



Report for the period  
1 April 2003 to  
30 June 2003

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

## Venture capital partnerships are coming back to market

**While Princess's venture segment sees a decrease in net assets, investment activity by venture partnerships has picked up. The special situations segment continues to be the best performer.**

In the second quarter of 2003, the net asset value (NAV) of the Princess Private Equity Holding portfolio declined by 3.22% from 78.21% at end-March to 75.69% at end-June. While Princess's net assets with buyout and

special situations partnerships increased, venture partnerships declined.

Nevertheless attractive entry-multiples triggered increased investment activity. Overall Princess's partnerships invested USD 35m in the second quarter. Compared to previous quarters venture partnerships were increasingly active and invested 41% of all monies drawn in the second quarter.

Overall Princess Holding received more than USD 12m in distributions in the second quarter. The lion's share of this amount, namely USD 7m, came from special situations partnerships.

## Princess portfolio companies honoured

**Tornado Insider published its 2003 "Tornado 100" list of the most promising and innovate private start-ups in Europe. Princess partnerships have invested in 16 out of the 100 companies selected.**

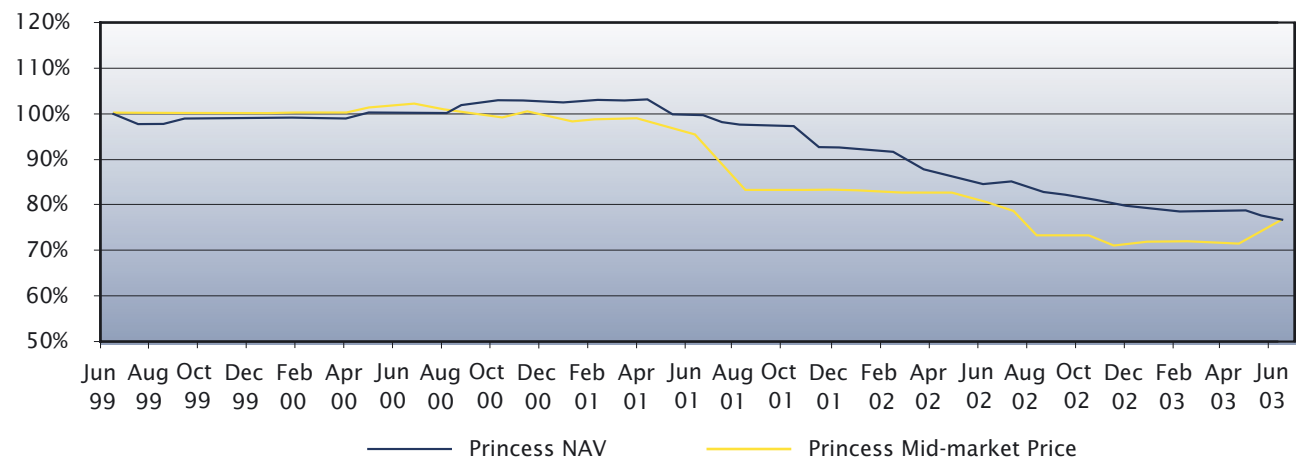
Tornado Insider, a specialist magazine covering the entrepreneurial high-tech sector in Europe, published its third annual "Tornado 100" list of the most promising and innovative emerging companies in the European IT and biotechnology sectors. The companies were selected by Tornado Insider's research and editorial departments in conjunction with leading industrialists and high-tech analysts. The selection criteria included a firm's potential to become a global brand, to set future standards and to influence a major market.

Out of the 16 Princess portfolio companies honored, six are active in the communications and media, six in the high-tech and four in the life science sector. Among the top 25 are Cellzome, a Heidelberg-based biophar-

maceutical company researching the interaction of proteins at cellular level, and Solexa, a Cambridge (UK) based nanotechnology company focused on low-cost, high-speed, genome sequencing using a patented technology called Single Molecule Array. While Cellzome is a portfolio company of both Chancellor V and Schroder ILSF II, Solexa is a portfolio company of both Abingworth III and Schroder ILSFII.

The fact that the Princess portfolio is invested in no less than 16 of the companies honored by Tornado Insider is testament to the partnerships' investment expertise and the quality of the portfolio.

NAV and Mid-Market Price since Issuance until 30.06.2003



BC Partners is one of the leading European private equity firms having raised over EUR 6bn in seven funds. Since it was founded in 1986, BC Partners has been acquiring and developing large European-based businesses in partnership with management across a wide range of industry sectors. In over 17 years the firm has developed a long track record of successful acquisitions and built a well established reputation across Europe. During this period BC Partners made 52 investments with an aggregate transaction value of EUR 25bn. The BC European Capital VII funds have total commitments of EUR 4.3bn making it one of the largest buy-out funds raised in Europe to date.

In 2002 funds advised by BC Partners acquired the Hirlanden Group of private clinics, the largest buy-out in Switzerland that year. The investment was led by Simon Palley, a Managing Partner of BC Partners, who together with Stefano Quadrio Curzio and Andrew Newington joined the board of Hirlanden following the acquisition. Princess participates in BC European Capital VII and thus in the Hirlanden Group via Coller III.

## What attracted you to Hirslanden?

Hirslanden is Switzerland's largest private acute care hospital group, comprising 12 acute and general care clinics located in eight cantons, with 1'143 beds and over 3'000 full-time equivalent staff. The group has a leading national market share in the private healthcare sector, enjoys an excellent reputation and has delivered strong financial results.

The BC Partners team was able to leverage its expertise in the private healthcare sector, gained in particular through the acquisition in 2000 of General Healthcare Group, which runs the largest chain of private acute care hospitals in the UK and is one of Europe's largest private hospital groups.

You acquired Hirslanden from the UBS Group. What was the rationale for the sale and how was BC Partners successfully positioned to lead this acquisition?

The business was acquired without an auction process after exclusive negotiations. UBS had supported the growth of Hirslanden over many years as Hirslanden successfully consolidated its leading position in Switzerland, but ultimately Hirslanden was non-core to UBS. UBS was looking for a partner who understood the sector, could complete a large transaction quickly and discretely, and one who could provide international links. BC Partners was able to leverage its experience in this sector and the Board and management of Hirslanden strongly supported the acquisition. All parties agreed that the sale was in the best interests of the employees, management and customers of Hirslanden.

## What are your plans for Hirslanden going forward?

BC Partners' plans are to back the existing management team, to maintain the Swiss nature of the company, to continue to focus on excellence in healthcare and to support the continued growth of the company. There may also be opportunities for Hirslanden to benefit from closer operational links with General Healthcare Group, in particular the sharing of medical expertise and co-operation as regards purchasing.

Is Switzerland an area of particular emphasis for BC Partners?

BC Partners is unique in having operated as an integrated European firm from the outset. The executive team, comprising 8 managing partners and a further 27 investment professionals, operates from five offices in Geneva, Hamburg, London, Milan and Paris. The investment professionals act as one team across

the offices, sharing a set of common values and goals, and invest the BC European Capital funds across Europe, searching for the best investment opportunities without geographical allocation.

The Geneva office has been opened recently in order to develop a permanent presence in Switzerland as the number of attractive opportunities for buy-outs is increasing.

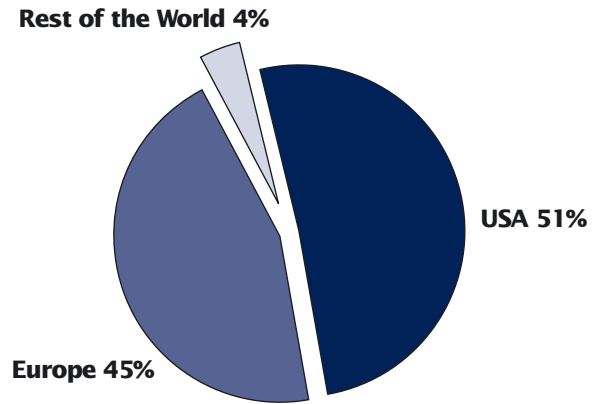
Mr. Palley, thank you very much for this interview.



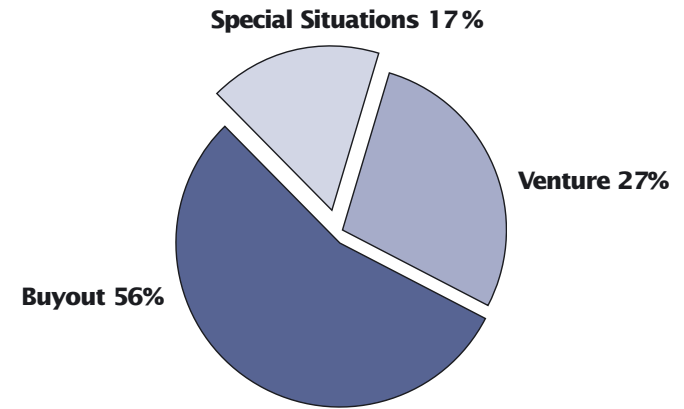
Klinik Hirslanden in Zurich, Switzerland

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

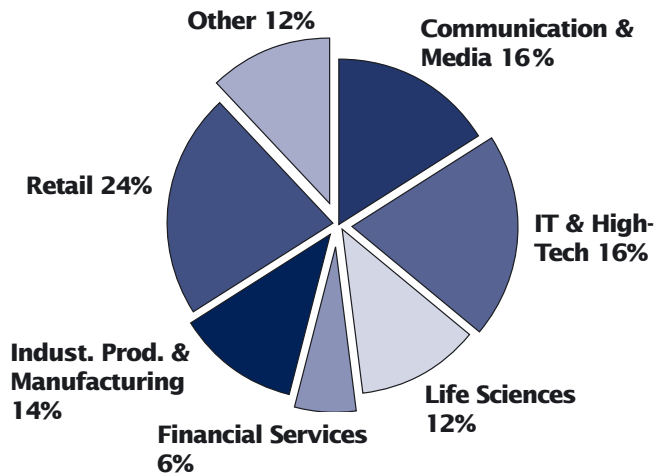
Investments by Geographic Region\*



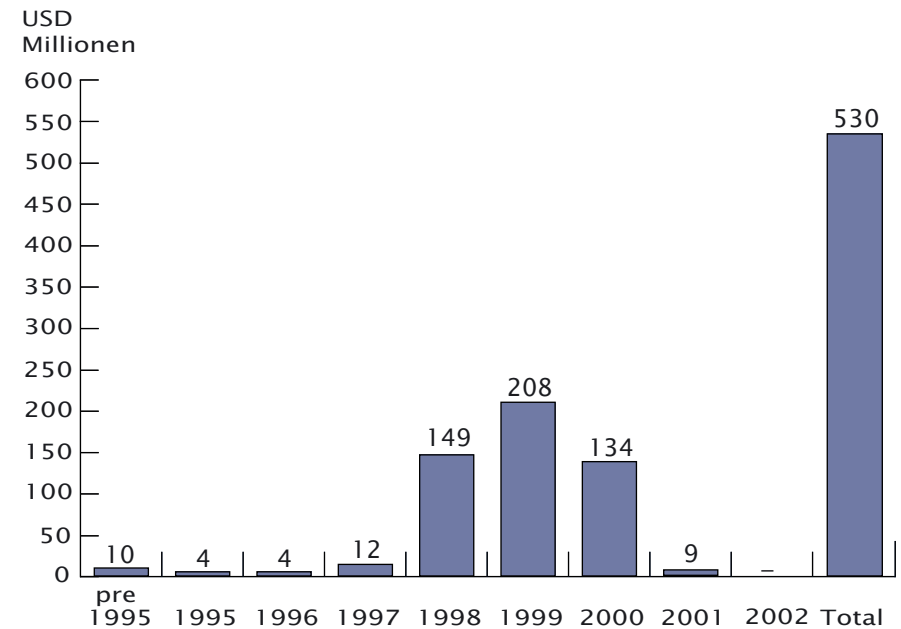
Investments by Financing Stage\*



Investments by Industry Sector\*



Investments by Vintage Year\*



\*Allocation by unrealized value of private equity investments

In the second quarter of 2003, Princess received proceeds from 28 partnerships totaling USD 12m. At the same time, 73 partnerships made capital calls in the order of USD 35m.



## Selected new exits

### **Worldview Technology Partners IV**

In April security software provider Network Associates Inc. announced an agreement to acquire IntruVert Networks, a developer of network-based intrusion protection technology, for USD 100m in cash. IntruVert was founded in October 2000 with headquarters in San Jose, USA, and has assembled a highly skilled team of researchers, engineers and developers with in-depth IDS and networking expertise. Overall, IntruVert has raised USD 36m in venture capital to date. In October 2002 the company secured USD 15.5m in a third-round financing from Silicon Valley firms Worldview Technology Partners, Trinity Ventures and ComVentures.

### **Partners Group SPP1 Ltd.**

Through various transactions Princess received USD 1m in distributions from PG SPP1 during the last quarter. PG SPP1 is a special purpose vehicle established to hold the fund Lexington Partners Hamilton Lane 2000 LLC – a fund that purchased assets from Chase Capital Partners in 2000 and which consists of 65 partnerships. The fund focuses on the US buyout market and is well diversified, including partnerships with vintages reaching back to 1995 and earlier. The secondary fund comprises some of the most renowned names within the private equity industry such as Clayton & Dubilier, Hicks, Muse, Tate & Furst, Thomas H. Lee and Blackstone.

## Selected new investments

### **ICG Mezzanine Fund 2000, L.P.**

Intermediate Capital Group participated in Spain's largest ever mezzanine financing, investing a total of EUR 75m in Codere, an amusement machines operator in Madrid. In total, Codere received EUR 210m in new funds from ICG, Bank of Scotland and Credit Suisse First Boston. Codere is one of the leading Spanish operators of slot machines with more than 7'000 employees. The company operates in Spain, where the gaming market consists of a large number of small companies experiencing a period of consolidation, and in South America, where the gaming industry is still developing. Codere's presence in South America allows them to take part in the market's growth and future development. The new funds will be used to refinance Codere's existing debt and for further acquisitions and strategic expansion.

### **Carlyle Partners III, L.P.**

The Carlyle Group has purchased the automotive assets of Jersey City-based auto parts maker UIS for approximately USD 800m in cash. Following the acquisition, the new company will be renamed United Components, Inc. With annual revenues of approximately USD 900m, United Components, Inc. is one of the largest and most diversified domestic auto parts manufacturers with a leading position in all of its major product lines. The company is a worldwide manufacturer and distributor of automotive parts and components, supplying a broad range of filtration products, fuel and cooling systems, engine management systems, driveline components and lighting systems to the aftermarket and specialized original equipment channels. The Carlyle Group said in a press statement, that United Components, Inc. is well positioned given its diverse base of customers and distribution channels, its excellent management, and the industry's large and growing installed base of vehicles.

### **Wellington Partners II**

German private equity firm Wellington Partners has joined US-based venture capital firm Insight Venture Partners to invest in a round of financing for Astaro. Astaro was founded in January 2000 with headquarters in Karlsruhe, Germany and branch offices in Pinneberg, Germany and Boston, MA, USA. The company provides solutions that safeguard enterprise networks against hackers, viruses and other internet risks. The financing round closed in May 2003 totaled EUR 5.6m that will be used to expand the product portfolio of Astaro and to broaden its base of distribution partners worldwide.

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

## **USA and Canada – Venture**

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

## **USA and Canada – Buyout**

American Securities Partners III  
Apollo Investment V  
Blackstone Communication Partners I  
Bruckmann, Rosser, Sherrill & Co. II  
Carlyle Partners III  
Fenway Capital Partners II  
Heritage Fund III  
Invesco U.S. Buyout Partnersh. Fund II  
Kohlberg TE Investors IV

PG SPP1  
Silver Lake Partners  
T3 Partners  
Thomas H. Lee Equity Fund V  
TPG Partners III  
Vestar Capital Partners IV  
Warburg Pincus International Partners  
William Blair Capital Partners VI

## **USA and Canada – Special Situations**

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

## **Europe – Venture**

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

## **Europe – Buyout**

3i Eurofund III  
Astorg II  
Botts Capital Partners  
Coller International Partners III NW1  
Coller International Partners III NW2  
Doughty Hanson & Co III  
European Private Equity Fund D  
FCV Capital Partners V 'A'  
FCV Capital Partners V 'F'  
Industri Kapital 2000 Fund

Italian Private Equity Fund III  
Mercapital Spanish Private Equity II  
Nordic Capital IV  
Palamon European Equity 'C'  
Partners Private Equity  
Permira Ventures European Fund II  
Quadriga Capital Private Equity Fund II  
Segulah II  
The Second Cinven Fund

## **Europe – Special Situations**

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

## **Rest of World – Venture**

Carmel Software Fund  
Crimson @Velocity  
Genesis Partners II  
Jerusalem Venture Partners III  
Pitango Venture Capital Fund III

## **Rest of World – Buyout**

Advent Latin American PE Fund II  
Exxel Capital Partners VI  
Newbridge Asia III  
Polish Enterprise Fund IV  
Unison Capital Partners

Consolidated unaudited statement of income  
for the period from 01 January 2003 to 30 June 2003

		<b>01.04.2003– 30.06.2003</b>	<b>01.01.2003– 30.06.2003</b>	01.04.2002– 30.06.2002	01.01.2002– 30.06.2002
	Notes				
<b>Net income from limited partnerships and directly held investments</b>		<b>(12'012'965)</b>	<b>(12'163'958)</b>	<b>(18'650'524)</b>	<b>(44'041'530)</b>
Dividend and interest income	4	1'169'192	1'945'867	872'042	1'493'011
Revaluation	4	(13'955'703)	(14'156'238)	(18'677'365)	(44'211'512)
Foreign exchange gains and losses	4	773'546	46'413	(845'201)	(1'323'029)
<b>Net income from short-term investments</b>		<b>–</b>	<b>–</b>	<b>335'970</b>	<b>964'853</b>
Interest income	5	–	–	1'030'706	1'659'589
Revaluation	5	–	–	(694'736)	(694'736)
<b>Net income from cash and cash equivalents</b>		<b>62'796</b>	<b>244'721</b>	<b>303'680</b>	<b>430'853</b>
Interest income	7	62'775	245'238	303'444	435'369
Foreign exchange gains and losses		21	(517)	236	(4'516)
<b>Operating income</b>		<b>(11'950'169)</b>	<b>(11'919'237)</b>	<b>(18'010'874)</b>	<b>(42'645'824)</b>
<b>Operating expenses</b>		<b>(5'407'956)</b>	<b>(11'288'141)</b>	<b>(6'070'590)</b>	<b>(12'390'227)</b>
Management fee		(3'410'367)	(6'852'398)	(3'626'182)	(7'370'556)
Insurance fee		(2'047'125)	(4'130'010)	(2'308'077)	(4'731'163)
Administration fee		(68'238)	(137'668)	(76'936)	(157'705)
Tax exemption fee		(400)	(876)	(2'312)	(798)
Other operating expenses		118'174	(167'189)	(57'083)	(130'005)
<b>Financing cost</b>		<b>(8'797'740)</b>	<b>(18'528'232)</b>	<b>(8'065'656)</b>	<b>(16'022'534)</b>
Finance cost on convertible bond	9	(8'124'861)	(16'134'552)	(7'673'888)	(15'238'999)
Amortisation of transaction costs	9	(391'768)	(783'535)	(391'768)	(783'535)
Other finance cost	14	(281'111)	(1'610'145)	–	–
<b>Surplus / (loss) for the financial period</b>		<b>(26'155'865)</b>	<b>(41'735'610)</b>	<b>(32'147'120)</b>	<b>(71'058'585)</b>

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

Basic surplus / (loss) per share	USD	(2'615.5865)	(4'173.5610)	(3'214.7120)	(7'105.8585)
Diluted surplus / (loss) per share	USD	(3.7312)	(5.9537)	(4.5859)	(10.1367)

Consolidated unaudited balance sheet  
as at 30 June 2003

	Notes	30.06.2003	31.12.2002
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in limited partnerships and directly held investments	1&4	530'610'876	485'553'060
<b>Current assets</b>			
Short-term investments	1&5	-	-
Other short-term receivables	6	8'308	90'061
Hedging asset	4	-	-
Cash and cash equivalents	7	21'524'212	78'526'819
		<u>21'532'520</u>	<u>78'616'880</u>
<b>Total assets</b>		<u>552'143'396</u>	<u>564'169'940</u>
<b>Equity and Liabilities</b>			
<b>Capital and reserves</b>			
Issued capital	8	100	100
Reserves		(37'096'753)	4'638'857
		(37'096'653)	4'638'957
<b>Liabilities falling due after more than one year</b>			
Convertible bond	9	567'702'241	550'784'153
<b>Liabilities falling due within one year</b>			
Hedging liability	4	6'414'967	8'516'481
Other short-term payables	10	122'843	230'348
Credit facility	14	15'000'000	-
Rounding		-2	1
		<u>21'537'808</u>	<u>8'746'830</u>
<b>Total liabilities</b>		<u>552'143'396</u>	<u>564'169'940</u>

The financial statements on pages 12 to 25 were approved by the board of directors on 8th July 2003 and are signed on its behalf by:

P. Gujer  
Director

G. Hall  
Director

Consolidated unaudited statement of changes in equity  
for the period from 01 January 2003 to 30 June 2003

	<b>Share capital</b>	<b>Share premium</b>	<b>Accumulated surplus/(loss)</b>	<b>Total</b>
<b>Equity at beginning of reporting period</b>	100	241'028'915	(236'390'057)	<b>4'638'958</b>
Surplus / (loss) for the financial period	–	–	(41'735'610)	<b>(41'735'610)</b>
Rounding	_____	_____	(1)	<b>(1)</b>
<b>Equity at end of reporting period</b>	<u><u>100</u></u>	<u><u>241'028'915</u></u>	<u><u>(278'125'668)</u></u>	<u><u>(37'096'653)</u></u>

Consolidated unaudited statement of changes in equity  
for the period from 01 January 2002 to 30 June 2002

	<b>Share capital</b>	<b>Share premium</b>	<b>Accumulated surplus/(loss)</b>	<b>Total</b>
<b>Equity at beginning of reporting period</b>	100	241'028'915	(113'484'638)	<b>127'544'377</b>
Surplus / (loss) for the financial period	<u>—</u>	<u>—</u>	<u>(71'058'585)</u>	<b><u>(71'058'585)</u></b>
<b>Equity at end of reporting period</b>	<b><u>100</u></b>	<b><u>241'028'915</u></b>	<b><u>(184'543'223)</u></b>	<b><u>56'485'792</u></b>

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

		<b>01.01.2003– 30.06.2003</b>	<i>01.01.2002– 30.06.2002</i>
	Notes		
<b>Cash flow from operating activities</b>			
Management fees		<b>(6'852'398)</b>	<i>(7'370'556)</i>
Administration fees		<b>(137'668)</b>	<i>(157'705)</i>
Insurance fees		<b>(4'130'010)</b>	<i>(4'731'163)</i>
Tax exemption fee		<b>(876)</b>	<i>(798)</i>
Other operating expenses		<b>(167'189)</b>	<i>(130'005)</i>
Realised gains / (losses) on hedging	4	<b>(12'534'890)</b>	<i>(11'328'496)</i>
(Increase) / Decrease in other short-term receivables		<b>81'753</b>	<i>164'774</i>
Increase / (Decrease) in other short-term payables		<b>(107'505)</b>	<i>(40'583)</i>
Increase / (Decrease) Credit facility		<b>15'000'000</b>	<i>–</i>
Interest and dividend income from limited partnerships and directly held investments	4	<b>1'945'867</b>	<i>1'493'011</i>
Purchase of limited partnerships and directly held investments	4	<b>(68'288'915)</b>	<i>(59'652'360)</i>
Distributions of limited partnerships and directly held investments	4	<b>19'554'649</b>	<i>15'339'681</i>
Purchase of short-term investments	5	<b>–</b>	<i>(144'238'119)</i>
Repayment of short-term investments	5	<b>–</b>	<i>245'000'000</i>
Interest income received from cash and cash equivalents	7	<b>293'793</b>	<i>232'372</i>
Financing cost / Credit line charges	14	<b>(1'610'145)</b>	<i>–</i>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(56'953'534)</b>	<i>34'580'053</i>
<b>Cash and cash equivalents at beginning of reporting period</b>	7	<b>78'526'819</b>	<i>53'785'261</i>
Effects on cash and cash equivalents			
Revaluation	7	<b>(48'555)</b>	<i>–</i>
Movement in exchange rates		<b>(517)</b>	<i>(4'516)</i>
Rounding		<b>–1</b>	<i>–</i>
<b>Cash and cash equivalents at end of reporting period</b>	7	<b>21'524'212</b>	<i>88'360'798</i>



# Notes to the Consolidated unaudited financial statements

## 1 Principal accounting policies

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

### ***Basis of preparation / Statement of compliance***

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

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

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

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

### ***Income***

Income from bank deposits is included on an accruals basis.

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

### ***Expenditure***

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

### ***Reporting currency***

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

### ***Investments in limited partnerships and directly held investments***

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

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

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

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

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

## Notes (continued)

of the investment with any changes resulting from additional financing rounds or a permanent diminution in value.

Any changes in the value of the investments are shown within “Net income from limited partnerships and directly held investments-Revaluation”.

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

### ***Short-term investments***

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

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

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

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

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

### ***Cash and cash equivalents***

The Cash and cash equivalents consist of cash at bank and cash invested in money market instruments with a maturity of up to three months from the date of pur-

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

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

### ***Foreign exchange***

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

### ***Accounting for hedging activities***

The Group's policy of hedging the value of non-US dollar investments in limited partnerships and directly held investments against the US dollar does not qualify as hedge accounting as defined in IAS39. As a result the unrealised changes in the fair value of these derivatives and the realised net gains / losses on the derivatives that matured during the year are recognised in the statement of income under the heading of “Net income from limited partnerships and directly held investments – foreign exchange gains and losses”.

### ***Consolidation***

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

## Notes (continued)

### 2 Expenses

#### *Management fee*

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

#### *Administration fee*

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

#### *Insurance fee*

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

### 3 Taxation status

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

### 4 Limited partnerships and directly held investments

#### 4.1 Investments

	<b>30.06.2003</b>	<i>31.12.2002</i>
<b>Balance at beginning of reporting period</b>	<b>485'553'060</b>	<i>461'574'349</i>
Capital activity recorded at the transaction rate	<b>68'288'915</b>	<i>119'849'809</i>
Distributions	<b>(19'554'649)</b>	<i>(49'447'332)</i>
Revaluation	<b>(14'156'238)</b>	<i>(69'690'731)</i>
Foreign exchange gain / (loss)	<b>10'479'789</b>	<i>23'266'965</i>
Rounding	<b>(1)</b>	<i>–</i>
<b>Balance at end of reporting period</b>	<b><u>530'610'876</u></b>	<i><u>485'553'060</u></i>

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

	<b>30.06.2003</b>	<i>31.12.2002</i>
North America	<b>269'125'565</b>	<i>280'778'626</i>
Europe	<b>238'924'946</b>	<i>184'853'665</i>
Rest of World	<b>22'560'365</b>	<i>19'920'769</i>

Notes (continued)

**4.2 Distributions**

	<b>01.01.03– 30.06.03</b>	<i>01.01.02– 30.06.02</i>
Dividends	<b>1'155'828</b>	–
Interest income	<b>790'039</b>	<i>1'493'011</i>
	<b>1'945'867</b>	<i>1'493'011</i>
Return of investments – received in cash	<b>19'554'649</b>	<i>15'339'681</i>
Return of investments – received in kind	–	–
<b>Total distributions</b>	<b><u>21'500'516</u></b>	<i><u>16'832'692</u></i>

**4.3 Foreign exchange**

	<b>01.01.2003– 30.06.2003</b>	<i>01.01.2002– 30.06.2002</i>
Foreign exchange revaluation	<b>10'479'789</b>	<i>13'699'817</i>
Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments	<b>2'101'514</b>	<i>(3'694'349)</i>
Realised gain / (loss) from foreign exchange hedges relating to investments in limited partnerships and directly held investments	<b>(12'534'890)</b>	<i>(11'328'496)</i>
Rounding	–	<i>(1)</i>
	<b><u>46'413</u></b>	<i><u>(1'323'029)</u></i>

## Notes (continued)

### 4.3 (continued)

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

	<b>USD</b>	<b>Rate</b>	<b>Value date</b>	<b>Surplus/ (loss) 30.06.03</b>	<i>Surplus/ (loss) 31.12.02</i>
Buy USD against GBP	80'000'000	1.5460	29. Jan. 03	–	(3'151'358)
Buy USD against EUR	54'000'000	0.9740	29. Jan. 03	–	(4'069'405)
Buy USD against CHF	6'000'000	1.4966	29. Jan. 03	–	(493'781)
Buy USD against SEK	10'000'000	9.4100	29. Jan. 03	–	(801'937)
Buy USD against GBP	74'000'000	1.6455	30. Sep. 03	<b>(3'204'540)</b>	–
Buy USD against EUR	65'000'000	1.1452	30. Sep. 03	<b>(2'834'457)</b>	–
Buy USD against CHF	5'000'000	1.3513	30. Sep. 03	<b>(16'628)</b>	–
Buy USD against SEK	6'000'000	8.0068	30. Sep. 03	<b>(359'342)</b>	–
				<b>(6'414'967)</b>	<i>(8'516'481)</i>

### 5 Short-term investments

#### 5.1 Investments

	<b>30.06.03</b>	<i>31.12.02</i>
<b>At beginning of reporting period</b>	–	<i>128'945'901</i>
Additions	–	<i>154'190'387</i>
Redemptions	–	<i>(283'136'288)</i>
Interest accrual / fair value adjustment	–	–
Rounding	–	–
<b>At end of reporting period</b>	<b>–</b>	<i>–</i>

#### 5.2 Income

	<b>01.01.03– 30.06.03</b>	<i>01.01.02– 30.06.02</i>
<b>Interest income</b>		
Interest received from investments issued at a discount	–	<i>1'659'589</i>
Net interest accrued from investments issued at a discount	–	<i>(694'736)</i>
Interest received from investments issued at par	–	–
Net interest accrued from investments issued at par	–	–
<b>Total interest income from short-term investments</b>	<b>–</b>	<i>964'853</i>
<b>Revaluation</b>		
Fair value revaluation of investments issued at par	–	–

Notes (continued)

**6 Other short-term receivables**

	<b>30.06.03</b>	<i>31.12.02</i>
Bank deposit interest receivable	–	<i>1'647</i>
Distributions receivable	–	–
Stock distributions	–	<i>60'869</i>
Sundry prepayments	<b>8'308</b>	<i>27'545</i>
	<u><b>8'308</b></u>	<u><i>90'061</i></u>

**7 Cash and cash equivalents**

**7.1 Balance**

	<b>30.06.03</b>	<i>31.12.02</i>
<b>Cost</b>		
Cash equivalents at beginning of reporting period	<b>49'929'322</b>	–
Additions	<b>69'909'661</b>	<i>229'128'404</i>
Redemptions	<b>(120'000'000)</b>	<i>(179'263'179)</i>
Interest accrual / fair value revaluation	<b>161'017</b>	<i>64'097</i>
<b>Cash equivalents at end of reporting period</b>	–	<i>49'929'322</i>
<b>Cash at banks</b>	<b>21'524'212</b>	<i>28'597'497</i>
Rounding	–	–
<b>Total cash and cash equivalents</b>	<u><b>21'524'212</b></u>	<u><i>78'526'819</i></u>

**7.2 Interest income**

	<b>01.01.03– 30.06.03</b>	<i>01.01.02– 30.06.02</i>
Interest received from cash equivalents on maturity	<b>209'572</b>	<i>119'879</i>
Net interest accrued from cash and cash equivalents	<b>(48'555)</b>	<i>202'997</i>
Interest received from cash at banks	<b>84'221</b>	<i>112'493</i>
Rounding	–	–
<b>Total interest income from cash and cash equivalents</b>	<u><b>245'238</b></u>	<u><i>435'369</i></u>

**8 Share capital**

	<b>30.06.03</b>	<i>31.12.02</i>
<b>Authorised</b>		
20'000'000 Class A shares of USD 0.01 each	<b>200'000</b>	<i>200'000</i>
10'000 Class B shares of USD 0.01 each	<b>100</b>	<i>100</i>
	<u><b>200'100</b></u>	<u><i>200'100</i></u>
<b>Issued</b>		
10'000 Class B shares of USD 0.01 each	<b>100</b>	<i>100</i>
	<u><b>100</b></u>	<u><i>100</i></u>

## Notes (continued)

### 9 Convertible bond

	30.06.03	31.12.02
<b>Balance at beginning of reporting period</b>	<b>550'784'153</b>	518'297'701
Amortisation of transaction costs	<b>783'535</b>	1'567'071
Finance cost on convertible bond	<b>16'134'552</b>	30'919'382
Rounding	<b>1</b>	(1)
<b>Balance at end of reporting period</b>	<b><u>567'702'241</u></b>	<u>550'784'153</u>

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

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

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

### 10 Other short-term payables

	30.06.03	31.12.02
Sundry	<b><u>122'843</u></b>	<u>230'348</u>

### 11 Commitments

	30.06.03	31.12.02
Unutilised commitment translated at the rate prevailing at the balance sheet date	<b>366'374'348</b>	432'957'120

### 12 Diluted net assets per ordinary share

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

	30.06.03	31.12.02
Net assets of the company	<b>530'605'588</b>	555'423'110
Outstanding shares at the balance sheet date	<b>10'000</b>	10'000
Additional shares due to conversion	<b>7'000'000</b>	7'000'000
Net assets per share after conversion	<b>75.6927</b>	79.2330

## Notes (continued)

### 13 Basic and diluted surplus / (loss) per share

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

	30.06.03	30.06.02
<b><i>Basic surplus / (loss) per share</i></b>		
Surplus / (loss) for the financial period	<b>(41'735'610)</b>	(71'058'585)
Outstanding shares at the balance sheet date	<b>10'000</b>	10'000
Net surplus / (loss) per share	<b>(4'173.5610)</b>	(7'105.8585)
<b><i>Diluted surplus / (loss) per share</i></b>		
Surplus / (loss) for the financial period	<b>(41'735'610)</b>	(71'058'585)
Outstanding shares at the balance sheet date	<b>10'000</b>	10'000
Additional shares due upon conversion	<b>7'000'000</b>	7'000'000
Net surplus / (loss) per share after dilution	<b>(5.9537)</b>	(10.1367)

### 14 Credit line facility

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

Interest is calculated using a LIBOR rate on the day of the advance plus an amount equivalent to:

- 1.30% providing the total drawdown does not exceed USD 50'000'000
- 1.40% if the total drawdown exceeds USD 50'000'000

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

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

### 15 Contingent Assets

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

### 16 Number of employees

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

### 17 Related party transactions

#### ***Investment in underlying partnership***

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

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

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

#### ***Affiliated Companies and Controlling Parties***

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

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



## Notes (continued)

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

### 18 Group enterprises – significant subsidiaries

	<b>Country of incorporation</b>	<b>Ownership interest</b>	
		<b>30.06.03</b>	<b>31.12.02</b>
Princess Private Equity Subholding Limited	Guernsey	100%	100%

### 19 Parent company and ultimate controlling party

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

### 20 Risks

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

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

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

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

## Contacts

### **Princess Private Equity Holding Limited**

Elizabeth House, Les Ruettes Braye  
St. Peter Port, Guernsey, Channel Islands  
Tel.: +44 1481 730 946  
Fax: +44 1481 730 947  
E-Mail: [princess@princess-privateequity.net](mailto:princess@princess-privateequity.net)  
Info: [www.princess-privateequity.net](http://www.princess-privateequity.net)

## Investment Manager

### **Princess Management & Insurance Limited**

Guernsey, Channel Islands  
Gordon Murphy, General Manager  
Tel.: +44 1481 730 946  
E-Mail: [princess@princess-privateequity.net](mailto:princess@princess-privateequity.net)

## Investor Relations

### **Partners Group**

Dr. Claudia Petersen  
Zugerstrasse 57, 6341 Baar-Zug, Switzerland  
Tel.: +41 41 768 85 51  
E-Mail: [claudia.petersen@partnersgroup.net](mailto:claudia.petersen@partnersgroup.net)

## Auditors

### **PricewaterhouseCoopers**

## Trading Information

Listing	Frankfurt and Luxembourg
German Security Number	313.965
Swiss Security Number	813.917
ISIN Number	XS0098576563
Reuters	DBSTRUK03
Bloomberg	PRINEQ<<Corp>>RELS<go>
Telekurs, Investdata	CH813917

## Market Maker

### **Deutsche Bank AG**

Frankfurt, Germany  
Tel.: +49 69 910 34442

### **ABN Amro Rothschild**

London, United Kingdom  
Tel.: +44 207 6785 992  
Zurich, Switzerland  
Tel.: +41 1 631 64 99

## Registrar

### **Citibank, N.A.**

5 Carmelite Street, London EC4Y 0PA  
United Kingdom