Princess

# QUARTERLY REPORT

for the period from 1 January 2005 to 31 March 2005

# INVESTMENT MANAGER'S REPORT

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.

## STRONG RECOVERY IN THE NAV EVIDENT IN FIRST QUARTER OF 2005

The recovery in the net asset value (NAV) of the Princess portfolio, which has been evident now since the low of July 2003, continued into the first quarter of 2005. The NAV increased by 2.5% to 83.20% – the sixth successive quarterly increase – bringing the annual increase to 7.2%. The venture sector was particularly strong during the past quarter, with significant contributions coming from, among others, Catterton Partners VI, Columbia Capital Equity Partners III and Invesco Venture Partnership Funds II.

The mid-market price of the Princess bond stood at 79.50% at the end of the quarter, down marginally from 80.00% at the end of the year.

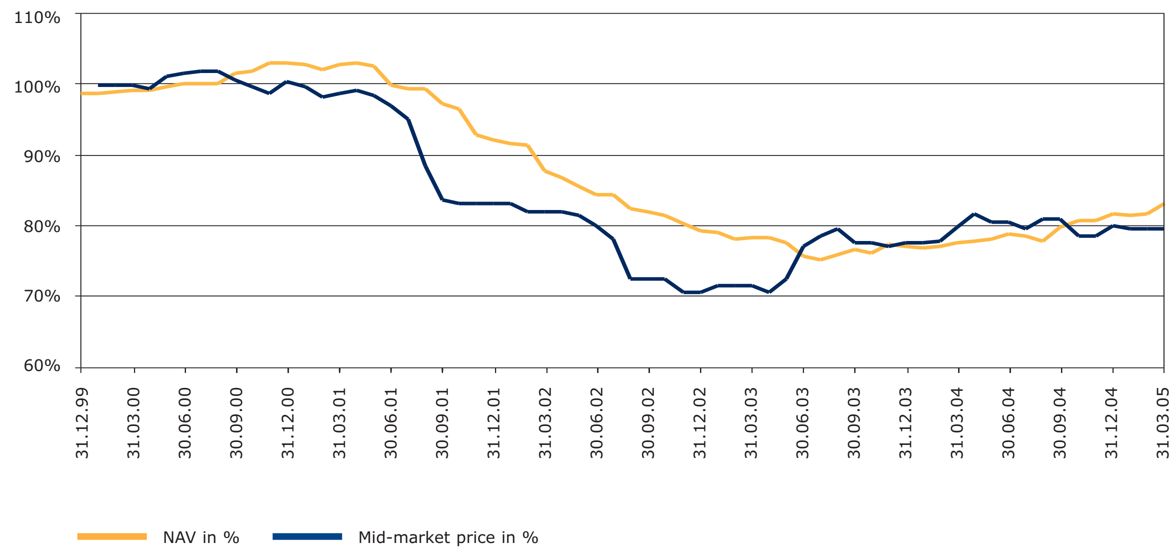
The Princess portfolio is continuing to benefit from a positive cash flow. The value of the distributions received in the first quarter was USD 54m, taking total distributions received since the product's launch to USD 430m. Nearly 70% of the distributions received in the past quarter originated from the buyout sector, with significant contributions stemming from Permira Europe II (Premiere), Palamon European Equity (TeamSystems), Fenway Partners Capital Fund II (American Achievement) and Bridgepoint Europe I (Carter & Carter).

Capital calls totaling USD 26m were funded during the period, taking the total for the past 12 months to USD 117m. GMT Communications Partners II, Invesco Venture Partners Fund II and Providence Equity Partners IV all made substantial capital calls during the quarter.

The value of total undrawn commitments has continued to fall and now stands at USD 198m; the overcommitment ratio has declined to 31.13%. The unfunded commitments are likely to be called over the coming months as the partnerships to which Princess has made commitments continue to fund both new and follow-on investments.

Use of the credit facility has declined steadily since utilization peaked at USD 49m in August 2004. The credit facility remains in place, though at the end of the quarter there were no drawings outstanding.

NAV AND PRICE DEVELOPMENT SINCE INCEPTION




## PRINCESS TO RESUME NEW COMMITMENT ACTIVITY IN 2005

In the summer of 2001, the Investment Manager concluded that the cash flow patterns in the private equity industry had changed significantly following the events of 2000, and based on empirical observations decided not to make any further commitments at that time. Princess, in common with the entire private equity industry, experienced rather slow capital call and distribution rates over the next few years, but continued to invest around USD 120m per year under existing commitments to limited partnerships, which helped mitigate against the lack of new commitments.

The Investment Manager has reviewed the situation on a regular basis and recently decided that the current, strong cash flow, the general improvement in the global private equity market and the more stable pattern of capital calls and distributions warrant the resumption of commitment activity. The existing Investment Guidelines still apply, whereby the Investment Manager will make new commitments within the set parameters, covering the main dimensions of private equity investing, i.e. financing stage, geographical region, vintage year and investment style. The Investment Manager expects to make total new commitments of up to USD 150m to vintage 2005, though this depends on being able to identify investments of a suitable quality.

# MARKET TRENDS

All the private equity segments – buyout, venture capital and special situations – are likely to face very definite trends in 2005. Gaining access to the top European buyout houses and oversubscribed US venture capital funds, the beginning of a new venture investment cycle, together with record levels of activity in European mezzanine markets, will create a highly competitive, though promising environment for investors and private equity firms alike.

## RECORD FUNDRAISING AND INVESTMENT ACTIVITY BY EUROPEAN BUYOUT GROUPS

A large number of well-known private equity players are expected to return to the market to raise new funds in 2005 for investment in European buyout transactions. The total amount raised by these players, many of them established brand names with a long track record, is expected to easily exceed the sums raised in 2003 and 2004.

Though on the up, the capital available for deployment in the European buyout market is looking at good investment opportunities, which will have an impact on investment activity. Preliminary figures from Initiative Europe, a leading provider of information on European private equity and venture capital markets, show that the total value of all buyout transactions closed in 2004 was EUR 72.2bn, or 15% higher than in 2003, and that 2004 was in all likelihood a record year for buyout investing in Europe. The European buyout segment is likely to remain attractive this year, with firms profiting from continuing economic growth and low interest rates. Low rates mean relatively cheap leverage, which is beneficial to completing buyout investments. Thus, buyout investing in 2005 is expected to be on a par with that in 2004. However, cheap financing packages, better revenue prospects and fiercer competition for deals are likely to result in generally higher entry valuations. For this reason, it will be important to invest with partnerships that exhibit very strong pricing discipline.

Notwithstanding the raft of buyout groups raising new funds, many are likely to be oversubscribed and access to the top, best-performing partnerships will therefore become increasingly important in 2005.

## ANOTHER RECORD YEAR FOR THE EUROPEAN MEZZANINE MARKET

The demand for mezzanine capital for use in leveraged buyout transactions is running at unprecedented levels. Figures recently published by Fitch Ratings confirm that, at EUR 5.8bn, 2004 had seen a record level of new mezzanine issuance in the European market. The fact that a large number of "jumbo" leveraged buyouts opted to issue mezzanine in preference to high-yield bonds is evidence of the maturity of the mezzanine asset class as well as its growing popularity among investors.

Mezzanine issuance is likely to remain high again this year. The mezzanine market will benefit from increased global leveraged buyout activity and growth capital opportunities, including mergers and acquisitions, corporate restructurings and recapitalizations.

Market conditions, however, are expected to remain extremely competitive. Consequently, the downward trend in pricing in large mezzanine facilities in 2004 is likely to continue. With pricing under pressure, the European mezzanine market should witness high prepayment levels again, driven primarily by refinancing activity.

Further, the trend towards ever more complex deal structures is expected to continue.

Finally, in the current market, where liquidity is plentiful, the stiff competition between the equity sponsors and arranging banks will support the trend towards even higher leverage multiples.

## US VENTURE CAPITAL INDUSTRY AT THE BEGINNING OF A NEW CYCLE

Though still remaining cautious, investors and venture capital firms alike seem to have regained confidence in the venture capital asset class and, consequently, are now facing a strong competitive environment in this sector.

Google's successful initial public offering (IPO) last summer helped spark interest in venture capital investing. Investors' demand for the venture capital asset class is now back to a high level again. Given that the funds being raised are smaller in size, investors will have to compete strongly for an allocation in the best performing funds that are due to be raised over the coming months. Many of these funds will face the prospect of being oversubscribed; venture capitalists' discipline in limiting fund sizes so that they are in line with investment needs will be critical in 2005. Last year, only about 5% of total funds raised exceeded the USD 500m mark, which suggests that funds are capping their limited partner commitments so as to be in line with expected investment needs.

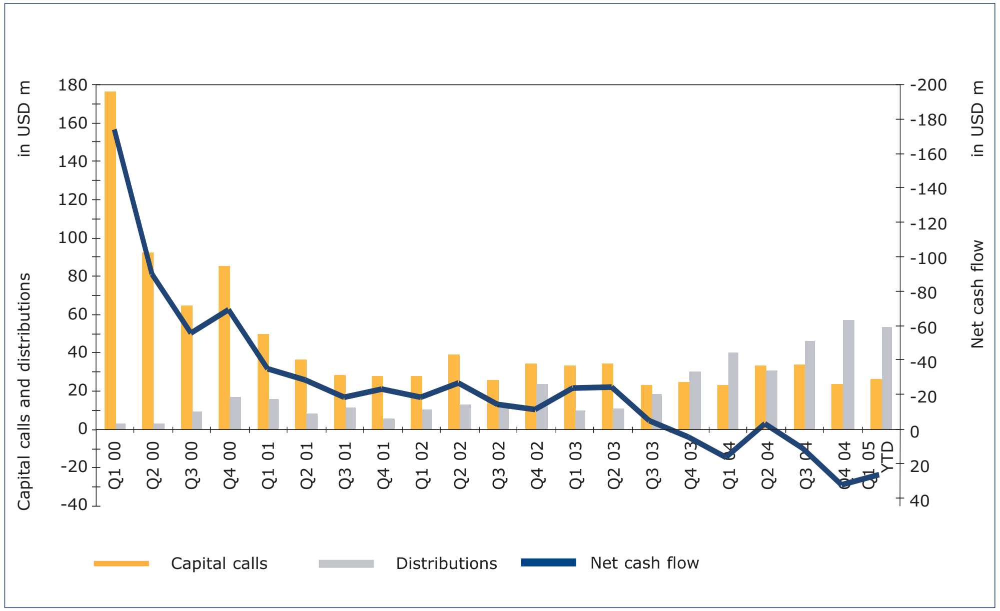
Competition in the US venture capital market not only exists among investors. New funds are being raised, but these dollars will have to be invested. 2005 will be characterized by a return to early-stage investing, as venture capitalists start to invest their new funds. At the beginning of the investment period of a fund, there is no pressure on the venture capitalist to make any immediate exits and so they have the time and opportunity to search for seed, start-up and early-stage companies with the potential to become one of the next rising stars.

Despite a healthy market with money ready for investing, the bar remains high for companies looking for a venture backer. According to the US National Venture Capital Association (NVCA), venture capitalists will be searching for true breakthrough innovations and avoiding "me-too" deals. Value creation will be of paramount importance in company formation. With competition for funding remaining fierce, good ideas will simply not be good enough. Gone are the days when just any kind of idea was backed by seed money. In 2005, even start-up companies will be required to have some meat on their bones if they are to attract venture capital.

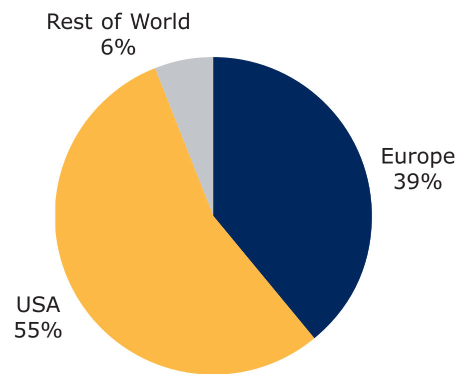
The NVCA expects technology to remain the cornerstone of venture capital investing in 2005, with a focus on the software and life sciences sectors. Emerging areas such as stem cell research and nanotechnology will be watched closely by the venture capital industry, though investment in such companies will remain limited until more basic research and development has been done. Venture capitalists are also increasingly looking beyond their traditional sectors of interest at, for instance, energy, clean technology and financial services.

# PORTFOLIO ALLOCATION

Princess has a well-balanced and broadly diversified portfolio according to geographic regions, financing stages, industry sectors and vintage years. 68% of the portfolio is invested in the relatively stable buyout and special situations segments.

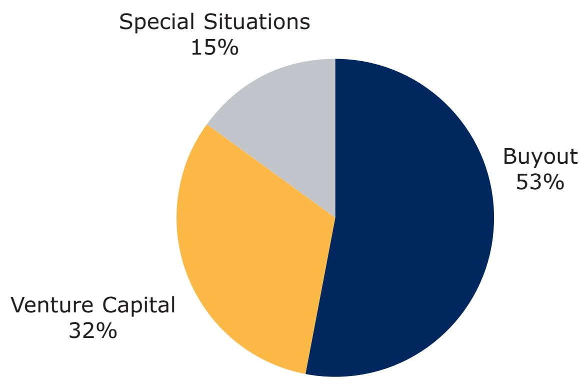


## INVESTMENTS BY GEOGRAPHIC REGION*



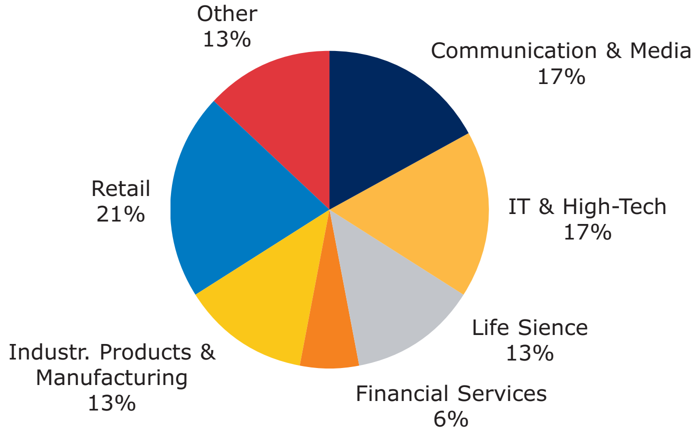

*Allocation by unrealized value of private equity investments

## INVESTMENTS BY FINANCING STAGE*



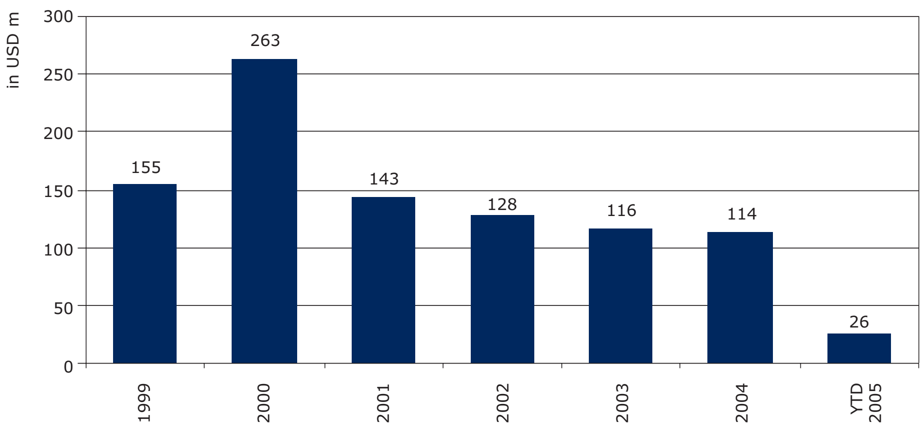

*Allocation by unrealized value of private equity investments

## INVESTMENTS BY INDUSTRY SECTOR*




*Allocation by unrealized value of private equity investments

## CAPITAL CALLS PER YEAR



# PORTFOLIO

In the first quarter of 2005, Princess received USD 53.5m in distributions from 46 partnerships, and funded capital calls for USD 26.4m from 50 partnerships.

## SELECTED NEW INVESTMENTS

**Apax Excelsior VI, L.P.**
**Apollo Overseas Partners V, L.P.**
Apax Partners and Apollo Management are part of an investment group that has acquired 100% of *Intelsat* in January for a total cash consideration of USD 3bn plus the assumption of debt. Intelsat is a leading provider of satellite communication services worldwide, supplying video, data and voice connectivity in over 200 countries and territories. It owns and operates 27 satellites and leases capacity on two others. Founded in 1964, INTELSAT was owned and governed by companies representing 145 governments around the world. In 2001, INTELSAT was privatized and its assets transferred to Bermuda-based Intelsat Ltd. The new investors intend to expand Intelsat's video broadcast and internet access business.

**Warburg Pincus International Partners, L.P.**
In January, Warburg Pincus entered into a definitive agreement to acquire *CAMP Systems International LLC* from Boston Ventures for a reported USD 200m. The company was founded in 1967 and is a leader in maintenance tracking software for corporate aircraft which it provides to the owners and operators of more than 3,800 aircraft worldwide. CAMP Systems is also a leading provider of market intelligence to aircraft brokers. Warburg Pincus considers the company to be a well-respected, market-leading brand with good growth prospects. The acquisition was prompted, in part, by signs that the corporate aviation market is emerging from recession.

## SELECTED NEW EXITS

**TPG Partners III, L.P.**
**TCW/Crescent Mezzanine Partners III, L.P.**
**T3 Partners, L.P.**

In February, the investor group led by Texas Pacific Group realized gross proceeds of around USD 754m from a secondary sale of shares in *MEMC Electronic Materials,* reducing their stake from 63% to about 34%, worth some USD 872m. The consortium had already generated some USD 540m from secondary share sales in 2003 and 2004. MEMC had been acquired back in November 2001 from German energy company E.ON AG for only USD 6, with a further payment of USD 25m in August 2003. MEMC is the world's largest public company devoted solely to the supply of wafers to semiconductor device manufacturers and has been a pioneer in the design and development of wafer technologies over the last four decades. MEMC operates nine manufacturing facilities directly or through joint ventures in the world's key semiconductor regions, including the US, Japan, Europe, Malaysia and Taiwan.

**Warburg Pincus International Partners, L.P.**

Warburg Pincus recouped roughly 60% of its initial cash investment in *Polypore International Inc.* in February when the company issued USD 300m of debt in the form of senior discount notes that carry a 10.5% coupon and come due in 2010. The net proceeds will be used to redeem USD 150m of preferred stock owned by Warburg Pincus and to pay a dividend. Warburg Pincus completed the USD 1.15bn leveraged buyout of Polypore International in May 2004, investing USD 321m in preferred and common equity. Polypore International is a leading worldwide manufacturer of highly specialized, polymer-based membranes used in separation and filtration processes, with ten manufacturing facilities throughout Europe, Asia, and North America.

**Permira Europe II, L.P.**

*Premiere AG* was floated in March on the Frankfurt Stock Exchange in an IPO that valued the company at EUR 2.3bn. It enjoyed a strong stock market debut, with the IPO – the largest since that of Deutsche Post Bank in July – being 12 times oversubscribed. In the IPO, 12 million new shares and 24.6m existing shares were sold. Permira, which had acquired a majority stake in Premiere in 2003 when it backed a EUR 220m management buyout, reduced its stake from 55% to 24%. Under Permira's auspices, the company, which had been part of the Kirch media empire until it collapsed in 2002, has undergone a major turnaround and returned to profitability. Premiere is now the leading pay-TV operator in Germany and Austria, offering exclusive premium content on more than 25 digital channels.

**Carlyle Partners III, L.P.**
**Providence Equity Partners IV, L.P.**

In March, within a year of being acquired in a leveraged buyout (LBO) by a consortium that included the Carlyle Group and Providence Equity Partners, *PanAmSat* raised USD 900m in an IPO which valued the company at USD 2.2bn. Around 41% of shares in the company were sold in the IPO, and part of the proceeds will be used to pay a dividend. With this dividend, together with one paid in 2004, the investors will have recouped most of the USD 550m in equity that they had originally invested in the LBO. Their remaining 55.5% stake is worth USD 1.2bn at the IPO price. PanAmSat is the largest US-based commercial satellite operator and a leading global provider of video, broadcasting and network distribution and delivery services.

# PORTFOLIO OVERVIEW

At the end of March 2005, the portfolio of Princess Private Equity Holding comprised commitments to 102 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 – Venture Capital |
|---|
| Abingworth Bioventures III, L.P. |
| Elderstreet Capital Partners, L.P. |
| European E-Commerce Fund |
| European Equity Partners (III), L.P. |
| European Equity Partners (IV), 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. |

| 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

**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 – 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.

**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.

**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 Word – 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 2005 to 31 March 2005

| | Notes | **01.01.2005– 31.03.2005 USD** | 01.01.2004– 31.03.2004 USD |
|---|---|---|---|
| **Net income from limited partnerships and directly held investments** | | **19,541,797** | 8,976,453 |
| - Dividend and interest income | 5&11 | 4,744,298 | 1,692,465 |
| - Revaluation | 5&13 | 14,475,993 | 8,551,118 |
| - Foreign exchange gains & losses | 5&12 | 321,506 | (1,267,130) |
| **Net income from cash & cash equivalents** | | **88,992** | 37,987 |
| - Interest income | 7&11 | 85,207 | 38,062 |
| - Foreign exchange gains & losses | 12 | 3,785 | (75) |
| **Operating income** | | **19,630,789** | 9,014,440 |
| **Operating expenses** | | **(5,239,575)** | (5,547,668) |
| - Management fee | 2 | (3,016,676) | (3,370,501) |
| - Insurance fee | 2 | (2,133,717) | (2,028,371) |
| - Administration fee | 2 | (71,124) | (67,612) |
| - Tax exemption fee | 3 | - | (2,243) |
| - Other operating expenses | | (18,058) | (78,941) |
| **Financing cost** | | **(10,445,954)** | (9,150,052) |
| - Finance cost on convertible bond | 9 | (9,923,616) | (8,480,399) |
| - Amortization of transaction costs | 9 | (371,878) | (391,768) |
| - Interest expense | 11 | (150,460) | (277,885) |
| **Surplus / (loss) for the financial period** | | **3,945,260** | (5,683,280) |

# CONSOLIDATED UNAUDITED BALANCE SHEET

as at 31 March 2005

| | Notes | | 31.03.2005 USD | | 31.12.2004 USD |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Investments in limited partnerships and directly held investments | 1&5 | | **566,491,069** | | 581,626,665 |
| | | | | | |
| **Current assets** | | | | | |
| Other short-term receivables | 6 | **3,456,525** | | 422,993 | |
| Cash and cash equivalents | 7 | **24,833,001** | | 16,605,856 | |
| | | | **28,289,526** | | 17,028,849 |
| | | | | | |
| **Total assets** | | | **594,780,595** | | 598,655,514 |
| | | | | | |
| **Equity** | | | | | |
| **Capital and reserves** | | | | | |
| Issued capital | 8 | **100** | | 100 | |
| Reserves | | **(40,075,909)** | | (44,021,169) | |
| **Total equity** | | | **(40,075,809)** | | (44,021,069) |
| | | | | | |
| **Liabilities** | | | | | |
| **Liabilities falling due after more than one year** | | | | | |
| Convertible bond | 9 | | **623,307,679** | | 613,012,186 |
| | | | | | |
| **Liabilities falling due within one year** | | | | | |
| Hedging liabilities | 5 | **11,323,464** | | 18,704,616 | |
| Other short-term payables | 10 | **225,260** | | 959,782 | |
| Credit facility | 16 | **-** | | 10,000,000 | |
| Rounding | | **1** | | (1) | |
| | | | **11,548,725** | | 29,664,397 |
| | | | | | |
| **Total liabilities and equity** | | | **594,780,595** | | 598,655,514 |

The financial statements on pages 12 to 25 were approved by the board of directors on 27 April 2005 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 2005 to 31 March 2005 (all amounts in USD)

| | Share capital | Share premium | Accumulated surplus/(loss) | Total |
|---|---|---|---|---|
| **Equity at beginning of reporting period** | 100 | 263,086,949 | (307,108,118) | **(44,021,069)** |
| Surplus / (loss) for the financial period | - | - | 3,945,260 | **3,945,260** |
| Rounding | - | - | - | **-** |
| **Equity at end of reporting period** | **100** | **263,086,949** | **(303,162,858)** | **(40,075,809)** |

# CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January 2004 to 31 March 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 | - | - | (5,683,280) | **(5,683,280)** |
| Rounding | - | - | - | **-** |
| **Equity at end of reporting period** | **100** | **241,028,914** | **(290,900,966)** | **(49,871,952)** |

## CONSOLIDATED UNAUDITED STATEMENT OF INCOME
for the period from 1 January 2005 to 31 March 2005

| | Notes | **01.01.2005–31.03.2005 USD** | 01.01.2004–31.03.2004 USD |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| - Management fee | | **(3,016,676)** | (3,370,501) |
| - Administration fee | | **(71,124)** | (67,612) |
| - Insurance fee | | **(2,133,717)** | (2,028,371) |
| - Tax exemption fee | | **-** | (2,243) |
| - Other operating expenses | | **(18,058)** | (78,941) |
| - Proceeds from / (costs of) hedging activities | 5 | **-** | (18,995,855) |
| - (Increase) / decrease in other short-term receivables | | **(3,033,532)** | 68,449 |
| - Increase / (decrease) in other short-term payables | | **(88,334)** | (170,209) |
| - Interest and dividends received from limited partnerships and directly held investments | 5 | **4,744,298** | 1,692,465 |
| - Purchase of limited partnerships and directly held investments | 5 | **(25,487,780)** | (23,006,480) |
| - Distributions by limited partnerships and directly held investments | 5 | **48,039,724** | 38,657,465 |
| - Cash inflow from cash and cash equivalents | 7 | **85,207** | 38,062 |
| - Financing cost / credit line charges | | **(796,647)** | (455,000) |
| Net cash from / (used in) operating activities | | **18,223,361** | (7,718,771) |
| **Cash flow from financing activities** | | | |
| - Increase / (decrease) in credit facility | 16 | **(10,000,000)** | - |
| **Net increase / (decrease) in cash and cash equivalents** | | **8,223,361** | (7,718,771) |
| **Cash and cash equivalents at beginning of reporting period** | 7 | **16,605,856** | 18,790,091 |
| Effects on cash and cash equivalents | | | |
| - movement in exchange rates | | **3,785** | (75) |
| - rounding | | **(1)** | (1) |
| **Cash and cash equivalents at end of reporting period** | 7 | **24,833,001** | 11,071,244 |

## 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 34 (Interim Reporting), except for the following:

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

The financial statements 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 "financial assets and financial liabilities at fair value through profit and loss" 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 IFRS 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.

**Net income from short-term investments and cash and cash equivalents**

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 income statement.

**Expenditure**

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

**Functional and presentation currency**

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates ("The Functional Currency"). This is the US dollar, which reflects the Company's primary activity of investing in US dollar limited partnerships and private equity. The Company has also adopted the US dollar as its presentation currency.

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 income statement.

**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 partnerships 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.

# NOTES TO THE CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
(continued)

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

The directly held investments are being treated as "financial assets at fair value through profit or loss" 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 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".

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 "financial assets at fair value through profit or loss".

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**

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".

**Accounting for derivative financial instruments and hedging activities**

The Group's policy of hedging the value of non-US dollar investments against the US dollar does not qualify as hedge accounting as defined in IAS 39 (revised 2004). Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. 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 income statement under the heading of "Net income from limited partnerships and directly held investments – foreign exchange gains and losses". The fair values of various derivative instruments used for hedging purposes are disclosed in note 5.

**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 surpluses and losses 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 the Group.

### 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. The Group may use forward contracts to hedge its exposure to foreign currency risk in connection with the functional 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.

# NOTES TO THE CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
(continued)

**Fair value estimation**

The fair value of publicly traded derivatives and "financial assets at fair value through profit or loss" 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

| | **31.03.2005** | 31.12.2004 |
|---|---|---|
| **Balance at beginning of reporting period** | **581,626,665** | 570,883,233 |
| Capital activity recorded at the transaction rate | **25,487,780** | 113,750,668 |
| Distributions | **(48,039,724)** | (164,513,747) |
| Revaluation | **14,475,993** | 46,434,762 |
| Foreign exchange gains / (losses) | **(7,059,646)** | 15,071,749 |
| Rounding | **1** | - |
| **Balance at end of reporting period** | **566,491,069** | 581,626,665 |

### 5.2 DISTRIBUTIONS

| | **01.01.2005-31.03.2005** | 01.01.2004-31.03.2004 |
|---|---|---|
| Dividends | **4,146,509** | 1,213,014 |
| Interest income | **597,789** | 479,452 |
| Rounding | **-** | (1) |
| | **4,744,298** | 1,692,465 |
| Return of investments | **48,039,724** | 38,657,465 |
| **Total distributions** | **52,784,022** | 40,349,930 |

### 5.3 FOREIGN EXCHANGE

| | **01.01.2005-31.03.2005** | 01.01.2004-31.03.2004 |
|---|---|---|
| Foreign exchange revaluation | **(7,059,646)** | 359,667 |
| Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments | **7,381,152** | 17,369,059 |
| Realized gains / (losses) from foreign exchange hedges relating to investments in limited partnerships and directly held investments | **-** | (18,995,855) |
| Rounding | **-** | (1) |
| | **321,506** | (1,267,130) |

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) 31.03.2005** | Surplus / (loss) 31.12.2004 |
|---|---|---|---|---|---|
| Sell GBP against USD | 77,990,000 | 1.7225 | 15.04.2005 | **(5,153,984)** | (5,949,724) |
| Sell EUR against USD | 97,170,000 | 1,2300 | 15.04.2005 | **(5,264,244)** | (10,052,750) |
| Sell CHF against USD | 4,331,782 | 1.2466 | 15.04.2005 | **(183,927)** | (431,987) |
| Sell SEK against USD | 19,924,099 | 7.3780 | 15.04.2005 | **(860,555)** | (2,191,997) |
| Sell JPY against USD | 1,031,398 | 109.5600 | 15.04.2005 | **(24,000)** | (78,158) |
| Buy GBP against USD | 11,170,800 | 1.8618 | 15.04.2005 | **167,016** | - |
| Buy EUR against USD | 6,486,950 | 1.2974 | 15.04.2005 | **(3,770)** | - |
| | | | | **(11,323,464)** | (18,704,616) |

## 6 OTHER SHORT-TERM RECEIVABLES

| | **31.03.2005** | 31.12.2004 |
|---|---|---|
| Distributions receivable | **3,456,525** | 296,013 |
| Sundry prepayments | **-** | 126,980 |
| | **3,456,525** | 422,993 |

## 7 CASH AND CASH EQUIVALENTS

### 7.1 BALANCE

| | **31.03.2005** | 31.12.2004 |
|---|---|---|
| **Cash at banks** | **24,833,001** | 16,605,856 |
| Rounding | **-** | - |
| **Total cash and cash equivalents** | **24,833,001** | 16,605,856 |

### 7.2 INTEREST INCOME

| | **01.01.2005-31.03.2005** | 01.01.2004-31.03.2004 |
|---|---|---|
| Interest received from cash at banks | **85,207** | 38,062 |
| Rounding | **-** | - |
| **Total interest income from cash and cash equivalents** | **85,207** | 38,062 |

## 8 SHARE CAPITAL

| | **31.03.2005** | 31.12.2004 |
|---|---|---|
| **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 |

## NOTES TO THE CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
(continued)

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

| | 31.03.2005 | 31.12.2004 |
|---|---|---|
| **Balance at beginning of reporting period** | **613,012,186** | 573,378,820 |
| Amortization of transaction costs | **371,878** | 1,487,513 |
| Finance cost on convertible bond | **9,923,616** | 38,145,853 |
| Rounding | **(1)** | - |
| **Balance at end of reporting period** | **623,307,679** | 613,012,186 |

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 264,834,825 using cash flows discounted at market interest rates for an equivalent period. This amount is classified as share premium and will remain part of the permanent equity of the Group. The remaining net proceeds, after the allocation of the liability related transaction costs, of USD 424,077,733 are allocated to the liability component. The liability, including transaction costs, is therefore stated at a discount of 1.6110% 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 Group. 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 year to the conversion of the bond.

### 10 OTHER SHORT-TERM PAYABLES

| | 31.03.2005 | 31.12.2004 |
|---|---|---|
| Accrued interest | **125,260** | 771,447 |
| Other accruals | **100,000** | 188,334 |
| Rounding | **-** | 1 |
| | **225,260** | 959,782 |

## 11 DIVIDEND AND INTEREST INCOME AND EXPENCE

| | **01.01.2005-31.03.2005** | 01.01.2004-31.03.2004 |
|---|---|---|
| Interest income: | | |
| - Dividend and interest income from limited partnerships and directly held investments | **4,744,298** | 1,692,465 |
| - Interest income from cash and cash equivalents | **85,207** | 38,062 |
| Total dividend and interest income | **4,829,505** | 1,730,527 |
| Total interest expense | **(150,460)** | (277,885) |

## 12 FOREIGN EXCHANGE GAINS AND LOSSES

| | **01.01.2005-31.03.2005** | 01.01.2004-31.03.2004 |
|---|---|---|
| Foreign exchange gains and losses on: | | |
| - limited partnerships and directly held investments | **321,506** | (1,267,130) |
| - cash and cash equivalents | **3,785** | (75) |
| | **325,291** | (1,267,205) |

## 13 REVALUATION

| | **01.01.2005-31.03.2005** | 01.01.2004-31.03.2004 |
|---|---|---|
| Revaluation of: | | |
| - limited partnerships and directly held investments | **14,475,993** | 8,551,118 |

## 14 COMMITMENTS

| | **31.03.2005** | 31.12.2004 |
|---|---|---|
| Total commitments translated at the rate prevailing at the balance sheet date | **1,181,677,433** | 1,200,227,092 |
| Unutilized commitments translated at the rate prevailing at the balance sheet date | **198,316,135** | 222,820,371 |

## 15 DILUTED NET ASSETS PER ORDINARY SHARE

The net assets are calculated by deducting the Liabilities falling due within one year from the Total Assets. The 700,000 convertible bonds at a par value of USD 1,000 each, if converted at USD 100 per share would result in 7,000,000 shares.

| | **31.03.2005** | 31.12.2004 |
|---|---|---|
| Net assets of the Group | **583,231,870** | 568,991,117 |
| 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 | **83.2000** | 81.1685 |

## 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.

# NOTES TO THE CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
(continued)

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

| | **01.01.2005-31.03.2005** | 01.01.2004-31.03.2004 |
|---|---|---|
| Management fee paid to: | | |
| - Princess Management & Insurance Limited | **3,016,676** | 3,370,501 |
| Insurance fee paid to: | | |
| - Princess Management & Insurance Limited | **2,133,717** | 2,028,371 |
| Administration fee paid to: | | |
| - Partners Group (Guernsey) Limited | **71,124** | 67,612 |
| Directors' fees paid | **7,180** | 4,677 |

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

| | 31.03.2005 | 31.12.2004 |
|---|---|---|
| Other short-term receivables from related parties: | | |
| - Princess Management & Insurance Limited | - | 126,980 |
| Other short-term payables to related parties: | | |
| - Princess Management & Insurance Limited | 100,000 | 145,000 |

## 20 GROUP ENTERPRISES - SIGNIFICANT SUBSIDIARIES

| | Country of incorporation | Ownership interest 31.03.2005 | 31.12.2004 |
|---|---|---|---|
| Princess Private Equity Subholding Limited | Guernsey | 100% | 100% |

## 21 PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

GE & W AG, a company organized under 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.

## NOTES

Princess

# LIST OF ADRESSES

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**Auditors**
PricewaterhouseCoopers CI LLP

**Trading Information**

| | |
|---|---|
| Reuters | DBSTRUK03 |
| Bloomberg | PRINEQ <<Corp>>RELS <go> |
| Telekurs, Investdata | CH813917 |

**Market Maker**

| | |
|---|---|
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| | Zurich, Switzerland |
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