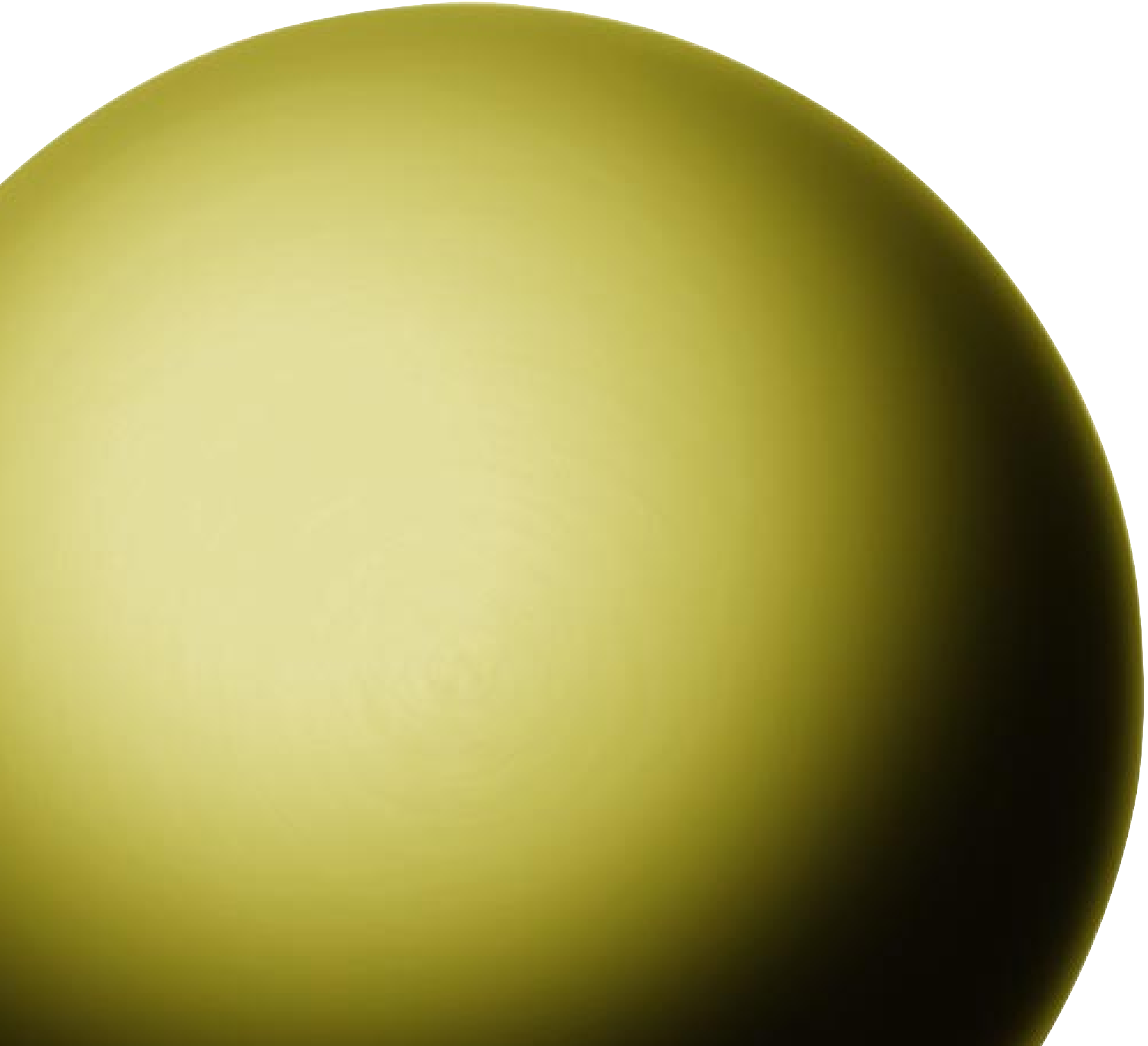


Report for the quarter
from 1 July 2002 to
30 September 2002

Princess

The convertible bond issued by Princess Private Equity Holding Limited, which has been awarded a AA+ rating by Standard & Poor's, 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 potentially higher 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.

Revised Rating

Standard & Poor's revised rating of Swiss Re affects the rating of Princess bonds

When Standard & Poor's initially rated the Princess Bond (the "Bonds") as AAAr* in June 1999, it indicated that this rating for the Bonds drew on the financial strength ratings of Swiss Re as the reinsurer of the Bonds. The Swiss Re rating at that time was AAA/stable/–. On 3 October 2002, Standard & Poor's revised these long-term counterparty credit and insurer financial strength ratings on Swiss Re to AA+, with a stable outlook. This still leaves Swiss Re among the 40 European Companies with a financial strength rating of AA+ or better. As a result of the Swiss Re rating being so revised the rating of the Bonds have been amended to reflect that level. As stated in the Offering Circular dated 25 June 1999, a security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by Standard & Poor's.

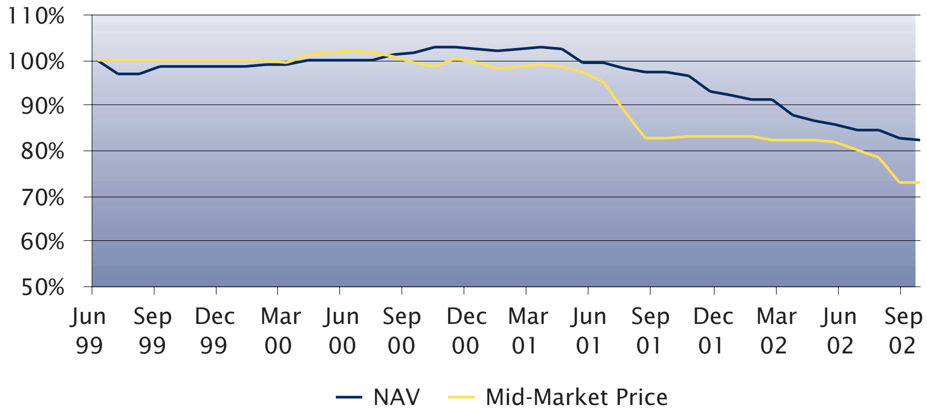
** The "r" subscript indicates that the rating does not address the viability of returns, which will depend upon a managed portfolio of private equities. It should be noted that this methodology is not applicable anymore.*

Difficult market conditions cause further valuation adjustments albeit at a lower rate

Adjustments were again largest in the venture capital segment.

In the third quarter of 2002, write-ups by special situations partnerships were offset by write-downs primarily by venture investments made in 1999 and 2000 such that the Net Asset Value (NAV) of Princess decreased by 2.68% from 84.25% at end-June to 81.99% at end-September. The NAV adjustments reflect the difficult economic situation as well as the instability in the financial markets making it difficult for partnerships to exit their investments. Nevertheless, this quarter's NAV adjustment of –2.68% compares favorably with the correction of –4.83% in the first quarter and –3.95% in the second quarter, suggesting that the rate of adjustment in the Princess portfolio appears to be slowing.

NAV and Mid-Market Price since Issuance until 30.09.02



Cumulative distributions to Princess Private Equity Holding have breached the USD 100 million mark

Despite the very unfavorable market environment, portfolio activity continues.

Although private equity exit routes, e.g. IPO and trade sales, showed signs of opening up earlier on this year, they now seem to be less accessible again. Nevertheless, Princess received USD 10.8 million in partnership distributions in the third quarter taking total cumulative distributions to USD 109.4 million. 16.7% of drawn down funds have been returned to Princess in the form of cash and stock distributions. In view of the relative age of the portfolio's private equity investments together with the tough market environment this is a respectable result.

In the third quarter, 71 Princess partnerships made capital calls putting 25.8 million in private equity money to work. Princess venture partnerships drew down 8.2 million, buyout partnerships 12.2 million and special situations partnerships 5.4 million. This confirms the currently held notion that venture projects, relative to the respective commitment levels, receive less financing than buyout and special situations projects. While many venture partnerships are currently accumulating funds for investment in new and promising opportunities, the due diligence for follow-on investments has become even more stringent.

Despite the difficult market environment, the Investment Manager believes that the Princess portfolio, due to its broad diversification and quality, will see a positive NAV development as soon as financing and capital markets recover.

During this difficult market environment special situation investments have returned substantial proceeds to Princess. Within the Princess portfolio this often overlooked financing segment has since inception outperformed the venture and buyout segments.

Private equity outlook

The private equity industry needs exits to realize returns.

The economic and political uncertainties, the high volatility in the public markets, the pressure on valuation levels and the limited exit opportunities via IPOs, M&As or trade sales are likely to continue to impact private equity returns. The exit window opened up briefly in the Spring, but it has remained firmly closed since. Consequently, there is a growing backlog of quality IPOs in the pipeline awaiting signs of a restoration of public equity confidence. Corporate restructuring and divestment programs together with sellers' lowered price expectations are driving deal flow. The current market conditions, moreover, are giving rise to new private equity opportunities. This is particularly so for secondary buyers and distressed debt, turnaround and mezzanine funds. Secondary buyouts, where a private equity company is sold to a financial buyer, now account for some of the largest deals. Private equity partnerships remain optimistic: according to the latest Deloitte & Touche survey, US venture capitalists are more confident of exiting more investments through IPOs and M&As over the next six months than in the preceding period. The majority, nevertheless, expect valuations to remain at around present levels.

Special situations – an often overlooked segment of private equity

Special situation investments are investments that fall under the definition of private equity but not under buyout and venture, i.e. generally the distressed, turnaround and mezzanine financing stages.

Special situation investments tend to be in businesses that are in financial distress, in a turnaround situation (i.e. with operational or financial difficulties), in the process of restructuring or prior to an IPO, but also include secondary funds and real estate funds. Mezzanine finance involves subordinate debt which is a level of financing senior to equity and below senior debt and so generates an interest income component and often an equity component through a so-called equity kicker such as equity warrants payable when the investment is exited.

Special situations outperform within Princess portfolio

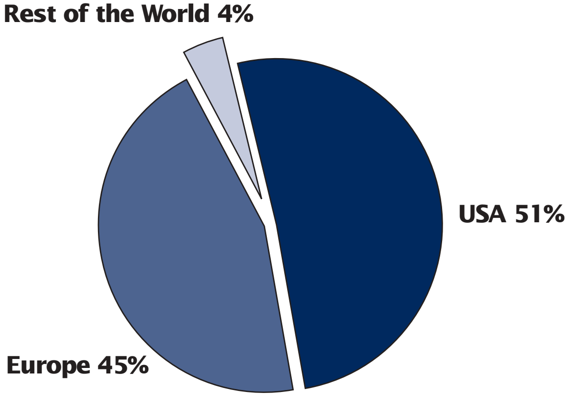
While just under one sixth of Princess's assets are allocated to special situations, this financing stage accounts for almost one third of distributions received since inception.

While just over one half of Princess's assets are invested in buyout, 31% in venture and 17% in special situations, the special situations financing stage accounts for just under one third of all distributions received so far from the partnerships. At the end of September 2002, cumulative distributions accruing to Princess amounted to USD 109.4 million. At USD 21.2 million, distributions from venture investments have not lived up to expectations, whereas distributions from buyout investments have held up well at USD 56.4 million and, at USD 31.8 million, special situation investments have significantly outperformed. To date, venture investments have a distributions to paid-in capital ratio (D/PI) of just 8.7%, buyout investments have performed well with a D/PI ratio of 18.1%, and special situation investments have substantially outperformed both of them with a D/PI ratio of 31.7%.

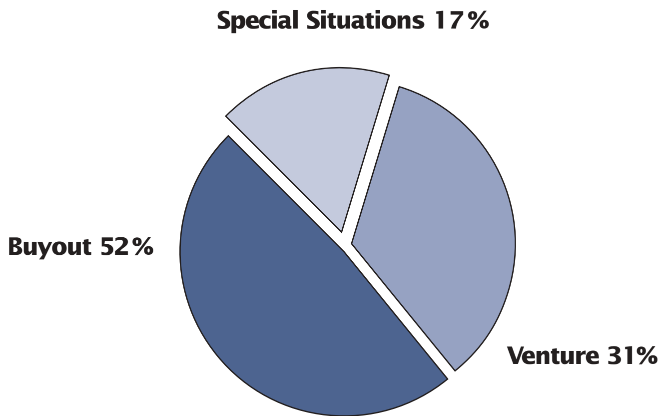
Princess's strategy of diversifying across the various financing stages is now bearing fruit. While venture investments made in 1999 and 2000 have been adversely affected by the bursting of the "new-technology" bubble in 2000, special situation investments, which tend to generate a steady positive cash flow, have largely weathered the storm relatively unscathed and have provided a distributions mainstay for Princess.

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. Almost 70% of the Princess portfolio is invested in the more risk-averse segments buyout and special situations.

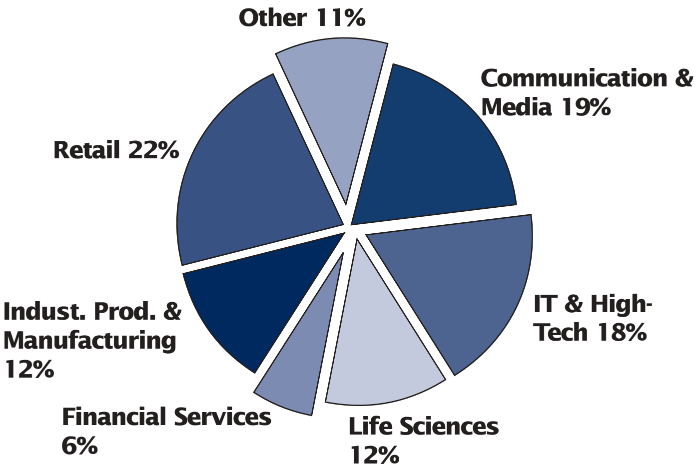
Investments by Geographic Region*



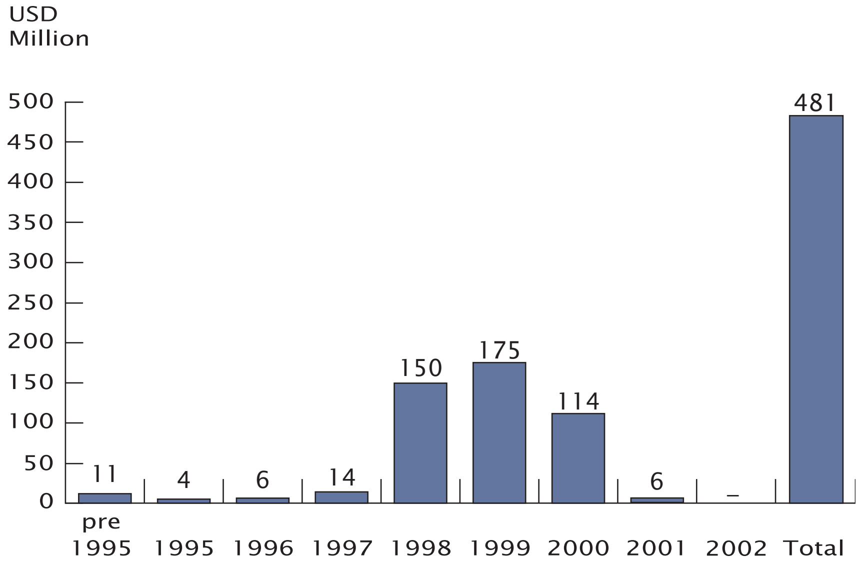
Investments by Financing Stage*



Investments by Industry Sector*



Investments by Vintage Year*



*Allocation by unrealized value of private equity investments

During the third quarter 2002, Princess Private Equity Holding received proceeds from 20 different partnerships totaling USD 10.8 million. At the same time, 71 different partnerships made capital calls amounting to USD 25.8 million.

Selected new investments

Morgenthaler Partners VII, L.P.
Morgenthaler Partners have taken a majority stake in the US home entertainment media distributor UAV Corporation in a leveraged recapitalization valued at over USD 50 million. UAV was founded in 1985. The company distributes budget-priced audio, video, DVD and software products in more than 50'000 retail locations in the USA and Canada.

Schroder Ventures International Life Science Fund II
Schroder Ventures has participated in the GBP 29.5 million third round of financing for KuDOS Pharmaceuticals Ltd, the UK-based cancer drug development company, in the largest British biotechnology venture capital financing in 12 months. The funds will be used to finance the development of drugs to improve cancer treatment. KuDOS Pharmaceuticals was established in December 1997. The company closed its GBP 5 million first financing round in May 1999 and its GBP 8 million second round in April 2001.

Vestar Capital Partners IV, L.P.
Vestar has acquired Zanussi Metallurgica from the Swedish company Electrolux Group for an undisclosed sum. Zanussi Metallurgica is a manufacturer of cast iron and aluminum components and enameled copper wire for the household appliance and automotive industries. The company is based in Northern Italy and has around 650 employees. In a second deal, Vestar has acquired SAB WABCO, a leading manufacturer of brake systems for the rail industry, from Cardo AB, a publicly listed company based in Sweden. The transaction was valued at EUR 230 million. The company has facilities in 15 countries and plants in France, Italy, Germany, UK, Sweden, Brazil, South Korea and India. It employs over 2'000 people.

Weiss, Peck & Greer Venture Associates VI, L.P.
The San Francisco-based Exigen Group has closed a series D round of financing led by Lightspeed Venture Partners, formerly known as Weiss, Peck & Greer. At USD 62 million, it ranks as one of the largest venture deals of the year. Formed in 1999, Exigen is a global business process solutions company that focuses on lowering the total cost of operations for financial services, insurance, communications and other service firms. Exigen operates in 12 countries and has over 300 clients.

Selected exits

Coller International Partners III NW1, L.P.
Coller III is a large global secondaries fund and comprises various private equity partnerships. One of these partnerships is Bridgegpoint Capital, which participated in the high-profile sale of UK fast-food chain Wimpy Restaurants Group. The GBP 15 million secondary management buyout provided a full exit for the institutional syndicate that comprised 3i (equity stake: 40%), Bridgepoint Capital (20%) and TSB Development Capital (20%). 3i had led the original buyout from Grand Metropolitan in 1990. Founded in 1954, Wimpy operates a 300-strong franchise network across the UK. The company recently launched a new chicken fast-food chain under the brand name Dr. Beaks.

Columbia Capital Equity Partners III (Cayman), L.P.
Columbia had a successful realization with the sale of Riptech Inc., the leading provider of scalable, real-time managed security services, to Symantec Corp., a world leader in internet security technology, for USD 145 million in cash. Riptech was established in 1998 by Department of Defense security professionals and market experts. Its unique Caltarian technology platform provides real-time information protection through monitoring, analysis and response. Together, Symantec and Riptech will create a global network of Security Operations Centers.

European Private Equity Fund "D", L.P.
Bridgepoint Capital, the investment manager, had successful exits with the sale of Italian specialist sports retailers Longoni Sport for EUR 76 million to Giacomelli Sport, making it Italy's leading sports retailer; the sale of its majority stake in Golden Wonder Group Ltd to Longulf, the owner of the UK's leading snack manufacturer Snack Factory; and the around EUR 150 million management buyout of Spanish building contractor Isolux Wat.

At the end of September 2002, 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 1 July 2002 to 30 September 2002

	Notes	01.07.02–30.09.02	01.01.02–30.09.02	01.07.01–30.09.01	01.01.01–30.09.01
Net income from limited partnerships and directly held investments		**(10'501'550)**	**(54'543'080)**	***(13'017'730)***	***(28'974'482)***
Dividend and interest income	4	790'510	2'283'521	*618'498*	*1'700'357*
Revaluation	4	(10'966'533)	(55'178'045)	*(13'905'364)*	*(28'114'514)*
Foreign exchange gains and losses	4	(325'527)	(1'648'556)	*269'136*	*(2'560'325)*
Net income from short-term investments		**165'595**	**1'130'448**	***442'516***	***6'138'004***
Interest income	5	165'595	1'130'448	*223'166*	*5'813'004*
Revaluation	5	–	–	*219'350*	*325'000*
Net income from cash and cash equivalents		**279'552**	**710'405**	***1'890'228***	***3'590'250***
Interest income	7	279'408	714'777	*1'891'470*	*3'593'848*
Foreign exchange gains and losses		144	(4'372)	*(1'242)*	*(3'598)*
Operating income		**(10'056'403)**	**(52'702'227)**	*(10'684'986)*	*(19'246'228)*
Operating expenses		**(5'991'826)**	**(18'382'053)**	***(6'704'384)***	***(20'616'431)***
Management fee		(3'617'149)	(10'987'705)	*(3'904'352)*	*(11'898'943)*
Insurance fee		(2'220'897)	(6'952'060)	*(2'620'666)*	*(8'026'215)*
Administration fee		(74'030)	(231'735)	*(90'863)*	*(282'910)*
Tax exemption fee		(466)	(1'264)	*(436)*	*(1'154)*
Other operating expenses		(79'284)	(209'289)	*(88'067)*	*(407'209)*
Financing cost		**(8'175'996)**	**(24'198'530)**	***(7'743'930)***	***(22'920'618)***
Finance cost on convertible bond	9	(7'784'228)	(23'023'227)	*(7'352'162)*	*(21'745'315)*
Amortisation of transaction costs	9	(391'768)	(1'175'303)	*(391'768)*	*(1'175'303)*
Surplus / (loss) for the financial period		**(24'224'225)**	**(95'282'810)**	*(25'133'300)*	*(62'783'277)*

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

Basic surplus / (loss) per share	USD	(2'422.4225)	(9'528.2810)	*(2'513.3300)*	*(6'278.3277)*
Diluted surplus / (loss) per share	USD	(3.4557)	(13.5924)	*(3.5853)*	*(8.9562)*

Consolidated unaudited balance sheet
at 30 September 2002

	Notes		30.09.02		31.12.01
Assets					
Non-current assets					
Investments in limited partnerships and directly held investments	1&4		**480'935'742**		*461'574'349*
Current assets					
Short-term investments	1&5	**9'995'046**		*129'674'211*	
Other short-term receivables	6	**470**		*188'881*	
Hedging asset	4	**–**		*659'959*	
Cash and cash equivalents	7	**87'306'517**		*53'785'261*	
			97'302'033		*184'308'312*
Total assets			**578'237'775**		*645'882'661*
Equity and Liabilities					
Capital and reserves					
Issued capital	8	**100**		*100*	
Reserves		**32'261'467**		*127'544'277*	
			32'261'567		*127'544'377*
Liabilities falling due after more than one year					
Convertible bond	9		**542'496'231**		*518'297'701*
Liabilities falling due within one year					
Hedging liability	4	**3'478'017**		*–*	
Other short-term payables	10	**1'960**		*40'583*	
			3'479'977		*40'583*
Total liabilities			**578'237'775**		*645'882'661*

The financial statements on pages 12 to 25 were approved by the board of directors on 4 November 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 September 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	–	–	(95’282’810)	**(95’282’810)**
Equity at end of reporting period	**100**	**241’028’914**	**(208’767’447)**	**32’261’567**

Consolidated unaudited statement of changes in equity

for the period from 1 January 2001 to 30 September 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	–	–	(62’783’277)	**(62’783’277)**
Equity at end of reporting period	**100**	**241’028’914**	**(70’022’149)**	**171’006’865**

Consolidated unaudited cash flow statement

for the period from 1 January 2002 to 30 September 2002

	Notes	**01.07.02–30.09.02**	**01.01.02–30.09.02**	*01.07.01–30.09.01*	*01.01.01–30.09.01*
Cash flow from operating activities					
Management fees		**(3'617'149)**	**(10'987'705)**	*(3'903'752)*	*(11'898'343)*
Administration fees		**(2'220'897)**	**(6'952'060)**	*(90'863)*	*(282'910)*
Insurance fees		**(74'030)**	**(231'735)**	*(2'620'666)*	*(8'026'215)*
Other operating expenses		**(79'750)**	**(210'553)**	*(88'503)*	*(408'363)*
Realised gains / (losses) on hedging	4	**(1'741'076)**	**(13'069'572)**	–	*3'535'919*
(Increase) / Decrease in other short-term receivables		**23'637**	**188'411**	*(110'150)*	*(312'792)*
Increase / (Decrease) in other short-term payables		**1'960**	**(38'623)**		
Interest and dividend income from limited partnerships and directly held investments	4	**790'510**	**2'283'521**	*618'498*	*1'700'357*
Purchase of limited partnerships and directly held investments	4	**(25'838'500)**	**(85'490'860)**	*(29'354'841)*	*(123'485'491)*
Distributions of limited partnerships and directly held investments	4	**11'170'733**	**26'510'414**	*10'227'898*	*35'066'340*
Interest income received from short-term investments	5	**156'390**	**1'815'979**	*2'447'709*	*8'037'546*
Purchase of short-term investments	5	**(9'952'268)**	**(154'190'387)**	*(138'365'232)*	*(236'759'244)*
Repayment at cost of short-term investments	5	**29'843'610**	**273'184'021**	*168'764'041*	*308'764'041*
Interest income received from cash and cash equivalents	7	**377'078**	**609'450**	*211'903*	*3'593'848*
Net increase / (decrease) in cash and cash equivalents		**(1'159'752)**	**33'420'301**	*7'736'042*	*(20'475'307)*
Cash and cash equivalents at beginning of reporting period	7	**88'360'798**	**53'785'261**	*32'461'997*	*60'675'702*
Effect of exchange rate changes on cash and cash equivalents		**144**	**(4'372)**	*(1'242)*	*(3'598)*
Cash and cash equivalents at end of reporting period	7	**87'201'190**	**87'201'190**	*40'196'797*	*40'196'797*

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".

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 at 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 £ 600.

4 Limited partnerships and directly held investments

4.1 Investments

	30.09.02	*31.12.01*
Balance at beginning of reporting period	**461'574'349**	*415'975'657*
Capital activity recorded at the transaction rate	**84'313'016**	*149'830'213*
Out of commitment expenses	**1'177'844**	*1'716'910*
Distributions	**(26'510'414)**	*(38'315'707)*
Revaluation	**(55'178'045)**	*(65'306'122)*
Foreign exchange gain / (loss)	**15'558'992**	*(2'326'602)*
Balance at end of reporting period	**480'935'742**	*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	**242'443'234**	*256'799'915*
Europe	**217'335'703**	*184'853'665*
Rest of World	**21'156'805**	*19'920'769*

4.2 Distributions

	01.01.02–30.09.02	*01.01.01–30.09.01*
Dividends	–	*–*
Interest income	**2'283'521**	*1'700'357*
	2'283'521	*1'700'357*
Return of investments – received in cash	**26'510'414**	*27'391'062*
Return of investments – received in kind	–	*–*
Total distributions	**28'793'935**	*29'091'419*

4.3 Foreign exchange

	01.01.02–30.9.02	*01.01.01–30.9.01*
Foreign exchange revaluation	**15'558'992**	*(6'000'572)*
Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments	**(4'137'976)**	*(95'672)*
Realised gain / (loss) from foreign exchange hedges relating to investments in limited partnerships and directly held investments	**(13'069'572)**	*3'535'919*
Foreign exchange gain from settled hedging contract, recognised directly in equity	–	*–*
	(1'648'556)	*(2'560'325)*

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) 30.09.02	*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	1.5178	29.10.02	**(2'514'165)**	–
Buy USD against Euro	54'000'000	0.9715	29.10.02	**(750'386)**	–
Buy USD against CHF	6'000'000	1.5063	29.10.02	**(115'299)**	–
Buy USD against SEK	10'000'000	9.4020	29.10.02	**(98'167)**	–
				(3'478'017)	*659'959*

5 Short-term investments

5.1 Investments

	30.09.02	*31.12.01*
Cost		
At beginning of reporting period	**128'945'901**	*240'000'000*
Additions	**154'190'387**	*346'037'683*
Interest received in redemption	**1'815'979**	*2'908'218*
Redemptions	**(275'000'000)**	*(460'000'000)*
At end of reporting period	**9'952'267**	*128'945'901*
Valuation		
At end of reporting period	**9'995'046**	*129'674'211*
At beginning of reporting period	**129'674'211**	*239'675'000*

5.2 Income

	01.01.02– 30.09.02	*01.01.01– 30.09.01*
Interest income		
Interest received from investments issued at a discount	**1'815'979**	*5'589'838*
Net interest accrued from investments issued at a discount	**(685'531)**	*105'650*
Interest received from investments issued at par	–	–
Net interest accrued from investments issued at par	–	–
Total interest income from shortterm investments	**1'130'448**	*5'695'488*
Revaluation		
Fair value revaluation of investments issued at par	–	*235'000*

6 Other short-term receivables

	30.09.02	*31.12.01*
Bank deposit interest receivable	–	*16'049*
Hedging gain	–	*135'890*
Sundry prepayments	**470**	*36'942*
	470	*188'881*

7 Cash and cash equivalents

7.1 Balance

	30.09.02	*31.12.01*
Cost		
Cash equivalents at beginning of reporting period	–	*29'649'884*
Additions	**179'263'180**	*302'497'605*
Interest received on redemption	**457'354**	*2'852'511*
Redemptions	**(104'996'698)**	*(335'000'000)*
Cash equivalents at end of reporting period	**74'723'836**	–
Cash at banks	**12'477'354**	*53'785'261*
Total cost recorded in the cash flow statement	**87'201'190**	*53'785'261*
Valuation		
Cash equivalents	**74'829'163**	–
Cash at banks	**12'477'354**	*53'785'261*
Total cash and cash equivalents	**87'306'517**	*53'785'261*

7.2 Interest income

	01.01.02– 30.09.02	*01.01.01– 30.09.01*
Interest received from cash equivalents on maturity	**457'354**	*2'852'511*
Net interest accrued from cash and cash equivalents	**105'327**	–
Interest received from cash at banks	**152'096**	*741'337*
Total interest income from cash and cash equivalents	**714'777**	*3'593'848*

8 Share capital

	30.09.02	*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*
	200'100	*200'100*
Issued		
10'000 Class B shares of USD 0.01 each	**100**	*100*

9 Convertible bond

	30.09.02	31.12.01
Balance at beginning of reporting period	**518’297’701**	*487’527’439*
Amortisation of transaction costs	**1’175’303**	*1’567’071*
Finance cost on convertible bond	**23’023’227**	*29’203’191*
Balance at end of reporting period	**542’496’231**	*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

	30.09.02	31.12.01
Sundry accruals	**1’960**	*40’583*

11 Commitments

	30.09.02	31.12.01
Total committed translated at the rate prevailing at the balance sheet date	**1’119’059’996**	*1’090’470’850*
Actual funded at the transaction rate	**646’217’936**	*561’904’920*
Unutilised commitment translated at the rate prevailing at the balance sheet date	**462’760’891**	*536’611’271*
Differences due to foreign exchange movements	**10’081’169**	*(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.

	30.09.02	31.12.01
Net assets of the company	**574’757’798**	*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	**81.9911**	*92.1315*

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.

	30.09.02	*31.12.01*
Basic surplus / (loss) per share		
Surplus / (loss) for the financial period	**(95'282'810)**	*(106'245'765)*
Outstanding shares at the balance sheet date	**10'000**	*10'000*
Net surplus / (loss) per share	**(9'528.2810)**	*(10'624.5765)*
Diluted surplus / (loss) per share		
Surplus / (loss) for the financial period	**(95'282'810)**	*(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	**(13.5924)**	*(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 30.09.02	*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.

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
Info: 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

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

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 90