Report for the quarter from 1 April 2004 to 30 June 2004

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 to participate in the earnings generated by the private equity asset class. Moreover, the nominal capital is protected at maturity by an insurance policy, which is reinsured by Swiss Re.

This document is neither a sales prospectus nor a direct or indirect sales promotion instrument.

Princess NAV continues recovery

Second quarter sees upward trend in Princess NAV continue and distributions and capital calls maintain momentum.

At the end of the second quarter of 2004, the net asset value (NAV) of the Princess portfolio stood at 78.82%. This represents a 120 basis point increase during the quarter and continues the quarter-on-quarter increase evident since June 2003. The most significant contribution to the NAV came from the secondary portfolio Partners Group SPP1 Limited.

The mid-market price of the Princess bond increased by 300 basis points from 77.50% at the start of the year to 80.50% at the end of June 2004.

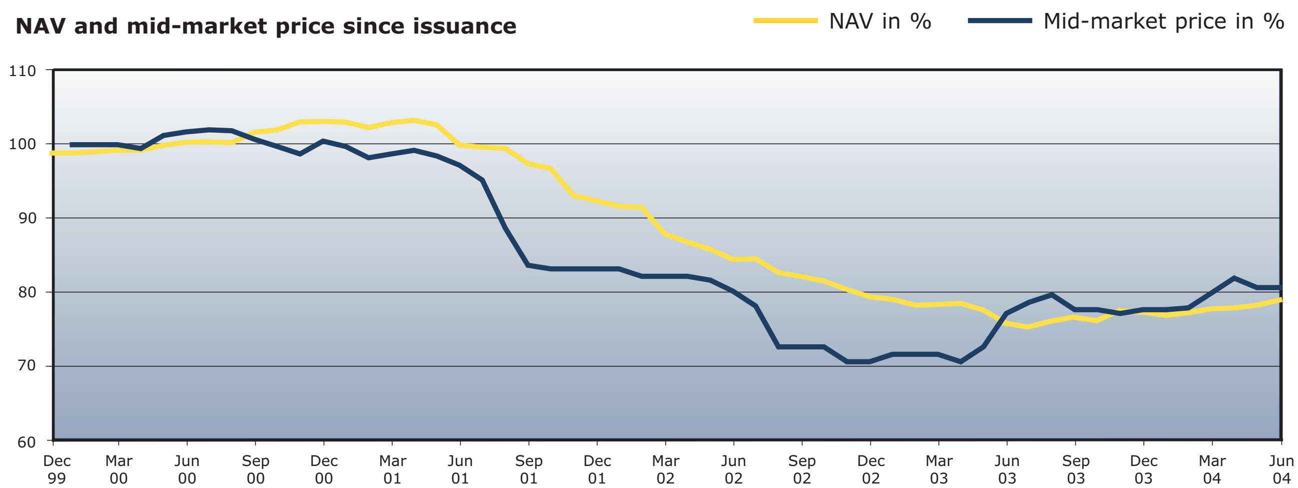
In terms of distributions, the positive trend that has been evident since the third quarter of 2003 continued through the second quarter of 2004. Over the past quarter, Princess received distributions totaling USD 31.5m. In all, 47 of Princess's underlying partnerships made a distribution during the quarter, which is testimony to the broad spread and increasing maturity of the Princess portfolio.

Significant contributions were received from 3i Europartners III, Chase 1998 Pool Participation Fund and Schroder Ventures International Life Science Fund II.

The partnerships to which Princess is committed are continuing to make new investments. Capital calls over the past twelve months averaged around USD 26m per quarter, with an above-average USD 34m being drawn down in the current quarter. Although this was slightly higher than distributions received, for the year to date cash from distributions has exceeded capital calls. The value of the unfunded commitments declines as capital calls are made and so that the unfunded commitments now stand at USD 270m, down from USD 328m at the end of 2003.

Based on current trends, the Princess NAV can be expected to improve further in the coming year.

NAV and mid-market price since issuance



Exit environment improves in 2004

Increased M&A and IPO volumes promote private equity exits.

The surge in flotations between September 2003 and March 2004 indicates that investor confidence in the world's stock markets has improved. According to Ernst & Young's Global IPO Survey, a total of 639 IPOs raising USD 53bn occurred during this period, compared with USD 23bn raised in 332 deals in the six months prior to September 2003. While the upswing cannot be compared to the peak of the late 1990s, a return to normality after most stock markets have been virtually closed for IPOs is anticipated. If current IPO levels can be sustained, then 2004 could well match 1998 levels, when USD 118bn were raised in nearly 1'100 deals.

Further, according to research by Dealogic, global M&A volume increased by 47% in the first half of 2004 compared to the first half of 2003. The value of global completed transactions for 2004 to date is USD 941.8bn, although M&A activity in the second quarter of 2004 did not quite match the level of activity seen in the first quarter of 2004. The overall sharp increase reflects a trend towards larger deals, as the number of announced transactions edged up just 4% compared to the same period last year. The strategic buyers' regained confidence and more secondary buyouts by financial sponsors suggest a further increase in M&A activity in the second half of 2004.

In terms of industry sector, life science companies remain attractive and receive a significant share of all venture capital investment. The pattern of investing is changing, but big pharmaceutical companies' demand for new medicines and treatments, aging demographics, lifestyle needs as well as a receptive IPO market promise to keep this sector buoyant.

Central and Eastern Europe is a small yet increasingly important geographic region for private equity investors. Many partnerships are keeping a close eye on developments in the region so as to be able to spot potential investment opportunities, especially in the eight countries – Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary and Slovenia – that joined the European Union (EU) on 1 May 2004.

Changing pattern of life science investing

The statistics indicate continued interest in and movement of capital to the broad life sciences sector.

The bursting of the technology bubble has resulted in institutional investors committing more resources to life science venture funds, both as diversification from the technology sector and in recognition of the enormous potential in life sciences over the next ten years. Shifting demographics towards an older population and the fact that a significant amount of healthcare consumption occurs in the last five years of a person's life is making life sciences into one of the largest industries in the world. And, in contrast to the tribulations in the information and communication technology sector, demand in life sciences for pharmaceuticals is continually outstripping supply.

As a result, there has been a significant increase in venture investing in life sciences over the past few years. The sector attracted some USD 4.89bn or 27% of all US venture capital in 2003, representing the highest proportion directed to the sector in the past twelve years – a trend that continued through the first half of 2004.

The pattern of investment, however, has been changing recently. The additional dollars invested in the life sciences sector have not been leading to an increase in the number of companies being funded. Rather the size of the financing rounds has been increasing, albeit slightly. This reflects a change for many biotech start-ups in the business model: they have progressed from providing a technology platform for other companies to becoming full-scale, product-oriented companies. Such an approach requires additional funding, e.g. for expensive clinical trials. Investors are thus choosing to invest in fewer but larger initial financing.

Because of these larger financing rounds, private equity firms are increasingly teaming up for syndicated transactions at an early stage in order to be able to fund larger deals as well as spread the greater risks associated with the larger and longer capital commitment to life science companies.

Since biotech start-ups are generally no longer able to raise money through an IPO as early as they used to a few years ago, they need to keep their investors on board for subsequent rounds. At the same time, investors in the life sciences industry today are more likely to up existing investments in follow-on financing rounds than to invest broadly in as many early-stage companies as possible.

Further, investors are concentrating the capital dedicated to life science investments in the hands of general partners that are established sector specialists and have been through a few business cycles, demonstrated performance, and generated returns.

Although the way of doing investments in the life sciences industry is changing, investments in this sector remain promising. There will always be a need for new and better treatments for illnesses and diseases, which means that there will always be a demand for innovation and services from the life sciences industry. 12% of the Princess portfolio – spread across all financing stages – are invested in the life science sector.

Attractive opportunities in Central and Eastern Europe

The Central and Eastern European states will provide a healthy source of attractive private equity deal flow.

The new EU member states have not only implemented reforms to their tax, legal and regulatory frameworks to converge their legislation with that of the other EU members. The region also provides an attractive environment for private equity investing, since several of the key factors that drive private equity activity, including open-minded attitudes towards entrepreneurial risk and family firm issues, are already in place.

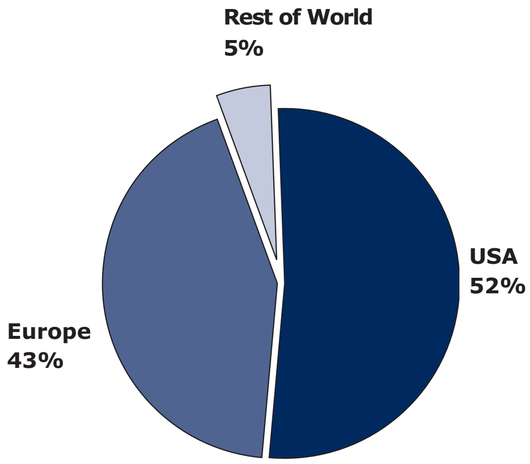
The region's illiquid stock markets as well as a lack of finance from traditional sources are forcing companies to look to the private equity sector for capital, generating strong deal flow for private equity players active in the area. There is less competition for deals than in Western Europe, hence company valuations are attractive. With 70–80% of GDP across the region being generated by privately-owned companies, the challenge for private equity firms is not privatizing state-owned assets but developing companies in order to be able to profit from the substantial growth in the region.

In view of the number of international companies expected to look for strategic investment opportunities in Central and Eastern Europe, exit conditions for early investors in the region promise to be good.

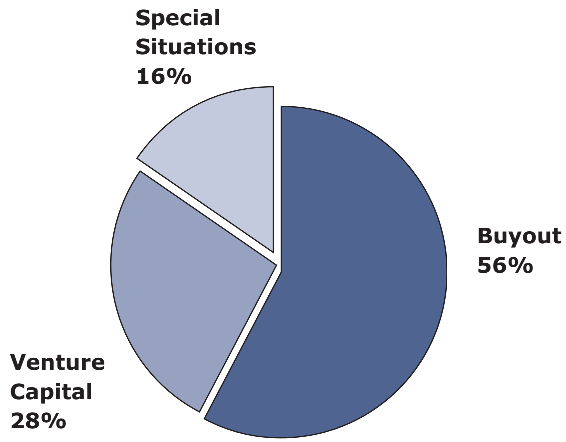
Princess is invested in Polish Enterprise Fund IV, which is a specialized fund that focuses on investments in the region. It recently participated in the investment in BTC, formerly state-run Bulgarian Telecommunications.

Princess has a well balanced and broadly diversified portfolio according to geographic regions, financing stages, industry sectors and vintage years. 72% of the portfolio is invested in the stable buyout and special situations segments

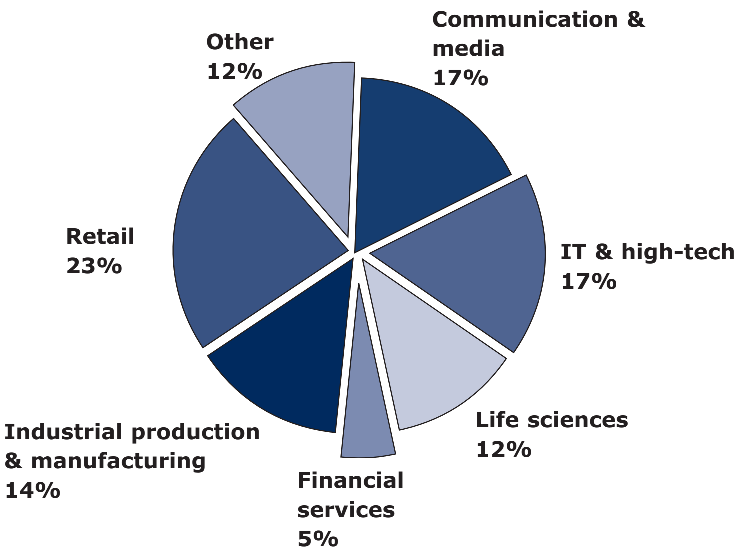
Investments by geographic region*



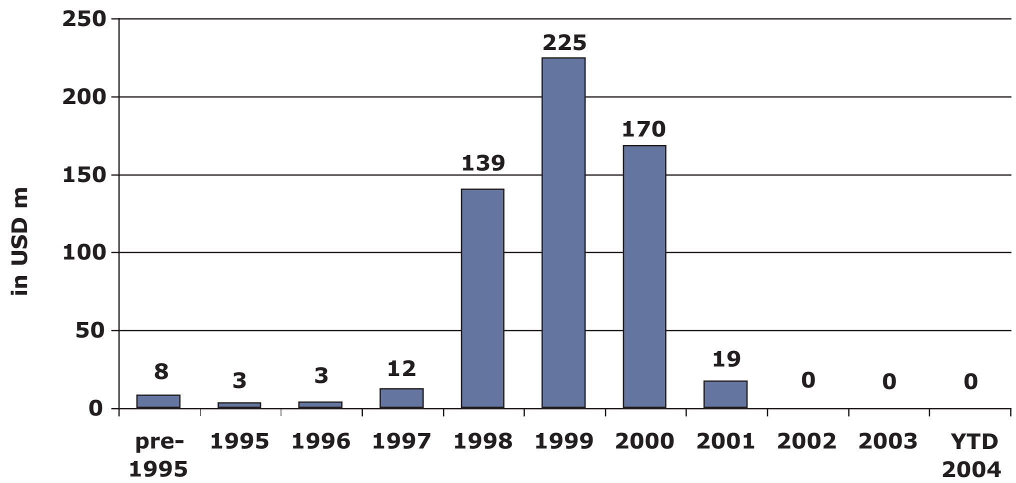
Investments by financing stage*



Investments by industry sector*



Investments by vintage year*



*Allocation by unrealized value of private equity investments

Asset allocation

In the second quarter of 2004, Princess received USD 31.5m in proceeds from 47 partnerships and capital calls for USD 33.8m from 61 partnerships.

Selected investments

Silver Lake Partners L.P., Warburg Pincus International Partners, L.P.
In May, Silver Lake Partners, in equal partnership with Bain Capital LLC and Warburg Pincus, concluded the purchase of *UGS PLM Solutions* from Electronic Data Systems. UGS is the leading global provider of product lifecycle management (PLM) software. PLM is used by organizations around the world to digitally manage a product's complete lifecycle and thereby reduce development and manufacturing costs. UGS has approximately 42'000 clients and reported a net income of USD 140m for 2003. The company believes that as an independent software company it will be optimally placed to benefit from the strong growth expected in the PLM market. At USD 2.05bn, the transaction is the largest private equity investment ever made in a technology company.

Permira Europe II, L.P.
A consortium, including Permira, Apax Partners and New Look founder Tom Singh, purchased leading UK high-street fashion retailer *New Look* in a transaction valued at GBP 699m. New Look is aimed at the younger female fashion market and has a similar business in France that trades under the Mim brand name. The public-to-private transaction was implemented by way of a court-sanctioned scheme of arrangement, such schemes having been used in a number of similar transactions in the UK recently. The new shareholders reportedly believe that the market has undervalued the business and the emphasis will now be on organic growth.

Palamon European Equity "C", L.P.
London-based European mid-market investor Palamon Capital Partners bought the European division of US-based theme park operator *Six Flags, Inc.* for approximately USD 200m. The seven theme parks acquired are located in Germany, Holland, Belgium and France. In 2003, they attracted over 5.5m visitors and generated revenues of around USD 150m. The improving economic environment in Europe and the significant growth potential in the German and Dutch parks in particular suggest considerable scope for revenue and profit growth. The European businesses are to be renamed Star Parks Luxembourg. Palamon was the sole equity sponsor.

Newbridge Asia III, L.P.
San Francisco-based Newbridge Asia has acquired 18% of the shares in *Shenzhen Development Bank* from four government entities for USD 145m. Newbridge will appoint the Chairman of the bank and other senior management positions and as such will be the first foreign investor to hold a controlling stake in a Chinese Bank. Shenzhen Development Bank is the smallest of China's publicly-traded lenders. It is reportedly raising funds in order to expand its lending in anticipation of a continued rise in nationwide borrowing to finance consumer purchases of cars and homes in particular.

Selected realizations

Summit Ventures VIII-A, L.P.
In one of the largest European technology transactions so far in 2004, the US-based venture capital firm Summit Partners sold its shareholding in *Jamba! AG* to VeriSign, a NASDAQ-listed technology company. Jamba! AG is a leading European provider of digital content services, such as ring tones, games, news and web-shopping services, to wireless devices. The transaction was worth about USD 273m and Summit realized a 3.8x return on its original investment, made in September 2003.

Permira Europe II, L.P.
Lehman Brothers has acquired a 12.4% stake in *SEAT Pagine Gialle* for around USD 962m in a partial realization for the consortium of investors that includes Permira. The consortium originally acquired 61.5% of the share capital of Seat Pagine Gialle, the leading European company in the field of multimedia telephone directory publishing, in 2003. The value of the stake purchased from Telecom Italia was at that time around USD 3.6bn, making it Europe's biggest ever private equity buyout transaction.

At the end of June 2004, the portfolio of Princess Private Equity Holding comprised commitments to 101 partnerships with investments in more than 2’500 underlying portfolio companies.

Primary Partnerships

Europe – Buyout

3i Europartners IIIA, L.P.
Astorg II, FCPR
Botts Capital Partners, L.P.
Bridgepoint Europe I "D", L.P.
Graphite Capital Partners V "A", L.P.
Graphite Capital Partners V "F", L.P.
Industri Kapital 2000, L.P.
Italian Private Equity Fund III, L.P.
Mercapital Spanish Private Equity Fund II, L.P.
Nordic Capital IV, L.P.
Palamon European Equity "C", L.P.
Partners Private Equity, L.P.
Permira Europe II, L.P.
Quadriga Capital Private Equity Fund II, L.P.
Second Cinven Fund (No. 2), L.P.
Segulah II
Warburg Pincus International Partners, L.P.

Europe – Special Situations

Coller International Partners III, L.P.
Doughty Hanson & Co. European Real Estate Fund, L.P.
ICG Mezzanine Fund 2000, L.P. No. 2
Mezzanine Management Fund III, L.P.
The Rutland Fund

Europe – Venture Capital

Abingworth Bioventures III, L.P.
Elderstreet Capital Partners, L.P.
European E-Commerce Fund
European Equity Partners (III), L.P.
GMT Communications Partners II, L.P.
Galileo III, L.P.
Index Ventures I (Jersey), L.P.
Merlin Biosciences Fund, L.P.
Schroder Ventures International Life Science Fund II, L.P.
Wellington Partners II, L.P.

North America – Buyout

American Securities Partners III, L.P
Apollo Overseas Partners V, L.P.
Blackstone Communications Partners I, L.P.
Bruckmann, Rosser, Sherrill & Co. II, L.P.
Carlyle Partners III, L.P.
Fenway Partners Capital Fund II, L.P.
Heritage Fund III, L.P.
INVESCO U.S. Buyout Partnership Fund II, L.P.
Kohlberg TE Investors IV, L.P.
Silver Lake Partners, L.P.
T3 Partners, L.P.
TPG Partners III, L.P.
Thomas H. Lee Parallel Fund V, L.P.
Thomas Weisel Capital Partners, L.P.
Vestar Capital Partners IV, L.P.

North America – Special Situations

Blackstone Mezzanine Partners, L.P.
Canterbury Mezzanine Capital II, L.P.
Levine Leichtman Capital Partners II, L.P.
OCM Opportunities Fund III, L.P.
OCM/GFI Power Opportunities Fund, L.P.
Pegasus Partners II, L.P.
Providence Equity Partners IV, L.P.
TCW/Crescent Mezzanine Partners III, L.P.

North America – Venture Capital

Apax Excelsior VI, L.P.
Access Technology Partners, L.P.
Advanced Technology Ventures VI, L.P.
Austin Ventures VII, L.P.
Battery Ventures VI, L.P.
Cardinal Health Partners II, L.P.
Catterton Partners IV Offshore, L.P.
Chancellor V, L.P.
Columbia Capital Equity Partners III (Cayman), L.P.
Crescendo IV, L.P.
Dolphin Communications Fund, L.P.
Draper Fisher Jurvetson Fund VII, L.P.
EnerTech Capital Partners II, L.P.
Infinity Capital Venture Fund 1999, L.P.
INVESCO Venture Partnership Fund II, L.P.
INVESCO Venture Partnership Fund II-A, L.P.
Lightspeed Venture Partners VI, L.P.
Menlo Ventures IX, L.P.
Morgan Stanley Dean Witter Venture Partners IV, L.P.
Morgenthaler Partners VII, L.P.
Prism Venture Partners IV, L.P.
Sevin Rosen Fund VIII, L.P.
Sierra Ventures VIII-A, L.P.
Summit Ventures VI-B, L.P.
TA IX, L.P.
TH Lee Putnam Ventures Parallel, L.P.
TL Ventures V, L.P.
Vortex Corporate Development Fund, L.P.
Worldview Technology Partners III, L.P.
Worldview Technology Partners IV, L.P.

Rest of World – Buyout

Advent Latin American Private Equity Fund II, L.P.
Exxel Capital Partners VI, L.P.
Newbridge Asia III, L.P.
Polish Enterprise Fund IV, L.P.
Unison Capital Partners, L.P.

Rest of World – Venture Capital

Carmel Software Fund (Cayman), L.P.
Crimson Velocity Fund, L.P.
Genesis Partners II LDC
Jerusalem Venture Partners III, L.P.
Pitango Venture Capital Fund III

Secondary Partnerships

Chase 1998 Pool Participation Fund, L.P.
Coller International Partners III NW1, L.P.
Coller International Partners III NW2, L.P.
Doughty Hanson & Co Fund III, L.P.
Partners Group SPP1 Limited
William Blair Capital Partners VI, L.P.

Consolidated unaudited statement of income

for the period from 1 January 2004 to 30 June 2004

	Notes	**01.04.2004– 30.06.2004 USD**	**01.01.2004– 30.06.2004 USD**	*01.04.2003– 30.06.2003 USD*	*01.01.2003– 30.06.2003 USD*
Net income from limited partnerships and directly held investments		**14’185’163**	**23’161’617**	*(12’012’965)*	*(12’163’958)*
– Dividend and interest income	5&12	2’078’258	3’770’723	*1’169’192*	*1’945’867*
– Revaluation	5&14	13’551’077	22’102’195	*(13’955’703)*	*(14’156’238)*
– Foreign exchange gains & losses	5&13	(1’444’172)	(2’711’301)	*773’546*	*46’413*
Net income from short-term investments		**–**	**–**	–	–
– Gains and losses	6	–	–	–	–
Net income from cash & cash equivalents		**15’750**	**53’737**	*62’796*	*244’721*
– Interest income	8&12	15’760	53’822	*38’902*	*84’221*
– Gains and losses	8	-	-	*23’873*	*161’017*
– Foreign exchange gains & losses	13	(10)	(85)	*21*	*(517)*
Operating income		**14’200’913**	**23’215’354**	*(11’950’169)*	*(11’919’237)*
Operating expenses		**(5’407’623)**	**(10’955’291)**	*(5’407’956)*	*(11’288’141)*
– Management fee		(3’262’317)	(6’632’818)	*(3’410’367)*	*(6’852’398)*
– Insurance fee		(2’040’330)	(4’068’701)	*(2’047’125)*	*(4’130’010)*
– Administration fee		(68’011)	(135’623)	*(68’238)*	*(137’668)*
– Tax exemption fee		–	(2’243)	*(400)*	*(876)*
– Other operating expenses		(36’965)	(115’906)	*118’174*	*(167’189)*
Financing cost		**(9’363’855)**	**(18’513’907)**	*(8’797’740)*	*(18’528’232)*
– Finance cost on convertible bond	10	(8’602’336)	(17’082’735)	*(8’124’861)*	*(16’134’552)*
– Amortization of transaction costs	10	(391’768)	(783’535)	*(391’768)*	*(783’535)*
– Interest expense	12	(369’751)	(647’637)	*(281’111)*	*(1’610’145)*
– Other finance cost		–	–	–	–
Surplus / (loss) for the financial period		**(570’565)**	**(6’253’844)**	*(26’155’865)*	*(41’735’610)*

Consolidated unaudited balance sheet

as at 30 June 2004

	Notes		**30.6.2004 USD**		*31.12.2003 USD*
Assets					
Non-current assets					
Investments in limited partnerships and directly held investments	1&5		**579’304’691**		*570’883’233*
Current assets					
Short-term investments	1&6	**–**		–	
Other short-term receivables	7	**7’399**		*68’449*	
Hedging assets	5	**867’575**		–	
Cash and cash equivalents	8	**18’022’766**		*18’790’091*	
			18’897’740		*18’858’540*
Total assets			**598’202’431**		*589’741’773*
Equity and Liabilities					
Capital and reserves					
Issued capital	9	**100**		*100*	
Reserves		**(50’442’616)**		*(44’188’772)*	
			(50’442’516)		*(44’188’672)*
Liabilities falling due after more than one year					
Convertible bond	10		**602’953’922**		*585’087’652*
Liabilities falling due within one year					
Hedging liabilities	5	**–**		*17’777’313*	
Other short-term payables	11	**691’025**		*1’065’480*	
Credit facility	17	**45’000’000**		*30’000’000*	
Rounding		**–**		–	
			45’691’025		*48’842’793*
Total liabilities			**598’202’431**		*589’741’773*

The financial statements on pages 12 to 27 were approved by the board of directors on 27 July 2004 and are signed on its behalf by:

B. Human
Director

G. Hall
Director

Consolidated unaudited statement of changes in equity

for the period from 1 January 2004 to 30 June 2004

(all amounts in USD)

	Share capital	Share premium	Accumulated surplus/(loss)	Total
Equity at beginning of reporting period	100	241’028’914	(285’217’686)	**(44’188’672)**
Surplus / (loss) for the financial period	–	–	(6’253’844)	**(6’253’844)**
Rounding	–	–	–	**–**
Equity at end of reporting period	**100**	**241’028’914**	**(291’471’530)**	**(50’442’516)**

Consolidated unaudited statement of changes in equity

for the period from 1 January 2003 to 30 June 2003

(all amounts in USD)

	Share capital	Share premium	Accumulated surplus/(loss)	Total
Equity at beginning of reporting period	100	241’028’914	(236’390’057)	**4’638’957**
Surplus / (loss) for the financial period	–	–	(41’735’610)	**(41’735’610)**
Equity at end of reporting period	**100**	**241’028’914**	**(278’125’667)**	**(37’096’653)**

Consolidated unaudited cash flow statement

for the period from 1 January 2004 to 30 June 2004

	Notes	**01.01.2004–30.06.2004 USD**	*01.01.2003–30.06.2003 USD*
Cash flow from operating activities			
– Management fee		**(6’632’818)**	*(6’852’398)*
– Administration fee		**(135’623)**	*(137’668)*
– Insurance fee		**(4’068’701)**	*(4’130’010)*
– Tax exemption fee		**(2’243)**	*(876)*
– Other operating expenses		**(115’906)**	*(167’189)*
– Proceeds from (costs of) hedging activities	5	**(18’995’855)**	*(12’534’890)*
– (Increase) / decrease in other short-term receivables		**61’050**	*81’753*
– Increase / (decrease) in other short-term payables		**(170’209)**	*(107’505)*
– Interest and dividends received from limited partnerships and directly held investments	5	**3’770’723**	*1’945’867*
– Purchase of limited partnerships and directly held investments	5	**(56’169’873)**	*(68’288’915)*
– Distributions of limited partnerships and directly held investments	5	**67’490’276**	*19’554’649*
– Purchase of short-term investments	6	**–**	*–*
– Repayment of short-term investments	6	**–**	*–*
– Cash inflow from cash and cash equivalents	8	**53’822**	*293’793*
– Financing cost / credit line charges		**(851’883)**	*(1’610’145)*
Net cash from / (used in) operating activities		**(15’767’240)**	*(71’953’534)*
Cash flow from financing activities			
– Increase / (decrease) in credit facility	17	**15’000’000**	*15’000’000*
Net increase / (decrease) in cash and cash equivalents		**(767’240)**	*(56’953’534)*
Cash and cash equivalents at beginning of reporting period	8	**18’790’091**	*78’526’819*
Effects on cash and cash equivalents			
– revaluation		**–**	*(48’555)*
– movement in exchange rates		**(85)**	*(517)*
– rounding		**–**	*(1)*
Cash and cash equivalents at end of reporting period	8	**18’022’766**	*21’524’212*

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
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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) (with the exception indicated above) and under the historical cost convention as modified by the revaluation of available-for-sale investments, financial assets and financial liabilities held for trading and all derivative contracts. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Income
Income from bank deposits is included on an accruals basis. Gains and losses from short-term investments and gains and losses from cash and cash equivalents also include the increase in value of bonds purchased at a discount. All realized and unrealized surpluses and losses are recognised in the statement of income.

Expenditure
The expenditure is included in the financial statements on an accruals basis.

Reporting currency
As US dollars reflect the economic substance of the underlying events and circumstances relevant to the Group and US dollars are used to a significant extent in, or have 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 recognized 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 and the lack of liquid markets for the investments held mean that there are inherent difficulties in determining the fair values of these investments that cannot be eliminated.

Amounts realized 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" and are therefore disclosed at fair value. For determining the fair value, the Directors refer to the most recent available 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 fair 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 recognized 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 and are being treated as "available-for-sale".

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 – Gains and losses".

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 – Gains and losses". 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 "Realized gains and losses".

All transactions relating to short-term investments are recognized 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".

Credit Facility / Loans

All loans are stated at amortized cost.

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 realized net gains / losses on the derivatives that matured during the period are recognized 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 unrealized surplus and deficits on transactions between group companies have been eliminated. A listing of the Group's subsidiaries is set out in Note 21.

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. The quarterly management fee is calculated as 0.375% of the higher of the sum of Private Equity Net Assets and the undrawn commitments or the Net Assets of Princess.

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. The quarterly administration fee is calculated as 0.0125% of the first USD 1 billion of Net Assets and 0.005% of the amount by which such Net Assets exceed USD 1 billion.

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. The quarterly insurance premium is calculated as 0.375% of Net Assets.

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 Financial risk management

Financial risk factors
The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain exposures.

(a) Foreign exchange risk
The Group operates and invests internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to EUR, GBP, SEK and JPY. The Group uses forward contracts to hedge their exposure to foreign currency risk in connection with the measurement currency.

(b) Interest rate risk
The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets.

(c) Credit risk
The Group has no significant concentration of credit risk. Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

(d) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

Accounting for derivative financial instruments and hedging activities
Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. Changes in the fair value of any derivative instruments are recognized immediately in the income statement. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 5.

Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

5 Limited partnerships and directly held investments

5.1 Investments

5.1 Investments	30.06.2004	31.12.2003
Balance at beginning of reporting period	**570'883'233**	*485'553'060*
Capital activity recorded at the transaction rate	**56'169'873**	*116'287'455*
Distributions	**(67'490'276)**	*(65'411'041)*
Revaluation	**22'102'195**	*6'941'827*
Foreign exchange gains / (losses)	**(2'360'334)**	*27'511'932*
Rounding	**–**	*–*
Balance at end of reporting period	**579'304'691**	*570'883'233*

5.2 Distributions

5.2 Distributions	01.01.2004–30.06.2004	01.01.2003–30.06.2003
Dividends	**2'812'855**	*1'155'828*
Interest income	**957'868**	*790'039*
Rounding	**–**	*–*
	3'770'723	*1'945'867*
Return of investments	**67'490'276**	*19'554'649*
Total distributions	**71'260'999**	*21'500'516*

5.3 Foreign exchange

5.3 Foreign exchange	01.01.2004–30.06.2004	01.01.2003–30.06.2003
Foreign exchange revaluation	**(2'360'334)**	*10'479'789*
Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments	**18'644'888**	*2'101'514*
Realized gains / (losses) from foreign exchange hedges relating to investments in limited partnerships and directly held investments	**(18'995'855)**	*(12'534'890)*
Rounding	**–**	*–*
	(2'711'301)	*46'413*

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) 30.06.2004**	*Surplus / (loss) 31.12.2003*
Buy USD against GBP	87’000’000	1.6397	25.03.2004	**–**	*(7’072’190)*
Buy USD against EUR	89’000’000	1.1410	25.03.2004	**–**	*(9’057’313)*
Buy USD against CHF	3’000’000	1.3373	25.03.2004	**–**	*(244’039)*
Buy USD against SEK	14’000’000	7.8764	25.03.2004	**–**	*(1’285’911)*
Buy USD against JPY	3’000’000	111.4325	25.03.2004		*(117’860)*
Buy USD against GBP	87’084’000	1.8143	27.09.2004	**290’544**	–
Buy USD against EUR	95’035’925	1.2263	27.09.2004	**592’952**	
Buy USD against CHF	4’386’455	1.2539	27.09.2004	**(29’588)**	–
Buy USD against SEK	16’249’486	7.5387	27.09.2004	**(48’255)**	–
Buy USD against JPY	3’311’757	106.2880	27.09.2004	**61’922**	–
				867’575	*(17’777’313)*

6 Short-term investments

6.1 Investments

	30.06.2004	*31.12.2003*
At beginning of reporting period	**–**	–
Additions	**–**	–
Redemptions	**–**	–
Unrealized gains / (losses)	**–**	–
Rounding	**–**	–
At end of reporting period	**–**	–

6.2 Income

	01.01.2004–30.06.2004	*01.01.2003–30.06.2003*
Gains and losses		
Realized gains and losses from investments issued at a discount	**–**	–
Unrealized gains and losses from investments issued at a discount	**–**	–
Interest received from investments issued at par	**–**	–
Net interest accrued from investments issued at par	**–**	–
Total gains and losses from short-term investments	**–**	–

7 Other short-term receivables	30.06.2004	31.12.2003
Bank deposit interest receivable	–	–
Distributions receivable	7’399	68’449
Stock distributions	–	–
Sundry prepayments	–	–
	7’399	68’449

8 Cash and cash equivalents

8.1 Balance	30.06.2004	31.12.2003
Cash equivalents at beginning of reporting period	–	49’929’322
Additions	–	69’909’661
Redemptions	–	(120’000’000)
Realized gains and losses	–	161’017
Cash equivalents at end of reporting period	–	–
Cash at banks	18’022’766	18’790’091
Rounding	–	–
Total cash and cash equivalents	18’022’766	18’790’091

8.2 Interest income	01.01.2004– 30.06.2004	01.01.2003– 30.06.2003
Interest received from cash equivalents on maturity	–	209’572
Net interest accrued from cash and cash equivalents	–	(48’555)
Interest received from cash at banks	53’822	84’221
Rounding	–	–
Total interest income from cash and cash equivalents	53’822	245’238

9 Share capital	30.06.2004	31.12.2003
Authorized		
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 and fully paid		
10’000 Class B shares of USD 0.01 each	100	100

Bondholders have the right to convert bonds into shares. Shares issued and allotted on conversion of the bonds will be fully paid Class A shares (“Ordinary shares”) and will rank pari passu in all respects with all other Ordinary Shares in issue on the relevant conversion date, save that the earlier of the date upon which 95 per cent of the principal amount of the bonds have been converted or final maturity (“Specified Date”), Ordinary Shares will not confer voting rights.

The holders of the Class B shares will be entitled to attend and vote at any general meetings. Following the Specified Date, each Class B share issued and outstanding will be automatically converted into a similar number of Ordinary shares without the holders thereof being obliged to make any payment therefor.

10 Convertible bond	30.06.2004	31.12.2003
Balance at beginning of reporting period	585’087’652	550’784’154
Amortization of transaction costs	783’535	1’567’071
Finance cost on convertible bond	17’082’735	32’736’428
Rounding	–	(1)
Balance at end of reporting period	602’953’922	585’087’652

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 amortized 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.

11 Other short-term payables	**30.06.2004**	*31.12.2003*
Accrued interest	**691'025**	*895'271*
Other accruals	**–**	*170'209*
Rounding	**–**	*–*
	691'025	*1'065'480*

12 Dividend and interest income and expense	**01.01.2004–30.06.2004**	*01.01.2003–30.06.2003*
Interest income:		
– Dividend and interest income from limited partnerships and directly held investments	**3'770'723**	*1'945'867*
– Interest income from cash and cash equivalents	**53'822**	*84'221*
Total dividend and interest income	**3'824'545**	*2'030'088*
Total interest expense	**(647'637)**	*(1'610'145)*

13 Foreign exchange gains and losses	**01.01.2004–30.06.2004**	*01.01.2003–30.06.2003*
Foreign exchange gains and losses on:		
– limited partnerships and directly held investments	**(2'711'301)**	*46'413*
– cash and cash equivalents	**(85)**	*(517)*
	(2'711'386)	*45'896*

14 Revaluation	**01.01.2004–30.06.2004**	*01.01.2003–30.06.2003*
Revaluation of:		
– limited partnerships and directly held investments	**22'102'195**	*(14'156'238)*

15 Commitments

	30.06.2004	*31.12.2003*
Total committed translated at the rate prevailing at the balance sheet date	**1’169’695’107**	*1’175’998’114*
Unutilized commitments translated at the rate prevailing at the balance sheet date	**272’875’724**	*327’917’025*

16 Diluted net assets per ordinary share

The net assets are calculated by deducting the Liabilities falling due within one year from the Total Assests. 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.

	30.06.2004	*31.12.2003*
Net assets of the company	**522’511’406**	*540’898’980*
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	**78.8176**	*77.1611*

17 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 a security agreement over the entire issued share capital of Princess Private Equity Subholding Limited.

Interest is calculated using a LIBOR rate on the day of the advance plus a margin. The margin depends on the total drawdown amount. An additional margin may be added if the ratio of Net Asset Value to the ration of Net Asset Value to the borrowings due to Bank of Scotland (including capitalised interest) is less than 5:1.

There is a non utilization 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.

18 Insurance Policy

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.

19 Number of employees

At the balance sheet date no persons were employed by the Group.

20 Related party transactions

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

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 1,990 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.

Partners Group and all its subsidiaries and affiliates are considered to be related parties to the Group. The directors as disclosed in the Directors Report are also considered to be related parties to the Group.

Transactions with related parties

The following transactions were carried out with related parties:

i) Services	**01.01.2004– 30.06.2004**	*01.01.2003– 30.06.2003*
Management fee paid to:		
– Princess Management & Insurance Limited	**6’632’818**	*6’852’398*
Insurance fee paid to:		
– Princess Management & Insurance Limited	**4’068’701**	*4’130’010*
Administration fee paid to:		
– Partners Group (Guernsey) Limited	**135’623**	*137’668*
IFRS Valuation advice:		
– Princess Management & Insurance Limited	**–**	–
Directors fees paid	**9’322**	–

Princess Management & Insurance Limited is a company incorporated in Guernsey and owned by Partners Group and Swiss Reinsurance Company. Partners Group (Guernsey) Limited is a company incorporated in Guernsey and owned by Partners Group.

ii) period-end balances	**30.06.2004**	*31.12.2003*
Accruals to related parties:		
– Princess Management & Insurance Limited	**–**	*100’000*

21 Group enterprises – significant subsidiaries

	Country of incorporation	**Ownership interest 30.06.2004**	*31.12.2003*
Princess Private Equity Subholding Limited	Guernsey	100%	*100%*

22 Parent company and ultimate controlling party

GE & W AG, a company organised by Swiss law holds the majority of the Class B shares. The majority of the shares of GE & W AG are held by the founding partners of Partners Group.

23 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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Trading Information

Listing	Frankfurt and Luxembourg
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