Report for the quarter from 1 July 2004 to 30 September 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.

Princess distribution reach USD 300 million

Third quarter sees continued improvement in NAV and strong cash inflows from distributions.

The net asset value (NAV) of the Princess portfolio at the end of the third quarter stood at 79.69%, up 110 basis points in the quarter. This is the fifth successive quarterly increase since the low seen in July 2003 and brings the increase in the NAV for the year to date to 3.3%. There was a marked improvement in September with a 2.5% increase recorded in the month. The venture and buyout sectors made significant contributions to the increase, while special situations also made a positive contribution.

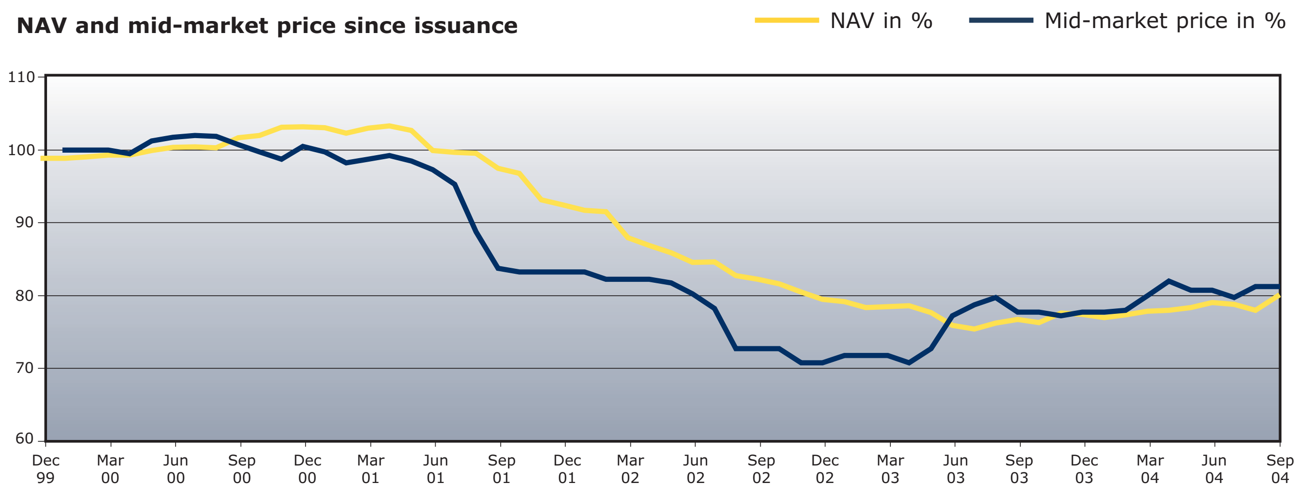
The mid-market price of the Princess bond was 81.00% at the end of the quarter, largely unchanged from the 80.50% at the start of the period.

Distributions received in the third quarter of 2004 were a record USD 45m, bringing the total distributions received so far this year to USD 117m and taking the total since launch to USD 320m. Significant distributions were received during the quarter from Graphite Capital Partners V, Silver Lake Partners and Doughty Hanson & Co Fund III. Distributions in the third quarter more than funded the new capital calls made by the partnerships within the Princess portfolio. These capital calls totaled USD 34m in the quarter, bringing the total so far this year to USD 90m. Segulah II, The Rutland Fund and Silver Lake Partners made substantial draw-downs.

The value of unfunded commitments has continued to fall and now stands at USD 240m and the over commitment ratio has declined to 40%.

Based on current trends, we remain of the view that the NAV of the Princess portfolio can be expected to improve still further in the coming year.

NAV and mid-market price since issuance



Asian private equity investments gain in attractiveness

Asia turns into an opportunity within the global private equity investment landscape.

The macroeconomic factors that influence the private equity environment look promising for Asia. The region exhibits high GDP growth (historical rates of 7% compared to 3% for OECD countries) and forecasted future growth rates indicate that Asia is poised for continued healthy growth. Intra-regional trade flows have increased sharply, making Asia less dependent on other regions.

At the same time, the Asian private equity industry is maturing. Funds have become more focused and specialized, and second- and third- time funds are coming back to the market. General Partners are more seasoned, in part with US investment experience, and have been through a few business cycles. Fundraising has gradually picked up in recent years, but investment opportunities still exceed the capital available. All this makes the Asia-Pacific region attractive for US and European investors.

Japan, Singapore and Hong Kong are the most attractive countries for investing in. The relatively favorable legal and political infrastructure has fostered the development of a private equity industry in both countries. Exit options that are supported by a stable legal framework are an imperative for successful private equity investments.

Promising newcomers are China and India. Their attractiveness is mainly based on high economic growth and increasing consumer demand. The success of private equity investment opportunities in these countries will depend on improvements in the legal framework and a continuation of the political reforms evident in recent years.

Over the past two years, as the private equity industry has matured and, in particular, the transaction size has grown, the private equity industry has seen an increasing number of deals being syndicated between several private equity groups. In the following interview, Mr. Philip Bassett, Partner at Permira, gives us an insight into the world of large, syndicated deals.

Permira is a leading European-based private equity firm that acts as adviser to the 18 Permira Funds, totalling approximately EUR 11bn, that have been raised since 1985. These funds have invested in over 260 transactions in 15 different countries, in companies across a variety of sectors and geographies, at all stages of the business lifecycle.

Mr. Bassett, *syndication* and *consortium* are both terms that are associated with large private equity deals. What is meant by these terms?
A syndicated deal tends to involve a larger and more passive group of investors, the majority of whom are effectively buying into a post acquisition deal. The terms and structure of such a transaction are usually determined by the requirements of the three largest syndicate members. Consortium deals, on the other hand, are based more on a partnership culture. The members of the consortium are actively involved in the acquisition process from the very beginning, and they need to establish strong mutual trust and to clearly define their respective responsibilities in order to both complete the transaction and to be able to contribute positively during the period of their ownership of the business.

What are the main drivers behind private equity houses teaming up on deals?
There are a number of reasons for teaming up. The principal ones have to do with the size of the transaction opportunity, competitive considerations, and the need of individual funds to achieve diversification within their own portfolios. With the continued restructuring of businesses in Europe, opportunities for large private equity-led transactions have increased dramatically as European corporates either desist from making non-core acquisitions or sell off non-core activities. To achieve fund diversification and not to expose typically more than 10–15% of an individual fund to any particular investment, private equity funds have been joining forces to complete larger transactions.

How are syndicated deals typically structured?
In general, the structure of private equity deals tends to be similar, irrespective of whether a single investor or a whole consortium is involved. A new holding company is typically formed, which invests in the operating company. Investors hold shares in proportion to their equity ownership of the holding company. The main difference relates to governance. In a deal involving a single investor, the governance structure is not so much a concern because the investor controls the whole company. In a consortium deal, by contrast, since several private equity firms are likely to be involved in the transaction, often as equal partners, the governance structure is much more important. Here, the governance structure takes the individual members' requirements into account and details how the consortium members are to make collective decisions as well as the rights of the individual members in the consortium.

What are the advantages of a consortium-backed deal?
From the perspective of the investee company, it means securing funding from reputable financial backers, each of whom are also able to provide it with positive input in areas such as strategy formulation, corporate acquisitions, management changes as well as the optimization of the capital structure and cash management. Investors benefit in that co-operation between private equity firms enables them to gain exposure to assets of a size that would normally be beyond the reach of a lone private equity fund. An example of a recent consortium deal in which Permira funds have been involved is Inmarsat, a leading global provider of mobile satellite services. By teaming up with private equity firm Apax at an early stage of the transaction, the two funds were able to work effectively with both a diverse group of 86 shareholders and the company's management

Teaming up on complex private equity deals cannot be an easy undertaking?
Various factors, such as disagreement over the strategy, management or exit plan for an investment, could all lead to problems arising within the consortium. These executional risks are greater, the greater the size of the consortium. Hence, agreement at the outset on both corporate governance and the areas of responsibility is important in ensuring that the parties are committed and working effectively together. Particular consideration should be given to the time horizons of the respective investing funds to ensure that the different parties hold the same motivations and expectations for the transaction.

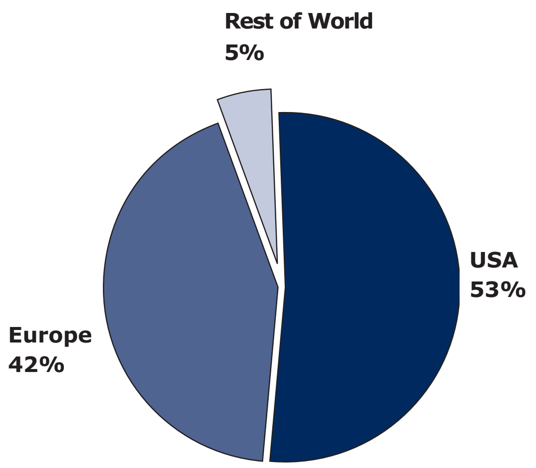
At Permira, how many deals have you syndicated over the past two years?
Permira Funds have completed four syndicated deals over the past two years and a number are pending completion. Two examples being SEAT Pagine Gialle, an Italian yellow pages business, and the Inmarsat mobile satellite transaction mentioned above.

How do you go about selecting partners for a syndicated deal?
Selecting the right syndication partners is crucial to both controlling executional risk and ensuring all the parties are aligned going forward. The partners need to have similar views on the business, similar time horizons within their own funding structures and generally similar investment philosophies. Reputation and track record are important considerations. Given that they will remain partners over the holding period of the investment, which in many cases can be over four years, mutual understanding and respect are important. In most cases, our partners are blue-chip, multi-national private equity firms with a diverse skill set that add value to the investment process.

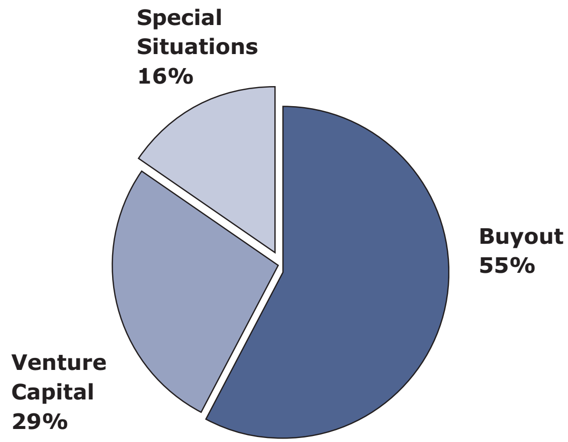
Mr. Bassett, thank you for this interview.

Princess has a well-balanced and broadly diversified portfolio according to geographic regions, financing stages, industry sectors and vintage years. 71% of the portfolio is invested in the relatively stable buyout and special situations segments

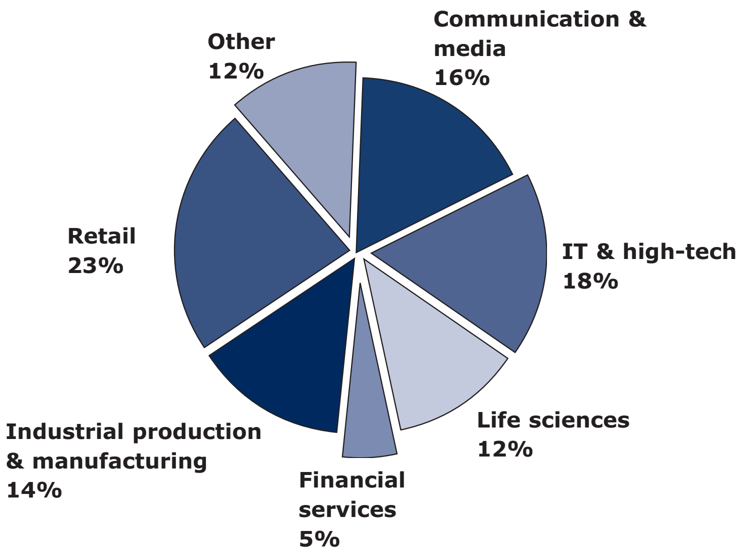
Investments by geographic region*



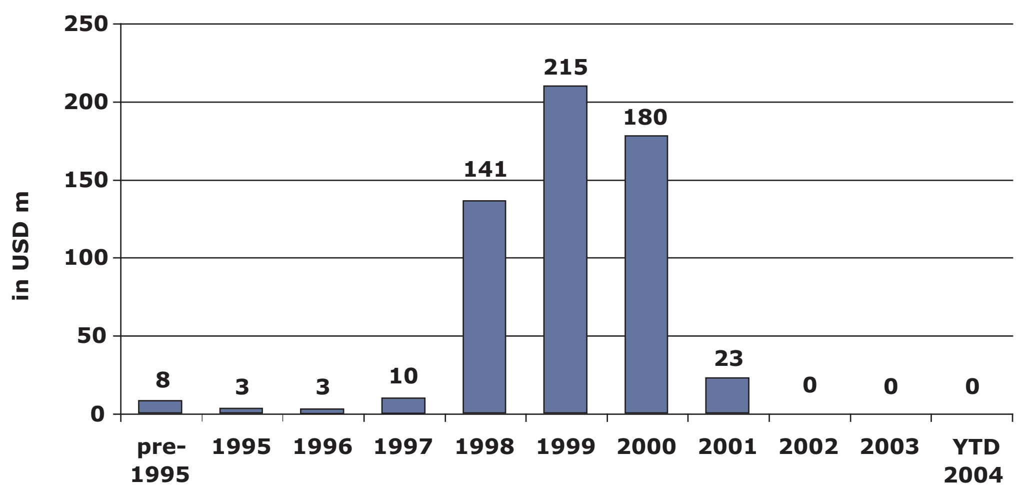
Investments by financing stage*



Investments by industry sector*



Investments by vintage year*



*Allocation by unrealized value of private equity investments

In the third quarter of 2004, Princess received USD 45.4m in distributions from 48 partnerships, bringing total distributions received in the year to date to USD 117m, and funded capital calls for USD 33.8m from 63 partnerships.

Selected new investments

Silver Lake Partners, L.P.

Silver Lake Partners has entered into a definitive agreement to invest USD 500m in *Thomson SA*, a leading provider of integrated technology solutions for the entertainment and media industries. This is Silver Lake's largest investment to date and the first co-investment with its recently launched Silver Lake Partners II fund. Thomson has 60'000 employees and EUR 8bn in annual revenue. While maintaining its consumer electronics presence the company has repositioned itself as a leading provider of technology based solutions for the entertainment and media industry and this investment will help accelerate the development of these digital media services.

Kohlberg TE Investors IV, L.P.

KSIN Holdings, an affiliate of funds managed by Kohlberg & Co, has acquired the *Singer* worldwide sewing business for approximately USD 125m. Founded in 1851, Singer is a leading worldwide provider of consumer sewing machines and related accessories. Singer products are manufactured at owned facilities in Brazil and China as well as by third parties. The company also license the Singer name for use on non-sewing products and retail stores throughout Asia. The investment proceeds are expected be used to reduce debt and fund new businesses.

Fenway Partners Capital Fund II, L.P.

Fenway Partners has acquired *Bell Sports Corp.*, a manufacturer of helmets for bicycling and other action sports, for USD 240m. Fenway will merge Bell with Riddell Sports Group, the leading football helmet supplier in the US, which Fenway purchased in June 2003. The two companies are both seen as leaders in the design and development of protective headgear and the combined company will produce more than 8m helmets annually. It will have one of the most diversified distribution networks in the industry and will also have the scale to pursue R&D and liability management initiatives not available to smaller niche companies.

Providence Equity Partners IV, L.P.
TPG Partners III, L.P.

A consortium lead by Sony America that includes Princess partnerships Providence Equity Partners and Texas Pacific Group, as well as Comcast and DLJ Merchant Banking, has entered into a definitive agreement to acquire *Metro-Goldwyn-Meyer (MGM)*. The total value of the deal is around USD 4.9bn with the consortium committing USD 1.6bn in equity financing. MGM owns the world's largest film library, comprising about 4'000 titles. After the deal closes Sony will co-finance new pictures with MGM while a new joint venture with Comcast will be established to create new cable channels featuring Sony Picture and MGM content.

Selected new exits

Carlyle Partners III, L.P.

Two years after initially buying into *Dex Media Inc.* for USD 7bn in the largest US buyout transaction since 1989, private equity houses Carlyle Group and Welsh, Carson, Anderson & Stowe took the phone directory publisher public in July. In the IPO they sold 33.32m shares for USD 606m, reducing their combined holding to a 64%. With dividends received to date they have more than doubled the value of their original USD 1.6bn investment in Dex Media. Dex Media publishes 259 yellow and white pages directories primarily in Western America.

Graphite Capital Partners V, L.P.

Graphite Capital Partners has sold *Maplin Electronics* to Montague Private Equity. Maplin is the UK's fastest growing retailer of electronic and computer components, operating from 89 stores. Graphite acquired 67% of Maplin in 2001, when it backed a management buyout. The sale at USD 244m represents a return of 9.6 times on the original investment and a rate of return in excess of 120%. Graphite sees this as a further example of their success in helping companies in the consumer sector with innovative concepts and strong management.

At the end of September 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.
European Private Equity Fund D
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 September 2004

	Notes	**01.07.2004–30.09.2004 USD**	**01.01.2004–30.09.2004 USD**	*01.07.2003–30.09.2003 USD*	*01.01.2003–30.09.2003 USD*
Net income from limited partnerships and directly held investments		**11’912’385**	**35’074’002**	*10’344’048*	*(1’897’026)*
– Dividend and interest income	5&11	2’902’410	6’673’132	*770’116*	*2’638’867*
– Revaluation	5&13	9’932’496	32’034’692	*10’012’181*	*(4’144’056)*
– Foreign exchange gains & losses	5&12	(922’521)	(3’633’822)	*(438’249)*	*(391’837)*
Net income from short-term investments		**–**	**–**	–	–
– Gains and losses	6	–	–	–	–
Net income from cash & cash equivalents		**31’882**	**85’619**	*50’798*	*295’519*
– Interest income	7&11	31’866	85’688	*51’239*	*135’460*
– Gains and losses	7	–	–	–	*161’017*
– Foreign exchange gains & losses	12	16	(69)	*(441)*	*(958)*
Operating income		**11’944’267**	**35’159’621**	*10’394’846*	*(1’601’507)*
Operating expenses		**(5’340’881)**	**(16’296’171)**	*(5’498’049)*	*(16’786’224)*
– Management fee		(3’150’676)	(9’783’494)	*(3’363’695)*	*(10’216’093)*
– Insurance fee		(2’071’919)	(6’140’619)	*(1’989’771)*	*(6’119’781)*
– Administration fee		(69’064)	(204’687)	*(66’326)*	*(203’994)*
– Tax exemption fee		–	(2’243)	*(972)*	*(1’847)*
– Other operating expenses		(49’222)	(165’128)	*(77’285)*	*(244’509)*
Financing cost		**(9’575’007)**	**(28’088’913)**	*(7’808’378)*	*(26’336’611)*
– Finance cost on convertible bond	9	(8’726’027)	(25’808’762)	*(8’241’686)*	*(24’376’238)*
– Amortization of transaction costs	9	(391’768)	(1’175’303)	*(391’768)*	*(1’175’303)*
– Interest expense	11	(457’212)	(1’104’848)	*825’076*	*(785’070)*
– Other finance cost		–	–	–	–
Surplus / (loss) for the financial period		**(2’971’621)**	**(9’225’463)**	*(2’911’581)*	*(44’724’342)*

Consolidated unaudited balance sheet

as at 30 September 2004

	Notes		30.09.2004 USD		31.12.2003 USD
Assets					
Non-current assets					
Investments in limited partnerships and directly held investments	1&5		**582’195’352**		*570’883’233*
Current assets					
Other short-term receivables	6	**119’737**		*68’449*	
Hedging assets	5	**–**		–	
Cash and cash equivalents	7	**18’001’817**		*18’790’091*	
			18’121’554		*18’858’540*
Total assets			**600’316’906**		*589’741’773*
Equity and Liabilities					
Capital and reserves					
Issued capital	8	**100**		*100*	
Reserves		**(53’414’235)**		*(44’188’772)*	
			(53’414’135)		*(44’188’672)*
Liabilities falling due after more than one year					
Convertible bond	9		**612’071’717**		*585’087’652*
Liabilities falling due within one year					
Hedging liabilities	5	**2’038’863**		*17’777’313*	
Other short-term payables	10	**620’461**		*1’065’480*	
Credit facility	16	**39’000’000**		*30’000’000*	
Rounding		**–**		–	
			41’659’324		*48’842’793*
Total liabilities			**600’316’906**		*589’741’773*

The financial statements on pages 12 to 26 were approved by the board of directors on 22 October 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 September 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	–	–	(9’225’463)	**(9’225’463)**
Rounding	–	–	–	**–**
Equity at end of reporting period	**100**	**241’028’914**	**(294’443’149)**	**(53’414’135)**

Consolidated unaudited statement of changes in equity

for the period from 1 January 2003 to 30 September 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	–	–	(44’724’342)	**(44’724’342)**
Equity at end of reporting period	**100**	**241’028’914**	**(281’114’399)**	**(40’085’385)**

Consolidated unaudited cash flow statement

for the period from 1 January 2004 to 30 September 2004

	Notes	**01.01.2004– 30.09.2004 USD**	*01.01.2003– 30.09.2003 USD*
Cash flow from operating activities			
– Management fee		**(9'783’494)**	*(10’216’093)*
– Administration fee		**(204’687)**	*(203’994)*
– Insurance fee		**(6’140’618)**	*(6’119’781)*
– Tax exemption fee		**(2’243)**	*(1’847)*
– Other operating expenses		**(165’128)**	*(244’509)*
– Proceeds from / (costs of) hedging activities	5	**(18’876’118)**	*(19’917’601)*
– (Increase) / decrease in other short-term receivables		**(51’288)**	*(1’218’452)*
– Increase / (decrease) in other short-term payables		**(215’209)**	*374’355*
– Interest and dividends received from limited partnerships and directly held investments	5	**6’673’132**	*2’638’867*
– Purchase of limited partnerships and directly held investments	5	**(89’954’909)**	*(91’622’326)*
– Distributions by limited partnerships and directly held investments	5	**110’181’329**	*37’767’810*
– Purchase of short-term investments	6	**–**	*–*
– Repayment of short-term investments	6	**–**	*–*
– Cash inflow from cash and cash equivalents	7	**85’688**	*345’032*
– Financing cost / credit line charges		**(1’334’658)**	*(785’070)*
Net cash from / (used in) operating activities		**(9’788’203)**	*(89’203’609)*
Cash flow from financing activities			
– Increase / (decrease) in credit facility	16	**9’000’000**	*30’000’000*
Net increase / (decrease) in cash and cash equivalents		**(788’203)**	*(59’203’609)*
Cash and cash equivalents at beginning of reporting period	7	**18’790’091**	*78’526’819*
Effects on cash and cash equivalents			
– revaluation		**–**	*(48’555)*
– movement in exchange rates		**(69)**	*(958)*
– rounding		**(2)**	*1*
Cash and cash equivalents at end of reporting period	7	**18’001’817**	*19’273’698*

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 recognized 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 recognizes 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 unrealized 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 20.

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 minimize potential adverse effects on 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 its 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	30.09.2004	31.12.2003
Balance at beginning of reporting period	**570'883'233**	*485'553'060*
Capital activity recorded at the transaction rate	**89'954'909**	*116'287'455*
Distributions	**(110'181'329)**	*(65'411'041)*
Revaluation	**32'034'692**	*6'941'827*
Foreign exchange gains / (losses)	**(496'154)**	*27'511'932*
Rounding	**1**	*–*
Balance at end of reporting period	**582'195'352**	*570'883'233*

5.2 Distributions

5.2 Distributions	01.01.2004–30.09.2004	01.01.2003–30.09.2003
Dividends	**5'004'485**	*1'580'233*
Interest income	**1'668'647**	*1'058'633*
Rounding	**–**	*1*
	6'673'132	*2'638'867*
Return of investments	**110'181'329**	*37'767'810*
Total distributions	**116'854'461**	*40'406'677*

5.3 Foreign exchange

5.3 Foreign exchange	01.01.2004–30.09.2004	01.01.2003–30.09.2003
Foreign exchange revaluation	**(496'154)**	*12'632'668*
Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments	**15'738'450**	*6'893'096*
Realized gains / (losses) from foreign exchange hedges relating to investments in limited partnerships and directly held investments	**(18'876'118)**	*(19'917'601)*
Rounding	**-**	*-*
	(3'633'822)	*(391'837)*

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 unrealized surplus / (loss) at the end of the reporting period is detailed below:

	USD	**Rate**	**Value date**	**Surplus / (loss) 30.09.2004**	*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	77'990'000	1.7225	15.04.2005	**(699'644)**	-
Buy USD against EUR	97'170'000	1.2300	15.04.2005	**(1'023'840)**	-
Buy USD against CHF	4'331'782	1.2466	15.04.2005	**(18'725)**	-
Buy USD against SEK	19'924'099	7.3780	15.04.2005	**(288'715)**	-
Buy USD against JPY	1'031'398	109.5600	15.04.2005	**(7'939)**	-
				(2'038'863)	*(17'777'313)*

6 Other short-term receivables

	30.09.2004	31.12.2003
Bank deposit interest receivable	–	–
Distributions receivable	–	68'449
Stock distributions	–	–
Sundry prepayments	119'737	–
	119'737	68'449

7 Cash and cash equivalents

7.1 Balance

	30.09.2004	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	18'001'817	18'790'091
Rounding	–	–
Total cash and cash equivalents	18'001'817	18'790'091

7.2 Interest income

	01.01.2004– 30.09.2004	01.01.2003– 30.09.2003
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	85'688	135'460
Rounding	–	–
Total interest income from cash and cash equivalents	85'688	296'477

8 Share capital

	30.09.2004	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 until 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.

9 Convertible bond

	30.09.2004	31.12.2003
Balance at beginning of reporting period	585'087'652	550'784'154
Amortization of transaction costs	1'175'303	1'567'071
Finance cost on convertible bond	25'808'762	32'736'428
Rounding	–	(1)
Balance at end of reporting period	612'071'717	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.

10 Other short-term payables	**30.09.2004**	*31.12.2003*
Accrued interest	**620'461**	*895'271*
Other accruals	**–**	*170'209*
Rounding	**–**	*–*
	620'461	*1'065'480*

11 Dividend and interest income and expense	**01.01.2004– 30.09.2004**	*01.01.2003– 30.09.2003*
Interest income:		
– Dividend and interest income from limited partnerships and directly held investments	**6'673'132**	*2'638'867*
– Interest income from cash and cash equivalents	**85'688**	*135'460*
Total dividend and interest income	**6'758'820**	*2'774'327*
Total interest expense	**(1'104'848)**	*(785'070)*

12 Foreign exchange gains and losses	**01.01.2004– 30.09.2004**	*01.01.2003– 30.09.2003*
Foreign exchange gains and losses on:		
– limited partnerships and directly held investments	**(3'633'822)**	*(391'837)*
– cash and cash equivalents	**(69)**	*(958)*
	(3'633'891)	*(392'795)*

13 Revaluation	**01.01.2004– 30.09.2004**	*01.01.2003– 30.09.2003*
Revaluation of:		
– limited partnerships and directly held investments	**32'034'692**	*(4'144'056)*

14 Commitments

	30.09.2004	31.12.2003
Total committed translated at the rate prevailing at the balance sheet date	**1'170'821'459**	*1'175'998'114*
Unutilized commitments translated at the rate prevailing at the balance sheet date	**239'957'021**	*327'917'025*

15 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.

	30.09.2004	31.12.2003
Net assets of the company	**558'657'582**	*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	**79.6944**	*77.1611*

16 Credit line facility

Princess Private Equity Holding Limited 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 borrowings due to Bank of Scotland (including capitalized 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.

17 Insurance Policy

On 29 June 1999, Princess Private Equity Holding Limited 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.

18 Number of employees

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

19 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	**01.01.2004–30.09.2004**	*01.01.2003–30.09.2003*
Management fee paid to:		
– Princess Management & Insurance Limited	**9’783’494**	*10’216’093*
Insurance fee paid to:		
– Princess Management & Insurance Limited	**6’140’618**	*6’119’781*
Administration fee paid to:		
– Partners Group (Guernsey) Limited	**204’687**	*203’994*
IFRS Valuation advice:		
– Princess Management & Insurance Limited	**–**	*–*
Directors fees paid	**13’940**	*4’086*

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	**30.09.2004**	*31.12.2003*
Accruals to related parties:		
– Princess Management & Insurance Limited	**–**	100'000

20 Group enterprises – significant subsidiaries

	Country of incorporation	**Ownership interest 30.09.2004**	*31.12.2003*
Princess Private Equity Subholding Limited	Guernsey	100%	*100%*

21 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.

22 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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