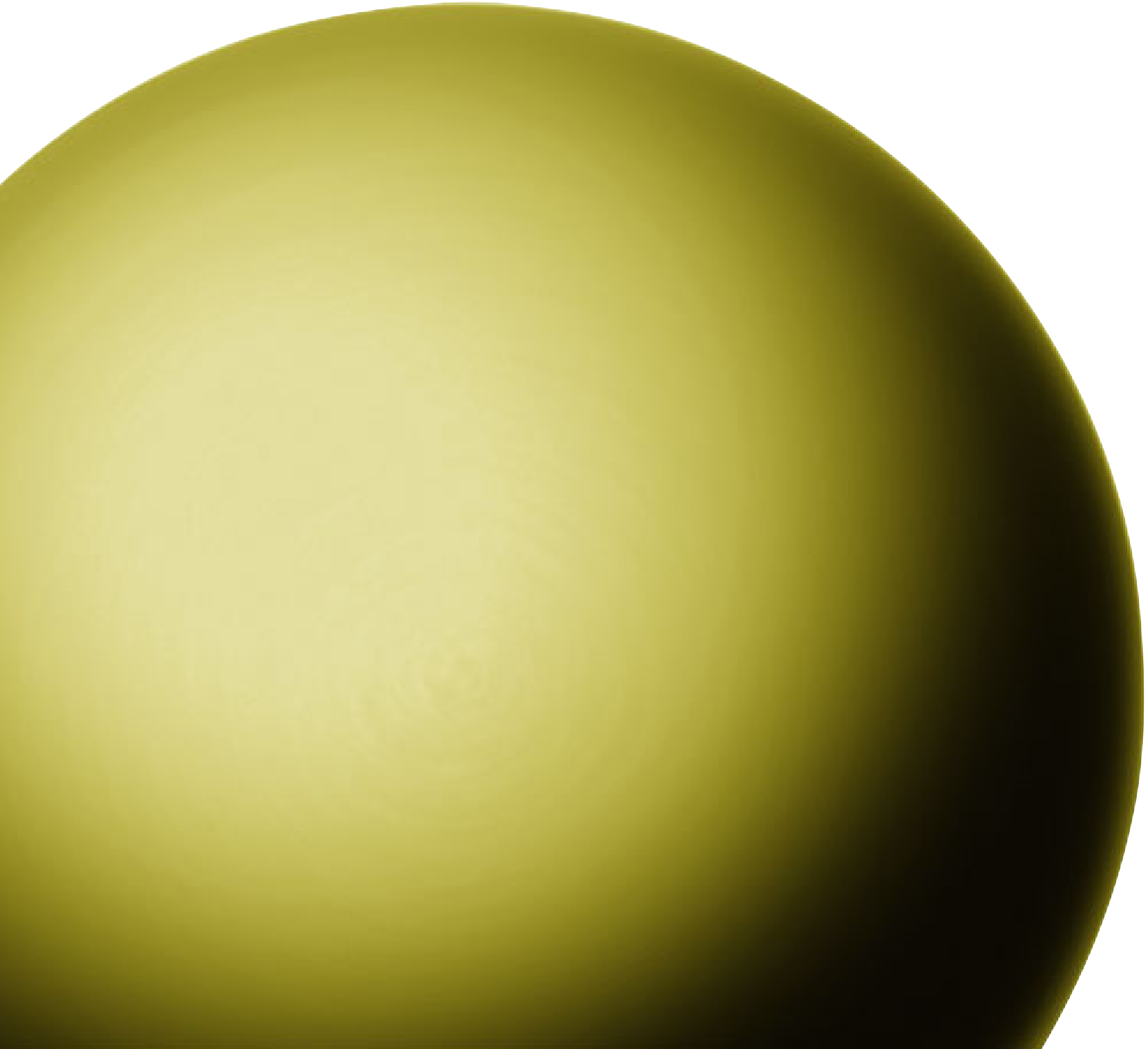


Report for the period
1 January 2003 to
31 March 2003

Princess

The convertible bond issued by Princess Private Equity Holding Limited offers both institutional and private investors access to an internationally diversified portfolio consisting of private equity partnerships. Investors have the opportunity of sharing in the potentially higher earnings generated by the asset class of private equity. Moreover, the nominal capital is protected at maturity by an insurance policy, which is reinsured by Swiss Re.

NAV development exhibits stability

Despite the geo-political turbulence and prolonged economic weakness, Princess's NAV remains relatively stable.

In the first quarter of 2003, the net asset value (NAV) of the Princess Private Equity Holding portfolio declined by just 1.29% from 79.23% at end–December to 78.21% at end-March. While the first two months saw a moderate decline in the NAV, there was an NAV increase in March reflecting the Seagate Technology IPO in December 2002 (see report for the fourth quarter 2002).
Though the war in Iraq triggered a short rally on the stock market, the exit window for private equity partnerships did not open up, as had been hoped, but instead remained firmly closed.
Nevertheless, the Investment Manager remains confident that once a sustained economic recovery gets under way the NAV of Princess will resume its long-term growth path. The quality of the Princess portfolio investments is underlined by the results of the *2002 Private Equity Awards* issued by *Private Equity Online* and *Private Equity International:* Not only is Princess invested in Permira, the winner of the category "Best European Private Equity Firm", but it also participated in the "Best European Exit" – the sale of do-it-yourself retailer Homebase, a Permira Europe II portfolio company.

Successful first investors' conference call for Princess

On 27 March 2003, Princess conducted its first investors' update with a telephone conference held in both English and German.

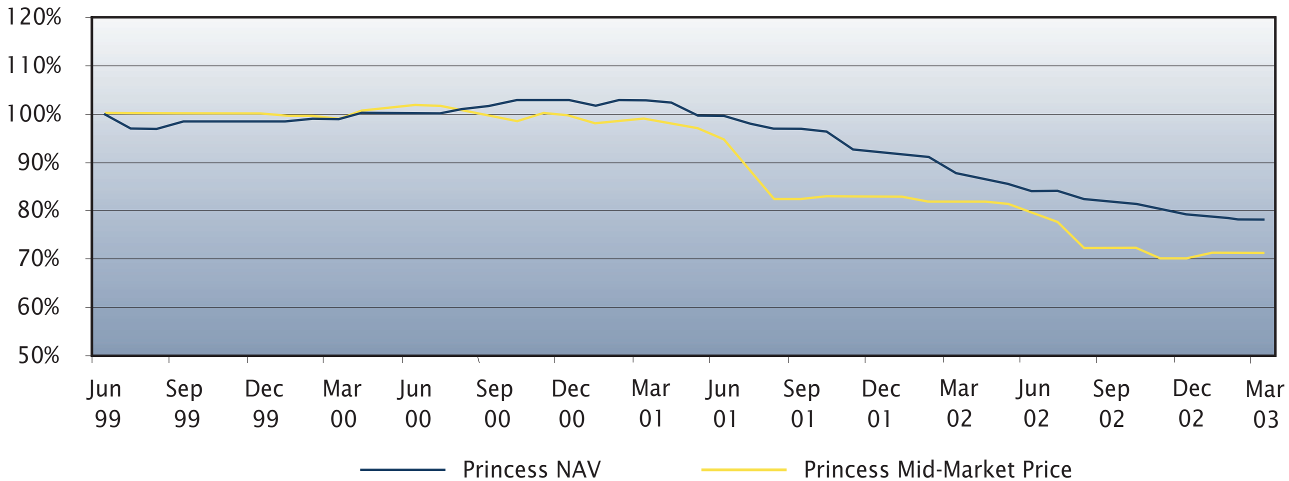
The presentation that was given at the conference call can be accessed on Princess's website at: http://www.princessprivateequity.net/en/reporting_publications/index.shtml.
The update provided an overview of private equity trends in general, the current status of the Princess portfolio and the outlook for the future development of Princess Private Equity Holding. The presentation was followed by a discussion, during which investors had the opportunity to pose questions. Among the issues discussed at greater length were Princess's commitment strategy, the features of Princess's credit facility and the returns on distributions received so far. A transcript of the questions and answers session is available and can be accessed using the link above.
Given the positive feedback, Princess will institutionalize this event on a semi-annual basis. The next investors' conference call will take place on 23 September 2003. Details will be communicated in due time.

Princess's quarterly report with new features

The Princess quarterly report will feature a manager interview or a portrait of a parternship.

In order to provide investors with a more independent and in-depth look at the underlying partnerships and their strategies, the middle section of the report will feature an interview with a manager from a partnership or a portrait of a partnership on a regular basis in future.
In this quarterly, we present Abingworth Bioventures III, L.P. along with an interview with Mr. David Leathers, a director at Abingworth. Mr. Leathers explains what the key success factors for Abingworth are, he discusses one of their "home runs" and shares his views on both current developments and future trends in the venture capital industry and, in particular, the life sciences industry.

NAV and Mid-Market Price since Issuance until 31.03.2003



Abingworth, founded 30 years ago initially to make venture capital investments across a range of industrial sectors, is one of the most established venture capital groups in Europe. In 1987, David Leathers and Dr. Stephen Bunting joined Abingworth in order to raise its first ever specialist life science venture fund. The two partners had previously been involved in early-stage venture investing in life science companies at N.M. Rothschild & Sons, a London-based merchant bank, which, in 1981, established one of the very first specialist life science venture funds, Biotechnology Investments Limited. The fund invested in some of today's largest biotech companies, including the first round of financing for Amgen, Applied Biosystems and Genzyme. Now focusing exclusively on the life science sector and with around USD 400m under management, Abingworth, which has offices in London, Cambridge and Palo Alto, USA, is one of the key players in life science venture capital investing on both sides of the Atlantic.

What do you consider to be the key ingredients of a successful venture partnership?

A successful venture partnership needs a team with a mix of skills – some members with venture capital experience, some with a background in company and financial management and, in life sciences, some with scientific expertise. Other requirements are a deep understanding of the area in which investments are being made together with a high quality deal flow and a consistent long-term track record.

Could you describe an investment that reflects the Abingworth approach particularly well?

Abingworth is one of the few life science venture capitalists with the resources to start companies, having team members who specialise in research management, patents, business development and finance. It has been particularly active in Cambridge, England, and an example is Astex Technology which is a company that was conceived and founded in Abingworth's offices in 1999 and which uses novel protein structure-based technology and, in particular, high-throughput x-ray crystallography for drug discovery and development. Abingworth provided the initial seed capital and helped the company both to recruit senior management, non-executive directors and scientific advisers and to develop its business strategy and acquire intellectual property from Cambridge University. Abingworth brought in other venture investors and assisted with a GBP 20m financing round in 2001. Astex now has nearly 100 employees, several corporate collaborations and is regarded by many as the leading company in its field. Funds managed by Abingworth currently own 28.2% of the company.

How has the bursting of the technology bubble affected life science investment?

The bursting of the technology bubble has led to institutional investors committing more resources to life science venture funds both as diversification from the technology sector and in recognition of the enormous investment potential in life sciences over the next ten years or so. As a result there has been a significant increase in venture investment in life sciences over the last two years.

Is the prolonged economic slowdown causing venture capitalists to fundamentally re-evaluate their investment approach?

Not really. Technology-orientated venture capitalists remain cautious because of their recent experiences but now is an excellent time in the cycle to make life science venture investments as the quality of deal flow is high, valuations are lower and the expectations of entrepreneurs more realistic. It is often said that better companies are started during economic slowdowns as it is more difficult to raise money and venture capitalists are more demanding.

What are the most important criteria for a venture-backed company to survive in today's environment?

In any environment, successful venture-backed companies need outstanding management, experienced investors, a well-thought business strategy and, in life sciences, a strong intellectual property position. In today's climate, additional emphasis must be placed on tight cash controls and projects that require limited capital.

Looking forward, which life science segments hold the most promise?

Therapeutic drug discovery and development including companies with a broad technology platform or strong product pipelines. Within this field a very promising area is RNAi therapeutics, a method of selectively shutting down gene expression that could lead to the effective treatment of many diseases. This may be the next major class of biotech-derived human therapeutics after recombinant proteins and monoclonal antibodies.

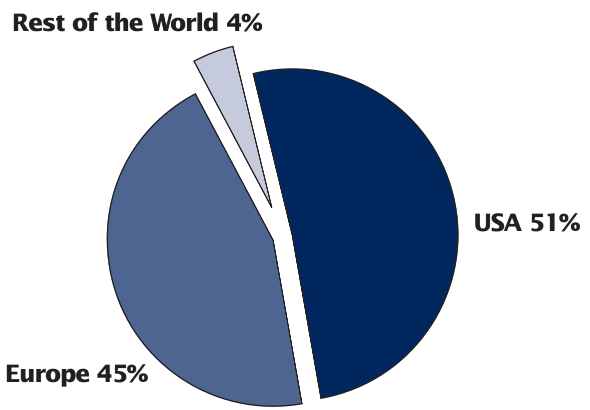
What average net returns from life science venture investment do you consider sustainable?

It normally takes several years to build up a portfolio of venture investments and then position them for an IPO or a trade sale so the strongest performance often comes in the later years but over the life of a fund net returns of at least 20% p.a. should be achievable.

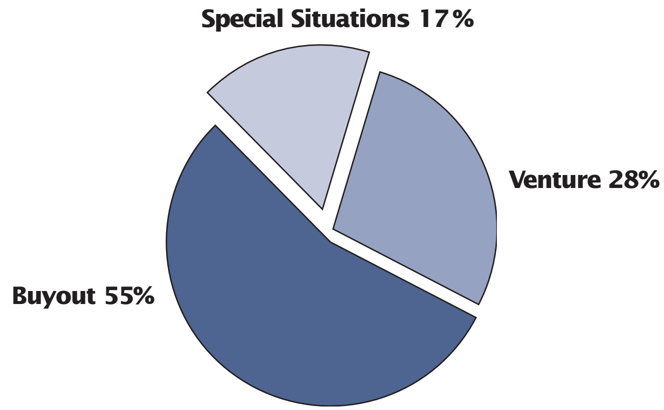
Mr. Leathers we thank you for giving us your time and your invaluable insights.

Princess Private Equity Holding strives to have a well-balanced and broadly diversified portfolio across different financing stages, industries, vintage years and geographic regions. The more risk-averse buyout and special situations segments represent over 70% of the portfolio.

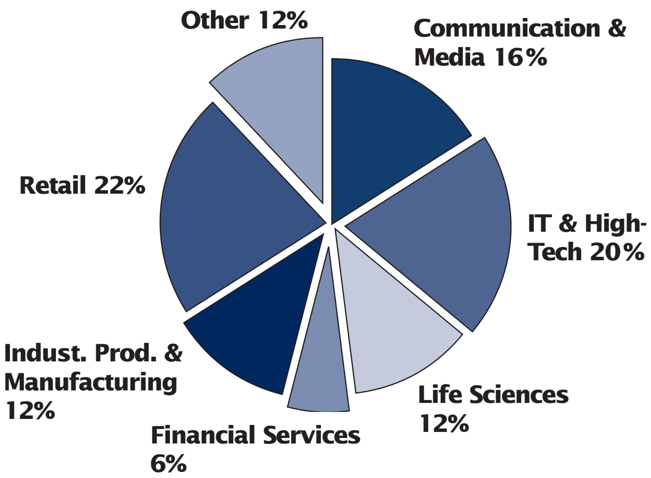
Investments by Geographic Region*



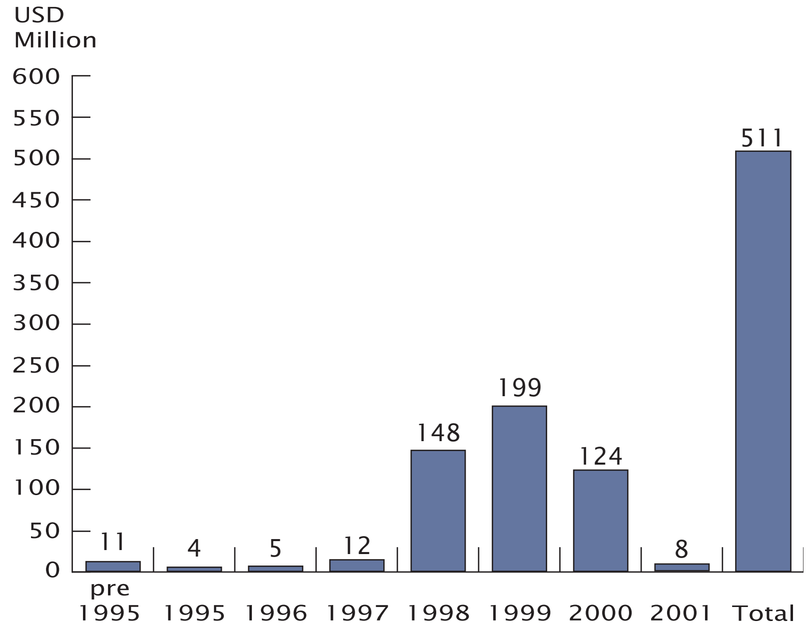
Investments by Financing Stage*



Investments by Industry Sector*



Investments by Vintage Year*



*Allocation by unrealized value of private equity investments

In the first quarter of 2003, Princess received proceeds from 23 partnerships totaling USD 10m. At the same time, 68 partnerships made capital calls in the order of USD 33m.

Selected new exits

Abingworth Bioventures III
Johnson & Johnson acquired all outstanding shares of Scios Inc., an Abingworth Bioventures III portfolio company that specializes in bio-pharmaceuticals, in a cash for stock deal valued at USD 2.4bn overall. Scios is a biopharmaceutical company developing novel treatments for cardiovascular and inflammatory disease. The company's disease-based technology platform integrates expertise in protein biology with computational and medicinal chemistry to identify novel targets and rationally design small molecule compounds for markets with unmet medical needs. While the transaction has been cleared by the U.S. Federal Trade Commission a vote by Scios stockholders on the acquisition is still outstanding.

3i Eurofund III
In February, 3i sold transport group Transalliance in a EUR 100m secondary buyout. The exit provides 3i with an 80% IRR on its investment. The private equity firm backed the EUR 46m buyout of the company in 2000. The sale to the company's CEO Philip Michel gives 3i a money multiple of three times its investment. Transalliance provides transport to the automotive, steel and food sectors. Its strongest market is in Northern France and Benelux. Transalliance employs around 3'300 staff and runs 2'300 trucks.

Coller International Partners III NW2
Bridgepoint has sold its majority stake in Lloyd Werft, one of the world's leading specialists in ship repair and conversion, to its management for an undisclosed sum. Founded in 1862 in Bremerhaven, Germany, the company had from 1984 been part of Bremer Vulkan Verbund which went bankrupt in 1996, with Lloyd Werft going into receivership in 1997. Bridgepoint acquired 70% of the company in 1998, investing DM 21m. Lloyd Werft currently employs 570 people and has an annual turnover of EUR 400m.

Coller International Partners III NW2
Huurre Group, the leading European refrigeration company, has been aquired by Kaupthing Bank and the Huurre management team led by Lars Lindell, the Group managing director. Huurre was previously owned by Bridgepoint, a pan-European private equity investor, Foinco A/S, a Norwegian investment company, Tapiola, a Finnish mutual insurance group, and the company management. "Huurre has grown significantly under our ownership from a combination of organic growth and bolt-on acquisitions. This has taken the company to a market-leading position in Scandinavia where it is poised for further development under its new owner", said Chris Busby, investment director at Bridgepoint.

Selected new investments

International Life Science Fund II / Chancellor V
The Heidelberg-based pharmaceutical company Cellzome, a portfolio company of ILSF II and Chancellor V, announced the completion of a Series C funding at a total of approx. EUR 30m. Cellzome's integrated technology approach in the field of large-scale proteomics earned the company a listing on Time Magazine's Hot Company List in May 2002 (see report for the second quarter 2002).

Nordic Capital IV
In January, Nordic Capital completed the acquisition of Maersk Medical A/S, a Denmark-based company, which develops, produces and markets sterile single-use medical devices to the healthcare sector. Maersk Medical has experienced rapid growth in the last ten years and is today a global player with 4'500 employees and an expected turnover for 2002 of DDK 1.9bn. Bo Söderberg, Partner at Nordic Capital, said "The future focus will be on further strengthening innovation and product development as well as strengthening the company's customer relation". Nordic Capital aims to increase organic growth but will also make add-on acquisitions.

European Private Equity Fund II
In January, Bridgepoint acquired Euronet Services (UK) Ltd from Euronet Worldwide Inc. in a USD 32.5m management buyout. Euronet Services (UK) is an owner and operator of independent ATMs (automated teller machine) across the UK. Euronet Services (UK), which was renamed Bank Machine Ltd. upon completion of the deal, was founded in 1998 and operates over 700 internal ATMs today. Bridgepoint forecasts that the UK ATM market is set to grow 5–10 per cent per annum. It anticipates that this growth will be achieved through both organic growth and acquisitive opportunities.

Permira Europe II
Permira has completed the financing arrangements for its 65% stake in German pay-TV company Premiere, paying around EUR 143m. Some 11.4% of the shares will be held by Premiere's management and the rest will be in the form of debt from Bayerische Landesbank, HypoVereinsbank and the Austrian Bank für Arbeit und Wirtschaft. Thomas Krenz, managing director of Permira, explained: "We have undertaken a serious, in-depth analysis of Premiere's business model. We believe in a successful and profitable future for pay-TV in Germany." Premiere had filed for insolvency in May 2002, following the collapse of KirchMedia.

At the end of March 2003, the portfolio of Princess Private Equity Holding comprised commitments to 101 partnerships with investments in more than 2'500 underlying portfolio companies.

USA and Canada – Venture
Access Technology Partners
Advanced Technology Ventures VI
APAX Excelsior VI
Austin Ventures VII
Battery Ventures VI
Cardinal Health Partners II
Catterton Partners IV Offshore
Chancellor V
Columbia Capital Equity Partners III
Crescendo IV
Dolphin Communications Fund
Draper Fisher Jurvetson Fund VII
EnerTech Capital Partners II
Infinity Capital Venture Fund 1999
Invesco Venture Partnersh. Fund II
Invesco Venture Partnersh. Fund II-A
Menlo Ventures IX
Morgan Stanley Venture Partners IV
Morgenthaler Partners VII
Prism Venture Partners IV
Sevin Rosen Fund VIII
Sierra Ventures VIII
Summit Ventures VI
TA IX
TH Lee. Putnam Parallel Partners
Thomas Weisel Capital Partners
TL Ventures V
Vortex Corporate Development Fund
Weiss, Peck & Greer Venture Ass. VI
Worldview Technology Partners III
Worldview Technology Partners IV

USA and Canada – Buyout
American Securities Partners III
Apollo Investment V
Blackstone Communication Partners I
Bruckmann, Rosser, Sherrill & Co. II
Carlyle Partners III
Fenway Capital Partners II
Heritage Fund III
Invesco U.S. Buyout Partnersh. Fund II
Kohlberg TE Investors IV
PG SPP1
Silver Lake Partners
T3 Partners
Thomas H. Lee Equity Fund V
TPG Partners III
Vestar Capital Partners IV
Warburg Pincus International Partners
William Blair Capital Partners VI

USA and Canada – Special Situations
Blackstone Mezzanine Partners
Canterbury Mezzanine Capital II
Chase 1998 Pool Participation Fund
Levine Leichtmann Capital Partners II
OCM Opportunities Fund III
OCM/GFI Power Opportunities Fund
Pegasus Partners II
Providence Equity Partners IV
TCW/Crescent Mezzanine Partners III

Europe – Venture
Abingworth Bioventures III
Elderstreet Capital Partners
European E-Commerce Fund
European Private Equity Partners III
GMT Communications Partners II
Galileo III
Index Ventures I
Merlin Biosciences Fund
Schroder Vent. Intern. Life Science II
Wellington Partners II

Europe – Buyout
3i Eurofund III
Astorg II
Botts Capital Partners
Coller International Partners III NW1
Coller International Partners III NW2
Doughty Hanson & Co III
European Private Equity Fund D
FCV Capital Partners V ‘A’
FCV Capital Partners V ‘F’
Industri Kapital 2000 Fund
Italian Private Equity Fund III
Mercapital Spanish Private Equity II
Nordic Capital IV
Palamon European Equity ‘C’
Partners Private Equity
Permira Ventures European Fund II
Quadriga Capital Private Equity Fund II
Segulah II
The Second Cinven Fund

Europe – Special Situations
Coller International Partners III
Doughty Hanson Europe Real Estate
ICG Mezzanine Fund 2000
Mezzanine Management Fund III
The Rutlund Fund

Rest of World – Venture
Carmel Software Fund
Crimson @Velocity
Genesis Partners II
Jerusalem Venture Partners III
Pitango Venture Capital Fund III

Rest of World – Buyout
Advent Latin American PE Fund II
Exxel Capital Partners VI
Newbridge Asia III
Polish Enterprise Fund IV
Unison Capital Partners

Changes to the Investment Guidelines

In December, the Directors of Princess Private Equity Holding ratified changes to the investment guidelines (Schedule B of the Investment Management Agreement), which they no longer considered appropriate under current and prospective conditions. The changes seek to strengthen the existing provisions and are based on actual experience to date. The Directors consider the changes to be in the best interests of Princess Private Equity Holding Limited. The fundamental investment objectives and strategy of Princess remain unchanged. The changes fall into three main areas:

1. The streamlining of guidelines in accordance with current best practice:
   The original industry allocation guidelines had a list of industries segmentations that proved in practice to be difficult in many instances to place on a given portfolio company. A key change to simplify the various investment criteria is the use of norms, such as the Venture Economics industry codes, to categorize the portfolio companies.

2. Adapting the allocation matrix according to the investment experience to date:
   The various allocation methods used to balance the portfolio over criteria such as industry sectors, financing stages and geographic regions etc. also required review. Two primary areas of change were made here: The first was to tighten and simplify the allocation criteria to promote compliance being ultimately tied to the underlying investments rather than to commitments. This was done as the portfolio has matured beyond the initial building stage and the underlying investments have become the best means to test the degree of diversification of the portfolio. Secondly, the allocation methods were tightened up by providing minima and maxima based on the annual deployment of commitments (together with a target), removing at times conflicting dual criteria and refining the definitions used.

3. Providing stable conditions for the deployment of a credit line:
   The only change of any substance to the investment strategy was to increase the borrowing limit permissible for a credit line. This limit was increased from 20% to 33% of net assets. This was necessary to provide the maximum flexibility for a credit facility in order to enable continued funding of existing commitments despite recent write-downs in the NAV. In adopting such a change, the Board has reiterated that its purpose is not to leverage the fund, but rather that it is a cash flow facility to satisfy the funding of commitments contracted within the commitment strategy.

A full set of the amended investment guidelines can be found with Citibank, London, the Princess bonds' Registrar, Paying and Conversion agent, and at the offices of Princess Management & Insurance Limited.

Consolidated unaudited statement of income
for the period from 1 January 2003 to 31 March 2003

	Notes	**01.01.03–31.03.03**	*01.01.02–31.03.02*
Net income from limited partnerships and directly held investments		**(150'994)**	***(25'391'005)***
Dividend and interest income	4	776'675	*620'969*
Revaluation	4	(200'535)	*(25'534'147)*
Foreign exchange gains and losses	4	(727'134)	*(477'827)*
Net income from short-term investments		**–**	***628'883***
Interest income	5	–	*628'883*
Revaluation	5	–	*–*
Net income from cash and cash equivalents		**181'925**	***127'173***
Interest income	7	182'463	*131'925*
Foreign exchange gains and losses		(538)	*(4'752)*
Operating income		**30'931**	*(24'634'949)*
Operating expenses		**(5'880'186)**	***(6'319'638)***
Management fee		(3'442'031)	*(3'744'374)*
Insurance fee		(2'082'885)	*(2'423'086)*
Administration fee		(69'430)	*(80'770)*
Tax exemption fee		(476)	*1'514*
Other operating expenses		(285'364)	*(72'922)*
Financing cost		**(9'730'494)**	***(7'956'879)***
Finance cost on convertible bond	9	(8'009'692)	*(7'565'111)*
Amortisation of transaction costs	9	(391'768)	*(391'768)*
Other finance cost	14	(1'329'034)	*–*
Surplus / (loss) for the financial period		**(15'579'749)**	*(38'911'466)*

The disclosures relating to the calculation of the result per share are included in note 13.

Basic surplus / (loss) per share	USD	(1'557.9749)	*(3'891.1466)*
Diluted surplus / (loss) per share	USD	(2.2225)	*(5.5509)*

Consolidated unaudited balance sheet

as at 31 March 2003

	Notes		31.03.03		31.12.02
Assets					
Non-current assets					
Investments in limited partnerships and directly held investments	1&4		**511'307'147**		*485'553'060*
Current assets					
Short-term investments	1&5	**–**		*–*	
Other short-term receivables	6	**105'318**		*90'061*	
Hedging asset	4	**1'666'672**		*–*	
Cash and cash equivalents	7	**35'224'624**		*78'526'819*	
			36'996'614		*78'616'880*
Total assets			**548'303'761**		*564'169'940*
Equity and Liabilities					
Capital and reserves					
Issued capital	8	**100**		*100*	
Reserves		**(10'940'891)**		*4'638'857*	
			(10'940'791)		*4'638'957*
Liabilities falling due after more than one year					
Convertible bond	9		**559'185'612**		*550'784'153*
Liabilities falling due within one year					
Hedging liability	4	**–**		*8'516'481*	
Other short-term payables	10	**58'939**		*230'348*	
Rounding		**1**		*1*	
			58'940		*8'746'830*
Total liabilities			**548'303'761**		*564'169'940*

The financial statements on pages 14 to 27 were approved by the board of directors on 4th March 2003 and are signed on its behalf by:

P. Gujer
Director

G. Hall
Director

Consolidated unaudited statement of changes in equity

for the period from 1 January 2003 to 31 March 2003

	Share capital	Share premium	Accumulated surplus / (loss)	Total
Equity at beginning of reporting period	100	241'028'915	(236'390'057)	**4'638'958**
Surplus / (loss) for the financial period	–	–	(15'579'748)	**(15'579'748)**
Rounding			(1)	**(1)**
Equity at end of reporting period	**100**	**241'028'915**	**(251'969'806)**	**10'940'791**

Consolidated unaudited statement of changes in equity

for the period from 1 January 2002 to 31 March 2003

	Share capital	Share premium	Accumulated surplus / (loss)	Total
Equity at beginning of reporting period	100	241’028’915	(113’484’638)	**127’544’377**
Surplus / (losses) reclassified to the income statement	–	–	(38’911’466)	**(38’911’466)**
Equity at end of reporting period	**100**	**241’028’915**	**(152’396’104)**	**88’632’911**

Consolidated unaudited cash flow statement

for the period from 1 January 2003 to 31 March 2003

	Notes	**01.01.03–31.03.03**	*01.01.02–31.03.02–*
Cash flow from operating activities			
Management fees		**(3'442'031)**	*(3'744'374)*
Administration fees		**(69'430)**	*(80'770)*
Insurance fees		**(2'082'885)**	*(2'423'086)*
Tax exemption fee		**(476)**	*1'514*
Other operating expenses		**(285'364)**	*(72'922)*
Realised gains / (losses) on hedging	4	**(12'755'080)**	*1'338'894*
(Increase) / Decrease in other short-term receivables		**(15'257)**	*149'582*
Increase / (Decrease) in other short-term payables		**(171'409)**	*(12'073)*
Interest and dividend income from limited partnerships and directly held investments	4	**776'675**	*620'969*
Purchase of limited partnerships and directly held investments	4	**(34'384'197)**	*(28'996'337)*
Distributions of limited partnerships and directly held investments	4	**10'274'369**	*3'421'520*
Purchase of short-term investments	5	–	*(114'394'510)*
Repayment at cost of short-term investments	5	–	*130'000'000*
Interest income received from cash and cash equivalents	7	**231'018**	*70'359*
Financing cost / Credit line charges	14	**(1'329'034)**	–
Net increase / (decrease) in cash and cash equivalents		**(43'253'101)**	*(14'121'234)*
Cash and cash equivalents at beginning of reporting period	7	**78'526'819**	*53'785'261*
Effect on cash and cash equivalents			
– revaluation	7	**(48'555)**	–
– movement in exchange rates		**(538)**	*(4'752)*
– rounding		**(1)**	–
Cash and cash equivalents at end of reporting period	7	**35'224'624**	*39'659'275*

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements:

Basis of preparation / Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standard No 34 (Interim Reporting), exept for the following:

- For the valuation of investments in limited partnerships, the directors refer to the most recent available information of the General Partner of the underlying investment. Owing to the diversified nature of the limited partnership investments and the variety of valuation bases adopted and quality of management information provided by the General Partners the values included in these financial statements do not necessarily comply with Fair Values as defined in IAS 39.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, investments held for trading and investments available for sale, with the exception indicated above. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

All unrealised surpluses and losses are recognised in the statement of income. All realised surpluses and losses are posted against the value of the investment in the balance sheet.

Income

Income from bank deposits is included on an accruals basis.

Net income from short-term investments and Net income from cash and cash equivalents also includes the increase in value of bonds purchased at a discount.

Expenditure

The expenditure is included in the accounts on an accruals basis.

Reporting currency

As US dollars reflects the economic substance of the underlying events and circumstances relevant to the Group and US dollars are used to a significant extent in, or has a significant impact on, the Group, US dollars are the appropriate currency to be used as the measurement currency and accordingly the reporting currency in these financial statements. All transactions in currencies other than the measurement currency are treated as transactions in foreign currencies.

Investment in limited partnerships and directly held investments

Investments in limited partnerships are valued initially at cost and thereafter at the most recent net asset value as reported by the underlying partnership and adjusted for subsequent net capital activity. In selecting investments the Directors have taken into consideration the accounting and valuation basis of the underlying partnership and select only those investments, which adopt an internationally recognised standard.

The Directors also review management information provided by underlying partnerships on a regular basis. In those cases where the management information is limited, the Directors work with the underlying partnership in an attempt to obtain more meaningful information.

Notwithstanding the above, the variety of valuation bases adopted and quality of management information provided by the underlying partnerships means there are inherent difficulties in determining the value of these investments.

Amounts realised on the sale of investments will differ from the values reflected in these financial statements and the difference may be significant.

The directly held investments are being treated as "available-for-sale". The directors refer to the most recent availabe information provided by the lead investor

of the investment with any changes resulting from additional financing rounds or a permanent diminution in value.
Any changes in the value of the investments are shown within “Net income from limited partnerships and directly held investments – Revaluation”.

The Group recognises the funding of the limited partnerships and directly held investments on the date funds are transferred to the partnership. Any distributions, including return of principal of investment, received from the underlying limited partnerships and directly held investments are recognised on the distribution date.

Short-term investments

Short-term investments are defined as investments with maturity between three and twelve months from the date of purchase.

The short-term investments purchased at par are included in the balance sheet at market values ruling at the balance sheet date. The changes in the fair value are included within “Net income from short-term investments – Revaluation”.

The short-term investments purchased at a discount are included in the balance sheet at market values ruling at the balance sheet date. The changes in the fair value and the interest received at maturity are included within “Net income from short-term investments”.

Upon maturity of the short-term investments purchased at a discount the difference between the last reported fair value and the maturity amount are included within “Net income from short-term investments”.

All transactions relating to short-term investments are recognised on the settlement date.

Cash and cash equivalents

The Cash and cash equivalents consist at cash on bank and cash invested in money market instruments with a maturity of up to three months from the date of purchase. The cash equivalent investments purchased at a discount are included in the balance sheet at market values ruling at the balance sheet date. The changes in the fair value and the interest received at maturity are included within “Net income from cash and cash equivalents”.
Upon maturity of the cash equivalent investments purchased at a discount the difference between the last reported fair value and the maturity amount are included within “Net income from cash and cash equivalents”.

Foreign exchange

Transactions in foreign currencies are translated into US dollars at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the exchange rate prevailing at the balance sheet date. Exchange gains and losses are included in the statement of income.

Accounting for hedging activities

The Group’s policy of hedging the value of non-US dollar investments in limited partnerships and directly held investments against the US dollar does not qualify as hedge accounting as defined in IAS 39. As a result the unrealised changes in the fair value of these derivatives and the realised net gains / losses on the derivatives that matured during the year are recognised in the statement of income under the heading of “Net income from Limited Partnerships and directly held investments – foreign exchange gains and losses”.

Consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over the operations, have been consolidated. All inter-company transactions, balances and unrealised surplus and deficits on transactions between group companies have been eliminated. A listing of the Group’s subsidiaries is set out in Note 18.

2 Expenses

Management fee

The management fee is paid quarterly in advance pursuant to the Investment Management Agreement between Princess Private Equity Holding Limited and Princess Management & Insurance Limited.

Administration fee

The administration fee is paid quarterly in advance pursuant to the Administration Agreement between Princess Private Equity Holding Limited and Partners Group (Guernsey) Limited.

Insurance fee

The insurance fee is paid quarterly in advance pursuant to the Insurance Trust Agreement between Princess Private Equity Holding Limited and Princess Management & Insurance Limited.

3 Taxation status

The companies are exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989 and 1992 and they are each charged an annual exemption fee of GBP 600.

4 Limited partnerships and directly held investments

4.1 Investments

	31.03.03	31.12.02
Balance at beginning of reporting period	**485'553'060**	*461'574'349*
Capital activity recorded at the transaction rate	**34'384'197**	*119'849'809*
Distributions	**(10'274'369)**	*(49'447'332)*
Revaluation	**(200'535)**	*(69'690'731)*
Foreign exchange gain / (loss)	**1'844'794**	*23'266'965*
Rounding	**–**	*–*
Balance at end of reporting period	**511'307'147**	*485'553'060*

The balance on the investments in limited partnerships and directly held investments at the end of the reporting period can be split as follows:

North America	**262'583'495**	*280'778'626*
Europe	**228'101'438**	*184'853'665*
Rest of World	**20'622'214**	*19'920'769*

4.2 Distributions

	01.01.03–31.03.03	*01.01.02–31.03.02*
Dividends	**490’892**	*620’969*
Interest income	**285’783**	*–*
	776’675	*620’969*
Return of investments – received in cash	**10’274’369**	*3’421’520*
Return of investments – received in kind	**–**	*–*
Total distributions	**11’051’044**	*4’042’489*

4.3 Foreign exchange

	01.01.03–31.03.03	*01.01.02–31.03.02*
Foreign exchange revaluation	**1’844’794**	*(1’696’748)*
Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments	**10’183’153**	*(119’973)*
Realised gain / (loss) from foreign exchange hedges relating to investments in limited partnerships and directly held investments	**(12’755’080)**	*1’338’894*
Rounding	**(1)**	*–*
	(727’134)	*(477’827)*

4.3 (continued)

At the balance sheet date, Princess Private Equity Holding Ltd. had the following forward foreign exchange contracts in place. The contracts were entered into to hedge against changes in the foreign exchange value of the investments of Princess Private Equity Subholding Limited. The unrealised surplus / (loss) at the end of the reporting period is detailed below:

	USD	**Rate**	**Value date**	**Surplus/ (loss) 31.03.03**	*Surplus/ (loss) 31.12.02*
Buy USD against GBP	80’000’000	1.5460	29.01.03	–	*(3’151’358)*
Buy USD against EUR	54’000’000	0.9740	29.01.03	–	*(4’069’405)*
Buy USD against CHF	6’000’000	1.4966	29.01.03	–	*(493’781)*
Buy USD against SEK	10’000’000	9.4100	29.01.03	–	*(801’937)*
Buy USD against GBP	74’000’000	1.6266	29.01.03	**2’135’862**	–
Buy USD against EUR	65’000’000	1.0830	29.01.03	**(433’341)**	–
Buy USD against CHF	5’000’000	1.3467	29.01.03	**18’127**	–
Buy USD against SEK	6’000’000	8.5579	29.01.03	**(53’976)**	–
				1’666’672	*(8’516’481)*

5 Short-term investments

5.1 Investments

	31.03.03	*31.12.02*
At beginning of reporting period	–	*128’945’901*
Additions	–	*154’190’387*
Redemptions	–	*(283’136’288)*
Interest accrual / fair value adjustment	–	–
Rounding	–	–
At end of reporting period	–	–

5.2 Income

	01.01.03– 31.03.03	*01.01.02– 31.03.02*
Interest income		
Interest received from investments issued at a discount	–	*1’054’099*
Net interest accrued from investments issued at a discount	–	*(425’216)*
Interest received from investments issued at par	–	–
Net interest accrued from investments issued at par	–	–
Total interest income from short-term investments	–	*628’883*
Revaluation		
Fair value revaluation of investments issued at par	–	–

6 Other short-term receivables

	31.03.03	31.12.02
Bank deposit interest receivable	–	1’647
Distributions receivable	86’848	–
Stock distributions	–	60’869
Sundry prepayments	18’470	27’545
	105’318	90’061

7 Cash and cash equivalents

7.1 Balance

	31.03.03	31.12.02
Cost		
Cash equivalents at beginning of reporting period	49’929’322	–
Additions	49’921’554	229’128’404
Redemptions	(80’000’000)	(179’263’179)
Interest accrual / fair value revaluation	137’144	64’097
Cash equivalents at end of reporting period	19’988’020	49’929’322
Cash at banks	15’236’605	28’597’497
Rounding	(1)	
Total cash and cash equivalents	35’224’624	78’526’819

7.2 Interest income

	01.01.03– 31.03.03	01.01.02– 31.03.02
Interest received from cash equivalents on maturity	185’699	1’132’195
Net interest accrued from cash and cash equivalents	(48’555)	549’688
Interest received from cash at banks	45’320	373’618
Rounding	(1)	–
Total interest income from cash and cash equivalents	182’463	2’055’501

8 Share capital

	31.03.03	31.12.02
Authorised		
20’000’000 Class A shares of USD 0.01 each	200’000	200’000
10’000 Class B shares of USD 0.01 each	100	100
	200’100	200’100
Issued		
10’000 Class B shares of USD 0.01 each	100	100

9 Convertible bond

	31.03.03	31.12.02
Balance at beginning of reporting period	**550'784'153**	*518'297'701*
Amortisation of transaction costs	**391'768**	*1'567'071*
Finance cost on convertible bond	**8'009'692**	*30'919'382*
Rounding	**(1)**	*(1)*
Balance at end of reporting period	**559'185'612**	550'784'153

As at the balance sheet date the nominal value of the convertible bond outstanding was USD 700'000'000. The bond is not convertible into shares until on or after 1 January 2007, at the option of the investor, using the relevant conversion price. Princess Private Equity Holding Limited has entered into an insurance policy to ensure that it is provided with sufficient funds for the repayment of the principal upon redemption of the bond on 31 December 2010.

In accordance with IAS 32, Financial Instruments: Disclosure and Presentation, the net proceeds of the bond have been split between the liability and equity option components. The fair value of the equity component has been calculated as USD 242'200'000 using an accepted option valuation model. This amount is classified as share premium and will remain part of the permanent equity of the Company. The remaining net proceeds, after the allocation of the liability related transaction costs, of USD 446'135'767 are allocated to the liability component. The liability, including transaction costs, is therefore stated at a discount of 1.4379% per quarter to the maturity value.

The result of this technical requirement in IAS 32 is that the discount is amortised through the income statement as a finance cost, on a yield to maturity basis, over the 7.5-year life of the bonds until the first conversion at 1 January 2007. This accounting treatment has no effect on either the economic position or the net asset value of the Company. The cumulative finance cost in retained earnings is offset by an equivalent credit in share premium. However, the required treatment clearly does have a significant impact on the net surplus or loss reported in the income statement over the period to the conversion of the bond.

10 Other short-term payables

	31.03.03	31.12.02
Sundry accruals	**58'939**	230'348

11 Commitments

	31.03.03	31.12.02
Total committed translated at the rate prevailing at the balance sheet date	**1'134'673'124**	*1'132'528'051*
Actual funded at the transaction rate	**712'560'035**	*679'697'797*
Unutilised commitment translated at the rate prevailing at the balance sheet date	**400'424'532**	*432'957'120*
Differences due to foreign exchange movements	**21'688'557**	*19'873'134*

12 Diluted net assets per ordinary share

The net assets are calculated by deducting the Current Liabilities from the Gross Assets. The 700'000 convertible bonds at a par value of USD 1'000 each, if converted at USD 100 per share would result in 7'000'000 shares.

	31.03.03	31.12.02
Net assets of the company	**548'244'821**	*555'423'110*
Outstanding shares at the balance sheet date	**10'000**	*10'000*
Additional shares due to conversion	**7'000'000**	*7'000'000*
Net assets per share after conversion	**78.2090**	*79.2330*

13 Basic and diluted surplus / (loss) per share

In relation to the calculation of the diluted value per share the 700'000 convertible bonds at a par value of USD 1'000 each, if converted at USD 100 per share would result in 7'000'000 shares.

	31.03.03	31.12.02
Basic surplus / (loss) per share		
Surplus / (loss) for the financial period	**(15'579'749)**	*(38'911'466)*
Outstanding shares at the balance sheet date	**10'000**	*10'000*
Net surplus / (loss) per share	**(1'557.9749)**	*(3'891.1466)*
Diluted surplus / (loss) per share		
Surplus / (loss) for the financial period	**(15'579'749)**	*(38'911'466)*
Outstanding shares at the balance sheet date	**10'000**	*10'000*
Additional shares due upon conversion	**7'000'000**	*7'000'000*
Net surplus / (loss) per share after dilution	**(2.2225)**	*(5.5509)*

14 Credit line facility

Princess Private Equity Holding Limited has entered into a revolving credit facility with Bank of Scotland on the 31 December 2002 for a maximum of USD 130,000,000. Security is by way of the issued share capital of Princess Private Equity Subholding Limited.

Interest is calculated using a LIBOR rate on the day of the advance plus an amount equivalent to:
– 1.30% providing the total drawndown does not exceed USD 50,000,000
– 1.40% if the total drawndown exceeds USD 50,000,000

An additional 0.10% may be added if the ration of Net Asset Value divided by the drawn down facility (including capitalised interest) is less than 5:1.

There is a non utilisation fee which is payable yearly in arrears and this is calculated at 0.40% per annum on the average undrawn amount of the revolving credit during the year.

15 Contingent Assets

On 29 June 1999, Princess Private Equity Holding Limited has entered into an Insurance Agreement with Princess Management & Insurance Limited, to ensure that it will be provided with sufficient funds to be able to pay the principal amount of the Bond at maturity on 31 December 2010.

16 Number of employees

At the balance sheet date the Company had no persons employed.

17 Related party transactions

Investment in underlying partnership

On 30 December 1999, Princess Private Equity Subholding Limited committed CHF 10'720'000 to Partners Private Equity L.P., a partnership administered by Partners Private Equity Management Inc., a subsidiary of Partners Group Holding.

Partners Group Holding owns 19.9% of the share capital of GE & W AG who in turn holds 80.1% of the Class B shares of Princess Private Equity Holding Limited.

On 15 December 2000, Princess Private Equity Subholding Limited committed USD 40'000'000 to Partners Group SPP1 Limited, a special purpose vehicle established to facilitate the participation by various Partners Group mandates in Lexington Hamilton Lane 2000 LLC that purchased 65 limited partnership interests from JP Morgan Partners (formerly Chase Capital Partners).

Affiliated Companies and Controlling Parties

The following directors are affiliated to companies that are disclosed as related parties within these financial statements

M Giannini	Hamilton Lane
P Gujer	Swiss Reinsurance Company
S Scherling	Swiss Reinsurance Company
U Wietlisbach	Partners Group

GE & W AG, a majority of whose shares are held by the founding partners of Partners Group, and Swiss Reinsurance Company hold 8'010 and 1'090 Class B Shares respectively. Mr Wietlisbach, a Director of Princess Private Equity Holding Limited and a Partner of Partners Group, controls 26.7% of the issued share capital of GE & W AG.

18 Group enterprises – significant subsidiaries

	Country of incorporation	Ownership interest **31.03.03**	*31.12.02*
Princess Private Equity Subholding Limited	Guernsey	100%	*100%*

19 Parent company and ultimate controlling party

GE & W AG, a company organised by Swiss law holds the majority of the Class B shares.

20 Risks

It is expected, that a large proportion of the Group's investments will be made by investing in private equity funds (including affiliated funds). Many of the private equity funds may be wholly unregulated investment vehicles. In addition, certain of the private equity funds may have limited or no operational history and have no proven track record in achieving their stated investment objective.

The value of the investments in the private equity funds and the income from them may fluctuate significantly.

The Group's over-commitment strategy could result in periods in which the Group has inadequate liquidity to fund its investments or to pay other amounts payable by the Group.

The Group expects that a portion of the private equity investments to be made by the Group will be in a number of different countries and denominated in a number of different currencies. Any returns on and value of, such portion of the private equity investments made by the Group may, therefore, be materially affected by exchange rate fluctuations, local exchange control and other restrictions, including restrictions on the convertibility of the currencies in question and also by political and economic developments in the relevant countries.

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