

Report for the quarter
from 1 April 2002 to
30 June 2002

The convertible bond issued by Princess Private Equity Holding Limited, which has been awarded a triple-A rating by Standard & Poor's, offers both institutional and private investors access to a globally diversified portfolio consisting of Private Equity partnerships. Investors have the opportunity of sharing in the potentially high earnings generated by the asset class Private Equity. Moreover, the nominal capital is protected at maturity by an insurance policy that is reinsured by Swiss Re.

Princess Private Equity Holding sees further valuation adjustments albeit at a lower level than in the previous quarter

Valuation adjustments were again highest in the Venture segment, while Special Situations performed favorably.

Princess Private Equity Holding saw a correction to the Net Asset Value (NAV) of 3.95%, from 87.72% at end-March to 84.25% at end-June 2002. The NAV adjustments reflected the arrival of the remaining audited December 2001 Partnership reports: the NAV for June comprises 98% of the December 2001 and 61% of the March 2002 reports whereas the NAV for March included only 61% of the audited December reports.

Venture investments made prior to 2001 have primarily been affected by valuation adjustments: since December 2000 total write-downs have amounted to 46% (up from 38% in the previous quarter). Buyout investments effected prior to 2001 remained relatively stable during the second quarter: since December 2000 total write-downs have amounted to 11% (compared to 9% at the end of the previous quarter). Special Situation investments have seen a positive development, posting an 8.9% write-up over the last quarter.

Despite the ongoing uncertainty in the financial markets, the Princess portfolio continues to show activity

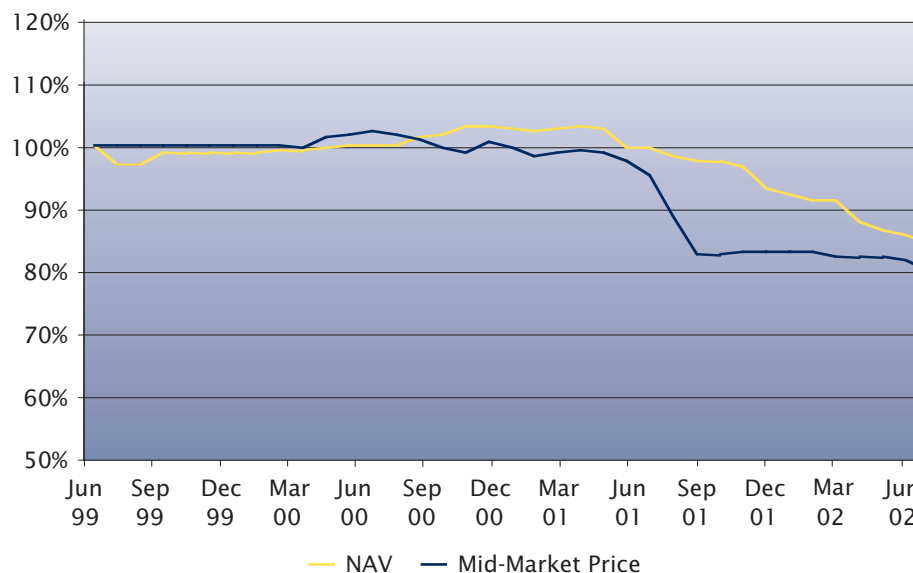
Increased activity can be seen both on the investment and exit fronts.

Although the private equity and venture capital market remains tough, signs that the environment is improving are mounting as evidenced by the rising number of new investments and exits being made by the partnerships. In the last quarter, Princess received a total of USD 14.5 million in cash distributions from 24 different partnerships and had capital calls from 62 partnerships totaling USD 30.9 million.

The Investment Manager expects that partnerships will now step up their investment activity and be able to benefit from current valuations which have returned to levels last seen in 1998. With a cash position of approximately 20% of NAV at the end of June, Princess is well positioned to participate in this market opportunity.

The Investment Manager remains convinced that the broad diversification and the quality of the portfolio will lead to a positive NAV development in the medium term.

NAV and Mid-Market Price since Issuance until 30 June 2002



Princess Private Equity Holding is invested in five companies from Time Magazine's annual "Hot Company List" of top 50 European high-tech companies.

Two-thirds of the “hottest” European high-tech firms are venture-backed

In May 2002, Time Magazine published its third annual «Hot Company List» of the top 50 European high-tech companies with the most innovative products and services, the most promising business models, and the greatest future potential.

The list was compiled by leading venture capitalists, industry experts and entrepreneurs. Of the top 50 companies, one-third are publicly listed while two-thirds are privately backed.

The European high-tech company landscape is undergoing rapid change. It is being driven by increased

investment activity, new government legislation and an ever more entrepreneurial culture. The biotechnology sector for instance has witnessed phenomenal growth in recent years. According to the recently released “Global Biotechnology Report” by Ernst & Young, more than 50% of all new medications are now being developed by biotechnology companies that did not even exist a decade ago. Some five years ago there were only around 400 biotechnology companies in Europe while today there are over 1’500. This compares well with the 1’200 companies in the USA. Just over half of the companies featured on the “Hot Company List” are active in the biotechnology and wireless sectors, with the rest in the semiconductor, business applications, optics and emerging technology fields.

The Princess portfolio contains five of the “hottest” European high-tech firms

Princess is invested in five of the 33 «hottest» venture-backed high-tech companies. This serves to underline the quality and considerable potential of the investee companies in the Princess portfolio.

Of these five, three are biotechnology companies, namely Astex Technology, Cellzome and Ark Therapeutics. The other companies are the business applications company StreamServe and the optics company Kamelian.

Through Abingworth Bioventures Princess is invested in **Astex Technology**. Founded in 1999 in Cambridge, England, Astex Technology is a structure-based drug discovery company that has pioneered the use of high throughput X-ray crystallography technology.

Princess is invested through Sofinnova Partners in **Cellzome**, a company founded in May 2000 by nine principal scientists from the prestigious European Molecular Biology Laboratory (EMBL). It uses its proprietary functional proteomics technology for therapeutic target discovery, validation and drug development.

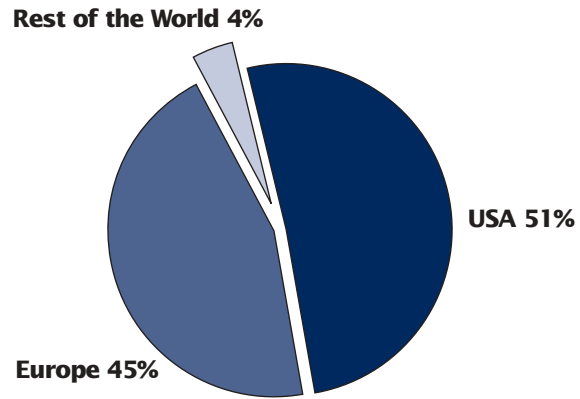
A further top 50 company Princess is invested in is **Ark Therapeutics**, which is a Merlin Biosciences portfolio company. Ark Therapeutics, founded in 1997, has its headquarters in England, and research & manufacturing facilities in Finland. The company combines world-leading expertise in medicinal gene science and endothelial biology with focused clinical programmes to develop novel gene-based products to treat vascular and circulatory system related diseases and cancer. Ark Therapeutics plans to float on the London Stock Exchange this year.

Princess holds an interest in **StreamServe** through SPPI. Founded in 1995 in Sweden, StreamServe is a leader in enterprise business communications. It provides a single, independent platform for the exchange of business information in any format or channel.

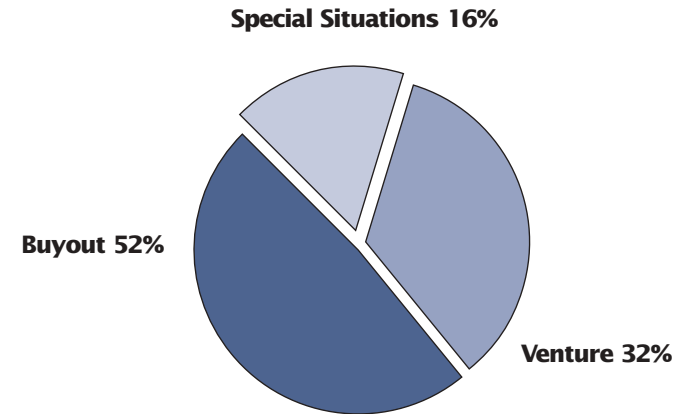
Weiss, Peck and Greer, now Lightspeed, a Princess portfolio partnership, is invested in **Kamelian**. This optics company, which is located in England and Scotland, was set up in 2000. Kamelian specialises in the design and manufacture of semiconductor optical amplifier products for optical networks.

Princess Private Equity Holding strives to have a well-balanced and broadly diversified portfolio across different financing stages, industries, vintage years and geographic regions. More than 50% of the portfolio is invested in “old-economy” companies. Over 65% of the Princess portfolio is invested in the more risk-averse segments Buyout and Special Situations.

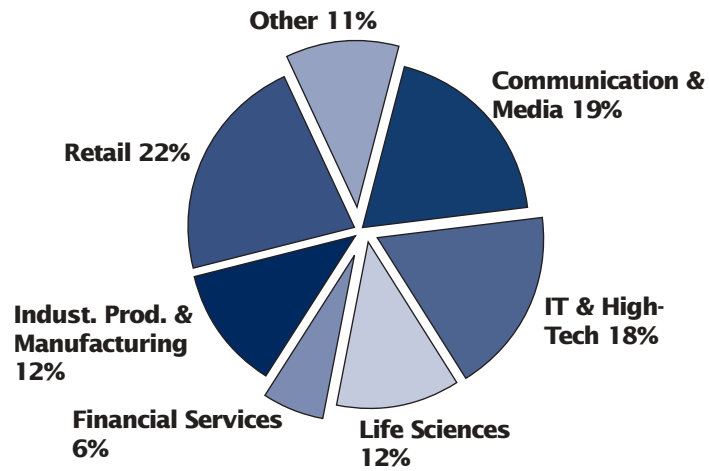
Investments by Geographic Region



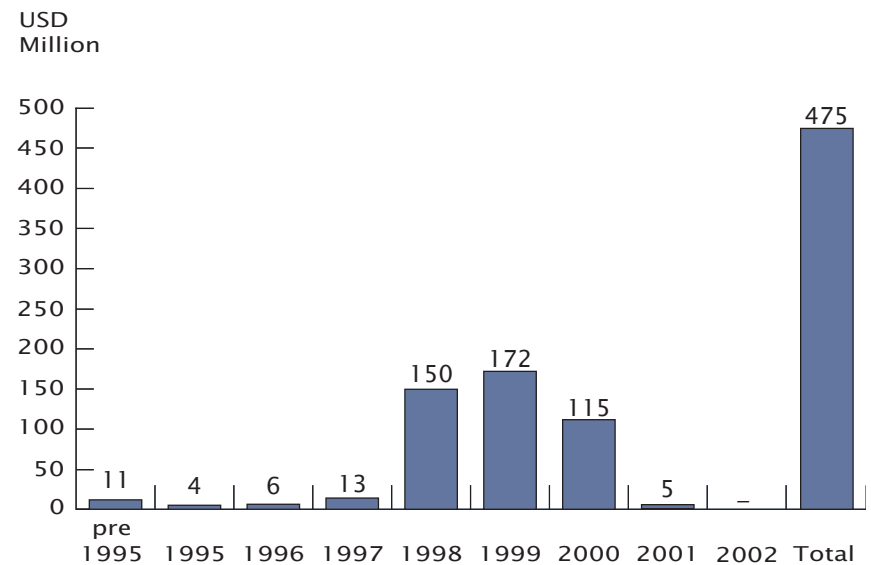
Investments by Financing Stage



Investments by Industry Sector



Investments by Vintage Year



Since inception, Princess Private Equity Holding has received USD 96.9 million in distributions, representing 16.4% of Net Asset Value. During the second quarter 2002, Princess Private Equity received proceeds from 24 different partnerships.

Selected exits

In spite of the challenging stock market conditions there is an increasing number of IPOs now in the pipeline both in the US and Europe. Economic and business confidence, however, remains fragile, and investors' appetite for IPOs is limited to high quality companies with established management, proven business model and profits.

Industri Kapital 2000, L.P.

Industri Kapital 2000, L.P. managed a partial exit from the investment it made in 2000 in Alfa Laval, following the company's flotation on the Stockholm Exchange in May. The company raised some SEK 5 billion. The main shareholders Industri Kapital and Tetra Laval, the packaging company, have reduced their holdings from 51% to 30.1% and from 49% to 17.8% respectively. Alfa Laval is a leading global provider of products and systems to heat, cool, separate and transport, among others, chemicals, beverages and foodstuffs.

The Second Cinven Fund

The Second Cinven Fund achieved a partial exit with William Hill's IPO on the London Stock Exchange in June. The offering was more than 10 times oversubscribed. The company was valued at over GBP 1 billion on flotation. Cinven and CVC, the principal shareholders, who have owned William Hill for over three years, retain a 27% stake. Founded in 1934, William Hill is one of the best-known names in the UK betting industry. It operates a nationwide network of over 1'500 licensed betting offices as well as telephone and online betting and gaming.

Coller International Partners III, L.P.

Bridgepoint, the investment manager, exited its investment in Corin Group PLC, following the healthcare

technology company's listing in May on London's tech-MARK, the technology segment of the London Stock Exchange. Corin was valued at GBP 39 million on flotation. Bridgepoint had led a GBP 21 million buyout in 1994. Founded in 1985, Corin develops, manufactures and distributes predominantly hip and knee reconstructive orthopedic devices.

European Private Equity Fund "D", L.P.

Bridgepoint, the investment manager, saw a partial realization, following the recapitalization of Adams Childwear, the leading UK childrenswear retailer, valued at GBP 120 million. Lloyds TSB has taken a 15% stake. Bridgepoint Capital remains the largest institutional shareholder. Bridgepoint had backed Adams Childwear in a GBP 87 million buyout in 1999. The recapitalization will allow the company to pursue an ambitious international growth strategy over the next three years.

Silver Lake Partners, L.P. and TA Associates Fund IX

Island ECN (Electronic Communications Network), the largest ECN for OTC ("over the counter") securities markets and whose principal stockholders include Silver Lake and TA Associates, has been acquired by Instinet Group Incorporated, the US electronic trading system that is 83% owned by Reuters. The all stock deal is valued at USD 508 million. The combined company will create a leading global electronic trading platform and challenge the dominance of the Nasdaq in US electronic trading. Island and Instinet account for about 21% of all trading in Nasdaq-listed stocks. Island's stockholders and Reuters will own about 25% and 62% of Instinet respectively.

3i

In May, 3i announced the sale of budget airline Go Fly to easyJet. 3i and Barclays Private Equity had acquired a 62% stake in Go in June 2001 for GBP 83.5 million as part of a GBP 110 million management buyout. Go employees had taken a 22.5% stake in the company. Go, which was originally set up in 1998, is being sold for GBP 374 million in cash. With GBP 116.4 million in net cash on the company's balance sheet, the enterprise value is GBP 257.6 million. This means that 3i will record a GBP 231 million profit or a 2.7 times return on its initial investment. The Go acquisition will allow easyJet to expand into new routes without having to take the risk of investing in new infrastructure. Also they will benefit from a strong brand and existing market base. In contrast to Europe's flag-carrier airlines, the low-cost airlines are enjoying increasing passenger numbers, as European air travelers are becoming increasingly price sensitive.

Selected investments

Doughty Hanson & Co III, L.P. 14

Doughty Hanson & Co has acquired Priory Healthcare from Westminster Health Care for GBP 288 million in a leveraged management buyout. Priory Healthcare is the largest independent provider of mental health and rehabilitation services in the UK.

Doughty Hanson & Co has also acquired a majority interest in ATU Auto-Teile-Unger Group, the largest independent car parts stockist and car repair company in Germany, for an undisclosed sum. ATU has 383 branches in Germany, 12 in Austria and one in the Czech Republic, and employs some 10'000 people.

At the end of June 2002, the portfolio of Princess Private Equity Holding comprised commitments to 101 partnerships with investments in more than 2'000 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 1 April 2002 to 30 June 2002

		01.04.02– 30.06.02	01.01.02– 30.06.02	01.04.01– 30.06.01	01.01.01– 30.06.01
	Notes				
Net income from limited partnerships and directly held investments		(18'650'524)	(44'041'530)	(23'171'714)	(16'103'823)
Dividend and interest income	4	872'042	1'493'011	376'304	1'081'859
Revaluation	4	(18'677'365)	(44'211'512)	(19'486'816)	(14'209'150)
Foreign exchange gains and losses	4	(845'201)	(1'323'029)	(4'061'202)	(2'976'532)
Net income from short-term investments		335'970	964'853	1'514'159	5'695'488
Interest income	5	1'030'706	1'659'589	1'643'509	5'589'838
Revaluation	5	(694'736)	(694'736)	(129'350)	105'650
Net income from cash and cash equivalents		303'680	430'853	1'518'739	1'847'093
Interest income	7	84'398	216'323	1'370'914	1'702'378
Revaluation	7	219'046	219'046	–	–
Foreign exchange gains and losses		236	(4'516)	147'825	144'715
Operating income		(18'010'874)	(42'645'824)	(20'138'816)	(8'561'242)
Operating expenses		(6'070'589)	(12'390'227)	(7'037'943)	(13'912'048)
Management fee		(3'626'182)	(7'370'556)	(3'991'817)	(7'994'591)
Insurance fee		(2'308'077)	(4'731'163)	(2'701'097)	(5'405'549)
Administration fee		(76'935)	(157'705)	(101'900)	(192'048)
Tax exemption fee		(798)	(798)	(290)	(718)
Other operating expenses		(58'597)	(130'005)	(242'839)	(319'142)
Financing cost		(8'065'655)	(16'022'534)	(7'639'713)	(15'176'688)
Finance cost on convertible bond	9	(7'673'888)	(15'238'999)	(7'247'946)	(14'393'153)
Amortisation of transaction costs	9	(391'767)	(783'535)	(391'767)	(783'535)
Surplus / (loss) for the financial period		(32'147'118)	(71'058'585)	(34'816'472)	(37'649'978)

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

Basic surplus / (loss) per share	USD	(3'214.7118)	(7'105.8585)	(3'481.6472)	(3'764.9978)
Diluted surplus / (loss) per share	USD	(4.5859)	(10.1367)	(4.9667)	(5.3709)

Consolidated unaudited balance sheet
at 30 June 2002

	Notes	30.06.02	31.12.01
Assets			
Non-current assets			
Investments in limited partnerships and directly held investments	1&4	475'375'332	461'574'349
Current assets			
Short-term investments	1&5	29'877'183	129'674'211
Other short-term receivables	6	8'058	188'881
Hedging asset	4	–	659'959
Cash and cash equivalents	7	88'579'844	53'785'261
		<u>118'465'085</u>	<u>184'308'312</u>
Total assets		<u>593'840'417</u>	<u>645'882'661</u>
Equity and Liabilities			
Capital and reserves			
Issued capital	8	100	100
Reserves		56'485'692	127'544'277
		<u>56'485'792</u>	<u>127'544'377</u>
Liabilities falling due after more than one year			
Convertible bond	9	534'320'235	518'297'701
Liabilities falling due within one year			
Hedging liability	4	3'034'390	–
Other short-term payables	10	–	40'583
		<u>3'034'390</u>	<u>40'583</u>
Total liabilities		<u>593'840'417</u>	<u>645'882'661</u>

The financial statements on pages 6 to 22 were approved by the board of directors on 22 July 2002 and are signed on its behalf by:

P. Gujer
Director

G. Hall
Director

Consolidated unaudited statement of changes in equity
for the period from 1 January 2002 to 30 June 2002

	Share capital	Share premium	Accumulated surplus / (loss)	Total
Equity at beginning of reporting period	100	241'028'914	(113'484'637)	127'544'377
Surplus / (loss) for the financial period	<u>—</u>	<u>—</u>	<u>(71'058'585)</u>	<u>(71'058'585)</u>
Equity at end of reporting period	<u>100</u>	<u>241'028'914</u>	<u>(184'543'222)</u>	<u>56'485'792</u>

Consolidated unaudited statement of changes in equity
for the period from 1 January 2001 to 30 June 2001

	Share capital	Share premium	Accumulated surplus / (loss)	Total
Equity at beginning of reporting period	100	241'028'914	(7'238'872)	233'790'142
Surplus / (losses) reclassified to the income statement	<u>—</u>	<u>—</u>	<u>(37'649'978)</u>	<u>(37'649'978)</u>
Equity at end of reporting period	<u>100</u>	<u>241'028'914</u>	<u>(44'888'850)</u>	<u>196'140'164</u>

Consolidated unaudited cash flow statement
for the period from 1 April 2002 to 30 June 2002

		01.04.02– 30.06.02	01.01.02– 30.06.02	<i>01.04.01– 30.06.01</i>	<i>01.01.01– 30.06.01</i>
	Notes				
Cash flow from operating activities					
Management fees		(3'626'182)	(7'370'556)	<i>(3'991'817)</i>	<i>(7'994'591)</i>
Administration fees		(2'308'077)	(4'731'163)	<i>(2'701'097)</i>	<i>(5'405'549)</i>
Insurance fees		(76'935)	(157'705)	<i>(101'900)</i>	<i>(192'048)</i>
Other operating expenses		(59'394)	(130'803)	<i>(243'129)</i>	<i>(319'860)</i>
Realised gains / (losses) on hedging	4	(12'667'390)	(11'328'496)	<i>2'832'444</i>	<i>3'535'919</i>
(Increase) / Decrease in other short-term receivables		15'192	164'774	<i>(54'385)</i>	<i>(48'681)</i>
Increase / (Decrease) in other short-term payables		(28'510)	(40'583)	<i>22'489</i>	<i>(153'961)</i>
Interest and dividend income from limited partnerships and directly held investments	4	872'042	1'493'011	<i>376'304</i>	<i>1'081'859</i>
Purchase of limited partnerships and directly held investments	4	(30'656'023)	(59'652'360)	<i>(43'770'120)</i>	<i>(94'130'650)</i>
Distributions of limited partnerships and directly held investments	4	11'918'161	15'339'681	<i>6'476'325</i>	<i>24'838'44</i>
Interest income received from short-term investments	5	605'490	1'659'589	<i>1'443'044</i>	<i>5'589'838</i>
Purchase of short-term investments	5	(29'843'610)	(144'238'119)	<i>(69'158'391)</i>	<i>(98'394'012)</i>
Repayment at cost of short-term investments	5	114'394'510	243'340'411	<i>–</i>	<i>140'000'000</i>
Interest income received from cash and cash equivalents	7	162'013	232'372	<i>1'876'132</i>	<i>3'381'945</i>
Net increase / (decrease) in cash and cash equivalents		48'701'287	34'580'053	<i>(106'994'101)</i>	<i>(28'211'349)</i>
Cash and cash equivalents at beginning of reporting period	7	39'659'275	53'785'261	<i>139'455'344</i>	<i>60'675'702</i>
Effect of exchange rate changes on cash and cash equivalents		236	(4'516)	<i>754</i>	<i>(2'356)</i>
Cash and cash equivalents at end of reporting period	7	88'360'798	88'360'798	<i>32'461'997</i>	<i>32'461'997</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

The financial statements have been prepared in accordance with International Accounting Standard No 34 (Interim Reporting). The financial statements are prepared under the historical cost convention as modified by the fair valuation of available for sale securities.

The financial assets are disclosed at fair value; all unrealised surpluses and losses are recognised in the statement of income. All realised surpluses and losses are posted against the fair 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.

Investment in limited partnerships and directly held investments

International Accounting Standards 39 ("IAS 39"), Financial Instruments: Recognition and Measurement requires investments to be held at fair value, or at cost less provision for diminution in value, where no reasonable range of fair values can be determined. Fair value is the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction.

Investments in limited partnerships and directly held investments are valued initially at cost and thereafter at the most recent net asset value as reported by the underlying partnership and adjusted for subsequent capital activity, which the Directors believe to be the most appropriate estimate of fair value.

Owing to the diversified nature of the limited partnership investments and directly held investments, underlying partnerships adopt a variety of accounting and valuation bases. 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 fair 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.

Any changes in fair value of the investments are shown within "Net income from limited partnerships and directly held investments – Revaluation".

Notes (continued)

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 on bank and cash invested in money market instruments with a maturity of up to three months from the date of purchase. The cash equivalent investments purchased at a discount are included in the balance sheet at market values ruling at the balance sheet date. The changes in the fair value and the interest received at maturity are included within “Net income from cash and cash equivalents”.

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

Foreign exchange

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

Accounting for hedging activities

The Group’s policy of hedging the value of non-US dollar investments in limited partnerships and directly held investments against the US dollar does not qualify as hedge accounting as defined in IAS 39. As a result the unrealised changes in the fair value of these derivatives and the realised net gains / losses on the derivatives that matured during the year are recognised in the statement of income under the heading of “Net income from 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 17.

2 Expenses***Management fee***

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

Administration fee

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

Insurance fee

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

3 Taxation status

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

4 Limited partnerships and directly held investments**4.1 Investments**

	30.06.02	31.12.01
Balance at beginning of reporting period	461'574'349	415'975'657
Capital activity recorded at the transaction rate	58'985'873	149'830'213
Out of commitment expenses	666'487	1'716'910
Distributions	(15'339'681)	(38'315'707)
Revaluation	(44'211'512)	(65'306'122)
Foreign exchange gain / (loss)	13'699'816	(2'326'602)
Balance at end of reporting period	475'375'332	461'574'349

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

North America	241'642'906	256'799'915
Europe	212'124'618	184'853'665
Rest of World	21'607'808	19'920'769

Notes (continued)

4.2 Distributions

	01.01.02– 30.06.02	01.01.01– 30.06.01
Dividends	–	–
Interest income	1'493'011	1'081'859
	1'493'011	1'081'859
Return of investments – received in cash	15'339'681	24'838'442
Return of investments – received in kind	–	–
Total distributions	<u>16'832'692</u>	<u>25'920'301</u>

4.3 Foreign exchange

	01.01.02– 30.06.02	01.01.01– 30.06.01
Foreign exchange revaluation	13'699'816	(5'759'360)
Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments	(3'694'349)	(753'091)
Realised gain / (loss) from foreign exchange hedges relating to investments in limited partnerships and directly held investments	(11'328'496)	3'535'919
Foreign exchange gain from settled hedging contract, recognised directly in equity	–	–
	<u>(1'323'029)</u>	<u>(2'976'532)</u>

Notes (continued)

4.3 (continued)

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

	USD	Rate	Value date	Surplus/ (loss) 30.06.02	Surplus/ (loss) 31.12.01
Buy USD against GBP	80'000'000	1.4389	27.03.02	–	561'540
Buy USD against Euro	45'000'000	0.8946	27.03.02	–	90'543
Buy USD against CHF	5'000'000	1.6336	27.03.02	–	(11'683)
Buy USD against SEK	9'000'000	10.5710	27.03.02	–	19'559
Buy USD against GBP	80'000'000	1.4950	29.08.02	(1'733'779)	–
Buy USD against Euro	54'000'000	0.9700	29.08.02	(1'029'897)	–
Buy USD against CHF	6'000'000	1.5090	29.08.02	(122'118)	–
Buy USD against SEK	10'000'000	9.3225	29.08.02	(148'596)	–
				(3'034'390)	659'959

5 Short-term investments

5.1 Investments

	30.06.02	31.12.01
Cost		
At beginning of reporting period	128'945'901	240'000'000
Additions	144'238'119	346'037'683
Interest received in redemption	1'659'589	2'908'218
Redemptions	(245'000'000)	(460'000'000)
At end of reporting period	29'843'609	128'945'901
Valuation		
At end of reporting period	29'877'183	129'674'211
At beginning of reporting period	129'674'211	239'675'000

5.2 Income

	01.01.02– 30.06.02	01.01.01– 30.6.01
Interest income		
Interest received from investments issued at a discount	1'659'589	5'589'838
Net interest accrued from investments issued at a discount	(694'736)	105'650
Interest received from investments issued at par	–	–
Net interest accrued from investments issued at par	–	–
Total interest income from short-term investments	964'853	5'695'488
Revaluation		
Fair value revaluation of investments issued at par	–	235'000

Notes (continued)

6 Other short-term receivables

	30.06.02	31.12.01
Bank deposit interest receivable	–	16'049
Hedging gain	–	135'890
Sundry prepayments	8'058	36'942
	<u>8'058</u>	<u>188'881</u>

7 Cash and cash equivalents

7.1 Balance

	30.06.02	31.12.01
Cost		
Cash equivalents at beginning of reporting period	–	29'649'884
Additions	104'539'344	302'497'605
Interest received on redemption	119'879	2'852'511
Redemptions	(29'996'698)	(335'000'000)
Cash equivalents at end of reporting period	74'662'525	–
Cash at banks	13'698'273	53'785'261

Total cost recorded in the cash flow statement

	<u>88'360'798</u>	<u>53'785'261</u>
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Valuation

Cash equivalents	74'881'571	–
Cash at banks	13'698'273	53'785'261
Total cash and cash equivalents	<u>88'579'844</u>	<u>53'785'261</u>

7.2 Interest income

	01.01.02– 30.06.02	01.01.01– 30.06.01
Interest received from cash equivalents on maturity	119'879	1'222'919
Net interest accrued from cash equivalents	219'046	–
Interest received from cash at banks	112'493	479'459
Net interest accrued from cash at banks	(16'049)	–
Total interest income from cash and cash equivalents	<u>435'369</u>	<u>1'702'378</u>

8 Share capital

	30.06.02	31.12.01
Authorised		
20'000'000 Class A shares of USD 0.01 each	200'000	200'000
10'000 Class B shares of USD 0.01 each	100	100
	<u>200'100</u>	<u>200'100</u>
Issued		
10'000 Class B shares of USD 0.01 each	100	100
	<u>100</u>	<u>100</u>

Notes (continued)

9 Convertible bond

	30.06.02	31.12.01
Balance at beginning of reporting period	518'297'701	487'527'439
Amortisation of transaction costs	783'535	1'567'071
Finance cost on convertible bond	15'238'999	29'203'191
Balance at end of reporting period	534'320'235	518'297'701

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

	30.06.02	31.12.01
Sundry accruals	–	40'583

11 Commitments

	30.06.02	31.12.01
Total committed translated at the rate prevailing at the balance sheet date	1'116'775'842	1'090'470'850
Actual funded at the transaction rate	620'890'793	561'904'920
Unutilised commitment translated at the rate prevailing at the balance sheet date	487'867'435	536'611'271
Differences due to foreign exchange movements	8'017'614	(8'045'341)

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.

	30.06.02	31.12.01
Net assets of the company	590'806'025	645'842'078
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	84.2805	92.1315

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.

	30.06.02	31.12.01
Basic surplus / (loss) per share		
Surplus / (loss) for the financial period	(71'058'585)	(106'245'765)
Outstanding shares at the balance sheet date	10'000	10'000
Net surplus / (loss) per share	(7'105.8585)	(10'624.5765)
Diluted surplus / (loss) per share		
Surplus / (loss) for the financial period	(71'058'585)	(106'245'765)
Outstanding shares at the balance sheet date	10'000	10'000
Additional shares due upon conversion	7'000'000	7'000'000
Net surplus / (loss) per share after dilution	(10.1367)	(15.1563)

14 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.

15 Number of employees

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

16 Related party transactions

Investment in underlying partnership

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

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

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

Affiliated Companies and Controlling Parties

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

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

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

17 Group enterprises – significant subsidiaries

	Country of incorporation	Ownership interest	
		30.06.02	31.12.01
Princess Private Equity Subholding Limited	Guernsey	100%	100%

18 Parent company and ultimate controlling party

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

19 Risks

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

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

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

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

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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

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