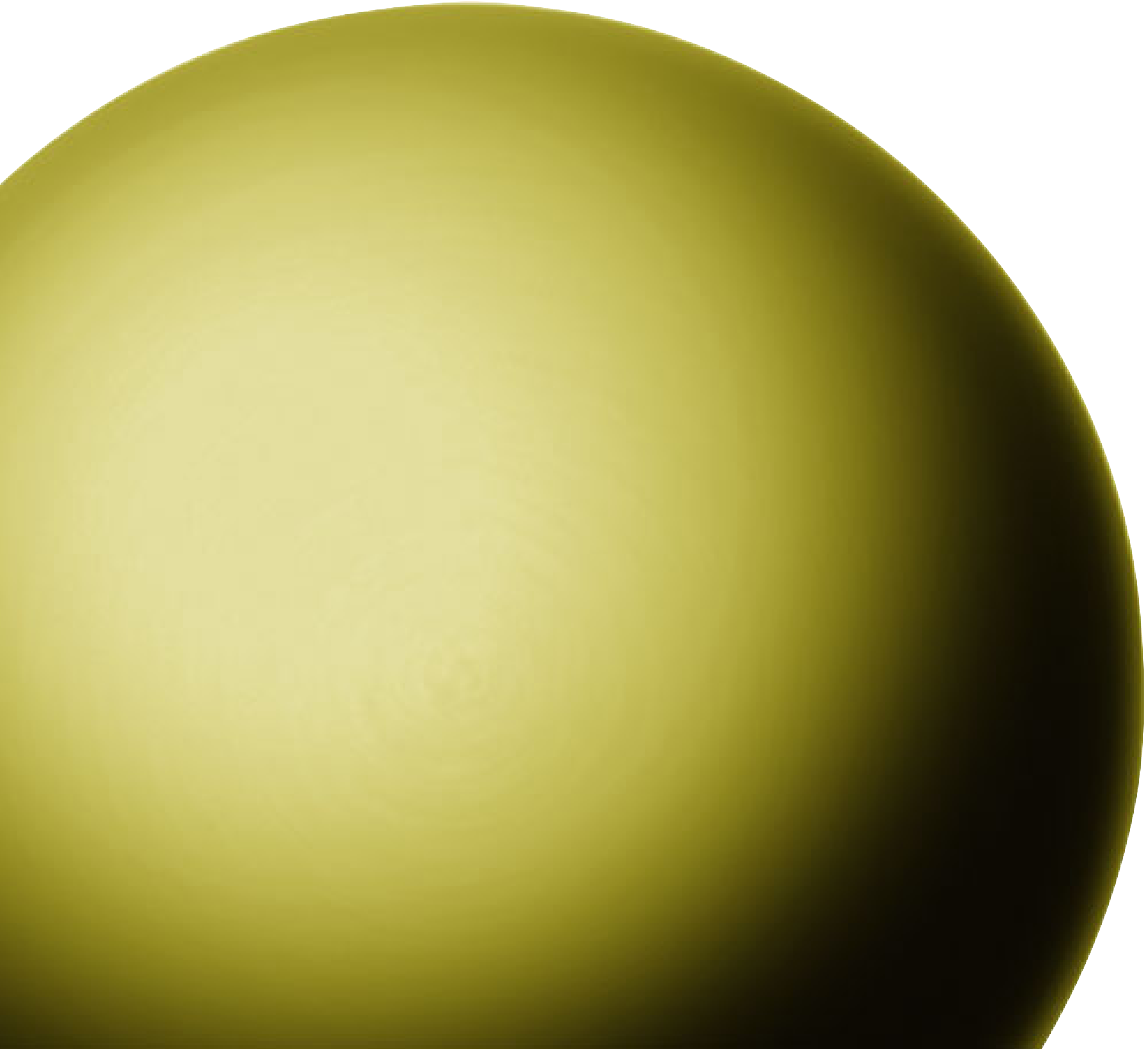


Report for the period
1 July 2003 to
30 September 2003

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 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.

Princess's NAV showing strong signs of a nascent recovery

Princess's NAV sees a positive third quarter, with the trend indicating that further improvements in the NAV are likely in the near future.

In the third quarter of 2003, the net asset value (NAV) of the Princess Private Equity Holding portfolio increased by 81 basis points from 75.69% at the end of June to 76.50% at the end of September. This is the first increase on a quarterly basis since the end of 2000 and the signs are encouraging that this upward trend is likely to continue. An analysis of the changes in the quarterly NAV averages shows that the NAV declines have slowed down significantly over the past quarters and are moving towards positive ground.

In terms of distributions, the third quarter was very positive for Princess. Princess received USD 17.7m from investee partnerships, coming mainly from the successful sale of Franse Bonhomme, the Yell IPO and Seagate's secondary share offering.

These cash payments were the main reason why the NAV of Princess increased in the third quarter. Except for the cash distributions, the impact of these realizations by the partnerships is not yet reflected in the NAV of Princess. The revaluation of the companies should become noticeable once Princess receives the September reports by the respective partnerships during the fourth quarter of this year.

It is estimated that the secondary share offering and the remaining positions of Seagate alone could result in a positive impact on the Princess NAV of around 3% (including consideration for the General Partner's carried interest and a liquidity discount). Starting at the end of the lock-up period in January 2004, the partnerships may start selling their remaining positions. Once this sale is completed, it will be possible to calculate the final impact of Seagate on Princess.

Increasing cash payments, which now equal capital calls on a quarterly basis, as well as the fact that the distributions are not coming exclusively from secondary portfolios but increasingly also from primary partnership investments undertaken since 1999 are further evidence that Princess has become a mature portfolio. Princess is invested in companies that have been able to develop over the last 2 to 4 years and that are now well positioned for an opening exit market. All of these factors speak for a continued improvement in the NAV.

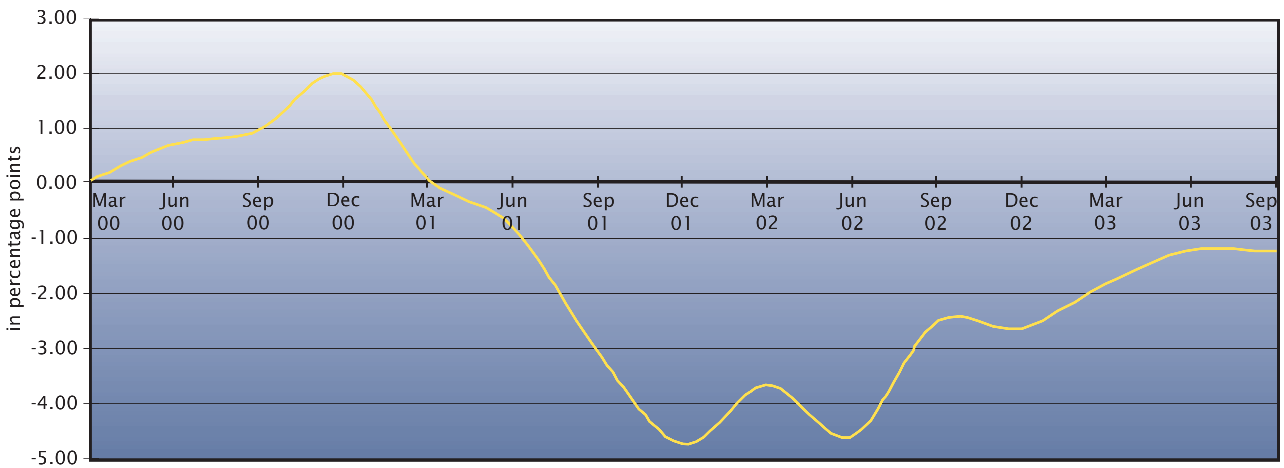
Revised Rating

Standard & Poor's revised rating of Swiss Re affects the rating of Princess bonds

When Standard & Poor's initially rated the Princess Bond (the "Bonds") as AAAr* in June 1999, it indicated that this rating for the Bonds drew on the financial strength ratings of Swiss Re as the reinsurer of the Bonds. The Swiss Re rating at that time was AAA/stable/–. Standard & Poor's revision of the long-term counterparty credit and insurer financial strength ratings on Swiss Re to AA+ with a stable outlook in October 2002 was followed by a further revision to AA in the 3rd quarter 2003. As a result of the Swiss Re rating being so revised the rating of the Bonds have been amended to reflect that level. As stated in the Offering Circular dated 25 June 1999, a security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by Standard & Poor's.

*The "r" subscript indicates that the rating does not address the viability of returns, which will depend upon a managed portfolio of private equities. It should be noted that this methodology is not applicable anymore.

Changes in the quarterly NAV averages (QoQ)



While in the late 1990s funds were able to exit a company via an IPO within 3 years of investing in it, the holding period for companies has since increased again to almost 5 years. Today's IPO candidates need to demonstrate that they are mature companies with stable long-term revenue and profit growth. Similarly, the time span from initial funding to an exit via an M&A has increased to around 4 years.

Signs of a re-opening of the exit windows

With the current positive financial market developments, there are signs on both sides of the Atlantic that M&A activity will pick up and that the IPO window will likely re-open.

The bursting of the technology bubble in 2000 and the severe economic downturn led to a sharp decline in investment as well as exit activity by the private equity partnerships. Following substantial valuation adjustments, the partnerships restarted their investment activity at the beginning of 2002 – taking advantage of attractive opportunities. However, exit possibilities, either via the trade sale or via the IPO route, remained virtually closed.

Lately, trading volumes have picked up and equity markets have received more liquidity. The past few months have seen a number of exits on both sides of the Atlantic. Most notable are the IPO of yellow-pages publisher Yell in the UK and Seagate's successful secondary share offering in the USA, both in July 2003.

The improved economic outlook, particularly for the USA but also for Japan and Europe, could be an early sign of strengthening corporate financials and investors' renewed confidence in the equity markets, which in turn could inspire confidence in a more positive exit environment. A re-opening of the exit window should have an immediate positive impact on the mature Princess portfolio.

Financial buyers drive M&A activity

With corporate buyers still holding off from making new investments, financial buyers are driving M&A activity.

Many private companies are either not large enough or in the right sector to attract significant investor interest for an IPO. Still such companies are attractive M&A targets as private equity managers have been using the past two years to improve the business focus, the operational efficiency and the profitability as well as the financials of their portfolio companies. This has led to a solid backlog of companies ready to come to the market.

In the current, more favorable environment, the prospects for exits are better. The end of the Iraq war, signs of increased economic activity, record low interest rates and rising equity markets have led to renewed investment interest especially from financial buyers. Their willingness to make new investments at current valuations is currently driving the M&A market. Some corporate M&A players have now regained strength and are also expected to fuel an uptick in M&A activity. As evidenced by the number of successful recapitalizations, the banks have also become more open again to financing private companies – a further indicator of a recovery of the M&A market.

Hence, recapitalizations and M&As are currently the main exit routes, while IPOs remain the exception

IPOs – a chink of light

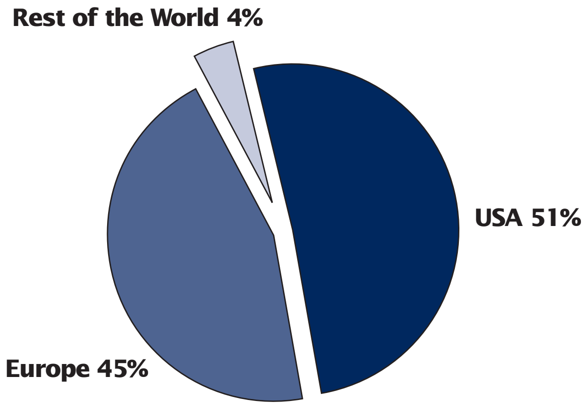
IPO exit route is still a difficult way to go.

With interest rates continuing at low levels, equities are looking more attractive again and we may see the IPO cycle turn up. However, IPO candidates in both Europe and the US need to demonstrate strong cash flows and more generous dividend yields in order to attract the investors' interest. Providing the price and the quality are right, there is clearly an appetite in the market for new stocks.

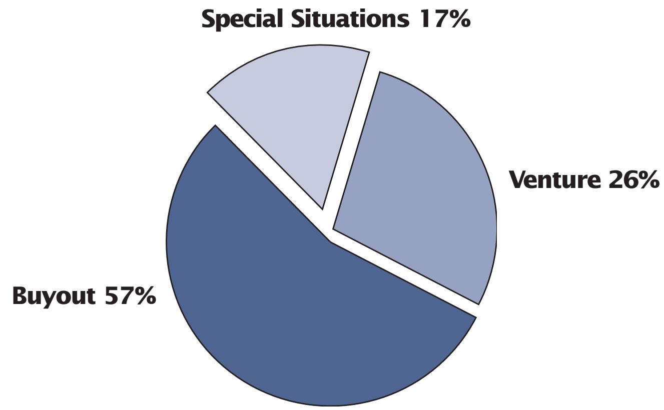
The European market for initial public offerings may finally be turning a corner, according to the latest quarterly PricewaterhouseCoopers IPO Watch Europe Survey. Although market activity remains significantly below the levels experienced in previous years, the increase in deal size and in the number of deals quarter on quarter this year is encouraging. The situation in the US is not very different to that in Europe. With recent IPO filings increasing, we could well see more light at the end of the tunnel by the end of the year providing the financial markets hold up.

74% of the Princess portfolio is invested in the stable buyout and special situations segments. Venture investments have shifted towards the later stage and back to more traditional business ideas following the bursting of the technology bubble.

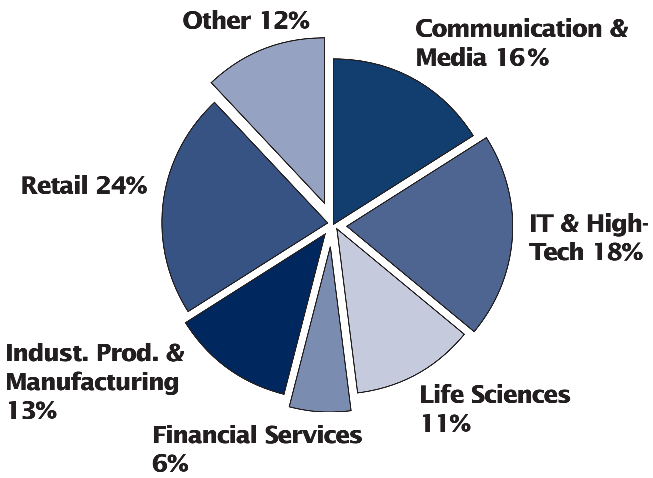
Investments by geographic region*



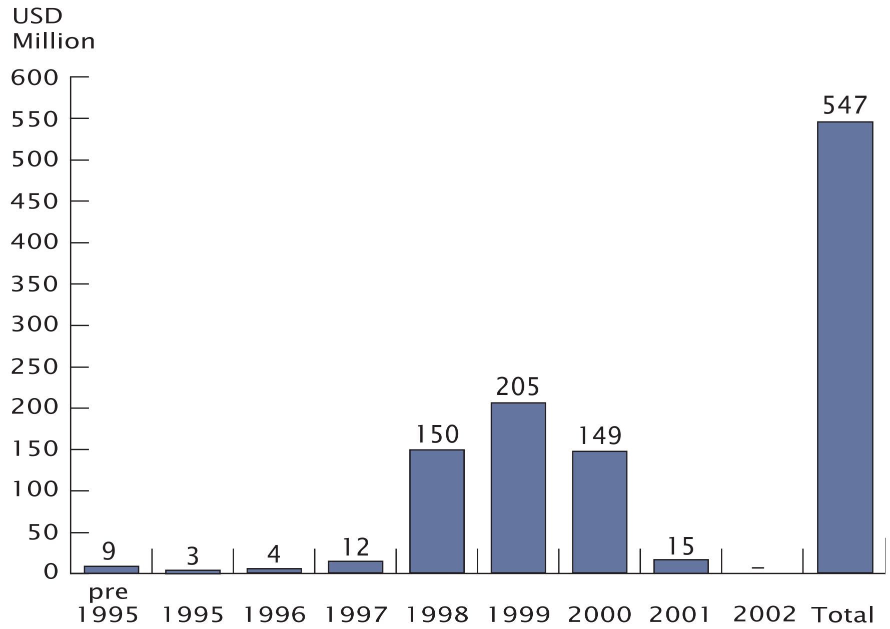
Investments by financing stage*



Investments by industry sector*



Investments by vintage year*



*Allocation by unrealized value of private equity investments

In the third quarter of 2003, Princess received proceeds from 32 partnerships totaling USD 18m. At the same time, 61 partnerships made capital calls in the order of USD 23m.

Selected new investments

Permira II
The Rodenstock Group, Munich, one of the world's leading spectacle manufacturers, is paving the way for a potential future IPO by taking on board a new outside shareholder, namely Permira. Permira funds and Rodenstock management together hold a total of 49% in Rodenstock; the family holding Optische Werke G. Rodenstock KG continues to hold the majority of shares at 51%. Both parties have agreed to keep the transaction volume and details confidential.

Permira II
A consortium formed by Permira, BC Partners, CVC Capital Partners and Investitori Associati has agreed to acquire Telecom Italia's 61.5% stake in New SEAT for EUR 3.03bn, making it Europe's largest buyout transaction ever. The agreed price is equal to EUR 0.598 per New SEAT ordinary share, which equates to an enterprise value of approximately EUR 5.65bn. New SEAT will own the directories and directories assistance business in Italy, following completion of the previously announced de-merger of SEAT Pagine Gialle.

Thomas H. Lee Parallel Fund V, L.P.
A private equity consortium comprising Thomas H. Lee Partners, Bain Capital, Hellmann & Friedman, Providence Equity Partners and Quadrangle Group joined up with Saban Capital Group to acquire German television network conglomerate ProSieben-Sat.1 Media AG. The company produces and broadcasts television programs through its four wholly-owned German language television channels. ProSieben-Sat.1 Media AG is a market leader and one of two large private television groups in Germany. The transaction was valued at over EUR 1bn. The consortium acquired the television group from the insolvent KirchMedia.

Selected new exits

Apax Excelsior VI
Yell Group plc, owned by private equity firms Apax Partners and Hicks Muse Tate & Furst, completed a successful IPO on the London Stock Exchange on 10 July 2003, raising GBP 1.1bn. It was the biggest share offering in the UK in over two years and the first major listing of a private equity-backed company on the London Stock Exchange in over a year. Yell Group plc publishes directories in the UK and the US. Apax Partners and Hicks Muse Tate & Furst more than doubled the value of their original investment since first acquiring Yell back in May 2001. Following the offer, the two private equity houses each hold approximately 19% of Yell's ordinary shares.

Industri Kapital 2000
Industri Kapital completed a EUR 135m refinancing of French industrial group Fives-Lille. The transaction allows the private equity firm to fully repay the convertible bonds and shareholder loans that were put in place at the time of the initial acquisition of Fives-Lille two years earlier and thus to realize part of its investment. Fives-Lille is a French industrial engineering group that designs and produces equipment primarily for the automotive, steel and aluminium industries. The recapitalisation was possible due to Fives-Lille's strong performance: its operating profit has more than doubled since Industri Kapital took the company private from the Paris Stock Exchange in June 2001.

Chancellor V
SigmaTel, a Chancellor V portfolio company, completed a USD 150m IPO, offering 10m shares at USD 15 per share, in September 2003. Chancellor V held an 11% pre-IPO stake in the company. SigmaTel, a Texas-based semiconductor company, offers a wide range of mixed-signal integrated circuits that convert real world analog signals, such as music and voice, to digital signals required by personal computers (PCs) and other digital devices for processing and playback. Founded in 1993, the company has about 100 employees.

Cinven II, Astorg II
A consortium comprising Cinven, Astorg Partners and PAI Partners sold its stake in Frans Bonhomme, which it had acquired in February 2000, to Apax Partners. Frans Bonhomme is the leader in the distribution of plastic pipes and fittings for the building industry in France. The value of the transaction was EUR 520m. It will be financed through a combination of equity, senior and mezzanine debt.

At the end of September 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 Partnership Fund II
Invesco Venture Partnership Fund II-A
Lightspeed Venture Partners VI
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
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 Partnership 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 Ventures International 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

Consolidated unaudited statement of income

for the period from 01 January 2003 to 30 September 2003

	Notes	**01.07.2003–30.09.2003**	**01.01.2003–30.09.2003**	*01.07.2002–30.09.2002*	*01.01.2002–30.09.2002*
Net income from limited partnerships and directly held investments		**10’344’048**	**(1’897’026)**	*(10’501’550)*	*(54’543’080)*
Dividend and interest income	4	770’116	2’638’867	*790’510*	*2’283’521*
Revaluation	4	10’012’181	(4’144’056)	*(10’966’533)*	*(55’178’045)*
Foreign exchange gains and losses	4	(438’249)	(391’837)	*(325’527)*	*(1’648’556)*
Net income from short-term investments		–	–	*165’595*	*1’130’448*
Interest income	5	–	–	*165’595*	*1’130’448*
Revaluation	5	–	–	–	–
Net income from cash and cash equivalents		**50’798**	**295’519**	*279’552*	*710’405*
Interest income	7	51’239	296’477	*279’408*	*714’777*
Foreign exchange gains and losses		(441)	(958)	*144*	*(4’372)*
Operating income		**10’394’846**	**(1’601’507)**	*(10’056’403)*	*(52’702’227)*
Operating expenses		**(5’498’049)**	**(16’786’224)**	*(5’991’827)*	*(18’382.054)*
Management fee		(3’363’695)	(10’216’093)	*(3’617’149)*	*(10’987’705)*
Insurance fee		(1’989’771)	(6’119’781)	*(2’220’897)*	*(6’952’060)*
Administration fee		(66’326)	(203’994)	*(74’030)*	*(231’735)*
Tax exemption fee		(972)	(1’847)	*(466)*	*(1’264)*
Other operating expenses		(77’285)	(244’509)	*(79’285)*	*(209’290)*
Financing cost		**(7’808’378)**	**(26’336’611)**	*(8’175’996)*	*(24’198’530)*
Finance cost on convertible bond	9	(8’241’686)	(24’376’238)	*(7’784’228)*	*(23’023’227)*
Amortisation of transaction costs	9	(391’768)	(1’175’303)	*(391’768)*	*(1’175’303)*
Other finance cost		825’076	(785’070)	–	–
Surplus / (loss) for the financial period		**(2’911’581)**	**(44’724’342)**	*(24’224’226)*	*(95’282’811)*

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

Basic surplus / (loss) per share	USD	(291.1581)	(4’472.4342)	*(2’422.4226)*	*(9’528.2811)*
Diluted surplus / (loss) per share	USD	(0.4153)	(6.3801)	*(3.4557)*	*(13.5924)*

Consolidated unaudited balance sheet

as at 30 September 2003

	Notes		**30.09.2003**		*31.12.2002*
Assets					
Non-current assets					
Investments in limited partnerships and directly held investments	1&4	**547'896'187**		*485'553'060*	
Intangible assets	14	**1'308'513**		–	
			549'204'700		*485'553'060*
Current assets					
Short-term investments	1&5	–		–	
Other short-term receivables	6	–		*90'061*	
Hedging assets	4	–		–	
Cash and cash equivalents	7	**19'273'698**		*78'526'819*	
			19'273'698		*78'616'880*
Total assets			**568'478'398**		*564'169'940*
Equity and liabilities					
Capital and reserves					
Issued capital	8	**100**		*100*	
Reserves		**(40'085'485)**		*4'638'857*	
			(40'085'385)		*4'638'957*
Liabilities falling due after more than one year					
Convertible bond	9		**576'335'694**		*550'784'153*
Liabilities falling due within one year					
Hedging liabilities	4	**1'623'385**		*8'516'481*	
Other short-term payables	10	**604'703**		*230'348*	
Credit facility	14	**30'000'000**		–	
Rounding		**1**		*1*	
			32'228'089		*8'746'830*
Total liabilities			**568'478'398**		*564'169'940*

The financial statements on pages 12 to 25 were approved by the board of directors on XXth October 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 01 January 2003 to 30 September 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	–	–	(44’724’342)	**(44’724’342)**
Rounding	–	–	(1)	**(1)**
Equity at end of reporting period	**100**	**241’028’915**	**(281’114’400)**	**(40’085’385)**

Consolidated unaudited statement of changes in equity

for the period from 01 January 2002 to 30 September 2002

	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 / (loss) for the financial period	–	–	(95'282'811)	**(95'282'811)**
Equity at end of reporting period	**100**	**241'028'915**	**(208'767'449)**	**32'261'566**

Consolidated unaudited cash flow statement
for the period from 01 January 2003 to 30 September 2003

	Notes	**01.01.2003–30.09.2003**	*01.01.2002–30.09.2002*
Cash flow from operating activities			
Management fee		**(10’216’093)**	*(10’987’705)*
Administration fee		**(203’994)**	*(231’735)*
Insurance fees		**(6’119’781)**	*(6’952’060)*
Tax exemption fee		**(1’847)**	*(1’264)*
Other operating expenses		**(244’509)**	*(209’290)*
Realised gains / (losses) on hedging	4	**(19’917’601)**	*(13’069’572)*
(Increase) / decrease in other short-term receivables and intangible assets		**(1’218’452)**	*188’411*
Increase / (decrease) in other short-term payables		**374’355**	*(38’623)*
Increase / (decrease) credit facility		**30’000’000**	–
Interest and dividend income from limited partnerships and directly held investments	4	**2’638’867**	*2’283’521*
Purchase of limited partnerships and directly held investments	4	**(91’622’326)**	*(85’490’860)*
Distributions of limited partnerships and directly held investments	4	**37’767’810**	*26’510’414*
Purchase of short-term investments	5	**–**	*(152’374’408)*
Repayment of short-term investments	5	**–**	*273’184’022*
Interest income received from cash and cash equivalents	7	**345’032**	*609’450*
Financing cost / credit line charges		**(785’070)**	–
Net increase / (decrease) in cash and cash equivalents		**(59’203’609)**	*33’420’301*
Cash and cash equivalents at beginning of reporting period	7	**78’526’819**	*53’785’261*
Effects on cash and cash equivalents			
Revaluation	7	**(48’555)**	–
Movement in exchange rates		**(958)**	*(4’372)*
Rounding		**1**	–
Cash and cash equivalents at end of reporting period	7	**19’273’698**	*87’201’190*

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), except 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.

Investments 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 that 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 of cash at 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 imited 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

	30.09.2003	*31.12.2002*
Balance at beginning of reporting period	**485’553’060**	*461’574’349*
Capital activity recorded at the transaction rate	**91’622’326**	*119’849’809*
Distributions	**(37’767’810)**	*(49’447’332)*
Revaluation	**(4’144’056)**	*(69’690’731)*
Foreign exchange gain / (loss)	**12’632’668**	*23’266’965*
Rounding	**(1)**	*–*
Balance at end of reporting period	**547’896’187**	*485’553’060*

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

	30.09.2003	*31.12.2002*
North America	**277’945’744**	*280’778’626*
Europe	**246’172’645**	*184’853’665*
Rest of World	**23’777’798**	*19’920’769*

4.2 Distributions

	01.01.2003–30.09.2003	01.01.2002–30.09.2002
Dividends	**1’580’233**	*–*
Interest income	**1’058’633**	*2’283’521*
Rounding	**1**	
	2’638’867	*2’283’521*
Return of investments – received in cash	**37’767’810**	*26’510’414*
Return of investments – received in kind	**–**	*–*
Total distributions	**40’406’677**	*28’793’935*

4.3 Foreign exchange

	01.01.2003–30.09.2003	01.01.2002–30.09.2002
Foreign exchange revaluation	**12’632’668**	*15’558’993*
Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments	**6’893’096**	*(4’137’976)*
Realised gain / (loss) from foreign exchange hedges relating to investments in limited partnerships and directly held investments	**(19’917’601)**	*(13’069’572)*
Rounding	**–**	*(1)*
	(391’837)	*(1’648’556)*

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) 30.09.2003	*Surplus / (loss) 31.12.2002*
Buy USD against GBP	80'000'000	1.5460	29 Jan 03	**–**	*(3'151'358)*
Buy USD against EUR	54'000'000	0.9740	29 Jan 03	**–**	*(4'069'405)*
Buy USD against CHF	6'000'000	1.4966	29 Jan 03	**–**	*(493'781)*
Buy USD against SEK	10'000'000	9.4100	29 Jan 03	**–**	*(801'937)*
Buy USD against GBP	81'000'000	1.6384	25 Mar 04	**(168'091)**	*–*
Buy USD against EUR	84'000'000	1.1411	25 Mar 04	**(1'332'398)**	*–*
Buy USD against CHF	3'000'000	1.3373	25 Mar 04	**(13'747)**	*–*
Buy USD against SEK	12'000'000	7.8632	25 Mar 04	**(81'434)**	*–*
Buy USD against JPY	3'000'000	111.4325	25 Mar 04	**(27'715)**	*–*
				(1'623'385)	*(8'516'481)*

5 Short-term investments

5.1 Investments

	30.09.2003	*31.12.2002*
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

	01.01.2003– 30.09.2003	*01.01.2002– 30.09.2002*
Interest income		
Interest received from investments issued at a discount	–	*1'815'979*
Net interest accrued from investments issued at a discount	–	*(685'531)*
Interest received from investments issued at par	–	*–*
Net interest accrued from investments issued at par	–	*–*
Total interest income from short-term investments	–	*1'130'448*
Revaluation		
Fair value revaluation of investments issued at par	–	*–*

6 Other short-term receivables

	30.09.2003	*31.12.2002*
Bank deposit interest receivable	–	*1’647*
Distributions receivable	–	*–*
Stock distributions	–	*60’869*
Sundry prepayments	–	*27’545*
	–	*90’061*

7 Cash and cash equivalents

7.1 Balance

	30.09.2003	*31.12.2002*
Cost		
Cash equivalents at beginning of reporting period	**49’929’322**	*–*
Additions	**69’909’661**	*229’128’404*
Redemptions	**(120’000’000)**	*(179’263’179)*
Interest accrual / fair value revaluation	**161’017**	*64’097*
Cash equivalents at end of reporting period	–	*49’929’322*
Cash at banks	**19’273’698**	*28’597’497*
Rounding	–	*–*
Total cash and cash equivalents	**19’273’698**	*78’526’819*

7.2 Interest income

	01.01.2003–30.09.2003	*01.01.2002–30.09.2002*
Interest received from cash equivalents on maturity	**209’572**	*457’354*
Net interest accrued from cash and cash equivalents	**(48’555)**	*105’327*
Interest received from cash at banks	**135’460**	*152’096*
Rounding	–	*–*
Total interest income from cash and cash equivalents	**296’477**	*714’777*

8 Share capital

	30.09.2003	*31.12.2002*
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

	30.09.2003	31.12.2002
Balance at beginning of reporting period	**550'784'153**	*518'297'701*
Amortisation of transaction costs	**1'175'303**	*1'567'071*
Finance cost on convertible bond	**24'376'238**	*30'919'382*
Rounding	**–**	*(1)*
Balance at end of reporting period	**576'335'694**	*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

	30.09.2003	31.12.2002
Sundry	**604'703**	*230'348*

11 Commitments

	30.09.2003	31.12.2002
Unutilised commitments translated at the rate prevailing at the balance sheet date	**345'558'161**	*432'957'120*

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.

	30.09.2003	31.12.2002
Net assets of the company	**536'250'309**	*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	**76.4979**	*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.

	30.09.2003	*30.09.2002*
Basic surplus / (loss) per share		
Surplus / (loss) for the financial period	**(44'724'342)**	*(95'282'811)*
Outstanding shares at the balance sheet date	**10'000**	*10'000*
Net surplus / (loss) per share	**(4'472.4342)**	*(9'528.2811)*
Diluted surplus / (loss) per share		
Surplus / (loss) for the financial period	**(44'724'342)**	*(95'282'811)*
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	**(6.3801)**	*(13.5924)*

14 Credit line facility

Princess Private Equity Holding Limited has entered into a revolving credit facility with Bank of Scotland on 31 December 2002 for a maximum of USD 130'000'000. Security is inter alia, by way of certain rights over the assets 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 ratio 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.

In addition, an arrangement fee of USD 1'170'000 was paid to Bank of Scotland on entering into the facility.

	30.09.2003	*31.12.2002*
Capitalised costs / intangible assets		
Capitalised arrangement fee	**1'170'000**	–
Other capitalised costs in connection with the credit line facility	**325'443**	–
Amortisation of capitalised costs	**(186'930)**	–
Balance at end of reporting period	**1'308'513**	–

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 30.09.2003	*31.12.2002*
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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Swiss Security Number	813.917
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Reuters	DBSTRUK03
Bloomberg	PRINEQ<<Corp>>RELS<go>
Telekurs, Investdata	CH813917

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