HCI Capital AG believes that it will be possible to extend the facility until 31 December 2008. The early redemption of liabilities in the amount of USD 13 million during 2008 will provide relief in terms of interest rate and refinancing risks.

The strategy pursued by HCI Capital AG generally does not provide for the permanent acquisition or management of fund investments. Where the placement of a fund is not possible in isolated cases, HCI Capital AG generally endeavours to wind up the fund early. Taking into account the special circumstances affecting REF I's investment in NY Credit Operating Partnership LP, the Management Board of HCI Capital AG is reviewing all of its options, with the objective of minimising risks for HCI Group, and to make targeted use of opportunities which may arise for this investment in the future. Specifically, the following options are being considered:

- (1) The placement of REF I at a later stage continues to represent a feasible course of action – provided that market conditions will develop positive during the course of the 2008 financial year, and that the real estate financing portfolios held by NY Credit Operating Partnership LP continue to perform in line with projections.
- (2) If a placement of the fund is ruled out by market developments, a sale of the stake held in NY Credit Operating Partnership LP cannot be excluded, considering HCI Group's business strategy and the need to reduce risks. Such a disposal would depend especially on developments on the US credit markets, and the performance of the loan portfolio.

- (3) As an alternative to selling the stake in NY Credit Operating Partnership LP, holding it on a preliminary basis, until the end of the contractual term on 31 December 2013, might be considered. This would require an assessment where the intrinsic value of the shareholding exceeds the sales proceeds which can be obtained.

The Management Board of HCI Capital AG does not consider a placement of REF I a realistic option for the foreseeable future – at least during the current 2008 financial year. Furthermore, based on the expert opinion submitted by The Debt Exchange, Inc., the Management Board does not consider a sale of the shareholding in NY Credit Operating Partnership LP to be economically feasible at present, as this would be likely to incur price discounts in excess of 10%.

The continued management of the portfolio, in line with projections, has been assessed as an alternative in the expert opinion prepared by The Debt Exchange, Inc.: on this basis, the carrying amount of the overall portfolio is covered by the portfolio value. Against this background, HCI Group will maintain its investment in NY Credit Operating Partnership LP for the time being. The Management Board will continue to very carefully monitor the development of market conditions and of the investment, in order to invoke any of the alternative options at a later stage, if a careful analysis of opportunities and risks indicates that it is prudent to do so.

4. Dependence on company employees with special knowledge of the sector

The success of the HCI Group's business activities is influenced to a great extent by quick access to attractive investments for its funds. This access is often obtained through the business relations that individual HCI employees in the different Group companies have built up over many years. By consistently expanding the marketing team, the HCI Group is able to acquire the necessary personnel resources for its future development and create a long-term commitment to the Group. The dependence on key persons should be reduced by extending and improving the documentation of corporate processes and expertise.

5. Dependence on sales partners

The HCI Group has only a very limited number of distribution channels with direct links to end customers. It is therefore dependent on strong external sales partners. If individual sales partners, particularly important sales partners or a large number of sales partners at the same time were to become unavailable on a short or long-term basis, this would have a negative impact on sales of the products offered by the HCI Group. To avoid such a situation, the HCI Group pursues an effective diversification strategy in the form of a multi-channel sales platform which uses the distribution channels of independent financial agents, banks and other sales organisations. Access to independent distribution was expanded with the HCI Group's investments in Aragon AG and, in January 2008, in eFonds Holding AG.

6. Risks arising from growing internationalisation and potential acquisitions

Looking to the future, the HCI Group intends offering its products in countries outside Germany, moving into Austria and then, as a gradual process, also into other European

countries. This will involve the corresponding expansion of its existing sales structures and possibly also the creation of new distribution structures. No active retail business will be pursued in Switzerland due to the legal parameters. Sales activities on the Swiss market will focus on institutional customers. In addition to the involvement of new sales partners, further activities abroad could also be carried out through participation in appropriate sales organisations or the creation of foreign subsidiaries or branches. Experience has shown that the search for partners and employees in other countries, the establishment of a sales organisation and the ongoing control of operations and compliance with the legal regulations in the countries concerned involve considerable costs and also tie up management capacities. For this reason, foreign experts are involved in international activities. Partnerships are entered into with partners who have the necessary technical qualifications and a sound reputation in order to achieve an optimal presence on the foreign markets.

7. IT risks

In order to minimise the risks of IT system failures, the HCI Group has introduced various safety measures. These include server virtualisation, data mirroring for all server systems, a backup strategy that includes offsite storage of backup tapes and emergency plans including a disaster recovery plan. Access control systems, encryption software, firewall systems and virus scanners are among the tools used to protect the IT systems and data.

III. Overall risk assessment

The assessment of the risks facing the HCI Group during the past financial year did not reveal any risks that posed a threat to the existence or continued existence of the Group or that had a sustained impact on the Group's net assets, financial position and results. The risks facing the HCI Group are the subject of regular reviews by the Management Board. A risk management report is submitted to the Supervisory Board every quarter.

F. Outlook

I. Development of business and strategy

Moderate weakening of economic growth

The economic research institutes believe that the turbulence on the financial markets and in the banking sector means that global growth can be expected to become less dynamic in 2008. However, the fall in growth rates will only be moderate in most countries.

The problems on the international financial markets will also dominate the economic agenda in 2008. Against this background, a weakening of the economy is expected in the USA in particular. Due to the falls in assets caused by the real estate crisis, private consumption is expected to decline or, at the very least, to stagnate. As a result

of the tense situation at many banks caused by the sub-prime crisis, particularly in the USA and Europe, credit institutions can be expected to continue with their more restrictive lending policies.

In Asia, weaker economic development is expected in Japan in particular. In contrast, the experts expect that China and India will continue their growth course at a slightly slower pace. Growth of 10% is forecast for the Chinese economy, with an increase of 8.6% predicted in the case of India.

As far as the Eurozone is concerned, the economic research institutes are predicting an overall level of growth of around 2% for 2008, just 0.6 percentage points down on the previous year. A slight fall in investments and a weakening of foreign trade caused by the appreciation of the euro will be more or less offset as private consumption gathers speed. The unemployment rate can be expected to fall slightly again in most countries.

A slight weakening of the economy is also expected for Germany (2008: 2.1%; 2009: 1.7%). Growth will be supported in 2008 by domestic demand and private consumption in the first instance. The economic research institutes anticipate a clear recovery in private consumption in 2008, which is expected to record a rise of 2.1%, the highest rate of increase since 2000. Given that no further increase in the price of oil is expected for 2008, negative factors, such as further rises in the prices of consumer goods or energy, are not expected.

The gloomy state of the economy in the USA and the fact that the euro remains strong mean that foreign trade will actually dampen economic development. Nevertheless, the research institutes are assuming that, carried by a strong domestic economy, investments in plant and in construction will also rise in 2008, albeit at a slower pace. In this context, a further increase in employment is expected in Germany.

Mixed prospects for the closed-end investment model sector

Market analysts believe that a placement record in the closed-end fund sector is indeed a possibility for the 2008 financial year⁴. The analysts believe that such a record was only missed in 2007 due to the crisis on the international financial markets, which is also the essential risk factor with regard to the sector's continued growth. Whether a record volume of placements can be achieved in 2008 will hinge to a large extent on how long the financial crisis remains a burden. In terms of individual segments, significant potential for growth is also attributed to specialty funds in particular (e.g. aircraft funds, timber funds). Positive potential for development is also thought to lie in the areas of private equity and in Dutch and other foreign real estate funds. With regard to ship funds, secondary life insurance market funds and US real estate funds, the analysts are tending towards a fall in placement figures. However, the forecast is not a uniform one. The Scope analysts expect the ship fund market to continue its upwards trend, whilst private equity funds are expected to continue to decline in 2008.

⁴ Source: Feri Rating & Research AG – Gesamtmarktstudie der Beteiligungsmodelle 2008

Outlook for HCI Capital AG

HCI Capital AG has set itself the target of placing EUR 880 million of equity capital in the 2008 financial year, of which institutional business is budgeted at EUR 75 million. On this basis, HCI Capital AG is aiming to record consolidated net income for the year of EUR 33 million, which equates to earnings per share of approximately EUR 1.38. Taking into account the necessity to maintain a sound capitalisation, we will continue to pursue an investor-oriented dividend policy in 2008.

The plan to achieve consolidated net income for the year of EUR 33 million takes account of the ongoing growth of placed equity capital and recurring income from the trust management sector and asset management. To this extent, we expect to see substantial income growth in our core business in 2008. Revenues from the brokerage of ships and the intermediate trade in ships and the brokerage of real estate are also the subject to conservative estimates for 2008. This remains an elementary component of the HCI Group's business model. However, because this asset management activity is an area characterised by opportunities based on market developments as they arise in the respective segments, these revenues can only be planned to a limited extent.

The 2007 financial year showed that the strategy of ongoing diversification of the product range and management services of the HCI Group represents an important foundation from which to reduce dependence on the cycles in individual market and product segments and to achieve ongoing increases in the share of recurring income. We will continue to pursue this approach on a consistent basis in the 2008 financial year and beyond. Our efforts will encompass the following strategic steps:

Continued product diversification

In 2008, HCI Capital AG will continue to sell closed-end investment products in the areas of shipping, real estate, private equity and the secondary life insurance market, as well as asset creation plans, certificates and guarantee products in Germany, whilst also offering selected HCI products in those foreign markets that have already been captured. Our particular aim is to further expand in the area of structured products, a field that was successfully established last year, and to add a Multi-Asset Protect fund. Additionally, the HCI Group will be offering a closed-end aircraft fund for the first time in the 2008 financial year, moving into a new asset class in the process. We will also, in the form of HCI Deepsea Oil Explorer, be launching a two-fold innovation on the market. Firstly, we will be moving into a new attractive asset class for closed-end fund investments, and secondly, in cooperation with MPC Capital AG, we will be implementing a syndicated equity capital placement of a closed-end fund for the first time. By means of this broadly diversified product range, the HCI Group will be consistently pursuing its diversification strategy.

Asset management moves forward ...

By extending its product and services range across all segments on an ongoing basis, the HCI Group is lengthening its value added chain and capturing new sources of income. We will also be looking to generate permanent sources of income by

expanding our management activities in shipping, real estate and life insurance, enabling us to plan the Group's commercial success more effectively. Asset management will continue to grow in significance in 2008, both in terms of the scope of activities and in terms of the contribution to the result.

... in business with institutional investors ...

A key driver of this development is the HCI Group's increasing involvement in business with institutional clients. Through our cooperation with Behringer Harvard we are continuing to pursue the goal of investing up to EUR 1 billion over the coming years in the acquisition of properties on the Western European office and commercial property market. Following the successful placement of HCI HAMMONIA SHIPPING AG, we can see further potential for institutional and capital market-oriented investments in shipping.

... and with strong cooperation partners

Additional potential was created for asset management when GE subsidiary General Electric Transportation Finance (GETF) invested in HAMMONIA Reederei GmbH & Co. KG in January 2008. The latter is a joint venture established by HCI together with Peter Döhle Schiffahrts-KG in 2003. This means that, in future, GETF and the Döhle Group's joint shipping investments will be operated through HAMMONIA Reederei GmbH & Co. KG. The involvement of GETF demonstrates the growing interest of international institutional investors in shipping as an asset class. At the same time, it confirms HCI Capital AG's strategy of making its management expertise and broad network increasingly accessible to international institutional investors as a means of drawing additional income potential from Asset Management, a growing area of business.

Focus on improving sales performance

The further development of our sales structures will remain a central issue in the 2008 financial year. The HCI Group's broad distribution network encompassing independent distribution partners, banks and savings banks as well as financial distribution organisations creates the prerequisite for future commercial success. During the last financial year we also succeeded in significantly increasing the number of sales partners who are actively placing our products. This was done by launching new products and by a consistent realignment of the sales organisation based on regions and target channels. This shows that the new organisational structure is proving successful. The next stage will involve capturing further sales channels with regard to which we still envisage significant potential (e.g. the cooperative banks and the major banks), so that we can place our sales success on an even broader foundation.

The independent distribution partners will continue to play an exceptional role in the HCI Group's sales concept. The strong loyalty of these sales partners to the HCI brand is a key factor in the HCI Group's success and a key competitive advantage. Looking towards the imminent structural change in the high-growth financial services

sector and the changing regulatory conditions for the independent distribution of financial products, affecting HCI products in the area of certificates in particular, HCI Capital AG has invested in two finance platforms (Aragon AG, and since January 2008 eFonds Holding AG), which offer independent financial advisors a well functioning liability umbrella for the sale of financial products that require approval.

II. Business development in the product sectors

Business is expected to develop as follows in 2008 in the product sectors of shipping, real estate, private equity, the secondary life insurance market and structured products, and in the field of new asset classes:

1. Shipping

The international shipping charter markets, as in previous years, will profit from the global economic growth and, in particular, from the continuation of strong growth in the emerging markets of India and China. As ship prices rose significantly in 2007, charter rates also increased considerably. The fears of a recession in the USA, which have led to gloomier prospects for the global economy, and the more restrictive lending policy of banks as a knock-on effect of the sub-prime crisis will, in the HCI Group's view, curb the supply of shipping investments on the market as a whole.

In this context, HCI positioned itself at an early stage, placing long-term orders for new ships in previous years, with the result that our fund products are benefiting from favourable purchasing prices. Given our well-filled and fully financed ship pipeline, we believe that we are in a good position from which to structure attractive investments in this market environment.

In the retail sector, the HCI Group, through classic closed-end fund products including asset creation plans in the shipping segment, is planning an equity capital placement volume that will only be slightly down on the level achieved during the previous year. Plans have also been made to expand institutional business during the 2008 financial year. In this regard, the HCI Group is working on a possible capital increase in the case of HCI HAMMONIA SHIPPING AG, as well as on the design and placement of a new listed shipping company. Our intention is to broaden the basis for ongoing management income and, in so doing, advance our efforts to raise the share of recurring income.

Overall, our plan is to place EUR 413 million of equity capital in the shipping product sector.

2. Real estate

In the real estate sector, HCI Capital AG will continue its successful implementation of opportunity funds of funds. As in the past, we regard the emerging markets as a source of major growth prospects. As the economic boom is maintained in India and China, the main suppliers of raw materials to these countries, namely Brazil and Russia, will continue

to profit from the upward trend. In this context, we will be continuing with the successful concept of HCI Real Estate BRIC+. We are also planning the implementation of a new and innovative opportunistic fund of funds. In this way, HCI can offer investors who are more conservative in their approach an attractive alternative to the real estate markets of the BRIC countries, which are more strongly growth-oriented.

Given the changing market situation, we also see opportunities for high-yield investments through direct investments in commercial real estate in Austria, the Netherlands and the USA again. A reduction in liquidity and in the willingness to take risks in some segments and regions have caused demand and prices to fall, which could offer attractive investment opportunities again in future. We are currently closely monitoring these markets and will take advantage of any opportunities as they arise, including for the design of closed-end fund products.

Furthermore, as part of our cooperation with Behringer Harvard, we are also planning further real estate investments in Europe in 2008.

Overall, we expect to place EUR 150 million of equity capital in the real estate sector in 2008.

3. Private equity

We firmly believe that private equity will remain an attractive segment for our investors in the medium and long term. Given the uncertainties that remain on the financial markets, we are not, however, expecting this segment to experience a sustained revival in 2008.

Our plan, therefore, with the full placement of HCI Private Equity VI and a successor product, is to place approximately EUR 12 million. As the capital markets return to normal, we expect to see a rise in interest for the private equity sector, leading to a renewed increase in investments in the HCI private equity fund of funds.

4. Secondary market life insurance

Secondary life insurance market funds, in our view, offer the investor a good risk/reward profile and will remain a fixed component of the HCI Group's product range in 2008.

A good level of demand is currently in evidence with regard to funds that invest in British life insurance policies. Most of the placement volume in this segment in 2008 will be accounted for by the full placement of the HSC Optivita X UK fund, launched in September 2007, and a corresponding successor product. Further equity capital will be generated from the sale of asset creation plans.

The German secondary life insurance market is currently less favoured by investors. Given the different risk reward structure of German life insurance policies, the sales

margins for these funds are also lower than those for British secondary life insurance market funds. Nevertheless, looking to the medium and long term, we can see attractive potential for closed-end fund products and will continue to pursue this market intensively.

US secondary life insurance market funds are not the subject of any product offers at this time.

Overall, our plan is to place EUR 85 million of equity capital in the secondary life insurance market product sector, including asset creation plans.

5. Structured products

Our successful entry into the structured products segment confirms our view that product innovations can be used to appeal to new groups of investors and, as a result, to broaden the basis of our business model. Our aim for the 2008 financial year is to build on this success story, with plans for a placement volume of EUR 100 million for certificates and guarantee products.

Our plans include a new issue in the form of a certificate based on the index of a portfolio of British and German life insurance policies (HSC Optimita Europe LV Index Certificate). We will also be offering another Freight Rates Protect certificate based on the Baltic Dry Index in 2008. There is also a successor product to the already fully placed HSC Shipping Protect I. Both products have already been launched in early 2008.

Moreover, we will also be launching a further product innovation in the segment of structured products on to the market in 2008. HSC Multi Asset Protect I will provide investors with the opportunity to invest in a diversified portfolio of funds of different asset classes. This product also comes with a capital guarantee, so that the investor can rely on repayment of the invested amount.

With a broad and attractive product range, we are confident that the newly created segment of certificate and guarantee products can be advanced further. In light of the fact that this new product line is now making a substantial contribution to our placed equity capital, structured products will be managed as a product segment in its own right as of 2008.

6. New asset classes

Over and above the well-established product areas, the HCI Group will also be moving into two new asset classes with regard to closed-end funds in the 2008 financial year.

Firstly, we will be offering an aircraft fund for the first time. Investment offers in this segment have enjoyed a real renaissance of late. HCI has therefore succeeded in committing two Boeing 777 aircraft that are the subject of a long-term lease to Air Canada and

therefore represent a very attractive investment for our customers. The planned placement volume in this sector is EUR 50 million in 2008.

Meanwhile, the HCI Deepsea Oil Explorer is also due to enter the sales phase. From our customers' perspective, this is an exceptionally attractive investment opportunity in a new asset class that is profiting from the increasing need for new sources of crude oil. The total placement volume of EUR140 million for the exploratory drilling platform will be split equally between HCI Capital and MPC Capital, giving a placement volume for HCI of EUR 70 million.

III. Business development in the regions

Sales activities outside Germany will focus on Austria again in the 2008 financial year. Opportunities for capturing additional markets, notably in Central and Eastern Europe, will then be reviewed on this basis.

Past sales results show that the market in Austria offers attractive potential for our business model. Armed with a clearly focused foreign strategy, our aim is to tap further into this potential. In terms of the 2008 financial year, our plan is to place equity capital of EUR 50 million in the Austrian market.

G. Other information

I. Net assets, financial position and result of operations of the parent company

HCI Capital AG

The annual financial statements of HCI Capital AG are prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Public Limited Companies Act (AktG), unlike the consolidated financial statements, which are prepared in accordance with IFRS.

1. Results of operations

The following table itemises the key figures relating to the results of HCI Capital AG for the 2007 financial year compared against the 2006 financial year.

In EUR million	2007	2006
Other operating income	3.9	20.4
Personnel expenses	-5.9	-4.9
Other operating expenses	-4.2	-5.3
Investment income	30.4	34.3
Other financial result	-2.9	1.0
Income taxes	-3.4	-9.9
Net income	17.9	35.6

Other operating income during the 2007 financial year primarily comprised revenues from the brokerage of ships amounting to EUR 2.6 million (previous year: EUR 18.4 million).

The personnel expenses for 2007 include the remuneration of the HCI Group executive management. The increase in expenditure was due in particular to expenses incurred with the termination of service contracts with Harald Christ and Dr Ralf Friedrichs, following the resignation of both Management Board members from office during the 2007 financial year.

Investment income comprises dividends or in-phase profit transfers amounting to EUR 12.4 million (previous year: EUR 9.5 million), income from control and transfer-of-profits agreements totalling EUR 19.3 million (previous year: EUR 24.9 million) and expenses resulting from a transfer of losses in the amount of EUR 1.3 million (previous year: EUR 0.1 million). During the 2007 financial year the company recorded income and expenses from the control and transfer-of-profits agreement with HCI Hanseatische Capitalberatungsgesellschaft mbH in the amount of EUR 19.3 million (previous year: EUR 16.3 million), with HSC Hanseatische Sachwert Concept GmbH in the amount of EUR -1.2 million (previous year: EUR 8.6 million) and with HCI Asset GmbH in the amount of 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 11.0 million (previous year: EUR 8.0 million) for HCI Hanseatische Schiffstreuhand GmbH, EUR 0.3 million (previous year: EUR 0.0 million) for HPI Hanseatic Properties International, EUR 0.4 million (previous year: EUR 1.5 million) for HSC Hanseatische Management GmbH, EUR 0.2 million (previous year: EUR 0.0 million) for HSC Geschäftsführungsgesellschaft mbH and EUR 0.2 million (previous year: EUR 0.0 million) for HCI Institutional Funds GmbH.

Other financial results includes interest income of EUR 0.4 million and interest expenses of EUR 2.4 million, primarily related to receivables and liabilities in relation to Group companies as part of the cash pooling arrangement. Interest income in the amount of EUR 0.7 million and interest expenses in the amount of EUR 1.6 million were recorded with regard to credit institutions.

The fall in the tax ratio from 21.8% in the 2006 financial year to 16.0% in 2007 was primarily due to the rise in investment income that is deemed to be tax free in accordance with section 8 (1) of the German Corporation Tax Act (KStG) at the level of HCI Capital AG. There was also a high proportion of income that, for tax purposes, is primarily treated as investment income with the corresponding special features in terms of trade tax.

2. Net assets

The following table contains data from the HCI Capital AG balance sheet.

Assets	December 31, 2007		December 31, 2006	
	in EUR m	in %	in EUR m	in %
Intangible assets	0.5	0.3	0.0	0.0
Investments	66.3	39.0	63.6	33.8
Receivables from affiliated companies	47.4	27.9	72.5	38.6
Receivables and other assets	26.8	15.8	9.9	5.3
Securities	7.5	4.4	0.0	0.0
Cash and cash equivalents	21.5	12.6	42.0	22.3
Total assets	170.0	100.0	188.0	100.0
Equity and liabilities				
Equity	127.9	75.2	143.6	76.4
Provisions	3.9	2.4	10.6	5.6
Liabilities to banks	30.0	17.6	25.5	13.6
Trade payables	0.1	0.1	0.2	0.1
Payables to affiliated companies	3.8	2.2	1.6	0.8
Other liabilities	4.3	2.5	6.5	3.5
Total equity and liabilities	170.0	100.0	188.0	100.0

Of the EUR 2.7 million rise in investments to EUR 66.3 million as at 31 December 2007 (previous year: EUR 63.6 million) EUR 1.7 million relates to a contribution made to HCI Institutional Funds GmbH. HCI Capital AG also made various investments in shell companies and fund companies.

Receivables due from affiliated companies consist of dividends or the transfer of revenue from affiliated companies in the 2007 financial year, as well as transferred service costs from a management contract with HCI Hanseatische Capitalberatungsgesellschaft mbH.

Other assets contain loan receivables in the amount of EUR 17.1 million (previous year: EUR 8.7 million).

Shares held in a listed company are reported under securities.

The fall in cash and cash equivalents is due to the increase in extended loans and payment of the dividend approved at the Annual General Meeting on 8 May 2007.

The EUR 15.7 million fall in equity to EUR 127.9 million is based on the net profit for 2007 of EUR 17.9 million minus the dividend for the 2006 financial year of EUR 33.6 million.

Provisions contain tax provisions amounting to EUR 2.0 million (previous year: EUR 5.6 million), comprising current income taxes for the year under review and deferred

taxes of EUR 0.2 million for future tax payments. Provisions have also been made for profit-sharing bonuses (EUR 1.4 million).

The rise in payables due to banks, from EUR 25.5 million as at 31 December 2006 to EUR 30.0 million as at 31 December 2007, is primarily due to borrowing raised for the acquisition of shares reported under securities.

Other liabilities includes liabilities relating to VAT payments for the years 2006 and 2007 totalling EUR 3.0 million.

II. Disclosures pursuant to Section 289 (4) and 315 (4) of the HGB

The German Act implementing Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on takeover bids (Takeover Directive Implementing Act) extended the reporting obligations in the management report of companies whose securities are admitted to trading on a regulated market in a member state of the European Union.

- (1) The company's subscribed capital amounts to EUR 24,000,000.00 and is divided into 24,000,000 no-par value bearer shares. All shares in the company take the form of ordinary shares. No provision has been made for any other class of share. Each share, from the time of its creation, entitles the holder to vote and to receive a dividend. Each share holds one vote at the General Meeting.
- (2) The Management Board is not aware of any restrictions affecting the voting rights or transfer of shares, including any such restrictions resulting from agreements between shareholders.
- (3) Direct or indirect stakes in the share capital of HCI Capital AG exceeding 10 per cent of voting rights existed as at 31 December 2007 in favour of Corsair Capital LLC (with a stake of 20.0%), MPC Münchmeyer Petersen Capital AG (with a stake of 15.1%) and the Döhle Group, Hamburg (with a stake of 10.4%).
- (4) There are no shares with special rights granting the holder supervisory powers.
- (5) The voting rights of employees with a share in the capital are not monitored.
- (6) Members of the Management Board are appointed and dismissed in accordance with Section 84 f of the AktG, according to which the Supervisory Board is responsible for Management Board appointments and dismissals. The Supervisory Board decides on the basis of a simple majority of votes.

Changes to the Articles of Association are made by the Annual General Meeting (pursuant to Sections 133 and 179 of the AktG). The Annual General Meeting has made use, in Article 16 no. 3 of the Articles of Association, of the option provided in Section 179 (1), sentence 2 of the AktG of transferring authority for changes that

only affect the wording of the Articles of the Association to the Supervisory Board. Resolutions adopted at the Annual General Meeting to revise the Articles of Association are generally adopted in accordance with Article 16, no. 1 of the Articles of Association on the basis of a simple majority vote and, to the extent that a capital majority is required, with a simple capital majority, in the absence of any obligatory provisions to the contrary in the statutory regulations or Articles of Association.

- (7) The Management Board may only issue new shares on the basis of resolutions adopted at the Annual General Meeting. In accordance with Article 4, no. 3 of the Articles of Association, the Management Board may increase the share capital with the approval of the Supervisory Board by issuing new shares in exchange for cash and/or non-cash contributions on one or more occasions up to a total of EUR 6,000,000.00; this authorisation will expire on 20 August 2010. The shareholders shall be granted a pre-emptive subscription right. The Management Board may, with the approval of the Supervisory Board, exclude the subscription right of the shareholders under certain conditions on one or several occasions.

No provisions on share buy-backs are contained in the Articles of Association.

- (8) A change-of-control clause was agreed upon with Mr Wolfgang Essing, according to which Mr Essing is entitled to retire from his office as the Chairman of the Management Board and member of a Management Board, and to terminate his service contract, within two months of a change of control being announced. The amount of compensation which will be payable in this event is based on the remainder of the contractual period in years, multiplied by the aggregate contractually-agreed fixed salary plus 50% of the profit-sharing bonus of the previous year. There are no other material agreements subject to the condition of a change of control at HCI Capital AG.
- (9) There exist no company compensation agreements entered into with members of the Management Board or employees in the event of a takeover bid.

Hamburg, 5 March 2008

HCI Capital AG




Wolfgang
Essing



Dr Rolando
Gennari

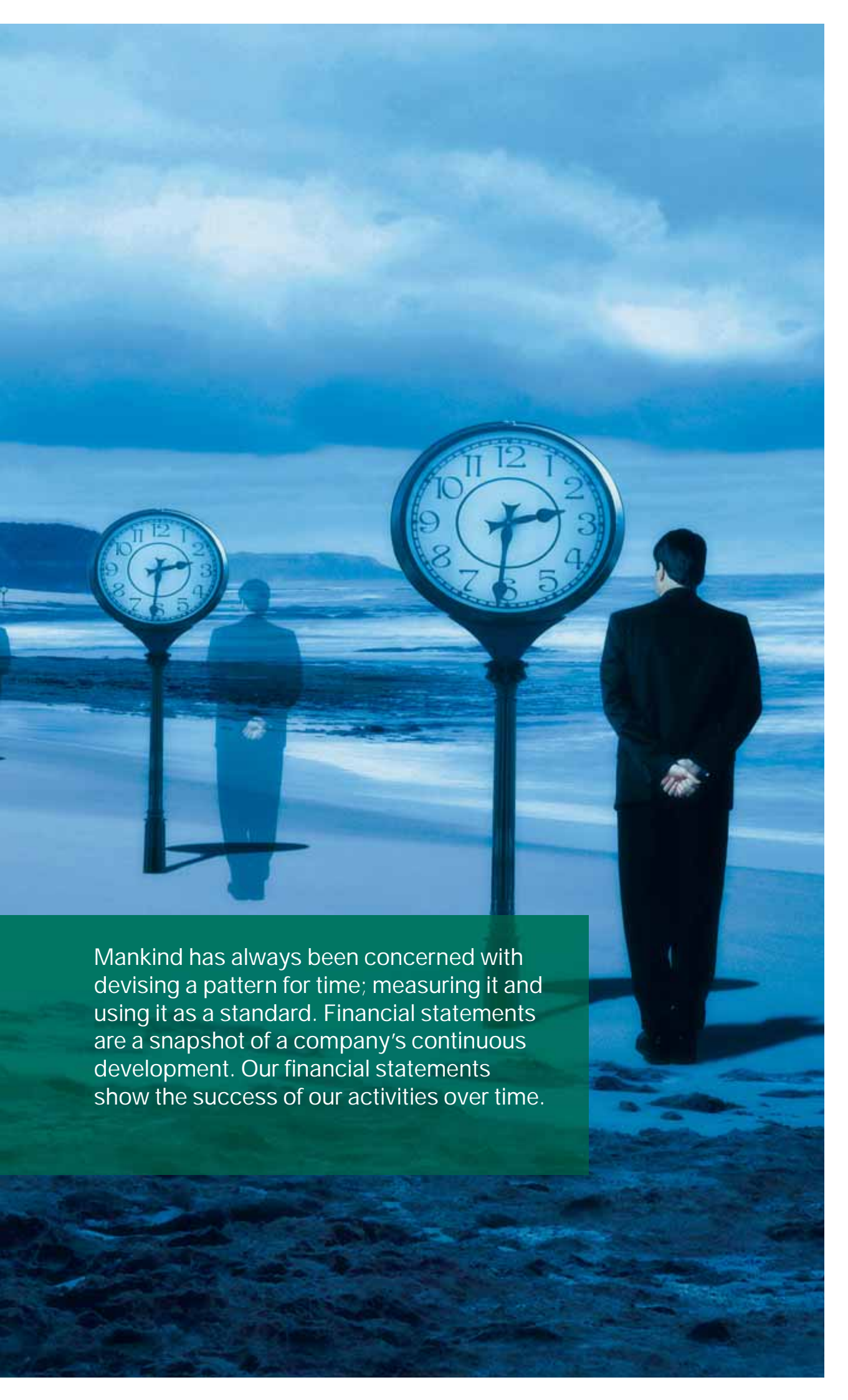


Dr Oliver
Moosmayer



A photograph of a sundial carved into a light-colored, rough-textured stone block. The sundial features a semi-circular face with radial lines and a vertical gnomon. A dark shadow of a leaf is cast onto the left side of the dial. The stone block is mounted on a larger, rectangular base. The background is dark, and the foreground shows a light-colored tiled floor.

A measure
of time



Mankind has always been concerned with devising a pattern for time; measuring it and using it as a standard. Financial statements are a snapshot of a company's continuous development. Our financial statements show the success of our activities over time.

Consolidated income statement

EUR '000s	Note	2007	2006
Revenues	(19)	137,299	145,611
Other operating income	(20)	13,153	21,286
Change in inventories		-637	-35
Cost of purchased services	(21)	-70,256	-69,088
Personnel expenses	(22)	-28,014	-23,861
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	(23)	-4,470	-3,838
Other operating expenses	(24)	-21,475	-21,054
Result of associated companies and joint ventures accounted for using the equity method	(25)	14,671	2,037
Earnings before interest and taxes (EBIT)		40,271	51,058
Interest income	(26)	2,057	2,419
Interest expenses	(26)	-5,246	-1,484
Other financial result	(26)	3,703	3,210
Earnings before taxes (EBT)		40,785	55,203
Income taxes	(27)	-10,194	-15,727
Consolidated net income for the year		30,591	39,476
Consolidated net income for the year attributable to the Group		30,591	39,473
Consolidated net income for the year attributable to minority shareholders		0	3
Earnings per share (basic) (EUR)	(28)	1.27	1.64
Earnings per share (diluted) (EUR)	(28)	1.27	1.64

Consolidated balance sheet

Assets

EUR '000s	Note	31 Dec 2007	31 Dec 2006
Non-current assets		130,099	71,050
Intangible assets	(5)	5,538	8,501
Property, plant and equipment	(6)	1,875	3,267
Investments in associated companies and interests in joint ventures accounted for using the equity method	(7)	86,226	39,979
Investment securities	(7)	15,834	12,966
Other financial assets	(11)	19,953	4,956
Deferred taxes	(27)	673	1,381
Current assets		109,780	156,036
Work in progress and finished services	(8)	1,772	2,010
Trade receivables	(9)	31,785	59,008
Receivables from related parties	(10)	1,052	1,355
Income tax receivables		9,966	147
Other assets	(11)	22,965	27,403
Other financial assets		22,373	26,974
Other miscellaneous assets		592	429
Securities		7,501	0
Cash and cash equivalents		34,739	58,613
Assets held for sale	(12)	0	7,500
Total assets		239,879	227,086

Equity and liabilities

EUR '000s	Note	31 Dec 2007	31 Dec 2006
Equity	(13)	118,034	123,347
Subscribed capital		24,000	24,000
Capital reserve		76,016	76,016
Retained earnings		35,987	38,006
Accumulated other equity		-3,437	-143
Net cost in excess of net assets acquired on the acquisition of companies under common control and successive share acquisitions		-14,532	-14,532
Non-current provisions and liabilities		18,606	4,584
Pension provisions	(14)	19	16
Liabilities to banks	(16)	16,532	591
Other miscellaneous liabilities	(18)	19	19
Deferred taxes	(27)	2,036	3,958
Current provisions and liabilities		103,239	99,155
Other provisions	(15)	1,267	2,402
Financial debt	(16)	49,514	33,023
Liabilities to banks		41,943	33,023
Other financial debt		7,571	0
Trade payables		19,066	26,394
Payables to related parties	(17)	2,206	4,263
Income tax payables		17,984	20,224
Other current liabilities	(18)	13,202	12,849
Other financial liabilities		2,304	1,105
Other miscellaneous liabilities		10,898	11,744
Total equity and liabilities		239,879	227,086

Consolidated cash flow statement

EUR '000s	2007	2006
Consolidated net income for the year	30,591	39,476
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4,470	3,838
Gains(-) from associated companies and joint ventures	-14,671	-2,037
Distributions received from associates	1,481	0
Gains(-) from the disposal of intangible assets and property, plant and equipment	-50	-27
Increase in pension provisions	3	2
Tax expense	10,194	15,727
Elimination of net interest income and net investment income	-168	-2,671
Other non-cash income and expenses	432	-241
Increase/decrease in working capital	3,444	-6,842
Decrease in inventories	238	33
Decrease/increase in trade receivables	27,223	-32,547
Increase/decrease in other assets	-12,027	21,973
Decrease/increase in current provisions	-1,136	1,155
Decrease/increase in trade payables	-7,327	8,318
Decrease/increase in receivables from and payables to related parties	-1,754	2,274
Decrease in other liabilities	-1,888	-8,042
Other movements in operating activities	115	-6
Taxes paid	-18,284	-23,874
Tax refunds	29	103
Interest paid	-4,834	-335
Interest received	3,786	1,224
Distributions received	1,282	1,737
Cash flow from operating activities	17,705	26,080
Proceeds from disposals of intangible assets, property, plant and equipment as well as assets held for sale	755	39
Net cash outflow from the disposal of consolidated companies	0	66
Proceeds from the disposal of investment securities and investments in associates held for sale	9,030	538
Payments for investments, intangible assets and property, plant and equipment	-1,118	-800
Net cash outflow (-) for successive purchases of shares in consolidated companies	0	-40
Payments for investments in associated companies and interests in joint ventures	-1,768	-35,852
Payments for investment securities and securities classified as current assets	-45,308	-11,316
Cash flow from investing activities	-38,409	-47,365
Dividends paid to shareholders of HCI Capital AG	-33,600	-33,600
Proceeds from additions to financial liabilities	103,535	33,220
Repayments of financial liabilities	-73,105	-11,448
Repayments of loans granted by shareholders	0	-2,837
Cash flow from financing activities	-3,170	-14,665
Net change in cash and cash equivalents	-23,874	-35,950
Cash and cash equivalents at beginning of period	58,613	94,563
Cash and cash equivalents at end of period	34,739	58,613

Consolidated statement of changes in equity

EUR '000s	Subscribed capital	Capital reserve	Retained earnings	Change in the fair value of derivatives of cash flow hedges	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 1 Jan. 2006	24,000	76,016	32,133	0	0	- 14,596	117,553	101	117,654
Consolidated net income for the year	0	0	39,473	0	0	0	39,473	3	39,476
Changes in foreign currency translation adjustment	0	0	0	0	- 143	0	- 143	0	- 143
Total recognised income and expense	0	0	39,473	0	- 143	0	39,330	3	39,333
Successive acquisitions of shares in companies with existing possibility of control	0	0	0	0	0	64	64	- 104	- 40
Distributions to equity holders	0	0	- 33,600	0	0	0	- 33,600	0	- 33,600
Balance at 31 Dec. 2006	24,000	76,016	38,006	0	- 143	- 14,532	123,347	0	123,347
Consolidated net income for the year	0	0	30,591	0	0	0	30,591	0	30,591
Proportional change in the fair value of derivatives of cash flow hedges at associates	0	0	0	- 2,334	0	0	- 2,334	0	- 2,334
Changes in foreign currency translation adjustment	0	0	0	0	- 960	0	- 960	0	- 960
Income and expenses recognised directly in equity	0	0	0	- 2,334	- 960	0	- 3,294	0	- 3,294
Total recognised income and expense	0	0	30,591	- 2,334	- 960	0	27,297	0	27,297
Distributions to equity holders	0	0	- 33,600	0	0	0	- 33,600	0	- 33,600
Adjustment due to the change of the date of inclusion of joint ventures	0	0	990	0	0	0	990	0	990
Balance at 31 Dec. 2007	24,000	76,016	35,987	- 2,334	- 1,103	- 14,532	118,034	0	118,034

Segment reporting

by business segments

EUR '000s	Shipping		Real estate		Private equity	
	2007	2006	2007	2006	2007	2006
Revenues from external customers	106,482	101,351	13,538	14,353	1,940	5,259
Change in inventories	-378	20	-438	-201	263	-82
Cost of purchased services	-52,679	-47,783	-7,562	-5,005	-1,432	-3,791
Gross profit	53,425	53,588	5,538	9,147	771	1,386
Other operating income	5,638	22,032	9,750	848	77	57
Personnel expenses	-9,798	-7,462	-4,068	-3,387	-161	-535
Depreciation, amortisation and impairment losses	-2,452	-2,999	-95	-101	-23	-22
Other operating expenses	-13,016	-13,285	-4,633	-3,964	-177	-493
Result of associated companies and joint ventures accounted for using the equity method	12,629	2,317	1,481	0	0	0
Earnings before interest and taxes (EBIT)	46,426	54,191	7,973	2,543	487	393
Result from investments in funds	490	525	1	2	196	156
Segment assets	55,295	70,217	36,775	13,961	1,751	2,558
Investments in funds	12,822	11,073	1,077	1,043	14	7
Segment liabilities	24,665	30,697	4,025	2,580	181	528
Significant non-cash expenses and income	7,881	-2,057	-240	-101	-23	-22
Capital expenditure for non-current segment assets	270	293	57	101	0	0
Capital expenditure for investments in funds	2,647	2,343	1	585	1	0

The segment reporting forms part of the notes to the consolidated financial statements.

Segment reporting

by region

EUR '000s	Germany		International	
	2007	2006	2007	2006
Revenues from external customers	135,888	142,776	1,411	2,835
Segment assets	116,352	129,951	35,375	2,443
Investments in funds	15,695	12,883	0	0
Capital expenditure for non-current segment assets	1,078	757	40	43
Capital expenditure for investments in funds	3,848	3,141	0	0

The segment reporting forms part of the notes to the consolidated financial statements.

Life insurance		Segment total		Other/holding		Consolidation		Group	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
15,046	24,614	137,006	145,577	293	34	0	0	137,299	145,611
-137	228	-690	-35	53	0	0	0	-637	-35
-8,551	-12,443	-70,224	-69,022	-32	-66	0	0	-70,256	-69,088
6,358	12,399	66,092	76,520	314	-32	0	0	66,406	76,488
55	103	15,520	23,040	1,457	2,065	-3,824	-3,819	13,153	21,286
-1,863	-2,247	-15,890	-13,631	-12,124	-10,230	0	0	-28,014	-23,861
-1,353	-614	-3,923	-3,736	-547	-102	0	0	-4,470	-3,838
-3,226	-4,048	-21,052	-21,790	-4,247	-3,083	3,824	3,819	-21,475	-21,054
0	0	14,110	2,317	561	-280	0	0	14,671	2,037
-29	5,593	54,857	62,720	-14,586	-11,662	0	0	40,271	51,058
3,046	4,032	3,733	4,715	0	0	0	0	3,733	4,715
7,155	7,938	100,976	94,674	52,899	41,050	-3,006	-2,691	150,869	133,033
141	226	14,054	12,349	1,641	534	0	0	15,695	12,883
2,354	2,363	31,225	36,168	7,316	11,364	-3,725	-2,698	34,816	44,834
-2,608	-1,335	5,010	-3,515	523	-415	0	0	5,533	-3,930
13	104	340	498	778	302	0	0	1,118	800
21	150	2,670	3,078	1,178	63	0	0	3,848	3,141

Consolidated statement of changes in non-current assets

Development of intangible assets

EUR '000s	Historical cost			
	1 Jan. 2007	Additions	Reclassifi- cations	Disposals
2007				
Acquired intangible assets	26,453	678	69	-1,975
Goodwill	2,264	0	0	0
On-account payments on intangible assets	69	0	-69	0
Total	28,786	678	0	-1,975

EUR '000s	Historical cost			
	1 Jan. 2006	Additions	Reclassifi- cations	Disposals
2006				
Acquired intangible assets	27,378	182	217	-1,324
Goodwill	2,264	0	0	0
On-account payments on intangible assets	49	237	-217	0
Total	29,691	419	0	-1,324

Consolidated statement of changes in non-current assets

Development of property, plant and equipment

EUR '000s	Historical cost				
	1 Jan. 2007	Additions	Reclassifi- cations	Disposals	Reclassifica- tion in accor- dance with IFRS 5
2007					
Land, land rights and buildings	3,362	19	0	-1	-2,120
Other equipment, furniture and fixtures	3,525	421	0	-173	-3
Total	6,887	440	0	-174	-2,123

EUR '000s	Historical cost				
	1 Jan. 2006	Additions	Reclassifi- cations	Disposals	Reclassifica- tion in accor- dance with IFRS 5
2006					
Land, land rights and buildings	3,361	22	1	-22	0
Other equipment, furniture and fixtures	3,307	359	-1	-140	0
Total	6,668	381	0	-162	0

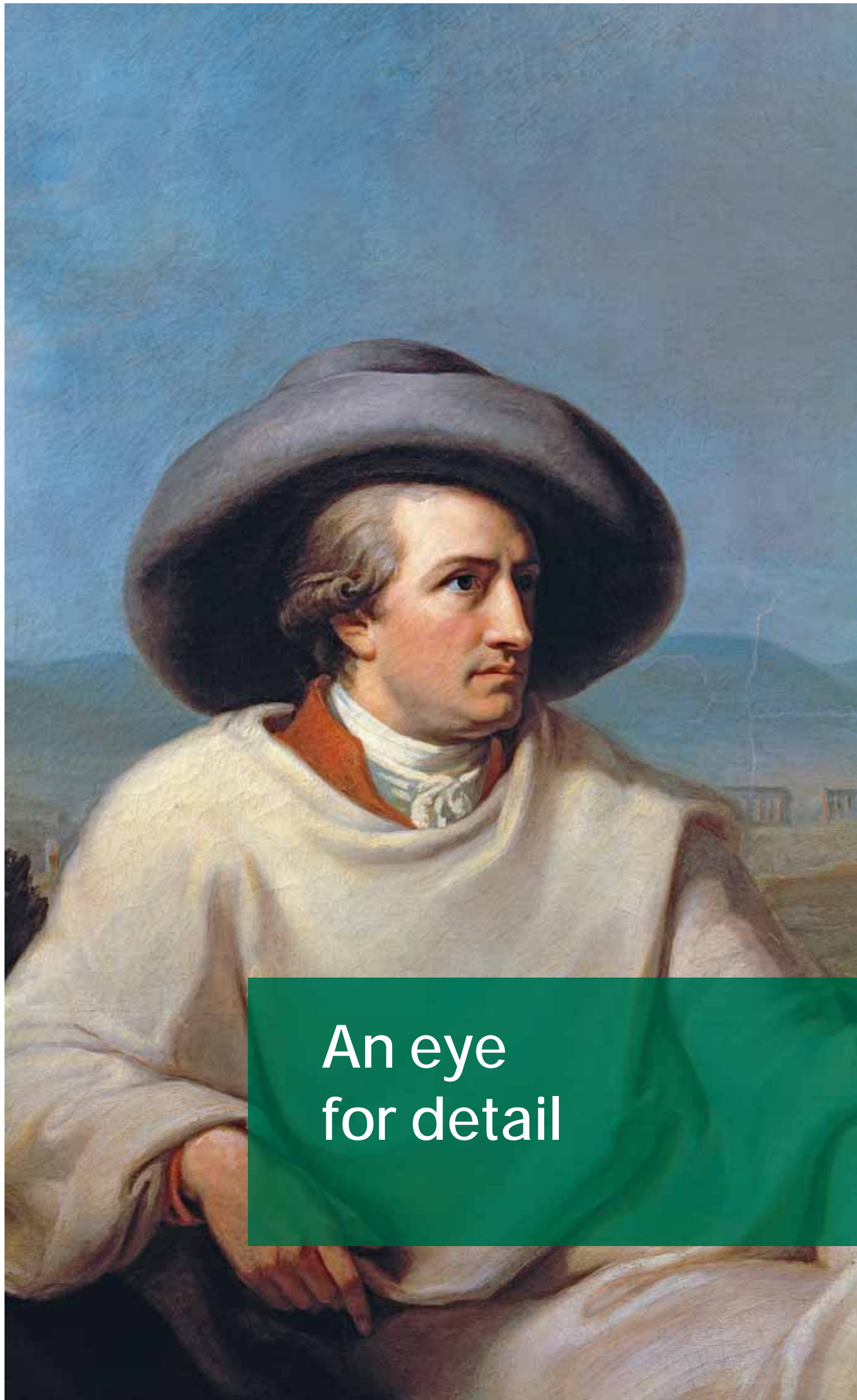
The development of intangible assets and the development of property, plant and equipment form part of the notes to the consolidated financial statements.

		Accumulated amortisation/impairment					Carrying amount	
			Impairment					
31 Dec. 2007	1 Jan. 2007	Amortisation	losses	Disposals	31 Dec. 2007	31 Dec. 2007	1 Jan. 2007	
25,225	-20,217	-2,550	-730	1,614	-21,883	3,342	6,236	
2,264	-68	0	0	0	-68	2,196	2,196	
0	0	0	0	0	0	0	69	
27,489	-20,285	-2,550	-730	1,614	-21,951	5,538	8,501	


		Accumulated amortisation/impairment					Carrying amount	
			Impairment					
31 Dec. 2006	1 Jan. 2006	Amortisation	losses	Disposals	31 Dec. 2006	31 Dec. 2006	1 Jan. 2006	
26,453	-18,348	-3,162	0	1,293	-20,217	6,236	9,030	
2,264	-68	0	0	0	-68	2,196	2,196	
69	0	0	0	0	0	69	49	
28,786	-18,416	-3,162	0	1,293	-20,285	8,501	11,275	

		Accumulated amortisation/impairment					Carrying amount	
					Reclassifica- tion in accor- dance with			
31 Dec. 2007	1 Jan. 2007	Depreciation	Impairment losses	Disposals	IFRS 5	31 Dec. 2007	31 Dec. 2007	1 Jan. 2007
1,260	-1,379	-401	-373	0	1,484	-669	591	1,983
3,770	-2,241	-416	0	168	3	-2,486	1,284	1,284
5,030	-3,620	-817	-373	168	1,487	-3,155	1,875	3,267

		Accumulated amortisation/impairment					Carrying amount	
					Reclassifica- tion in accor- dance with			
31 Dec. 2006	1 Jan. 2006	Depreciation	Impairment losses	Disposals	IFRS 5	31 Dec. 2006	31 Dec. 2006	1 Jan. 2006
3,362	-1,112	0	-289	22	0	-1,379	1,983	2,249
3,525	-1,922	0	-387	68	0	-2,241	1,284	1,385
6,887	-3,034	0	-676	90	0	-3,620	3,267	3,634



An eye
for detail



To get a full impression of a picture, you need to look at the details. The picture of Goethe in the Roman Campagna contains numerous references to his life and his works, as one of the great minds of his time. Nowadays, detailed information is conveyed by bits and bytes. A closer look at the details reveals the qualities of HCI's financial statements.

Notes to the consolidated financial statements of HCI Capital AG for the financial year 2007 in accordance with IFRS

General information

HCI Capital AG, with its registered office in Bleichenbrücke 10, 20354 Hamburg, Germany, and registered with the Register of Companies (*Handelsregister*) of the Hamburg District Court (Amtsgericht, HRB 93324) originated from HCI Holding GmbH, Hamburg, on the basis of the transformation resolution dated 25 January 2005, as amended on 8 March 2005, by way of a transformation of legal form (*formwechselnde Umwandlung*). The transformation was registered with the commercial register at the Hamburg District Court on 30 March 2005.

The Company's subscribed capital amounts to EUR 24,000,000 and is divided into 24,000,000 no-par value registered shares. As at 31 December 2007, 4,806,730 shares (equivalent to 20.03%) were held by Corsair III Investments (Luxembourg) S.a.r.l., 3,624,000 shares (15.10%) by MPC Münchmeyer Petersen Capital AG and 2,495,000 shares (10.40%) by companies attributable to Mr. Jochen Döhle. The remaining shares are in free float since the Company's initial public offering (IPO) in October 2005 and the related admission to trading on the regulated market in the Prime Standard Segment of the Frankfurt Stock Exchange as well as the Hamburg Stock Exchange.

On 12 February 2008, MPC Münchmeyer Petersen Capital AG notified us that it had concluded an agreement with Corsair III Investments (Luxembourg) S.a.r.l. on the purchase of the shares in HCI Capital AG held by Corsair III Investments (Luxembourg) S.a.r.l. In addition, MPC Münchmeyer Petersen Capital AG notified us that it intends to make a public take-over offer to the shareholders of HCI Capital AG for the purchase of shares at a price of EUR 14.22 per share to be paid in cash. The take-over offer will not be subject to a minimum acceptance level. The purchase of the shares of HCI Capital AG held by Corsair III Investments (Luxembourg) S.a.r.l. is, among other things, conditional upon the requirements of the take-over offer being met.

HCI Capital AG and its subsidiaries (in the following: "HCI Group") together constitute a service group operating principally in Germany. The business activities of the HCI Group consist primarily of the design and launch of closed-end funds in the products areas shipping, real estate, secondary life insurance market and private equity as well as the subsequent raising of funds from institutional and retail investors. Furthermore, the Group operates as fiduciary manager of equity capital placed and of fund assets (After-Sales Services, Asset Management).

(1) Basis of presentation

The consolidated financial statements of HCI Group as at 31 December 2007 were prepared pursuant to the provisions stipulated in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards in connection with Section 315a (1) of the German Commercial Code (*HGB, Handelsgesetzbuch*), in accordance with the International Financial Reporting Standards (IFRS) as promulgated and issued by the International Accounting Standards Board (IASB), and as adopted by the European Union. The requirements of IFRS were fully complied with. Accordingly, the consolidated financial statements present a true and fair view of the net assets, financial position and results of the HCI Group.

Various items of the income statement and the balance sheet have been summarized in order to improve clarity of presentation. These items are explained separately in the Notes to the financial statements. The income statement was prepared using the nature of expense method.

The consolidated financial statements are generally prepared using amortised or depreciated cost for the recognition of assets and liabilities, other than investment property held in associates, financial assets available for sale and derivative financial instruments, which are recognised at their respective fair values applicable as at the balance sheet date.

The consolidated financial statements were prepared in euros. Unless otherwise indicated, all amounts are stated in EUR thousand (EUR 000's).

The consolidated financial statements and the management reports for HCI Capital AG and the HCI Group are published in the German Electronic Federal Gazette (*elektronischer Bundesanzeiger*).

(2) Consolidation

(a) Principles of consolidation

The consolidated financial statements of the HCI Group include all significant domestic and foreign subsidiaries in which HCI Capital AG is able to directly or indirectly control the financial and operating policies of these companies.

Companies that were founded by the HCI Group and are intended for raising funds from potential limited partners based on their designation as closed-end funds are not included in the IFRS consolidated financial statements until the date of such fundraising, irrespective of the voting majorities attributable to the HCI Group during this period. The reason for this procedure is that the activities of the companies during this period are already characterised by the business activity of a closed-end fund and the HCI Group does not retain the majority of risks and rewards of these special purpose entities. Unless fundraising from investors is performed within the envisaged time frame by the investment companies, and the HCI Group thus actively controls the operating policies of the companies due to the voting rights then attributable to the HCI Group (and therefore also retains the associated risks and rewards), the companies are included in the consolidated financial statements of HCI Capital AG by way of full consolidation.

Companies purchased from third parties are consolidated at the date of acquisition using the purchase method. Under the purchase method, acquisition costs for the shares purchased are offset against the proportional fair value of the assets acquired and liabilities assumed attributable to the subsidiary at the time of acquisition. Any resulting positive difference is capitalized as goodwill. Negative goodwill arising on capital consolidation at the time of acquisition is recognised immediately in profit or loss after the carrying amounts have been reviewed once again. The date of acquisition is the date on which control of the net

assets and financial and operating policies of the company acquired is transferred to the Group.

Any hidden reserves or hidden liabilities identified on fair value measurement of the assets and liabilities within the scope of initial consolidation are carried, amortised, depreciated, written off or reversed based on the development of the corresponding assets and liabilities. Any goodwill is tested for impairment at least annually in subsequent periods and, in the event of impairment, written down to the lower recoverable amount.

Successive acquisitions of subsidiaries where control over the respective company is attributable to the HCI Group already before the acquisition are accounted for as transactions between shareholders. Any resulting difference between the purchase price and the share in equity attributable to the minority shareholders is recognized directly in equity in "Net cost in excess of net assets acquired on the acquisition of companies under common control and successive share acquisitions". Neither hidden reserves and liabilities nor goodwill are recognised in the context of such transactions.

Expenses and income as well as receivables and payables arising between consolidated companies are eliminated. Intercompany profits and losses were eliminated if material.

Companies which the HCI 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 companies, are included in the consolidated financial statements using the equity method. The principles of full consolidation apply with regard to the determination of goodwill and of the proportional fair value of assets and liabilities. Inclusion in the consolidated financial statements is based on the IFRS financial statements of these companies. Losses from associated companies and joint ventures exceeding the carrying amount of the investment or other non-current receivables related to the financing of these companies are not recognised unless there is an obligation to fund such losses. In case, intercompany profits or losses are insignificant, elimination is thus not necessary. In case of the purchase of investments in associated companies that were acquired by the HCI

Group with the intention for resale, the equity method is not used in accordance with IFRS 5.

The financial statements of HCI Capital AG and those of its consolidated subsidiaries, associates and joint ventures have been prepared in accordance with uniform accounting policies. The financial statements of the consolidated subsidiaries are prepared as at the balance sheet date of HCI Capital AG. Aragon AG as well as HELLESPONT HAMMONIA GmbH & Co. KG and their general partner, which were included in the consolidated financial statements as at 31 December 2007 as associates, are included based on their financial statements for the periods from 1 January to 30 September 2007 and 1 October 2006 to 30 September 2007, respectively, since the financial statements of these companies were not available at the balance sheet date of the consolidated financial statements (31 December 2007) due to the business volumes and type of business activities of these companies. A

change in accounting practice was made in the financial year 2007 with respect to the joint venture HAMMONIA Reederei GmbH & Co. KG and its general partner, which were included in the IFRS consolidated financial statements as at 31 December 2006 based on their financial statements for the period from 1 October 2005 to 30 September 2006. These companies are now included in the consolidated financial statements with their financial statements for the period from 1 January 2007 to 31 December 2007. The result attributable to the HCI Group for the period from 1 October 2006 to 31 December 2006 was recognised directly in equity in retained earnings. The other associates and joint ventures were included as at the balance sheet date for the consolidated financial statements.

(b) Basis of consolidation

The companies included in the consolidated financial statements of the HCI Group can be classified as follows:

	December 31, 2007	December 31, 2006
Fully consolidated companies		
Domestic	28	26
Foreign	4	4
Associates accounted for using the equity method		
Domestic	3	3
Foreign	3	1
Joint ventures accounted for using the equity method (all domestic)	2	2

The individual companies included in the consolidated financial statements are set out in the list of investments in Note (34).

In the financial year 2007, two newly formed companies (2006: 2) as well as two associated companies (2006: 2) were consolidated for the first time. We refer to the transactions described in (c) of this section for information on changes in the group of consolidated companies.

(c) Significant new companies, and first-time consolidation

The HCI Group, together with Behringer Harvard Holland B.V., founded BH & HCI Overschiestraat Holding B.V. pursuant to the Articles of Association dated 19 September 2007. The share of the HCI Group in the share capital of BH & HCI Overschiestraat Holding B.V. amounts to 35%. The purpose of BH & HCI Overschiestraat Holding B.V. is the purchase, management and disposal of property. The company was included in the consolidated financial statements as

at 31 December 2007 using the equity method. Two properties are held by BH & HCI Overschiestraat Holding B.V. via special purpose entities.

In connection with the purchase of property through subsidiaries of the associated company BH & HCI Overschiestraat Holding B.V., the HCI Group made a contribution to equity capital of BH & HCI Overschiestraat Holding B.V. in the amount of EUR 1,768 thousand in the 2007 financial year.

In the financial year 2007, HCI Real Estate Finance I GmbH & Co. KG and its general partner entity were included in the IFRS consolidated financial statements for the first time. HCI Real Estate Finance I GmbH & Co. KG holds a 33.1% stake in NY Credit Operating Partnership LP, the purpose of which is issuing, purchasing, structuring and trading as well as syndication of high-interest commercial property loans in the USA. In the previous year, the company was not included in the IFRS consolidated financial statements as the corresponding activities for the design and marketing of the company as a closed-end fund were conducted according to plan. Due to various factors, especially against the backdrop of market developments in the USA, no fundraising from investors was conducted in 2007; as a result, HCI Group has retained the majority of risks and rewards in the financial year 2007. Accordingly, NY Credit Operating Partnership LP has been accounted for in the consolidated financial statements of HCI Group using the equity method, in accordance with IAS 28.

(d) Purchase of investments in associates

Pursuant to the share purchase and transfer agreement dated 13 December 2006, HCI Capital AG acquired 25% plus one share in Aragon AG, Wiesbaden, Germany, a company listed in the Entry Standard of the Frankfurt Stock Exchange. The business activities of Aragon AG and its subsidiaries comprise the placement of financial products as well as related services. The acquisition was intended to strengthen the sales activities of the HCI Group. The purchase price of the acquisition of the shares amounts to EUR 29,450 thousand and was paid on 21 December 2006. Transaction costs amounted to EUR 167 thousand. The shares purchased were transferred on 21

December 2006 and are generally subject to a lock-up until 27 November 2010. This lock-up period does not apply to an over-the-counter sale to institutional or strategic investors.

Pursuant to the share purchase and transfer agreement, the HCI Group is further allowed to acquire another 5% of the shares in Aragon AG. The HCI Group may exercise this option not later than 31 December 2011. Furthermore, the HCI Group were granted pre-emptive rights for the purchase of another 41.95% of the shares in Aragon AG, which may be exercised upon the disposal of these shares by the seller.

Within the scope of the purchase price allocation for Aragon AG, intangible assets with indefinite useful lives in the form of trademark rights as well as intangible assets with useful lives ranging between six and ten years were recognised on a pro rata basis in the amount of EUR 2,353 thousand and EUR 2,005 thousand, respectively. This resulted in goodwill of EUR 19,978 thousand, which is included in the carrying amount of the investment as measured using the equity method. Amortisation of the intangible assets with definite useful lives as well as changes in effects from deferred taxes are included in the result from associates.

(e) Translation of foreign currency financial statements

The assets and liabilities of subsidiaries whose functional currency is not the euro are translated using the exchange rate applicable on the balance sheet date. Income statement items are translated at the transaction rate of the relevant year. Equity components of subsidiaries are translated at the relevant historical exchange rate when they are incurred. Exchange differences arising on translation are recognised directly in equity in "Foreign currency translation adjustment".

The Swiss subsidiary of HCI Capital AG, HCI Swiss AG, is currently responsible for sales support of the funds launched by the HCI Group, especially in Southern Germany. The provision of services and the significant component of expense in form of sales commissions are mostly invoiced in euros so that the euro was determined as the functional currency for

HCI Swiss AG. Therefore, in accordance with IAS 21, all transactions undertaken in the local currency, the Swiss franc, or in other currencies are translated at the exchange rate prevailing at the time of transaction. Monetary assets and liabilities are adjusted to the exchange rate prevailing on the balance sheet date.

The functional currency of HCI Real Estate Finance I GmbH & Co. KG, which was included in the IFRS consolidated financial statements for the first time in 2007, is the US dollar since both investment and financing activities of the company are carried out in US dollars. Therefore, in accordance with IAS 21, all

transactions undertaken in the local currency, the euro, or in other currencies are translated at the exchange rate prevailing at the time of transaction. Monetary assets and liabilities are adjusted to the exchange rate prevailing on the balance sheet date.

The functional currency of NY Credit Operating Partnership LP, which has been accounted for in the consolidated financial statements using the equity method, is also the US dollar.

The exchange rates used for the translation of material foreign currency financial statements showed the following movements in relation to the euro:

Foreign currency for 1 euro	Average Rate		Closing Rate	
	2007	2006	December 31, 2007	December 31, 2006
US-Dollar	1.3706	1.2557	1.4721	1.3200

(3) Accounting policies

(a) Recognition of income and expense

Revenues are recognised when the services are provided if the amount of revenue can be reliably determined and when it is probable that economic benefits will flow to the Group. Services in connection with the sale of funds are deemed to be rendered when the investor signs the application form and the statutory cancellation term or, if longer, the contractual cancellation term has expired.

Fees for trust and other services are recognised over the term of the particular service. Upfront fees to be paid by the limited partners or the fund at the time of entering into the respective trust or service agreement are recognised in profit or loss at this point in time in the amount of the fair value, provided an identifiable service is rendered by the HCI Group and direct costs can be allocated to the service.

Commissions for services provided by partners in connection with the acquisition of limited partners for the funds are recognised as costs of purchased services at the time the corresponding sales are recognised. As a result of the allocation of material risks and rewards

arising from the sale of funds to the HCI Group, sales revenues and sales commissions are reported gross in the consolidated financial statements.

Capitalised finished services, which represent the expenses arisen during the preparation of the prospectus, are expensed in line with the progress of placement. The progress of placement is determined on the basis of the ratio between capital raised as at the balance sheet date and the expected total capital intended to be raised.

Other operating expenses are recognized in the income statement on the date of consumption or expensed as incurred.

Interest is recognised as expenses or income, as appropriate, in the period in which they are incurred. Interest expenses arising in connection with the acquisition and manufacture of certain assets are not capitalised in the Group.

Income and expenses from profit and loss transfer agreements are recognised upon the end of the financial year at the amount based on the result determined

under the accounting principles of the German Commercial Code. Dividends are recognised in profit or loss at the actual date of dividend payout, with the payment period normally corresponding to the period in which the shareholder's legal right to receive payment is established.

(b) Intangible assets

Purchased intangible assets are recognised at cost.

Purchased intangible assets with a definite useful life are amortised over their expected economic useful life on a straight-line basis from the time they are ready for use as follows:

	Useful life in years
Trust and service agreements	1 – 12
Distribution partner base	10
Software	3 – 10

The HCI Group does not hold intangible assets with an indefinite useful life, with the exception of goodwill. The carrying amount of goodwill is tested for impairment at least once a year.

There are no internally generated intangible assets within the Group.

(c) Property, plant and equipment

Property, plant and equipment are recognised at cost and depreciated over the expected economic useful lives on a straight-line basis. Gains or losses on the disposal of intangible assets, or of property, plant and equipment are reported in other operating income or other operating expenses.

Depreciation is based throughout the Group on the following uniform useful lives:

	Useful life in years
Buildings	40
Leasehold improvements	Rental term, max. 5 – 15
Other operating and office equipment	3 – 14

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

HCI Capital AG reviews non-current assets in terms of the necessity to account for impairment losses.

For the purpose of conducting impairment tests, goodwill is allocated to the reporting units to which goodwill is also allocated for internal reporting purposes. These reporting units usually correspond to the individual Group companies. The cash flows of the reporting units are discounted using a rate for the cost of capital derived from that of peer companies. Impairment losses are recognised if the present value of the cash flows is lower than the carrying amount of the intangible assets and property, plant and equipment as well as the net working capital attributable to the reporting unit, including the allocated goodwill.

Impairment losses are recognised for other intangible assets and property, plant and equipment if as a result of certain events or developments the carrying amount of such assets exceeds the expected proceeds from disposal or the discounted net cash flow from continuing use. The cash flows are also discounted using a rate for the cost of capital derived from that of peer companies. If the recoverable amount cannot be determined for individual assets, the cash flows for the group of assets on the next higher level for which such cash flows can be determined are used.

Impairment losses are reversed when the reasons for the recognition of the impairment loss cease to exist in subsequent periods. The amount of the reversal is limited to the amount which would have resulted when the impairment losses had not been recognised. Impairment losses recognised for goodwill are not reversed.

Impairment tests are conducted at the end of each financial year. The discount rate applied for the cash flows of the reporting units in the financial year 2007 to determine the value in use amounts to 16.3% (2006: 10.7%). Net cash flows are determined on the basis of the planning in the individual reporting units using a planning horizon of three years. The expected growth for the periods in accordance with the detailed planning period of three years is taken into account by a discount of 1.5% applied to the above mentioned rate.

(e) Financial instruments

Financial assets are generally accounted for within the HCI Group upon delivery, i.e. at settlement date.

The financial instruments at the HCI Group comprise cash and cash equivalents, receivables, financial assets available for sale, financial liabilities and loans as well as derivative financial instruments in the form of interest rate swap contracts and forward exchange contracts.

Financial assets are initially recognised at fair value plus directly attributable transaction costs, unless the financial assets are classified as "at fair value through profit and loss". The HCI Group does not have primary financial assets that can be allocated to this category. Financial assets are measured subsequently either at fair value or amortised cost, using the effective interest method depending on the classification of the individual financial instruments in accordance with IAS 39.

Financial liabilities are initially recognised at fair value less transaction costs and subsequently at amortised cost, with financial liabilities of the "at fair value through profit and loss" category being measured subsequently at fair value.

Financial assets are derecognised if either the rights to receive the cash flows to be generated from the related assets have expired or substantially all risks have been transferred to third parties in a way that the criteria for derecognition are met. Financial liabilities are derecognised when the obligation is extinguished, cancelled or has expired.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank balances.

(ii) Receivables and other financial assets

Receivables and other primary financial assets allocated to the category "Loans and receivables" are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method.

Impairment losses of receivables and other primary financial assets are accounted for using allowance accounts. Valuation allowances are recorded when

there is objective evidence that default risks exist regarding the financial asset. The amount of the valuation allowance is based on past experience and individual risk assessment.

(iii) Available-for-sale financial assets

Available-for-sale financial assets comprise investments in subsidiaries and associates as well as interests in joint ventures that are not consolidated due to their lack of materiality as well as securities and other primary financial instruments that can be neither classified as cash and cash equivalents nor allocated to the "Loans and receivables" category.

Investments in subsidiaries and associates as well as interest in joint ventures that are not consolidated due to their lack of materiality, and shares in investment funds held by the HCI Group are classified as "Available-for-sale financial assets" for measurement purposes in accordance with IAS 39. Other financial assets and securities are also classified as "Available-for-sale financial assets" in accordance with IAS 39. Available-for-sale financial assets are recognised as at the balance sheet date at fair value or, if the fair value cannot be reliably determined or cannot be determined at all, at amortised cost. To the extent that the fair values of the fund shares held by the HCI Group cannot be derived from price quotations on the secondary market or cannot be determined using appropriate valuation models, these fund shares are accounted for at amortised cost.

Changes in fair value are recognised directly in equity. When the fair value has decreased materially and permanently, the impairment loss is recognised in profit or loss. In the event that the circumstances that led to the impairment no longer apply in subsequent periods, the reversal of the impairment losses for the financial assets with liability features are also recognised in profit or loss (as were the impairment losses in the prior periods). Reversals of impairment losses for equity instruments are recognised directly in equity.

(iv) Financial liabilities

Financial liabilities are initially recognised at their fair value. They are subsequently measured at amortised cost using the effective interest method.

(v) Derivative financial instruments

The derivatives used by the HCI Group are interest rate swap contracts and forward exchange contracts.

They are used to hedge currency and interest rate risks. Derivative financial instruments are reported at fair value. The recognition of changes in the fair value of the derivative financial instruments depends on whether these instruments are used as hedging instruments and the requirements for hedge accounting are met in accordance with IAS 39.

If these requirements are not met in spite of an existing economic hedging relationship, the changes in the fair value of the derivative financial instruments are recognised immediately in profit or loss.

The effective portion of a change in the fair value of a derivative financial instrument which was designated as a hedging instrument and which meets the requirements for hedge accounting for the purpose of hedging cash flows (cash flow hedge) is recognised in accumulated other comprehensive income, taking into account the related tax effect. The ineffective portion is recognised in the income statement. The effective portion is recognised in profit or loss in the period in which the hedged item affects profit or loss.

(vi) Fair values of financial instruments

The fair values of financial instruments are determined on the basis of appropriate market values or valuation methods. The fair value of cash and cash equivalents and other short-term primary financial instruments corresponds to the carrying amounts on the applicable balance sheet dates.

The fair values of non-current receivables and other assets as well as non-current provisions and liabilities are determined based on the expected cash flows using reference interest rates applicable on the balance sheet date. The fair values of derivative financial instruments are determined on the basis of reference interest rates in effect on the balance sheet date.

(f) Work in progress and finished services

Work in progress and finished services include services performed during the preparation of the prospectus in connection with the fund design and development stages. Capitalised work in progress and finished services are measured at cost, including all direct costs and overheads attributable to the provision of the service. Costs required to be capitalised include personnel expenses and overhead costs which have arisen since the beginning of prospectus

preparation including allocable external costs, in particular consultancy costs for fund design and costs for valuation reports as part of prospectus preparation. The items are no longer capitalised when the funds have reached marketability.

Work in progress and finished services are measured at the lower of cost and net realisable value. The net realisable value represents the estimated sales proceeds less costs expected to be incurred until placement.

If the reasons that resulted in an impairment of work in progress and finished services no longer apply, the impairment loss is reversed.

(g) Assets held for sale

Assets are reported as held-for-sale assets if there is a high likelihood of sale within the next twelve months. They are only classified in accordance with IFRS 5 when the assets are available for immediate sale and the marketing of the assets has begun. The assets are generally measured at the lower of amortised cost and fair value as at the balance sheet date.

(h) Pension provisions

Provisions for pension obligations are calculated using the projected unit credit method in accordance with IAS 19. The pension obligations are measured on the basis of actuarial reports. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate used is based on high-quality corporate bonds which correspond to the underlying pension obligations in terms of currency and maturity.

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 recognised in profit or loss over the expected remaining working lives of the eligible employees (corridor approach).

Service cost and recognised actuarial gains and losses are recorded in personnel expenses. The interest component included in the pension expenses is reported as a component of interest expense.

(i) Other provisions

Other provisions are recognised to account for all identifiable legal and constructive obligations of the

Group to third parties provided that the settlement of such obligations is probable and the amount can be reliably determined. The provisions are measured at the expected settlement amount in accordance with IAS 37. Non-current provisions are measured at their discounted settlement amount at the balance sheet date based on appropriate market interest rates.

(j) Income taxes

Current taxes are expensed as incurred at the amounts owed by the Group.

Deferred taxes are recognised to account for future tax effects resulting from temporary differences between the tax base of assets and liabilities and their related carrying amounts in the IFRS financial statements as well as on loss carryforwards. The measurement of deferred taxes is based on the tax laws enacted at the end of the relevant financial year and applicable to the financial years in which the differences reverse or loss carryforwards are probably utilised. Deferred tax assets on temporary differences or tax loss carryforwards are only recognised to the extent that their recoverability is sufficiently certain.

Deferred taxes are recognised for temporary differences resulting from the fair value measurement of assets and liabilities within the scope of acquisitions of companies. Deferred taxes for temporary differences on goodwill as part of subsequent measurement are only recognised when goodwill is tax deductible.

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

(k) Transactions in foreign currency

Purchases and sales in foreign currency are translated at the exchange rates applicable at the date of transaction. Assets and liabilities in foreign currency are translated into the functional currency at the exchange rate prevailing on the balance sheet date. Any foreign exchange gains and losses arising on currency translation are recognised directly in profit or loss.

(l) Use of estimates

The preparation of the IFRS consolidated financial statements requires the use of estimates and assumptions that have an influence on the measure-

ment of assets and liabilities, the disclosure of contingent liabilities as at the balance sheet date and the presentation of income and expenses. Significant estimates and assumptions were made in particular with regard to the determination of fair values of the properties held by associates of the HCI Group, uniform Group depreciation and amortisation periods on capitalised trust and service agreements (31 December 2007: EUR 1,009 thousand; 31 December 2006: EUR 3,057 thousand), allowance rates for receivables as well as the recoverability of deferred tax assets (31 December 2007: EUR 2,493 thousand; 31 December 2006: EUR 8,030 thousand). Actual amounts may deviate from the amounts estimated or assumed.

(m) Adjustment of comparative information

In the consolidated balance sheet as at 31 December 2006, non-current loan receivables of the HCI Group in the amount of EUR 4,355 thousand were reported in current other financial assets. In the consolidated financial statements as at 31 December 2007, the current/non-current classification was adjusted accordingly in the consolidated balance sheet as at 31 December 2006, which is presented for comparative purposes.

(4) New accounting requirements issued by the IASB

In accordance with Regulation (EC) No. 1606/2002 in connection with Section 315a (1) of the German Commercial Code, the basis of accounting of the HCI Group in accordance with IFRS are the financial reporting standards of the IASB as adopted by the European Commission within the framework of the endorsement procedure for the European Union.

The IFRS and amendments to existing IFRS, newly issued in the financial years 2006 and 2007, made by the IASB are required to be applied only after a corresponding resolution of the European Commission as part of the endorsement procedure.

The following standards were applied for the first time for the consolidated financial statements of the HCI Group as at 31 December 2007:

- Amendment to IAS 1 "Capital Disclosures"
- IFRS 7 "Financial Instruments: Disclosures"
- IFRIC 7 "Applying the Restatement Approach under IAS 29"

- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of Embedded Derivatives"
- IFRIC 10 "Interim Financial Reporting and Impairment"

The application of these standards did not materially affect the Group's net assets, financial position and result of operations, except for the application of IFRS 7 and IAS 1. The application of IFRS 7 requires extensive disclosures on financial instruments with relevance for the assessment of net assets, financial position and result of operations as well as qualitative and quantitative disclosures with respect to the nature and the extent of risks arising from financial instruments.

The amendment of IAS 1, which was issued by the IASB in August 2005, requires disclosures of information that enable users of financial statements to evaluate the objectives, policies and processes for managing capital. The amendment is required to be applied for financial years beginning on or after 1 January 2007.

The HCI Group applied IFRS 7 and IAS 1, which are required to be applied for the first time for financial years beginning on or after 1 January 2007, taking into account the relevant information of the comparative period.

The following standards and interpretations issued by the IASB and the IFRIC, respectively, until the date of preparation of the consolidated financial statements, were not applied by the HCI Group in the consolidated financial statements as at 31 December 2007 due to the fact that they are not yet required to be applied or had not been adopted by the European Union:

- Amendment to IAS 23 "Borrowing Costs"
- IAS 1 (revised 2007) "Presentation of Financial Statements"
- Amendment to IAS 27 "Consolidated and Separate Financial Statements"
- Amendment to IFRS 2 "Share-Based Payment: Vesting Conditions and Cancellations"
- IFRS 3 (revised 2008) "Business Combinations"
- IFRS 8 "Operating Segments"
- IFRIC 12 "Service Concession Arrangements"
- IFRIC 13 "Customer Loyalty Programmes"
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

The HCI Group expects that the application of these standards, with the exception of the amendments to IAS 1 and IFRS 8, at the time the above mentioned standards and interpretations are required to be applied, will not result in material effects on net assets, financial position and result of operations of the HCI Group.

In December 2006, the IASB issued IFRS 8 "Operating Segments", which was endorsed by the European Commission on 22 November 2007 and is required to be applied to financial years beginning on or after 1 January 2009. IFRS 8 supersedes IAS 14 and is based on the "management approach" according to which the definition of the segments as well as the presentation of segment information is based on internal reporting to the "chief operating decision maker".

The Company currently evaluates the impact of IFRS 8 on the IFRS consolidated financial statements and expects to early apply the standard for the financial year 2008. On the basis of internal reporting to the Management Board of HCI Capital AG, we expect that segment reporting of the HCI Group will include the following segments in future:

- Sales and Design – This segment will include the activities of the HCI Group with respect to the identification of suitable investment objects as well as product design and product sales.
- After-Sales Service – The After-Sales Service segment primarily comprises investor services, including advising the investor with regard to all corporate law and regulatory issues associated with its fund investment.
- Asset Management – The management of investments of the funds launched by the HCI Group in the areas of shipping, property and life insurance funds as well as the activities as a ship managing company with third parties are allocated to the Asset Management segment.

The earnings measure for segment results will continue to be EBIT (earnings before interest and taxes), which is commonly used on an international basis and represents the annual result before interest and taxes on income. EBIT is used for internal management purposes as a financial indicator for the segments based on IFRS.

The Company's Management Board currently expects to early apply IFRS 8 in the consolidated financial statements as at 31 December 2008.

As a result of the amendments made to IAS 1 "Presentation of Financial Statements", which is required to be applied for financial years beginning on or after 1 January 2009, we expect to make changes in the presentation of the individual statements. We plan to early apply the standard in the financial year 2008 based on the assumption that the standard will be adopted by the European Union.

The impacts of the amendments to IAS 27 and IFRS 3 on the Group's net assets, financial position and result of operations will depend particularly on the acquisitions of companies and the disposals of investments or interests in companies carried out by the HCI Group after the date of application of these two standards.

Notes to the consolidated balance sheet

(5) Intangible assets

The changes of the individual items of intangible assets of the HCI Group are shown in the statement of changes in non-current assets.

Purchased intangible assets mainly result from the capitalisation of trust and service agreements with certain funds and limited partners. These agreements were acquired by HCI Hanseatische Schiffstreuhand GmbH within the context of the purchase of groups of assets in

1998 and 2001. The amounts capitalised in both years are amortised on a straight-line basis over the remaining terms of the relevant agreements. The remaining useful lives amounted to between one and five years as at 31 December 2007. The carrying amount of these agreements was EUR 1,009 thousand (2006: EUR 3,057 thousand) as at 31 December 2007.

Of the goodwill existing as at 31 December 2007, an amount of EUR 809 thousand (2006: EUR 809 thousand) is attributable to the shipping segment, EUR 66 thousand (2006: EUR 66 thousand) to the real estate segment, and EUR 1,321 thousand (2006: EUR 1,321 thousand) to the private equity segment.

(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.

(7) Investments in companies accounted for using the equity method and investment securities

The following is a presentation of the associates and joint ventures included in the consolidated financial statements of the HCI Group accounted for using the equity method. The figures do not refer to the share actually attributable to the HCI Group, but reflect assets, liabilities, expenses and income, as recognised in the financial statements prepared by associates and joint ventures.

The following table shows the aggregated financial indicators of associates accounted for using the equity method:

EUR 000's	December 31, 2007	December 31, 2006
Non-current assets	300,636	23,662
Current assets	313,939	2,190
Total assets	614,575	25,852
Non-current liabilities	188,405	16,625
Current liabilities	277,921	2,935
Total liabilities	466,326	19,560
Revenues	108,648	2,148
Earnings	8,204	-1,066

The intangible assets recognised as part of the purchase price allocation of Aragon AG (see Note (2)(d)) and the goodwill is not included in the overview shown above. The carrying amount of Aragon AG, which was accounted for using the equity method, includes goodwill of EUR 19,978 thousand (2006: EUR 19,978 thousand).

Investments in associates and interests in joint ventures accounted for using the equity method as at 31 December 2007 include the interest in NY Credit Operating Partnership LP held by HCI Real Estate Finance I GmbH & Co. KG, recognised in an amount

of EUR 31,831 thousand. The measurement of investments accounted for at equity for the 2007 financial year includes EUR 2,333 thousand in pro-rata changes in the fair value of interest rate swaps entered into by NY Credit Operating Partnership LP to hedge interest rate risk exposure from variable-rate loans, which are classified (in accordance with IAS 39) as *cash flow hedges* and hence recognised in accumulated other comprehensive income.

The following table shows the aggregated financial indicators of joint ventures accounted for using the equity method:

EUR 000's	December 31, 2007	December 31, 2006
Non-current assets	36,727	43,419
Current assets	5,354	7,127
Total assets	42,081	50,546
Non-current liabilities	1,526	34,440
Current liabilities	1,736	1,790
Total liabilities	3,262	36,230
Revenues	51,811	17,984
Earnings	25,190	4,856

Investments in subsidiaries not consolidated and available-for-sale financial instruments included in investment securities are measured at fair value or, if the fair

value cannot be reliably determined due to the fact that no active market exists or through the use of other valuation methods, at amortised cost, as follows:

EUR 000's	December 31, 2007	December 31, 2006
Fair value	729	33
Amortised cost	15,105	12,933
Available-for-sale financial instruments	15,834	12,966

"Available-for-sale" investment securities measured at their fair values comprise freely negotiable shares in investment funds as well as shares in closed-end funds for which the fair value can be reliably deter-

mined on the basis of corresponding transactions on secondary markets. In the financial year 2007, impairment losses for interests in closed-end funds were recognised in the amount of EUR 207 thousand.

(8) Work in progress and finished services

Work in progress and finished services can be broken down as follows:

EUR 000's	December 31, 2007	December 31, 2006
Work in progress	851	831
Finished services	921	1,179
Work in progress and finished services	1,772	2,010

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

(9) Trade receivables

Trade receivables can be broken down as follows:

EUR 000's	December 31, 2007	December 31, 2006
Trade receivables, gross	31,834	59,117
Valuation allowances	-49	-109
Trade receivables	31,785	59,008

Trade receivables have terms to maturity of up to one year.

(10) Receivables from related parties

Receivables from related parties can be broken down as follows:

EUR 000's	December 31, 2007	December 31, 2006
Receivables from unconsolidated subsidiaries	129	3
Receivables from joint ventures accounted for using the equity method	650	1,327
Receivables from associates accounted for using the equity method	273	25
Receivables from related parties	1,052	1,355

Valuation allowances for identifiable default risks were not necessary as of the relevant balance sheet dates.

Receivables from related parties have terms to maturity of up to one year.

Further disclosures on related party transactions are described under Note (35).

(11) Other assets

Other assets can be broken down as follows:

EUR 000's	December 31, 2007	December 31, 2006
Receivables from funds	22,571	11,869
Receivables from former affiliated companies	11,454	11,454
Receivables from loans to third parties	7,257	7,761
Deferred accrued interest	534	376
Creditors with debit balances	169	71
Advance financing of limited partner contributions	39	212
Miscellaneous	302	187
Other financial assets	42,326	31,930
Prepaid expenses	467	164
Other tax receivables	87	215
Receivables from employees	38	50
Other miscellaneous assets	592	429
Other assets	42,918	32,359

The receivables from funds recognised as at 31 December 2007 include loans extended to funds, including accrued interest, in the amount of EUR 18,431 thousand (2006: EUR 10,350 thousand). A portion of the loans will be repaid upon maturity. Repayment depends on the sale of the investment held by the fund. Interest ranges between 4% and 6% p.a. The receivables from funds also include claims arising from guaranteed returns from secondary life insurance market funds in the amount of EUR 3,856 thousand (2006: EUR 1,230 thousand).

The receivable from former affiliated companies is due from HCI Holding (old) or its legal successor. The claims result from the integrated tax inter-company relationship between HCI Hanseatische Capitalber-

atungsgesellschaft mbH and HCI Holding (old) in 2002 and 2003. Please refer to Note (35).

In 2006, the HCI Group granted a loan to the limited partners of a shipping company in the amount of EUR 5,000 thousand. The loan has to be repaid at monthly instalments of EUR 325 thousand in the years 2006 and 2007, and EUR 54 thousand thereafter. The loan bears interest of 4% p.a. As at 31 December 2007, the loan including interest accrued amounts to EUR 4,354 thousand (2006: EUR 4,680 thousand).

Other financial assets have the following terms to maturity:

EUR 000's	Remaining term up to one year	Remaining term over one year up to five years	Remaining term over five years
31 December 2007	22,373	18,275	1,678
31 December 2006	26,974	4,956	--

(12) Assets held for sale

In accordance with IFRS 5, the item "Assets held for sale" includes, as at 31 December 2006, the shares of Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG, since a decision for the disposal of these shares had been made, the disposal of the shares within twelve months after the decision was considered highly likely and active marketing activities related to the disposal had been initiated as at 31 December 2006, respectively. The shares in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG were sold on the basis of the share transfer agreement on 29 May 2007 at a price of EUR 7,500 thousand. The HCI Group did not realise a gain on disposal from this transaction.

A decision to sell the Jork property held by the HCI Group as at 31 December 2006 was made in the first half of 2007. Accordingly, the property was reclassified to assets held for sale during the year. The measurement of the property at fair value (i.e. selling price) less costs to sell required a value adjustment in the amount of EUR 373 thousand recognized as impairment losses.

(13) Shareholder's equity

The changes of the single equity components are presented in the consolidated statement of changes in equity.

(a) Subscribed capital and capital reserve

As at 31 December 2007, the subscribed capital of HCI Capital AG amounts to EUR 24,000 thousand (2006: EUR 24,000 thousand). The Company's subscribed capital is divided into 24,000,000 no-par-value bearer shares with an imputed interest on the nominal capital of EUR 1 per share.

Furthermore, the Management Board was authorised, by way of the creation of authorised capital, to increase the Company's subscribed capital on one or more occasions until 20 August 2010 by up to a total of EUR 10,000,000 by issuing new shares against cash contributions and/or contributions in kind, subject to the consent of the Supervisory Board. The Management Board is authorised, subject to the consent of the Supervisory Board, to exclude subscription rights of the shareholders to the extent agreed and to determine the further details for the corresponding capital increase. On 31 December 2007, HCI Capital AG had authorised capital in the amount of EUR 6,000 thousand (2006: EUR 6,000 thousand), which was created by the resolution of 25 August 2005 and registered on 31 August 2005.

As at 31 December 2007, the capital reserve of HCI Capital AG amounted to EUR 76,016 thousand (2006: EUR 76,016 thousand), which is not available for distributions.

(b) Retained earnings

Retained earnings reflect results earned in prior periods and in the period under review by the companies included in the consolidated financial statements, provided such income was not paid out as dividends.

In the financial year 2007, HCI Capital AG made distributions to shareholders in the amount of EUR 33,600 thousand (2006: EUR 33,600 thousand) from net retained profits in 2006 as determined in accordance with the principles of the German Commercial Code. Dividends were paid on 11 May 2007 and corresponded to EUR 1.40 per share (2006: EUR 1.40 per share).

In accordance with the German Stock Corporation Act (AktG, Aktiengesetz), the dividend to be paid to shareholders for the financial year 2007 is based on net retained profits as at 31 December 2007, as reported in the single-entity financial statements of HCI Capital AG prepared in accordance with the German Commercial Code. The Management Board will propose to pay a dividend of EUR 16,800 thousand from net retained profits. This corresponds to a dividend of EUR 0.70 per share.

(c) Accumulated other equity

Accumulated other equity comprises the fair value changes of derivatives forming part of *cash flow hedges*, and a foreign currency translation adjustment. Fair value changes of derivatives forming part of *cash flow hedges* are related to derivatives that are used by NY Credit Operating Partnership LP, which is included in the consolidated financial statements using the equity method, to hedge the risk exposure of variable-rate loans, and which are classified as *cash flow hedges* in accordance with IAS 39.

(d) Net cost in excess of net assets acquired on the acquisition of companies under common control, and on successive share acquisitions

This item includes the differences arisen on the acquisitions between 2002 and 2005:

	EUR 000's
Acquisition of companies under common control	-11,045
Successive purchases of shares in companies with existing possibility of control	-3,487
Balance as at 31 December 2007	-14,532

(14) Pension provisions

Pension provisions are recognised for obligations from pension benefits earned by active employees of the HCI Group and their surviving dependents. The Company maintains both defined contribution and defined benefit plans. In addition, there are defined contribution pension obligations which are financed by employees as part of deferred compensation schemes.

Defined benefit pension obligations are based on individual commitments with fixed one-off payments and are completely funded by provisions. The calculation of pension provisions for defined benefit plans is performed in accordance with IAS 19 on the basis of actuarial assumptions. The following parameters are used in the financial years presented below:

	2007	2006
Discount rate	5.62 %	4.70 %
Salary increase	n/a	n/a
Pension increase	n/a	n/a

The companies of the HCI Group used the mortality tables Richttafeln 2005 by Dr. Klaus Heubeck for the calculation of life expectancy.

The expenses of defined benefit plans incurred in 2007 amounted to EUR 2 thousand (2006: EUR 2 thousand) and can be broken down as follows:

EUR 000's	2007	2006
Service cost	1	1
Personnel expenses	1	1
Interest cost	1	1
Pension expense	2	2

The present value of the pension obligations developed as follows:

EUR 000's	2007	2006
Present value of the pension obligations as at 1 January	20	18
Service cost	1	1
Interest cost	1	1
Unrecognised actuarial gains	-2	--
Present value of the pension obligations as at 31 December	20	20

The amount of the provision can be broken down as follows:

EUR 000's	December 31, 2007	December 31, 2006
Present value of pension obligations	20	20
Unrecognised actuarial gains	-1	-4
Provision	19	16

Contribution payments for the defined contribution plans were recognised as an expense in the amount of EUR 417 thousand (2006: EUR 283 thousand) in 2007.

(15) Other provisions

Other provisions are composed of the following:

EUR 000's	Balance at 1 Jan 2007	Additions	Utilisation	Balance at 31 Dec 2007
Performance-based bonuses	1,543	--	-1,543	--
Interest rate risk from integrated tax inter-company relationships	859	408	--	1,267
Other provisions	2,402	408	-1,543	1,267

A provision in the amount of EUR 1,267 thousand was recognised as at 31 December 2007 for existing interest rate risks that arise from obligations resulting from integrated tax inter-company relationships of HCI Hanseatische Capitalberatungsgesellschaft mbH in the financial years 2002 and 2003.

In a letter dated 18 December 2007, the deposit guarantee fund of German securities trading firms requested a special contribution in the amount of EUR 554 thousand from a subsidiary of HCI Capital AG; this special contribution was related to the first stage of proceedings for the compensation of investors in Phoenix Kapi-

taldienst GmbH. Said special contribution was determined on the basis of the annual contribution made by the subsidiary for 2007. HCI Group believes the determination of the subsidiary's annual contribution to have been materially incorrect, and therefore does not consider said special contribution to be payable by HCI Group. Accordingly, HCI Group has filed an objection against the request to pay a special contribution. No related provision was recognised in the consolidated financial statements in accordance with IFRS.

(16) Financial debt

Borrowings can be broken down as follows:

EUR 000's	December 31, 2007	December 31, 2006
Liabilities to banks	58,475	33,614
Other financial debt	7,571	--
Total financial debt	66,046	33,614

The material liabilities to banks have the following terms and conditions:

Loan	2007 EUR 000's	2006 EUR 000's	Currency of denomination	Interest rate in %	Final maturity
Commerzbank AG	--	22,000	EUR	EURIBOR + 0.95 %	2007
HSH Nordbank AG	--	7,500	EUR	EURIBOR + 1.10 %	2007
Bayerische Hypo- und Vereinsbank AG	--	3,477	EUR	4.93 %	2007
HSH Nordbank AG	35,543	--	USD	LIBOR + 1.50 %	2008
Commerzbank AG	22,000	--	EUR	EURIBOR + 0.95 %/0.60 %	2012

In December 2006, the HCI Group took out a loan in the amount of EUR 22,000 thousand to finance the purchase of shares in Aragon AG. The loan was intended as a bridge financing. The original maturity date was 31 March 2007. The term was extended until the repayment of the bridge financing in the third quarter of 2007. The HCI Group took out a loan in the amount EUR 22,000 thousand expiring on 30 September 2012 in order to repay the bridge financing. The loan is repayable in quarterly instalments of EUR 1,100 thousand each, starting on 31 December 2007. The loan is divided in two tranches, with interest depending on the share price of the Aragon AG shares pledged. The interest of the first tranche, which may comprise an amount of up to EUR 22,000 thousand, amounts to EURIBOR + 0.60%; the interest of the second tranche amounts to EURIBOR + 0.95 %. The interest of the second tranche depends on the development of certain financial indicators of the HCI Group.

HCI Real Estate Finance I GmbH & Co. KG was granted a loan in the amount of up to USD 55,500 thousand in connection with the financing of the purchase of shares in NY Credit Operating Partnership LP. As at 31 December 2007, the carrying amount of the amount drawn, including accrued interest, is measured at EUR 35,921 thousand. The loan has a maturity of 31 March 2008 and has to be repaid upon maturity. The loan bears interest at LIBOR + 1.5%. The shares in NY Credit Operating Partnership LP were pledged as collateral and the placement guarantee of HCI Capital AG in favour of HCI Real Estate Finance I GmbH & Co. KG was assigned to HSH Nordbank AG. Negotiations are in progress with HSH Nordbank AG regarding an extension of the loan facility until 31 December 2008, taking into consideration a redemption of USD 13,000 thousand

during the course of the year. HSH Nordbank AG has already indicated, in a letter of intent, that it will be prepared to extend the facility.

The HCI Group had taken out a loan of EUR 7,500 thousand to finance the purchase of the shares in Hanseatische Immobilienfonds Holland XXVI GmbH & Co. KG. The loan was repaid upon the disposal of the shares in the financial year 2007.

In 2006, a loan in the amount of EUR 3,477 thousand was taken out as pre-financing for limited partner contributions. It was repaid in February 2007.

In connection with the purchase of 6,819 shares in HCI HAMMONIA SHIPPING AG in November 2007, the HCI Group concluded an agreement with HSH Nordbank AG that the 6,819 shares purchased by HSH Nordbank AG on a trust basis under the agreement dated 7 November 2007 for a purchase price of EUR 7,501 thousand have to be repurchased by 10 November 2008. An early repayment will be made if the shares are sold by HSH Nordbank AG following the approval of the HCI Group. The repayment amount is EUR 7,501 thousand, including interest accrued at a rate of 6.24%.

In the financial year 2007, short-term and long-term credit facilities were committed to funds initiated by HCI Group, and to unconsolidated subsidiaries and investment companies of the HCI Group in an aggregate amount of EUR 300,000 thousand. Of that amount, EUR 9,588 thousand were drawn by unconsolidated subsidiaries, associates or joint ventures of HCI Group.

Borrowings have the following terms to maturity as at 31 December 2007:

EUR 000's	Remaining term up to one year	Remaining term over one year up to five years	Remaining term over five years
31 December 2007	49,514	16,532	--
31 December 2006	33,023	117	474

(17) Payables to related parties

Payables to related parties can be broken down as follows:

EUR 000's	December 31, 2007	December 31, 2006
Payables to HCI SICAR A.G., its shareholder and companies controlled by them	--	120
Payables to unconsolidated subsidiaries	608	910
Payables to executive bodies of the HCI Group	1,598	3,233
Payables to related parties	2,206	4,263

Payables to related parties have terms to maturity of up to one year.

Further disclosures on related party transactions are described under Note (35).

(18) Other current liabilities

Other liabilities can be broken down as follows:

EUR 000's	December 31, 2007	December 31, 2006
Debtors with credit balances	478	384
Loans	210	199
Liabilities to funds	50	53
Derivatives measured at fair value	35	--
Miscellaneous	1,531	469
Other financial liabilities	2,304	1,105
Liabilities due to employees	4,951	3,459
Other tax liabilities	5,900	7,200
Liabilities from social security	8	20
Deferred income	58	1,084
Other miscellaneous liabilities	10,917	11,763
Other liabilities	13,221	12,868

Liabilities due to employees refer to outstanding wage and salary payments, claims for bonuses and outstanding vacation entitlements.

Other financial liabilities have terms to maturity of up to one year.

Notes to the consolidated income statement

(19) Revenues

Revenues can be broken down as follows:

EUR 000's	2007	2006
Sales and design revenues		
Shipping	81,063	81,236
Real estate	9,331	8,813
Private equity	1,548	4,767
Secondary life insurance market	13,271	22,968
Other	145	--
Total sales and design revenues	105,358	117,784
Trust and service contract fees		
Shipping	18,083	17,835
Real estate	2,381	2,724
Private equity	392	492
Secondary life insurance market	1,775	1,646
Total trust and service contract fees	22,631	22,697
Management revenues	1,823	2,815
Other revenues	7,487	2,315
Total revenues	137,299	145,611

Other revenues include performance-based revenues realised in the case of settlement of funds depending on certain profitability indicators or sales proceeds.

(20) Other operating income

Other operating income can be broken down as follows:

EUR 000's	2007	2006
Income from the brokerage of properties	8,680	--
Income from the brokerage of ships	2,826	18,648
Income on receivables previously written off	243	2
Income from other services to related parties	97	87
Income from the reversal of impairment losses on receivables	59	--
Income from the derecognition of liabilities	--	458
Miscellaneous operating income	1,248	2,091
Other operating income	13,153	21,286

(21) Cost of purchased services

The cost of purchased services mainly includes agency commissions for the sales of funds and costs for prospectuses.

(22) Personnel expenses

Personnel expenses are broken down as follows:

EUR 000's	2007	2006
Wages and salaries	25,242	21,606
Social security contributions	2,260	1,891
Other social security costs	512	364
Personnel expenses	28,014	23,861

In the financial year 2007, the Group employed 286 people (2006: 238 people) on average. Joint ventures accounted for using the equity method employed 20 people (2006: 12 people) in the financial year 2007.

Employer contributions to the statutory pension scheme are included in social security contributions.

(23) Depreciation, amortisation and impairment

Amortisation, depreciation and impairment can be broken down as follows:

EUR 000's	2007	2006
Amortisation of intangible assets	2,550	3,163
Impairment losses of intangible assets	730	--
Depreciation of property, plant and equipment	817	675
Impairment losses of property, plant and equipment	373	--
Depreciation, amortisation and impairment	4,470	3,838

Write-downs on financial assets are included in the financial result.

Impairment losses of intangible assets relate to rights granted to the HCI Group in 2005 by a cooperation partner with respect to future fee arrangements for certain secondary life insurance market funds. The impairment was recognised to account for adjusted expectations concerning the forecast income.

The Jork property held by the HCI Group was sold based on the purchase agreement dated 28 June 2007 and upon transfer of ownership, risks and rewards effective 1 October 2007. Accordingly, an impairment loss of EUR 373 thousand was recognised in the first half of 2007 in order to make an adjustment to the fair value (i.e. selling price) less costs to sell.

(24) Other operating expenses

Other operating expenses can be broken down as follows:

EUR 000's	2007	2006
Legal, audit and consultancy fees	5,269	6,908
Rent and lease expenses	3,300	2,854
Advertising costs	2,145	2,205
Postage, telecommunication and IT expenses	2,070	1,808
Travel, entertainment and representation expenses	1,920	1,766
General business costs	1,622	1,595
Training and incentive costs	773	645
Bad debt	516	858
Recruitment	207	294
Maintenance and repairs	123	109
Miscellaneous expenses	3,530	2,012
Other operating expenses	21,475	21,054

Rent and lease expenses relate to contracts for the rental or lease of property, vehicles and office equipment classified as operating lease.

The rental and lease contracts for the properties located in Hamburg and Bremen used by the HCI Group expire on 31 December 2009. The contracts provide for renewal options for the HCI Group to extend the term by five years twice, or by two years three times, respectively.

(25) Result of associates and joint ventures accounted for using the equity method

The result comprises the following companies:

EUR 000's	2007	2006
HAMMONIA Reederei GmbH & Co. KG	12,595	2,427
NY Credit Operating Partnership LP	1,481	--
Aragon AG	703	--
BH & HCI Real Estate Holding B.V.	171	-279
HELLESPONT HAMMONIA GmbH & Co. KG	34	-111
BH & HCI Overschiestraat Holding B.V.	-313	--
Result of companies accounted for using the equity method	14,671	2,037

(26) Other financial result

The other financial result can be broken down as follows:

EUR 000's	2007	2006
Interest income from bank deposits	1,201	1,526
Interest income from receivables	780	888
Other interest income	76	5
Interest income	2,057	2,419
Interest expenses for liabilities to banks	-4,550	-538
Interest expenses for other financial debt	-37	-25
Interest expenses for liabilities to other investment companies	-28	-32
Interest expenses for pension provisions	-1	-1
Other interest expenses	-630	-888
Interest and similar expenses	-5,246	-1,484
Net investment income from funds	3,663	4,715
Income from the reversal of funding positions	2,030	--
Foreign exchange result, net	-2,876	-1,496
Proceeds from the disposal of investment securities	-96	-104
Other net investment result	856	--
Miscellaneous financial result, net	126	95
Other financial result	3,703	3,210
Financial result	514	4,145

Net investment income from funds includes EUR 3,037 thousand (2006: EUR 4,019 thousand) of fees which the HCI Group receives as guaranteed distributions from secondary life insurance market funds.

In the financial year 2007, the HCI Group realised income in a net amount of EUR 2,030 thousand in connection with the termination of financing commitments and the disposal of interest rate swaps which were originally intended for the financing of property purchases in fund companies and which are no longer required due to the realisation of the property elsewhere.

The other financial result for the financial year under review includes foreign exchange losses of EUR 3,126 thousand (2006: foreign exchange losses of EUR 2,129 thousand) that have arisen primarily due to the measurement of receivables and liabilities in USD.

(27) Income taxes

The taxes paid or owed on income in each country as well as deferred taxes are recognised as income taxes. Income taxes consist of trade taxes, corporation taxes, solidarity surcharge and the relevant foreign income taxes.

Expenses for income taxes can be broken down by origin as follows:

EUR 000's	2007	2006
Current tax expense (Germany)	8,969	14,032
Current tax expense (other countries)	2,441	427
Current tax expense	11,410	14,459
Deferred tax income/expense (Germany)	-1,422	1,189
Deferred tax expense (other countries)	206	79
Deferred tax income/expense	-1,216	1,268
Income tax expense	10,194	15,727

Deferred tax income (2006: deferred tax expense) includes income in the amount of EUR 1.856 thousand (2006: EUR 1,201 thousand expenses) attributable to the creation or the reversal of temporary differences.

The notional income tax expense which would have arisen by applying the tax rate of the controlling Group company, HCI Capital AG, of 40.4% (2006: 40.4%) to earnings before taxes as determined in accordance with IFRS, can be reconciled to income tax expenses as reported in the consolidated income statement:

EUR 000's	2007	2006
Earnings before taxes in accordance with IFRS	40,785	55,203
Group tax rate (in %)	40.4 %	40.4 %
Expected tax expense	16,473	22,297
Differences in tax rates	-2,996	-611
Changes in tax rates	-658	-1
Permanent differences	-3,036	-560
Adjustment of the carrying amount of deferred taxes	1,819	625
Income taxes for prior years	903	-428
Non-deductible operating expenses	2,602	630
Tax-free income	-672	-608
Additions and deductions for trade taxes	-4,141	-5,447
Other effects	-100	-170
Tax expense as reported in the income statement	10,194	15,727

German-based companies in the legal form of a corporation owe corporation tax at a rate of 25% (2006: 25%) plus a solidarity surcharge of 5.5% on corporation tax owed. In addition, these companies as well as subsidiaries in the legal form of partnerships are subject to trade tax, the amount of which is determined based on different assessment rates prevailing in the individual municipalities.

As a result of the business tax reform 2008, which was enacted in 2007, the corporation tax rate for German-based corporations will be reduced to 15%. Furthermore, a reduction of the trade tax base rate from 5% to 3.5% as well as changes concerning additions and deductions for the calculation of the trade tax to be paid have to be taken into account. The resulting effects from tax rate decrease are accounted for in the reconciliation as changes in tax rates.

As from the 2004 assessment period, corporation and trade tax loss carryforwards are subject to certain restrictions. A positive taxable income of up to EUR 1,000 thousand can be reduced without limitation, while amounts exceeding this threshold can only be reduced by up to a maximum of 60% by applying an existing tax loss carryforward.

The effects of different tax rates for partnerships and for domestic and foreign taxes of the controlling Group company are reported in the reconciliation as changes in tax rates.

The permanent differences include the effects of investment income which has been settled already with the tonnage tax.

Income taxes for prior years include an amount of EUR 1,081 thousand of current taxes relating to prior years (2006: EUR -665 thousand).

Trade tax deductions mainly result from the elimination of results attributable to the HCl Group from funds launched in the legal form of a partnership.

Deferred tax assets and liabilities resulting from temporary differences and tax loss carryforwards are as follows:

EUR 000's	December 31, 2007		December 31, 2006	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	--	174	--	203
Property, plant and equipment	--	72	--	244
Investments	82	578	--	1,073
Work in progress and finished services	76	64	106	5
Receivables and other assets	81	2,787	214	9,069
Pension provisions	--	2	--	3
Financial debt	--	179	--	--
Trade payables	1,498	--	6,442	10
Other liabilities	294	--	165	--
Temporary differences	2,031	3,856	6,927	10,607
Tax loss carryforwards	462	--	1,103	--
Total	2,493	3,856	8,030	10,607
Offsetting	-1,820	-1,820	-6,649	-6,649
Carrying amount	673	2,036	1,381	3,958

Deferred tax assets on temporary differences or tax loss carryforwards are recognised to the extent that their recoverability is sufficiently certain in the near future. In the financial years 2007 and 2006, no deferred tax assets were recognised for temporary differences and tax loss carryforwards for corporation tax purposes in the amount of EUR 802 thousand and EUR 319 thousand, respectively, and for trade tax purposes in the amount of EUR 5,888 thousand and EUR 10,776 thousand, respectively, since it is not considered probable that sufficient taxable profit will be available in the near future.

The ability to carry forward tax losses in Germany is not subject to any restrictions according to the current legal situation.

No deferred tax liabilities were recognised for temporary differences in connection with investments in affiliated companies in the amount of EUR 1,690 thousand (2006: EUR 1,690 thousand) since the Company does not expect a reversal of the differences in the near future.

(28) Earnings per share

Basic and diluted earnings per share are calculated as follows:

		2007	2006
Consolidated net income for the year attributable to shareholders in parent company	EUR 000's	30,591	39,473
Weighted average number of shares outstanding	in 000's	24,000	24,000
Consolidated net income for the year attributable to shareholders in parent company per share	EUR	1.27	1.64

During the financial years presented, there were no instruments with a dilutive effect. Diluted earnings per share thus correspond to basic earnings per share.

Notes to the consolidated cash flow statement

(29) Analysis of cash and cash equivalents

Cash and cash equivalents as reported in the cash flow statement correspond to the same item in the balance sheet and mainly include bank balances.

(30) Other non-cash transactions

No material non-cash transactions occurred in the financial years 2007 and 2006.

Notes on segment reporting

(31) General information

Segment reporting is made in accordance with IAS 14. The primary reporting format is based on the business segments of the HCI Group which are determined according to product types. The secondary reporting format is based on the geographical regions in which the HCI Group operates.

We refer to Note (4) with respect to the changes arising from the application of IFRS 8, envisaged for financial year 2008, and its effects.

(a) Business segments

The shipping segment comprises the activities of the HCI Group in the area of design, launch, sales and trust management of shipping 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 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 launches 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 venture capital market.

Group companies that launch secondary life insurance market funds investing in portfolios of US, UK and German term and cash-value life insurances belong to the secondary life insurance market segment.

(b) Geographical regions

In addition to Germany, the activities of the HCI Group extend to the rest of Europe and the USA. Accordingly, secondary segmentation is between the geographical regions "Germany" and "Other countries".

(32) Segment information

The segment information is collected on the basis of the accounting policies applied for the consolidated financial statements.

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

The earnings measure for segment results is EBIT (earnings before interest and taxes) which is commonly used on an international basis and represents the annual result before interest, the other financial result and income taxes.

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, cash and cash equivalents and the claims from current and deferred income taxes. Goodwill is allocated to the relevant segment assets. Segment assets of the shipping segment as at 31 December 2007 include investments in associates and interests in joint ventures accounted for using the equity method amounting to EUR 19,669 thousand (2006: EUR 7,330 thousand). The shareholding in NY Credit Operating Partnership LP has been recognised in the segment assets of the real estate segment, at EUR 31,831 thousand (2006: EUR nil). The investments in the associates BH & HCI Overschiestraat Holding B.V., BH & HCI Real Estate Holding B.V. and Aragon AG, which are also included

using the equity method, are reported in Other/holding at EUR 34,726 thousand (2006: EUR 32,398 thousand). Investments in funds include shares in unconsolidated subsidiaries as well as investment securities and other securities of the relevant segment.

Segment liabilities include the operating 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 to total assets of the Group and the segment liabilities to liabilities of the Group is as follows:

EUR 000's	December 31, 2007	December 31, 2006
Segment assets	150,869	133,033
Other investments	23,335	12,966
Receivables and other assets	30,263	21,093
Cash and cash equivalents	34,739	58,613
Deferred taxes	673	1,381
Assets of the Group	239,879	227,086
Segment liabilities	34,816	44,834
Financial debt and liabilities to banks	66,046	33,614
Payables to related parties	752	910
Income tax payables	17,984	20,224
Other liabilities	211	199
Deferred taxes	2,036	3,958
Provisions and liabilities	121,845	103,739

Revenues are segmented according to the location of the Group company for geographical segment reporting.

Other disclosures

(33) Financial instruments and management of financial risks

(a) Financial instruments

(i) Disclosures to financial instruments

The carrying amounts of the financial assets by measurement categories in accordance with IAS 39 are as follows:

EUR 000's	Loans and receivables		Available-for-sale assets	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Current securities and other investments	--	--	23,335	12,966
Trade receivables	31,785	59,008	--	--
Receivables from related parties	1,052	1,355	--	--
Other financial assets	42,326	31,930	--	--
Cash and cash equivalents	34,739	58,613	--	--

The following table shows the carrying amounts of financial liabilities by measurement categories in accordance with IAS 39:

EUR 000's	Fair value through profit or loss		Financial liabilities at amortised cost	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Financial debt and liabilities to banks	--	--	66,046	33,614
Trade payables	--	--	19,066	26,394
Payables to related parties	--	--	752	1,346
Other financial liabilities	35	--	2,269	1,105

The carrying amounts reported in the individual IAS 39 categories can be reconciled to the classes of financial instruments on the basis of their individual characteristics.

EUR 000's	Financial assets			
	Loans and receivables		Available-for-sale	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Current securities and other investments	--	--	23,335	12,966
Trade receivables	31,785	59,008	--	--
Loans extended	26,428	19,678	--	--
Cash and cash equivalents	34,739	58,613	--	--
Other financial receivables	16,950	13,607	--	--

Financial liabilities				
EUR 000's	Fair value through profit or loss		Amortised cost	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Loans	--	--	66,765	34,723
Trade payables	--	--	19,066	26,829
Hedges	35	--	--	--
Other financial liabilities	--	--	2,302	905

The following table shows a comparison of the fair values and the carrying amounts as at the balance sheet date of the financial assets and liabilities measured at cost or amortised cost.

EUR 000's	December 31, 2007		December 31, 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at cost or amortised cost				
Trade receivables	31,785	31,785	59,008	59,008
Loans extended	26,428	26,355	19,678	19,903
Other financial assets	16,950	16,950	13,607	13,607
Financial liabilities measured at cost or amortised cost				
Loans	66,765	66,858	34,723	34,723
Trade payables	19,066	19,066	26,829	26,829
Other financial liabilities	2,302	2,302	905	905

The income statement includes the following net results for the financial instruments by categories (positive figures denote income, negative figures expenses):

EUR 000's	2007					2006
	from subsequent measurement					
	at fair value	Currency translation	Valuation allowances	from disposal	Net result	Net result
Loans and receivables	--	-2,500	60	-516	-2,956	-2,317
Available-for-sale financial assets	--	--	--	96	96	104
Financial liabilities at fair value through profit or loss	-35	--	--	--	-35	--
Financial liabilities at amortised cost	--	-30	--	--	-30	838
Total	-35	-2,530	60	-420	-2,925	-1,375

Interest from financial instruments is included in net interest income. The other components of the net result are reported in the other financial result, except for valuation allowances on trade receivables attributable to the category "Loans and Receivables", which are recognised as other operating expenses.

Foreign exchange losses for the financial year 2007 mainly relate to losses incurred on cash and cash equivalents denominated in US dollar (EUR 1,564 thousand), on loans (EUR 550 thousand) and on trade receivables (EUR 260 thousand). Of the net result for loans and receivables in 2006, EUR 1,459 thousand relate to foreign exchange losses and EUR 858 thousand to disposals of loans and receivables.

The net result from subsequent measurement of financial liabilities measured at fair value through profit or loss in the amount of EUR 35 thousand relates to the fair value measurement of an interest rate swap entered into by HCI as at 31 December 2007.

The net result for financial liabilities measured at amortised cost primarily refers to foreign exchange losses from the measurement of trade payables. The income statement of the prior year includes a positive net result of EUR 838 thousand, comprising income from the disposal of liabilities (EUR 458 thousand) and positive net foreign exchange differences from the measurement of liabilities (EUR 380 thousand).

(ii) Disclosures to derivative financial instruments

On 9 October 2007, HCI Capital AG entered into a zero coupon swap at a nominal amount of EUR 9,335 thousand which matures on 30 December 2024. Under the swap HCI Capital AG pays quarterly variable interest based on 3-month EURIBOR plus a spread, and will receive a fixed amount of EUR 10,664 thousand on 30 December 2024. The swap was entered into in the context of structuring two fund products, and is intended to be transferred to the fund companies in the financial year 2008. The swap had a negative fair value of EUR 35 thousand on 31 December 2007. Both fund companies concluded an agreement with HCI Capital AG in 2007 on the assumption of all risks and rewards from the swap so that the HCI Group recognises a corresponding receivable due from the fund companies.

(b) Management of financial risks

In the financial year 2007, the HCI Group began to establish a central interest and currency management. The objective of this central interest and currency management is to assume an advisory role for the companies of the HCI Group and its investment companies within the framework of hedging the interest and currency risks described below and to report to the Management Board of HCI Capital AG about its activities.

(i) Market risks

Currency risk

The HCI Group is exposed to currency risks due to exchange rate fluctuations in connection with the design and the distribution of funds denominated in foreign currencies and other foreign currency transactions. The currency risks mentioned exist in particular with respect to the exchange rate between the US dollar and the euro. Risks in connection with other foreign currencies are only of minor significance.

In the financial year 2007, the transactions of the HCI Group denominated in US dollar mainly comprised the investment in NY Credit Operating Partnership LP as well as its refinancing through a loan denominated in US dollar, loans extended to shipping companies for interim financing purposes and to related parties as well as invoiced design revenues.

Currency risks exist with respect to future foreign exchange losses following an adverse development of the exchange rate of the US dollar. Hedges to mitigate these risks were not entered into since the dates of the future cash flows denominated in foreign currencies are not certain.

In order to determine the effect of exchange rate changes deemed possible as at the balance sheet date, the sensitivity analyses described below were conducted. The individual analyses show the effect of a change in the exchange rate by 10% on the financial result of the HCI Group, based on the financial assets and liabilities that are exposed to currency risks as at the balance sheet date.

Transactions in GBP and CHF were considered immaterial as at the balance sheet date and therefore were not subjected to a sensitivity analysis.

The following table reflects the transaction-related net exposure to foreign currency risks in USD as at 31 December 2007.

USD 000's	Book value	Change in currency position	
		in case of a depreciation by 10%	in case of an appreciation by 10%
Cash and cash equivalents	12,205	13,561	11,095
Investments and other securities	696	773	632
Trade receivables	3,524	3,915	3,203
Receivables from related parties	711	790	647
Other financial assets	9,750	10,833	8,864
Trade payables	-1,390	-1,544	-1,264
Financial debt and liabilities to banks	-474	-527	-431
Payables to related parties	-130	-145	-119
Other financial liabilities	-309	-343	-281
Total exposure to currency risks	24,583	27,313	22,346

The other financial result of the financial year would have been EUR 2,237 thousand lower (EUR 2,730 thousand higher) if the exchange rate of the US dollar had increased (decreased) by 10%.

Interest rate risk

Risks resulting from interest rate changes exist for the HCI Group generally in connection with loans extended and the loans taken out for refinancing purposes. The HCI Group does not have interest rate hedges since the risk arising from a refinancing with mismatched interest rates and maturities is considered immaterial.

Based on the financial assets and liabilities as at the balance sheet date, the exposure to interest rate risks is as follows:

An increase of the interest rate level by 100 basis points would result in an increase of interest expenses by EUR 165 thousand for a non-current liability of the HCI Group.

Any other borrowings are not exposed to material interest rate risks as a result of their short-term maturity.

An increase of the interest rate level by 100 basis points would result in an increase of interest income by EUR 33 thousand for other non-current financial assets bearing variable interest.

Based on the underlying assumptions, this results in an exposure to interest rate risks in the amount of EUR 132 thousand.

(ii) Credit risk

The HCI Group is exposed to the risk that business partners, mainly real estate and shipping funds, may not be able to fulfil their obligations to the Group. These obligations mainly exist in the settlement of receivables from agency services as well as from trust and other services. The maximum exposure to default risk corresponds to the nominal amounts of the financial assets as reported for the relevant categories.

Identifiable default risks, which exist in particular for trade receivables, are accounted for by appropriate valuation allowances.

The allowance for losses on trade receivables changed as follows:

EUR 000's	2007	2006
Balance at 1 January	109	109
Amounts released	60	--
Balance at 31 December	49	109

Of the total amount of the receivables derecognised in the year under review in the amount of EUR 516 thousand (2006: EUR 858 thousand), EUR 319 thousand (2006: EUR 768 thousand) relate to trade receivables and EUR 197 thousand (2006: EUR 90 thousand) to loans. Recoveries on receivables previously written off totalling EUR 243 thousand (2006: EUR 2 thousand)

relate to trade receivables amounting to EUR 123 thousand (2006: EUR 2 thousand) and loans in the amount of EUR 120 thousand (2006: EUR 0 thousand).

Financial assets that were past due as at the balance sheet date but not impaired can be broken down as follows:

EUR 000's	Carrying amount	of which: neither impaired nor past due as at the balance sheet date	of which: not impaired as at the balance sheet date, but past due within the following time bands					
			less than 30 days	between 30 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days
Trade receivables								
31 December 2007	31,785	9,535	15,580	139	1,002	334	2,095	3,051
31 December 2006	59,008	26,893	22,620	934	219	1,488	6,273	472
Loans extended								
31 December 2007	26,428	26,428	--	--	--	--	--	--
31 December 2006	19,678	19,678	--	--	--	--	--	--
Other financial receivables								
31 December 2007	16,950	12,459	3,482	17	--	--	126	866
31 December 2006	13,607	10,228	3,014	--	--	--	20	345

As at the balance sheet date, there are no indicators suggesting a default of the creditors with regard to their payment obligations from trade receivables, loans extended and other financial receivables that are neither impaired nor past due.

(iii) Liquidity risk

In order to ensure the HCI Group's liquidity, the cash requirements of the Group are continuously monitored and managed. The Group holds cash and cash equiv-

alents in a sufficient amount at any time in order to be able to meet the payment obligations of the Group for particular period. In addition, the Group maintains credit facilities and overdrafts that are drawn if necessary.

The following table shows the contractually agreed undiscounted interest and principal payments of non-derivative financial liabilities as well as of derivative financial instruments with negative fair values:

EUR 000's	Carrying amount at December 31, 2007	Cash flows 2008			Cash flows 2009		
		Interest	Principal	Total	Interest	Principal	Total
Non-derivative financial liabilities							
Loans	66,765	2,041	50,055	52,096	762	4,400	5,162
Derivative financial liabilities							
Interest rate derivatives	35	--	35	35	--	--	--
Financial liabilities	66,800	2,041	50,090	52,131	762	4,400	5,162

EUR 000's	Carrying amount at December 31, 2007	Cash flows 2010			Cash flows 2011		
		Interest	Principal	Total	Interest	Principal	Total
Non-derivative financial liabilities							
Loans	66,765	514	4,400	4,914	421	7,910	8,331
Derivative financial liabilities							
Interest rate derivatives	35	--	--	--	--	--	--
Financial liabilities	66,800	514	4,400	4,914	421	7,910	8,331

The table includes all instruments held by the Company at 31 December 2007 and for which payments had already been contractually agreed. Foreign currency amounts were translated at the spot exchange rate prevailing on the balance sheet date. Variable interest payments from the financial instruments were calculated on the basis of the interest rates fixed on the last fixing date before 31 December 2007. Financial liabilities that may be repaid at any time are always allocated to the earliest time band.

Trade payables of EUR 19,066 thousands and other financial liabilities of EUR 2,302 thousand are due in 2008.

(iv) Capital management

Management of capital at the HCI Group is primarily geared towards maintaining a strong equity base. The Management Board regularly reviews net indebtedness. The following table shows shareholders' equity, equity-to-assets ratio and net financial indebtedness.

	December 31, 2007	December 31, 2006
Shareholders' equity in EUR thousand	118,034	123,347
Equity ratio in %	49.2	54.3
Net financial indebtedness in EUR thousand	-23,806	24,999

The net financial indebtedness is calculated as the difference between current financial debt and the aggregate of cash, cash equivalents and securities. The increase in net financial debt by EUR 48,805 thousand in 2007 is mainly due to the consolidation of HCI Real Estate Finance I GmbH & Co. KG in 2007, and a decline in cash and cash equivalents.

In addition, capital management of the HCI Group is also based on the dividend level since one of the goals of the HCI Group is to provide its sharehold-

ers with an adequate dividend yield. The Management Board of HCI will propose to pay a dividend of EUR 0.70 per share (2006: EUR 1.40 per share) for the financial year 2007.

HCI Capital AG is not subject to statutory capital requirements. In particular, the Company does not have any obligation to dispose or otherwise issue shares in connection with existing share-based payment programs or convertible bonds. We refer to Note (13)(a) for disclosures on authorised capital.

(34) Material subsidiaries and joint ventures

As at 31 December 2007, the Company had the following material subsidiaries and joint ventures:

	Group share	Segment
Subsidiaries		
HCI Hanseatische Capitalberatungsgesellschaft mbH, Hamburg	100 %	Shipping/ real estate/ private equity/ secondary life insurance market/ holding – other
HSC Hanseatische Sachwert Concept GmbH, Hamburg	100 %	Shipping/ real estate/ private equity/ secondary life insurance market
HSC Hanseatische Management GmbH, Hamburg	100 %	Secondary life insurance market
Grundstücksverwaltungsgesellschaft Koch'sche Scheune mbH, Jork	100 %	Holding – other
HCI Fonds Geschäftsführungsgesellschaft mbH, Hamburg	100 %	Holding – other
HPI Hanseatic Properties International GmbH, Bremen	100 %	Real estate
HCI Hanseatische Schiffstreuhand GmbH, Hamburg	100 %	Shipping/ real estate/ private equity/ secondary life insurance market/ holding – other
HCI Swiss AG, Zurich	100 %	Shipping/ real estate/ private equity/ secondary life insurance market
MK Management GmbH, Jork	100 %	Shipping
HCI Hanseatische Schiffsconsult GmbH, Hamburg	100 %	Shipping
HCI Hanseatische Capitalberatungsgesellschaft für Immobilien mbH, Hamburg	100 %	Real estate
HCI Hanseatische Capitalberatungsgesellschaft für Beteiligungskapital mbH, Hamburg	100 %	Private equity
HCI Hanseatische Immobilien Treuhand GmbH, Bremen	100 %	Real estate/ holding – other
HCI Immobilien Consult GmbH, Hamburg	100 %	Real estate/ holding – other
Hanseatische Immobilien Management GmbH, Bremen	100 %	Real estate
HCI Hanseatische Beteiligungstreuhand GmbH, Bremen	100 %	Private equity/ secondary life insurance market
HCI Hanseatic Properties International GmbH; Bremen	100 %	Real estate
HCI Vastgoed Management B.V., Amsterdam	100 %	Real estate/ holding – other
HSC Geschäftsführungsgesellschaft mbH, Hamburg	100 %	Secondary life insurance market
HSC Fonds Verwaltungsgesellschaft mbH, Hamburg	100 %	Secondary life insurance market
HSC Aufbauplan Management GmbH, Jork	100 %	Shipping/ real estate/ private equity
HCI Hanseatische Capitalberatungsgesellschaft mbH (Wien), Vienna	100 %	Shipping/ real estate
Schiffsbeteiligungsgesellschaft NAUTICA mbH & Co. KG Ganderkesee	100 %	Shipping
NAUTICA Beteiligungs GmbH, Ganderkesee	100 %	Shipping
HCI Asset GmbH, Hamburg	100 %	Shipping/ real estate/ private equity/ secondary life insurance market/ holding – other
Hanseatische Immobilien Management Niederlande GmbH, Bremen	100 %	Real estate
HCI U.S.A. Management Services Company LLC, Wilmington	100 %	Real estate
HCI Institutional Funds GmbH, Hamburg	100 %	Holding – other
HCI Hanseatische Immobilienbeteiligungs-gesellschaft mbH, Hamburg	100 %	Real estate
HCI Real Estate Finance I Verwaltungsgesellschaft mbH, Hamburg	100 %	Real estate
HCI Real Estate Finance I GmbH & Co. KG, Hamburg	100 %	Real estate

	Group share	Segment
Joint ventures		
HAMMONIA Reederei GmbH & Co. KG, Hamburg	50 %	Shipping
HAMMONIA Reederei Verwaltungs GmbH, Hamburg	49 %	Shipping
Associates		
HELLESPONT HAMMONIA GmbH & Co. KG, Hamburg	25 %	Shipping
Verwaltung HELLESPONT HAMMONIA GmbH, Hamburg	25 %	Shipping
BH & HCI Real Estate Holding B.V., Amsterdam	45 %	Holding – other
BH & HCI Overschiestraat Holding B.V., Amsterdam	35 %	Holding – other
Aragon AG, Wiesbaden	25 %	Holding – other
NY Credit Operating Partnership LP, Delaware	33.1%	Real Estate

We make use of the exempting provisions in accordance with Section 264 (3) of the German Commercial Code for HCI Hanseatische Capitalberatungsgesellschaft mbH, HCI Hanseatische Capitalberatungsgesellschaft für Beteiligungskapital mbH, HCI Hanseatische Capitalberatungsgesellschaft für Immobilien mbH, HCI Hanseatische Schiffsconsult

GmbH, HSC Hanseatische Sachwert Concept GmbH and HCI Asset GmbH.

The list of shareholdings of HCI Capital AG and of the Group is published in the German Electronic Federal Gazette pursuant to Sections 287 and 313 of the German Commercial Code.

(35) Related party disclosures

In accordance with IAS 24, related parties of the HCI Group are persons and entities that control the Group or have a significant influence over the Group, or are controlled by the Group or are subject to significant influence by the Group.

HCI SICAR A.G. had controlled HCI Capital AG and the HCI Group or had a significant influence on the Company and the Group until it sold its shares in the Company in January 2007. Accordingly, HCI SICAR A.G., HCI Trust AG and their shareholders as well as the companies that were controlled or subject to significant influence by HCI SICAR A.G., HCI Trust AG and their shareholders were defined as related parties until the disposal of their respective shares.

Due to the voting rights in HCI Capital AG attributable to Corsair III Investments (Luxembourg) S.a.r.l., the

company as well as its affiliated companies are defined as related parties with effect from the 2007 financial year. In addition, the members of the Management Board and of the Supervisory Board of HCI Capital AG as well as the subsidiaries, associates and joint ventures of the HCI Group are related parties.

In addition to the business relationships with the subsidiaries included in the consolidated financial statements by way of full 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 2007 and 2006, the following business relationships existed with HCI SICAR A.G., its shareholder and dependants of the shareholder within the meaning of IAS 24, and with companies controlled by them:

Balance sheet (in EUR 000's)	December 31,2007	December 31,2006
Payables to HCI SICAR A.G. and its shareholders	--	120
Income statement (in EUR 000's)	2007	2006
Other operating expenses	--	283
Interest expenses	--	23

Payables due to HCI SICAR A.G. and its shareholders consist of deferred consideration and loans in connection with acquisitions of companies and share purchases.

HCI Hanseatische Schiffstreuhand GmbH issued a single guarantee to a financial institution pursuant to which it assumed liability for the repayment of a loan granted to SH fünfundachtzigste Verwaltungsgesellschaft mbH (now operating under the name Trademar Shipping GmbH) on 15 October 2003 for the purchase of shares in a real estate fund launched by the HCI Group. As at the balance sheet date, an amount of EUR 2,000 thousand (2006: EUR 2,200 thousand) is outstanding under this loan. Trademar Shipping GmbH is controlled by HCI SICAR A.G. and HCI Trust AG or their successor companies.

A guarantee was issued by HCI SICAR A.G. and Christ Capital GmbH dated 11 August 2005 in favour of HCI Hanseatische Capitalberatungsgesellschaft mbH in the amount of up to EUR 11,500 thousand. The guarantee secures claims of HCI Hanseatische Capitalberatungsgesellschaft mbH against the former controlling Group company, HCI Holding (old) and its legal successor, from integrated tax inter-company relationships. The guarantee of HCI SICAR A.G.

amounts to up to EUR 8,740 thousand, the guarantee of Christ Capital GmbH amounts to up to EUR 2,760 thousand. Directly enforceable guarantees of banks were provided in a total amount of EUR 11,500 thousand on 1 February and 5 February 2007. An agreement of 5 June 2007 concluded between Ursula Roessel, sole shareholder of HCI SICAR A.G., now operating under the name HST Invest AG, and HCI Capital AG included an indemnification arrangement pursuant to which Ms. Roessel assumes the portion of the obligation attributable to HCI SICAR A.G.

(b) Relationships to Corsair III Investments (Luxembourg) S.a.r.l.

There were no significant service relationships.

(c) Relationships to unconsolidated affiliated companies

There were no significant service relationships to the unconsolidated affiliated companies.

(d) Relationships to associates and joint ventures

The following business relationships existed in the financial years 2007 and 2006 with companies in which the HCI Group exercises joint control or has significant influence together with other partners:

Balance sheet (in EUR 000's)	December 31,2007	December 31,2006
Receivables from associates and joint ventures	923	1,352
Income statement (in EUR 000's)	2007	2006
Cost of purchased services	8,085	0
Result from associates and joint ventures	14,671	2,037
Interest income	55	64

Receivables from associates and joint ventures include a loan to HAMMONIA Reederei GmbH & Co. KG in the amount of USD 2,000 thousand used for bridge loans for the construction of ships. Repayment will take place within the scope of the final financing of the ships. The loan bears interest of 4.0 % and is due on 31 December each year.

In the financial year 2007, there were service relationships with two subsidiaries of Aragon AG, BIT Betelli-

gungs- und Investitionstreuhand AG and Jung, DMS & Cie Aktiengesellschaft in connection with the sale of HCI products. The transactions resulted in commission expenses of EUR 8,085 thousand (2006: EUR 0 thousand). There were no material transactions for the provision of goods and services of associated companies and joint ventures with the HCI Group.

(e) Relationships to related persons

Balance sheet (in EUR 000's)	December 31,2007	December 31,2006
Payables to executive bodies of the HCI Group	1,598	3,233
Provisions for performance-based bonuses	--	1,543
Income statement (in EUR 000's)	2007	2006
Revenues	239	299
Personnel expenses	5,838	4,846
Other operating expenses	188	2,078

In the financial year 2007, remuneration of the members of the Management Board was as follows:

EUR 000's	Non-perfor- mance-related remuneration	Performance- based remuneration	Total
Harald Christ	2,357	--	2,357
Wolfgang Essing	786	650	1,436
Dr Ralf Friedrichs	893	314	1,207
Dr Rolando Gennari	347	314	661
Dr Oliver Moosmayer	99	78	177
Total	4,482	1,356	5,838

In the financial year 2006, remuneration of the members of the Management Board of HCI Capital AG was as follows:

EUR 000's	Non-perfor- mance-related remuneration	Performance- based 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

The variable remuneration includes bonuses that are determined based on earnings before taxes of the HCI Group as reported in accordance with IFRS.

In the financial year 2007, Harald Christ and Dr Ralf Friedrichs resigned from their office as members of the Management Board of HCI Capital AG effective 30 September and 31 December, respectively. HCI Capital AG, represented by the Supervisory Board, concluded termination agreements for their contracts of employment. In this context, it was agreed with Harald Christ that, among other things, HCI Capital AG has to pay to Harald Christ a one-off payment in the amount of EUR 1,429 thousand to discharge any obligations with regard to bonus payments. It was agreed with Dr Ralf Friedrichs that, among other things, Dr Ralf Friedrichs is entitled to the full bonus payment for the financial year 2007 and he will receive a one-off severance payment in the amount of EUR 400 thousand for the early termination of the contract of employment. In addition, the agreement with Dr Ralf Friedrichs includes a post-contractual non-competition clause pursuant to which Dr Ralf Friedrichs has agreed to refrain from conducting contractually defined competition activities in the period from 1 January to 31 December 2008 which might affect the HCI Group. The payment of EUR 500 thousand was capitalised as an intangible asset by the HCI Group and is amortised over the term of the non-competition clause of one year.

In the financial year 2007, Harald Christ and Wolfgang Essing subscribed to fund shares in the amount of

EUR 3,725 thousand (2006: EUR 3,920 thousand) and EUR 239 thousand (2006: EUR 0 thousand), respectively. The HCI Group earned commission income totalling EUR 206 thousand (2006: EUR 299 thousand) and EUR 33 thousand (2006: EUR 0 thousand), respectively, from these subscriptions. In addition, Harald Christ and Wolfgang Essing arranged for the purchase of fund shares by third parties in the amount of EUR 206 thousand (2006: EUR 0 thousand) and EUR 244 thousand (2006: EUR 0 thousand), respectively. The HCI Group earned commission income totalling EUR 22 thousand (2006: EUR 0 thousand) and EUR 40 thousand (2006: EUR 0 thousand), respectively, from these transactions.

We refer to Note (35)(a) with respect to the guarantee issued by Christ Capital GmbH, which is controlled by Harald Christ, in order to provide collateral for the claims of HCI Hanseatische Capitalberatungsgesellschaft mbH against the HCI Holding (old) or its legal successors.

Remuneration of the Supervisory Board amounted to EUR 170 thousand (2006: EUR 176 thousand) in the financial year 2007. In addition, expenses for attendance fees amounted to EUR 18 thousand (2006: EUR 18 thousand).

(36) Contingencies and other financial commitments

As at 31 December 2007, the Company had the following material contingencies and other financial commitments:

	December 31, 2007			December 31, 2006		
	EUR 000's	EUR 000's	USD 000's	EUR 000's	EUR 000's	USD 000's
Guarantees	1,362,044	317,364	1,541,008	746,891	94,102	857,764
of which drawn	851,120	229,372	917,141	504,721	82,315	555,042
Placement guarantees	313,644	68,354	361,828	326,193	186,040	184,161
of which investment funds not yet part of capital raising activities	279,602	55,045	331,244	134,819	55,382	104,380
Future payments under operating leases	5,006	5,006	--	5,184	5,184	--

HCI Group issued guarantees regarding real estate fund units with an aggregate value of EUR 8,900 thousand in the 2007 financial year; under these guarantees, in the event of a sale of real estate held by the investment funds and subsequent fund liquidation, fund buyers are indemnified against any shortfall of excess liquidity distributed below 90 % of the amount invested. On the basis of current perform-

ance data reported by the real estate funds, HCI Group believes that it is unlikely to be drawn upon under these guarantees.

The future payment obligations from rental and lease agreements relate solely to operating leases and can be broken down as follows:

EUR 000's	Remaining term up to 1 year	Remaining term between 1 and 5 years	Remaining term of more than 5 years
31 December 2007	2,316	2,690	--
31 December 2006	1,895	3,289	--

(37) Declaration of compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board of HCI Capital AG declare that the recommendations of the Government Commission "German Corporate Governance Code" were, with few exceptions, complied with and will be complied with in future, too. This declaration, stipulated by Section 161 of the German Stock Corporation Act (*AktG, Aktiengesetz*) was made by the Management Board and the Supervisory Board and was made permanently available on the website of HCI Capital AG under www.hci.de.

(38) Mandatory disclosures of transactions in securities or investments pursuant to Sections 15a and 21 et seq. of the German Securities Trading Act (WpHG)

HCI Capital AG was notified of the following purchases and sales of shares in the Company conducted by Christ Capital GmbH in accordance with Section 15a (1) sentence 1 in connection with Section 15a (3) sentences 2 and 3 of the German Securities Trading Act (*WpHG, Wertpapierhandelsgesetz*):

Type of transaction	Date	Number of shares bought/sold	Price per share (EUR)
Purchase	02/01/2007	15,000	14.85
Purchase	03/01/2007	10,000	15.01
Sale	31/01/2007	816,000	16.70
Purchase	02/07/2007	30,000	15.71
Purchase	03/07/2007	20,000	16.14
Purchase	30/07/2007	10,000	15.20
Purchase	31/07/2007	20,000	15.47
Purchase	01/08/2007	20,000	15.39
Purchase	16/08/2007	30,000	14.46
Purchase	17/08/2007	14,745	14.20
Purchase	27/08/2007	20,000	14.73
Purchase	28/08/2007	25,192	14.86
Purchase	29/08/2007	40,000	14.84
Purchase	30/08/2007	30,000	15.21
Purchase	03/09/2007	12,000	15.46
Purchase	04/09/2007	20,000	15.50

In addition, HCI Capital AG was notified on 2 January 2007 by Wolfgang Essing Beteiligungs GmbH of the purchase of 5,000 shares of the Company at a price of EUR 14.89 pursuant to Section 15a (1) sentence 1 of the German Securities Trading Act.

HCI Capital AG received notifications of reportable shareholdings pursuant to Section 21 of the German Securities Trading Act:

Shareholder	Date	Type of change	New share in voting rights
Ursula Roessel (HCI SICAR A.G.)	05/02/2007	Falling below the thresholds of 30 %, 25 %, 20 %, 15 %, 10 %, 5 % and 3 %	2,22 %
Harald Christ (Christ Capital GmbH)	07/02/2007	Falling below the threshold of 10 %	8.79 %
	04/09/2007	Exceeding the threshold of 10 %	10.00 %
	24/10/2007	Falling below the thresholds of 5 % and 3 %	0.00 %
Döhle Gruppe (Peter Döhle Schiffahrts-KG, Döhle IC Beteiligungsgesellschaft mbH, Beteiligungs- und Verwaltungsgesellschaft Peter Döhle mbH, Jochen Döhle)	12/02/2007	Exceeding the thresholds of 3 %, 5 % and 10 %	10.19 %
	Notifications of 20 Dec 2007 referring to 5 Feb 2007	Exceeding the thresholds of 3 %, 5 % and 10 %	10.40 %
Corsair III Investments S.a.r.l. (various intermediary companies)	05/02/2007	Exceeding the thresholds of 3 %, 5 %, 10 % and 15 %	19.50 %
	09/10/2007	Falling below the thresholds of 25 %, 20 % and 15 %	10.02 %
	09/10/2007	Exceeding the thresholds of 15 % and 20 %	20.03 %
MPC Capital AG	05/02/2007	Exceeding the thresholds of 3 %, 5 %, 10 %, 15 % and 25 %	29.50 %
	05/02/2007	Falling below the thresholds of 25 % and 20 %	19.50 %
	07/02/2007	Exceeding the thresholds of 20 % and 25 %	25.12 %
	09/10/2007	Falling below the thresholds of 25 % and 20 %	15.10 %
Fidelity Management & Research LLC	30/04/2007	Exceeding the threshold of 3 %	3.37 %
	11/05/2007	Exceeding the threshold of 5 %	5.08 %
	17/05/2007	Falling below the threshold of 5 %	4.94 %
	01/10/2007	Notification of status due to internal merger	4.99 %
Schroders plc. (Schroder Administration Limited, Schroder Investment Management Ltd.)	15/05/2007	Falling below the threshold of 5 %	4.99 %
	25/09/2007	Falling below the threshold of 3 %	2.98 %

No other notifications were received by the Company.

(39) Supervisory Board and Management Board

At the Annual General Meeting held on 10 May 2007, new members were elected to the Supervisory Board

of HCI Capital AG as two members resigned from office. In the financial year 2007, the Supervisory Board consisted of the following members:

Name	Membership on other statutory supervisory boards	Membership on comparable German and foreign supervisory bodies
Udo Badow Chairman Banker Hamburg	Hamburger Sport-Verein e.V. (Chairman until 9 February 2007) BÖAG Börsen AG (Chairman) Conrad Hinrich Donner Bank AG (Deputy Chairman) HANSAINVEST Hanseatische Investment-Gesellschaft mbH (Deputy Chairman) VHV Vereinigte Hannoversche Versiche- rung a.G. (Member of the Advisory Board) Holsten Brauerei AG SIGNAL IDUNA – Group, Dortmund and Hamburg Fondsbörse Deutschland Beteiligungs- makler AG (Honorary Chairman)	HANSA-NORD-LUX Management- gesellschaft AG, Luxemburg (President of the Board of Directors) Deutsche Schiffsbank AG (Deputy Chairman of the Board of Directors)
Prof Dr Georg Crezelius University Professor, Bamberg (until 10 May 2007)	RC Ritzenhoff Cristal AG (Chairman)	--
Rolf Hunck Businessman, Hamburg Deputy Chairman (until 10 May 2007)	Deutsche Bank AG Fibula Finanz AG	Deutsche Clubholding GmbH (Chairman of the Advisory Board) Kühne Stiftung, Switzerland (Member of the Foundation Board)
Karl Gernandt Businessman, Hamburg (since 10 May 2007)	Hemmor Zement AG i.A. (Chairman until 31 December 2007)	Fertigbeton v. Saldern GmbH & Co. KG (Chairman of the Advisory Board) Happy Beton GmbH & Co. KG (Chairman of the Advisory Board until 31 December 2007)
Alexander Stuhlmann Lawyer, Hamburg Deputy Chairman (since 10 May 2007)	Alstria office REIT-AG (Chairman) BVV Pensionsfonds des Bankgewerbes AG (since 23 November 2007) Capital Stage AG, Hamburg (Deputy Chairman) Deutsche Hypothekenbank (Actien-Gesellschaft) (Chairman since 16 May 2007) Hamburger-Feuerkasse Versicherungs-AG (Deputy Chairman) HSH Real Estate AG (until 1 August 2007) LBS Bausparkasse Hamburg AG (until 31 August 2007) LBK Bausparkasse Schleswig- Holstein-Hamburg AG (since 31 August 2007)	Berlin-Brandenburg Media GmbH (Member of the Advisory Board) BVV Versicherungsverein des Bankgewerbes a.G. BVV Versorgungskasse des Bankgewerbes e.V. DekaBank Deutsche Girozentrale, Berlin and Frankfurt/Main (Member of the Administrative Board since 1 October 2007) Frank Beteiligungsgesellschaft mbH (Deputy Chairman) HSBA Hamburg School of Business Administration GmbH (Member of the Board of Trustees) Siedlungsbaugesellschaft Hermann und Paul Frank mbH & Co. KG (Deputy Chairman of the Advisory Board) Stiftung Schloss Neuhausen (since 15 October 2007)

The following have been appointed members of the Management Board of the Company:

- Harald Christ, Businessman, Berlin
(until 30 September 2007)
(Chairman until 30 September 2007)
 - Member of the Supervisory Board of DFHH Deutsche Fondsbörse Hamburg Beteiligungsmakler AG, Hamburg
 - Chairman of the Supervisory Board of Interschalt maritime systems AG, Schenefeld
 - General Manager of Christ Capital GmbH, Berlin
 - Member of the Supervisory Board of Aragon AG, Wiesbaden (since 29 June 2007)
- Wolfgang Essing, Banker, Rheine, Chairman
(since 1 October 2007)
 - Managing Director of Wolfgang Essing Beteiligungs GmbH, Rheine
- Dr Ralf Friedrichs, Master's degree in Business Administration (Diplom-Kaufmann), Stade
(until 31 December 2007)
- Dr Rolando Gennari, Businessman, Hamburg
 - Supervisory Board of Aragon AG, Wiesbaden (since 29 June 2007)
- Dr Oliver Moosmayer, Lawyer, Hamburg
(since 1 October 2007)

The remuneration of members of the Management Board and the Supervisory Board are presented in Note (35).

(40) Auditor's fees

The auditor's fees recognised as an expense in the consolidated financial statements amounted to EUR 433 thousand in the financial year 2007 and is comprised of the following items:

Type of service	Fees in EUR 000's
Audit of financial statements	328
Other testation and valuation services	41
Tax advisory services	31
Other services	33

The fees for the audit of financial statements include expenses of EUR 103 thousand for audit activities of the consolidated financial statements as at 31 December 2006.

(41) Events after the balance sheet date

General Electric Transportation Finance acquired a limited partner interest of 32 % in HAMMONIA Reederei GmbH & Co. KG within the framework of a capital increase against cash contributions, subject to antitrust clearance and registration with the Register of Companies (Handelsregister). This capital increase, which was performed in January 2008, led to a reduction of the stake of the HCI Group in HAMMONIA Reederei GmbH & Co. KG to 32 %.

By way of the share purchase agreement of 24 January 2008, HCI Capital AG acquired 426,700 shares in Capital Vis Invest AG, which has subsequently changed its company name in eFonds Holding AG. The registration

of the capital increase in the Commercial Register was effected on 21 February 2008. This corresponds to a share of 25 % in the share capital of the company. eFonds Holding AG operates a trading platform for closed-end funds and provides a liability umbrella for financial consultants. The purchase price for the shares

amounts to EUR 6,025 thousand. eFonds Holding AG will be included in the IFRS consolidated financial statements using the equity method.

Other than the events described above, no further significant events have occurred in the financial year 2008.

The consolidated financial statements were prepared by the Management Board on 5 March 2008 and thus submitted to the Supervisory Board for authorisation for issue. The consolidated financial statements will be submitted to the Supervisory Board for approval at the Supervisory Board meeting on 6 March 2008.

Hamburg, 5 March 2008

HCI Capital AG



Wolfgang
Essing



Dr Rolando
Gennari



Dr Oliver
Moosmayer

Statutory Declaration

To the best of our knowledge, and in accordance with the applicable consolidated reporting principles, the consolidated financial statements give a true and fair view of net assets, financial position and result of operations of the Group, and the group management report

includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Auditors' Report

We have audited the consolidated financial statements prepared by HCI Capital AG, Hamburg, comprising the consolidated balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from January 1 to December 31, 2007. 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, Abs. 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 German generally accepted 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, Abs. 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, 5 March 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Krall
Wirtschaftsprüfer

Schmidt
Wirtschaftsprüfer

Report of the Supervisory Board

Ladies and Gentlemen,

HCI Capital AG has continued its successful track record in the 2007 financial year. Even though the company did not fully achieve its targets for placement of equity capital and consolidated net income, HCI once again affirmed its position amongst the top providers in its industry. This is evidenced by the record level of equity capital placed, and the profitability of the HCI Group. The company consistently and successfully pursued its strategy of diversifying HCI Group's business, to secure its future growth, throughout the financial year under review.

There were changes to the composition of the Supervisory Board during the period under review. Members Prof Dr Georg Crezelius and Rolf Hunck retired from their office at the end of the Annual General Meeting on 10 May 2007; they were succeeded by Messrs Alexander Stuhlmann and Karl Gernandt, who were elected to the Supervisory Board.

Furthermore, the Supervisory Board resolved on new appointments to the Management Board of HCI Capital AG during the period under review. Mr Wolfgang Essing assumed the position of Chairman of the Management Board with effect from 1 October 2007; his predecessor, Mr Harald Christ, had resigned from his office on 30 September 2007, and left the HCI Group. Also with effect from 1 October 2007, Dr Oliver Moosmayer was appointed as the new member of the Management Board of HCI Capital AG responsible for product development. Dr Moosmayer succeeded Dr Ralf Friedrichs, who left the HCI Group on 31 December 2007.

The Supervisory Board of HCI Capital AG held five scheduled meetings in 2007. Key agenda items dealt with during these meetings included:

- Passing of a resolution on the approval of the financial statements and the consolidated financial statements, and on the proposal of the Management Board for the appropriation of net retained profit of the financial year 2006
- Quarterly reports and half-yearly financial report 2007
- Passing of a resolution on the proposals for election of the Supervisory Board

- Risk management reports
- Corporate planning and strategic direction
- Investment in eFonds Group
- Acquisition of a stake in HAMMONIA Reederei by General Electric

The termination of the service contract with Mr Harald Christ, and the appointment of Mr Wolfgang Essing as Chairman of the Management Board were resolved in an extraordinary Supervisory Board meeting on 29 June 2007. All members of the Supervisory Board attended all meetings. In addition, three resolutions were adopted by way of circulation. The Supervisory Board of HCI Capital AG did not establish any committees in the 2007 financial year.

The Management Board of HCI Capital AG informed the Supervisory Board about material issues regarding company management, promptly and on a regular basis, and ensured that the Chairman of the Supervisory Board was regularly kept informed on events of fundamental importance. The Chairman of the Management Board and the Chairman of the Supervisory Board also maintained close contacts outside scheduled Supervisory Board meetings. The relationship between the Management Board and the Supervisory Board is characterised by transparency, allowing the Supervisory Board to efficiently carry out its monitoring and advisory functions. Furthermore, the Supervisory Board maintained direct contacts to the major shareholders of HCI Capital AG.

The Supervisory Board complies with the German Corporate Governance Code to a large extent. The Supervisory Board and Management Board issued the Declaration of Compliance pursuant to Section 161 of the German Public Limited Companies Act (AktG) on 17 January 2008. Please refer to the Corporate Governance Report for details.

The Annual General Meeting appointed KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main, as external auditors for the financial statements for the financial year from 1 January 2007 to 31 December 2007; pursuant to Section 318 (2) of the HGB, their appointment also covers the audit of the consolidated financial statements.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). KPMG have audited the annual financial statements of HCI Capital AG for the period ended on 31 December 2007 and the management report, and have issued their unqualified audit opinion. The group management report was prepared in addition to the consolidated financial statements. The consolidated financial statements and group management report were also audited by KPMG and given an unqualified opinion. The audit report for the financial statements also affirmed that the Management Board took the measures for the early detection of risks, as set out in Section 91 (2) of the AktG.

The Supervisory Board analysed the reports of the external auditors regarding HCI Capital AG and the HCI Group in great detail, and held an extensive discussion with the external auditors. The financial statements were reviewed in detail during the Supervisory Board meeting on 6 March 2008, which was attended by the external auditors. Having conducted its independent review, the Supervisory Board agreed to the results of the audit by the auditors. The Supervisory Board approved the consolidated financial statements, the financial statements, and the management reports for HCI Capital AG and the HCI Group, as prepared by the Management Board. The financial statements were thus confirmed.

The Supervisory Board reviewed and approved the Management Board's proposal to distribute the net retained profit (Bilanzgewinn) to pay a dividend of EUR 0.70 per notional no-par value share entitled to dividend payments for 2007.

The Supervisory Board of HCI Capital AG would like to thank the Management Board for the trusting cooperation. The Supervisory Board also thanks all members of staff, for their strong commitment and the successful performance during the 2007 financial year.

Hamburg, 6 March 2008



Udo Bandow, Chairman of the Supervisory Board



Udo Bandow
Chairman of the Supervisory Board

Various executive positions with Vereinsbank in Hamburg, Vereins- und Westbank, including the offices as member of the Management Board, Chairman of the Management Board, and member of the Supervisory Board. President of the Hamburg Stock Exchange from 1990 to 2007.



Alexander Stuhlmann
Member of the Supervisory Board

Various executive positions with Hamburgische Landesbank, member of the Management Board from 1996, Chairman of the Management Board from 1998. Chairman of the Management Board of HSH Nordbank AG from 2003 to 2006. Chairman of the Management Board of WestLB AG since July 2007.



Karl Gernandt
Member of the Supervisory Board

Various management positions with Deutsche Bank AG (last assignment with responsibility for managing the bank's business in the Northern Ruhr region), followed by a position in A. T. Kearney GmbH's Financial Institutions Group, with responsibility for strategic planning. Chairman of the Management Board of Holcim (Deutschland) AG since July 2000; appointed CEO of Holcim Western Europe, Brussels, in 2007.

Corporate Governance

The German Corporate Governance Code (the "Code") includes numerous rules and guidelines for the management and supervision (governance) of German listed companies. HCI Capital AG largely complies with the standards set by the Code, and complies with its recommendations; a small number of exceptions is required by (and substantiated with reference to) the company's specific circumstances. The Management Board and Supervisory Board believe that good corporate governance advances value-oriented management. Notwithstanding this positive influence, the Code only provides the structural basis – putting this into practice is an essential task for anyone acting on the company's behalf. The members of the Management Board and Supervisory Board of HCI Capital AG are committed to trusting and efficient cooperation. Our decisions are guided by the objective of increasing company value. We see the transparent and comprehensive communication with shareholders and other stakeholders as a natural part of what we do.

Management Board and Supervisory Board

HCI Capital AG operates a dual-level management and control structure, in accordance with German company law. The three members of the Management Board manage the company independently, with the objective of a sustained increase in company value. As a rule, the Management Board meets every fortnight; its members are in constant close contact outside regular meetings. The composition of the Management Board was subject to change during the financial year under review. An introduction of the Management Board is provided on page 4 of this Annual Report.

The Supervisory Board of HCI Capital AG performs monitoring and advisory duties. It consists of three members, who are introduced in the Report of the Supervisory Board on page 149; their offices held are listed in the Notes, on page 144. The Supervisory Board's responsibilities include the approval of the consolidated financial statements and confirmation of the financial statements of HCI Capital AG; for this purpose, the Supervisory Board maintains close contacts with the external auditors. The members of the Supervisory Board do not maintain any personal or business relationships with the company that would give rise to any conflicts of interest, and would hence compromise their independence. Given its limited number of mem-

bers, the Supervisory Board did not establish any committees; all issues are dealt with by the plenary meeting.

Close dialogue between the Management Board and the Supervisory Board

Regular contacts between the members of the Management Board and the Supervisory Board are a key element of efficient cooperation, in the company's best interests. During the five scheduled Supervisory Board meetings, the Management Board gave a detailed account of HCI Group's corporate planning, business strategy, and current business developments. Discussions also covered risk management issues and divergences between business development and budget planning.

The members of the Management Board notify the Supervisory Board without delay of any conflicts of interest as they arise. There were no conflicts of interest affecting any member of the Management Board during the financial year under review.

Directors' Dealings

In accordance with Section 15a of the German Securities Trading Act (WpHG), the company discloses an up-to-date listing of securities transactions executed by members of the Management Board or Supervisory Board, on HCI Groups's website (www.hci.de – heading 'Investor Relations', 'Corporate Governance').

Securities holdings

No member of the Management Board or Supervisory Board directly or indirectly held more than 1% of the company's shares in issue on 31 December 2007. Aggregate holdings by all members of the Management Board and Supervisory Board are also less than 1% of the company's issued share capital. Therefore, no disclosure on securities holdings (in accordance with Section 6.6 of the Code) is required.

Open and active communications

The company provides extensive information to all target groups, on a timely basis, thus ensuring that material information is made available to the general public at the same time. Moreover, HCI Capital AG maintains a close and transparent dialogue with the capital markets and the general public. To us, this is an integral part of successful company management.

HCI Capital AG uses a variety of communication channels. The company's quarterly and annual reports give a detailed account on business developments, financial position, and profitability. In addition, current developments are covered in numerous press releases. Throughout the year, the Press Relations Office conducts a large number of discussions with media representatives, and is always ready to answer any queries regarding HCI. All shareholders have the opportunities for direct interaction with management at the General Meeting. Within the scope of our Investor Relations activities, we regularly present the company on capital market and investor conferences, maintaining direct contacts with analysts, as well as with private and institutional investors.

Company structure

The HCI Group is managed and controlled by the Management Board and, at an operational level, by the Senior General Managers and by the Managing Directors of the subsidiaries in the areas of product design, sales/marketing, trust services, and asset management.

For further details of the main subsidiaries and their locations, please refer to the Notes on page 137 of this Annual Report.

Managing opportunities and risks

The systematic management of opportunities and risks is an essential element of good corporate governance. In this context, actively exploiting opportunities whilst avoiding risk exposure is crucially important to the company's continued existence. The ongoing development and refinement of this system falls within the responsibility of the Management Board. For detailed information, please refer to the risk report on page 70, and the outlook on page 80.

Accounting and external reporting

HCI Group's accounts are prepared in line with International Financial Reporting Standards (IFRS), as adopted by the EU. The Annual General Meeting appointed KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main, as auditors for the financial statements and consolidated financial statements. The Supervisory Board has arranged for the external auditors 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.

Declaration of Compliance

Declaration of Compliance by the Management Board and Supervisory Board of HCI Capital AG in accordance with Section 161 of the AktG on the German Corporate Governance Code

The Management Board and the Supervisory Board of HCI Capital AG declare that the company has complied with the recommendations of the Government commission 'German Corporate Governance Code', as amended on 12 June 2006 (the "Previous Code") and published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette (*Bundesanzeiger*), since the last declaration and until 20 July 2007, subject to the exceptions identified below. The Management Board and the Supervisory Board of HCI Capital AG also declare that the company has complied with the recommendations of the Government commission 'German Corporate Governance Code', as amended on 14 June 2007 (the "Code") and published by the German Fed-

eral Ministry of Justice in the official section of the electronic Federal Gazette (*Bundesanzeiger*), since 21 July 2007, and will continue to do so in the future, subject to the exceptions identified below.

If the company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed. (Section 3.8 of the Code)

HCI Capital AG has taken out a D&O liability insurance policy for members of the Management Board and the Supervisory Board that does not provide for a deductible. HCI Capital AG believes that such a deductible would not enhance the members' sense of responsibility in carrying out their duties and functions. HCI Capital AG's position is in line with international standards.

An age limit for members of the Management Board shall be specified (Section 5.1.2 (2) sentence 3 of the Code).

HCI Capital AG does not currently have an age limit for the members of its Management Board, nor does it plan to introduce such a limit. Key qualifications for members of the Management Board are the necessary knowledge, skills and specialist experience; therefore HCI Capital AG does not consider an age limit to be adequate.

Depending on the specifics of the enterprise and the number of the Supervisory Board's members, the Supervisory Board shall form committees, each having expertise in a particular field. (Section 5.3.1 of the Code) The Supervisory Board shall set up an Audit Committee (Section 5.3.2 of the Code) and a Nomination Committee (Section 5.3.3 of the Code).

In accordance with the HCI Capital AG's Memorandum and Articles of Association, the Supervisory Board consists of only three persons. Forming committees is therefore not considered appropriate, and hence, not planned.

An age limit to be specified shall be taken into account for nominations for the election of members of the Supervisory Board. (Section 5.4.1 sentence 2 of the Code)

HCI Capital AG does not currently have an age limit for the members of its Supervisory Board, nor does it plan to introduce such a limit. Key qualifications for members of the Supervisory Board are the necessary knowledge, skills and specialist experience; therefore

Remuneration Report

The Supervisory Board is responsible for setting the remuneration of the Management Board members, reviewing it in regular intervals. From an internal perspective, the level of compensation is defined by reference to the company's size, its business development, and financial circumstances. The area of responsibility of each Management Board member, as well as his personal performance, are also taken into account. Taking an external view, the remuneration package is comparable to the compensation levels of peer-group companies. In this way, HCI Capital AG ensures that its remuneration structure provides sufficient incentives for highly-qualified executives. The compensation of the Supervisory Board was

HCI Capital AG does not consider an age limit to be adequate.

The members of the Supervisory Board shall receive a fixed as well as a performance-related compensation. (Section 5.4.7 (2) sentence 1 of the Code)

The Memorandum and Articles of Association of HCI Capital AG do not provide for any performance-related compensation for members of the Supervisory Board. HCI Capital AG believes that performance-related compensation would not enhance the Supervisory Board's monitoring functions.

The Management Board and Supervisory Board of HCI Capital AG

Hamburg, 17 January 2008

For the Management Board:



(Wolfgang Essing)

For the Supervisory Board:



(Udo Bandow)

adopted by the Annual General Meeting on 18 May 2006, and is specified in Article 11 (4) of the Memorandum and Articles of Association.

Further details regarding the principles, structure, and level of remuneration of the Management Board and Supervisory Board are provided on pages 67 and 68 of this Annual Report.

The information complies with the requirements of the German Corporate Governance Code, and includes disclosures required pursuant to Sections 314 and 315 of the German Commercial Code, and pursuant to the German Act on the Disclosure of Executive Board Remuneration.

Financial Calendar

10 Mar 2008	Press conference to present the financial statements
10 Mar 2008	HCI Analysts' Conference in Frankfurt/Main
13 May 2008	Publication of the interim report for the first three months
15 May 2008	Annual General Meeting
13 Aug 2008	Publication of the half-yearly report
12 Nov 2008	Publication of the interim report for the first nine months

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