Report for the quarter from 1 October 2002 to 31 December 2002

Princess

The convertible bond issued by Princess Private Equity Holding Limited offers both institutional and private investors access to an internationally diversified portfolio consisting of private equity partnerships. Investors have the opportunity of sharing in the potentially high 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.

NAV development remains relatively stable even in the current, turbulent environment

Despite further valuation adjustments, predominantly to venture investments, the private equity portfolio of Princess Private Equity Holding also saw substantial partnership distributions in the fourth quarter.

In the fourth quarter of 2002, write-downs by venture capital partnerships were, once again, responsible for the decline in Princess's net asset value (NAV) such that it corrected by 3.37% from 81.99% at end-September to 79.23% at end-December. The valuation adjustments to venture investments could not sufficiently be compensated by write-ups from buyout and special situations partnerships. Nevertheless, despite the prolonging negative stock market sentiment due to political uncertainty, fears of war and a sluggish economy, Princess portfolio partnerships were able to successfully exit investments. Foremost the IPO of Seagate Technology on the Nasdaq stock exchange in December, the largest primary stock offering by a technology company since July 2001, enhanced investor confidence. The substantial part of this transaction is not yet reflected in the Princess NAV and will probably not be reflected before the second quarter 2003. The Investment Manager expects Princess to profit substantially from this transaction in the months to come.

Princess has established credit facility

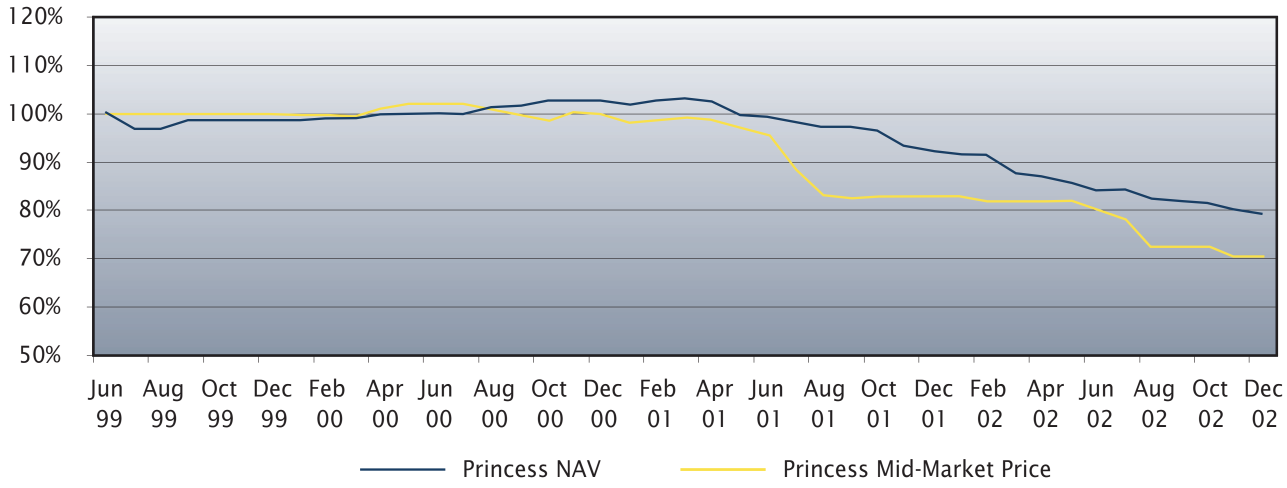
Princess has established a credit facility with the Bank of Scotland of USD 130 million to meet any potential bottle necks in liquidity.

As of December 2002, Princess had net liquidity reserves of close to USD 70 million and undrawn commitments of USD 430 million. Despite a very successful fourth quarter in terms of distributions, Princess, as the entire private equity industry, has experienced a rather slow capital call and distribution rate over the past eighteen months.

Given Princess's overcommitment strategy and the prevailing low activity levels in the global private equity industry, the Investment Manager has established a seven year USD 130 million revolving credit facility to be able to cover any potential capital calls exceeding the amount of cash available. As contemplated in Princess's offering documents and consistent with its investment strategy, the credit facility will be used for cash management purposes and not to create any systematic or long-term leverage.

As Graham Sturrock, Head of Investment & Mezzanine Finance at Bank of Scotland underlines, "Bank of Scotland is delighted to have been able to provide Princess Private Equity Holding Ltd with a credit facility to accommodate its recognized overcommitment strategy. As a significant investor into private equity in its own right, Bank of Scotland fully understands and appreciates the economics and issues within the industry. Working in conjunction with Princess in putting the credit facility together, we have been highly impressed by their professionalism and knowledge of the market. In addition, their investment strategy for Princess provides for strong diversity and a platform for growth as the market picks up."

NAV and Mid-Market Price since Issuance until 31.12.2002



The Investment Manager sees an increase in mid-market deal opportunities on back of a trend to fewer but larger buyout deals.

Private equity outlook

Backlog of IPOs due to economic and political uncertainties.

The unfavorable public market environment will continue to take a toll on private equity exit routes. In particular IPOs, the most visible private equity exit route, have remained at a low level since the fourth quarter of 2000. The USD 870 million IPO of Seagate Technology in December 2002 was interpreted as a long awaited sign to decrease the backlog of quality IPOs that had built up over the last two years. According to the US-based Renaissance Capital, an IPO research company, 56 US-based companies in 10 sectors are now waiting in the IPO pipeline. Two of these companies are Time Warner Cable, a unit of AOL Time Warner Inc., which is expected to raise up to USD 4 billion and Verizon Communications Inc. partially spinning off its Verizon Wireless unit. The market is still receiving mixed signals. On the one hand the new US tax law proposal is expected to spur on economic activities, including IPOs and at the same time, escalating tensions with Iraq and North Korea as well as the fact that public markets finished the year with losses for the third consecutive year, cause investors to stay firmly on the sidelines.

Increase in European mid-market deal opportunities on back of a trend to fewer but larger buyout deals

Mid-market buyout purchase multiples increasingly attractive compared to more fiercely contested auctions for large-cap buyouts.

The European buyout market has grown steadily in recent years. While the value of the market held up, the number of deal completions has slowed on account of sustained global economic uncertainty and lower company valuations. The average size of buyout deals has continued to rise as, among other things, private equity players use their increasingly large funds to target larger deal opportunities. In particular large-cap deals are being increasingly settled through fiercely contested auctions with multiple bidders, which are sending valuations higher. By contrast, the small- and mid-cap segment has largely avoided the disruptive auction activity. Therefore entry costs tend to be lower in this segment compared to larger buyouts. What is more, mid-market opportunities continue to increase on the back of corporate restructuring and divestment of non-core operations, reform-driven consolidation in the highly fragmented European market and succession issues at family-owned firms. As more than USD 430 million in undrawn commitments still has to be invested, Princess will be able to profit from these market developments.

Despite the prolonged global economic turmoil, Princess receives substantial distributions in last quarter

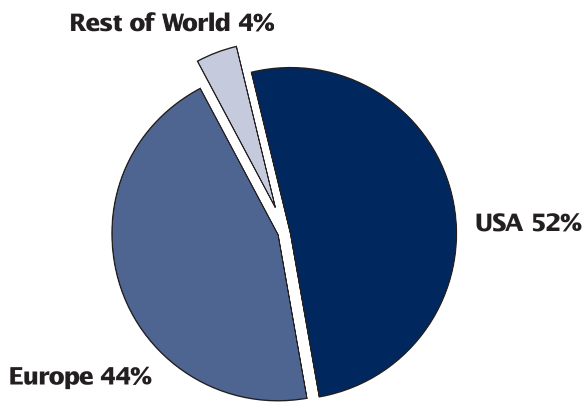
Princess received almost USD 24 million in distributions in the fourth quarter.

In the history of distributions for Princess the fourth quarter 2002 ranks 1st in terms of total volume. Princess received USD 17.6 million in distributions in December alone. The higher rate of distributions can be attributed to several large year-end transactions by buyout partnerships such as Bridgepoint (Jessops), Nordic Capital (Nycomed) and Permira (Homebase).

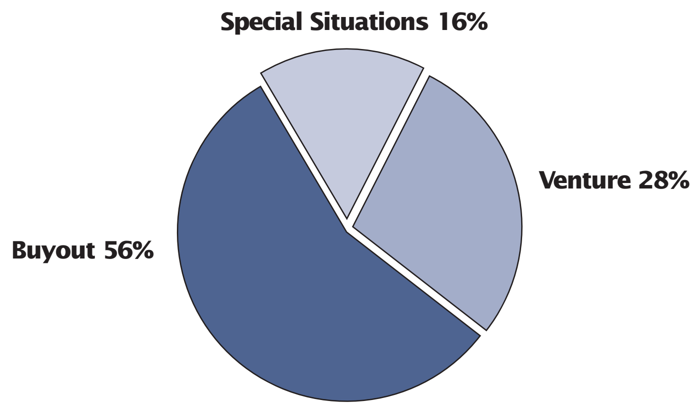
Due, in part, to these exits Princess's buyout partnerships were able to increase the distributions to paid-in capital ratio (D/PI) of 18.1% at end September to 22.9% at end December. In general, it tends to be the more mature secondary investments, which Princess sourced and acquired pro-actively at the end of 2000 that regularly generate returns. At end-December 2002, USD 85.3 million had been drawn down by Princess's secondary investments and already USD 46.0 million have been returned to date, resulting in a D/PI of 53.9%. Thus, Princess's strategy of including secondary investments has increased the maturity and vintage year diversification of the portfolio and contributed with early distributions to the stability of the NAV.

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 represent over 70% of the portfolio.

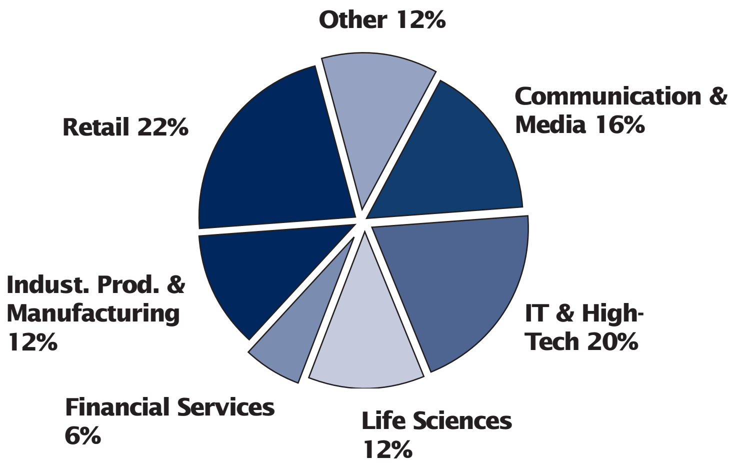
Investments by
Geographic Region*



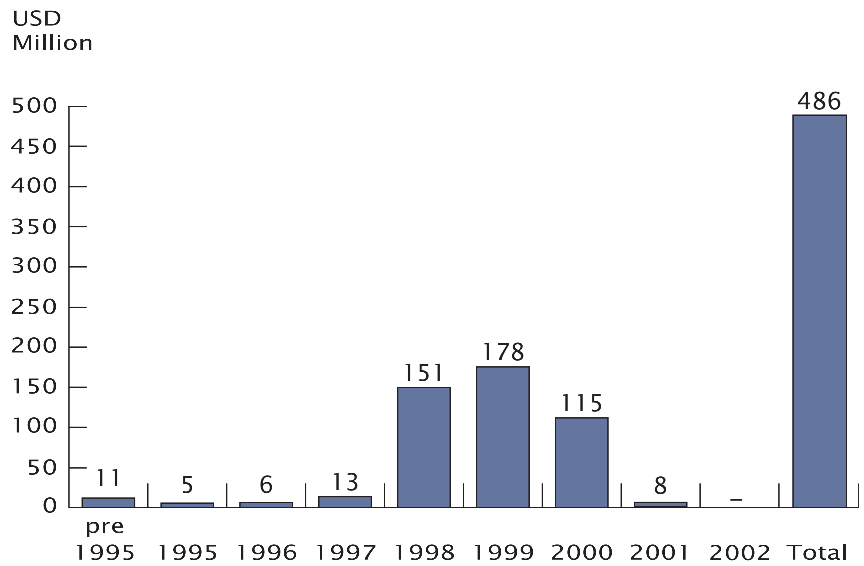
Investments by
Financing Stage*



Investments by
Industry*



Investments by
Vintage Year*



*Allocation by unrealized value of private equity investments

Despite difficult exit environment, Princess received record distributions of almost USD 24 million during the fourth quarter 2002. Proceeds came from 25 different partnerships. At the same time, 67 partnerships made capital calls, amounting to more than USD 34 million.

Selected new exits

Coller International Partners III NW2, L.P.
Significant proceeds were received from the Coller-NatWest secondary portfolio in connection with Bridgepoint Capital's sale of Jessops Limited to ABN AMRO Capital. The transaction valued the business at EUR 186 million. Jessops, which Bridgepoint backed in 1996, is the UK's leading specialist photographic retailer, providing a range of photographic and imaging equipment as well as developing and printing services through its retail stores, mail order and internet services. Over the last five years, the number of Jessops stores in the UK has more than tripled to 236. In the past two years, it increased sales by 94% to GBP 242 million.

Nordic Capital IV, L.P.
Nordic Capital exited its investment in Nycomed Holding A/S following its sale for an undisclosed sum to a company owned by a consortium of private equity firms comprising CSFB Private Equity, Blackstone Capital Partners and NIB Capital Private Equity NV. Headquartered in Denmark, Nycomed is a pharmaceutical company that sources, develops, manufactures and markets specialist and prescription pharmaceuticals and consumer health products. It has a strong market presence in Europe and the Nordic region. It employs around 2'600 people. Nordic Capital acquired a majority stake in Nycomed from Amersham plc in May 1999 and went on in August 2001 to acquire Amersham's remaining shareholding. Between 1999 and 2001, EBITDA grew by more than 25% on a yearly basis to EUR 105 million.

SPP1 Limited
The special purpose vehicle SPP1, received significant proceeds from the Morgan Stanley Leveraged Equity Fund II, L.P. in relation to: foremost, the sale of its remaining common stock holding in Smurfit-Stone Container Corporation, the world's largest integrated producer of paperboard and paper-based packaging products; its investment in the Ping An Insurance Company of China, which was formed in 1988 as China's first shareholder-owned insurance company. Ping An, which is based in the Shenzhen Special Economic Zone, is one of only two multi-line insurance companies to underwrite policies nationwide in China; and its interest in CIMIC Holdings Limited, an industrial holding company based in Shanghai, China. Its main business focus is on ceramic tiles, tissue paper and electronic power supply components.

Silver Lake Partners, L.P.;
Texas Pacific Group III, L.P.; T3 Partners, L.P.
Seagate Technology, the world's largest manufacturer of disc drives and magnetic recording heads went public in December 2002. Princess will benefit with significant returns from Seagate's IPO through Silver Lake Partners and two Texas Pacific Group funds. Seagate's IPO represented the biggest primary stock offering by a technology company in 2002. Seagate's income from operations improved from a loss of USD 285 million in fiscal year 2000 to a gain of USD 374 million in fiscal year 2002 that ended June 28th. Investors like Silver Lake Partners, Texas Pacific Group and other private equity firms will almost quadruple the USD 1.1 billion they invested in 2000. Roughly 10% of Seagate's shares were sold at the IPO. The balance will be available for distribution at the end of the lock-up period in six months' time.

Summit Ventures VI-B, L.P.
Summit Partners managed a successful exit when Nasdaq-listed Intuit Inc. acquired Blue Ocean Software, Inc., which was established in 1991 and is a leading provider of software solutions that help businesses manage their information technology resources and assets, including PC inventory, incident tracking, knowledge base resolution tools, software delivery and asset tracking. Intuit acquired all outstanding shares of Blue Ocean's stock for around USD 177 million in cash.

Selected new investments

3i Eurofund III
In November, 3i acquired a majority stake in a EUR 425 million MBO of SR Technics, the aircraft maintenance unit of former SAirGroup. The management team and and its workforce will have a 12% stake in the company. 3i and funds managed by 3i will be the main shareholder. With a workforce of 2'900 and an expected turnover of EUR 750 million for 2002 SR Technics is one of the world's largest service companies providing comprehensive technical support for aircraft, engines and components.

Texas Pacific Group III, L.P.
In December, a Texas Pacific Group-led consortium finally closed an agreement to purchase Burger King, the fast food restaurant chain, from UK-based Diageo plc. After protracted negotiations and Burger King's failure to attain certain performance targets, the sale price was cut by over 30% from USD 2.3 billion to USD 1.5 billion. Founded in 1954 in Miami, Burger King has grown to 11'450 restaurants in 58 countries worldwide.

At the end of December 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 October 2002 to 31 December 2002

	Notes	**01.10.02–31.12.02**	**01.01.02–31.12.02**	*01.10.01–31.12.01*	*01.01.01–31.12.01*
Net income from limited partnerships and directly held investments		**(13'596'044)**	**(68'139'124)**	***(29'961'976)***	***(58'936'458)***
– Dividend and interest income	4	580'857	2'864'378	*635'711*	*2'336'068*
– Revaluation	4	(14'497'358)	(69'675'403)	*(29'827'471)*	*(57'941'985)*
– Foreign exchange gains and losses	4	320'457	(1'328'099)	*(770'216)*	*(3'330'541)*
Net income from short-term investments		**1'922**	**1'132'370**	***1'070'139***	***7'208'143***
– Interest income	5	1'922	1'132'370	*1'070'139*	*6'883'143*
– Revaluation	5	–	–	*–*	*325'000*
Net income from cash and cash equivalents		**273'269**	**983'674**	***2'978***	***3'593'228***
– Interest income	7	280'630	995'407	*2'563*	*3'596'411*
– Foreign exchange gains and losses		(7'361)	(11'733)	*415*	*(3'183)*
Operating income		**(13'320'853)**	**(66'023'080)**	*(28'888'859)*	*(48'135'087)*
Operating expenses		**(5'998'506)**	**(24'380'559)**	**(6'723'985)**	**(27'340'416)**
– Management fee		(3'538'863)	(14'526'568)	*(3'926'452)*	*(15'825'395)*
– Insurance fee		(2'155'342)	(9'107'402)	*(2'555'444)*	*(10'581'659)*
– Administration fee		(71'844)	(303'579)	*(69'812)*	*(352'722)*
– Tax exemption fee		(468)	(1'732)	*(435)*	*(1'589)*
– Other operating expenses		(231'989)	(441'278)	*(171'842)*	*(579'051)*
Financing cost		**(8'287'923)**	**(32'486'453)**	***(7'849'644)***	***(30'770'262)***
– Finance cost on convertible bond	9	(7'896'155)	(30'919'382)	*(7'457'876)*	*(29'203'191)*
– Amortisation of transaction costs	9	(391'768)	(1'567'071)	*(391'768)*	*(1'567'071)*
Surplus / (loss) for the financial period		**(27'607'282)**	**(122'890'092)**	*(43'462'488)*	*(106'245'765)*

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

Basic surplus / (loss) per share	USD	(2'760.7282)	(12'289.0092)	*(4'346.2488)*	*(10'624.5765)*
Diluted surplus / (loss) per share	USD	(3.9383)	(17.5307)	*(6.2001)*	*(15.1563)*

Consolidated unaudited balance sheet
at 31 December 2002

	Notes		**31.12.02**		*31.12.01*
Assets					
Non-current assets					
Investments in limited partnerships and directly held investments	1&4		**485'568'388**		*461'574'349*
Current assets					
Short-term investments	1&5	–		*129'674'211*	
Other short-term receivables	6	**90'061**		*188'881*	
Hedging asset	4	–		*659'959*	
Cash and cash equivalents	7	**78'526'819**		*53'785'261*	
			78'616'880		*184'308'312*
Total assets			**564'185'268**		*645'882'661*
Equity and Liabilities					
Capital and reserves					
Issued capital	8	**100**		*100*	
Reserves		**4'654'185**		*127'544'277*	
			4'654'285		*127'544'377*
Liabilities falling due after more than one year					
Convertible bond	9		**550'784'154**		*518'297'701*
Liabilities falling due within one year					
Hedging liability	4	**8'516'481**		–	
Other short-term payables	10	**230'348**		*40'583*	
			8'746'829		*40'583*
Total liabilities			**564'185'268**		*645'882'661*

Consolidated unaudited statement of changes in equity

for the period from 1 January 2002 to 31 December 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	–	–	(122'890'092)	**(122'890'092)**
Equity at end of reporting period	**100**	**241'028'914**	**(236'374'729)**	**4'654'285**

Consolidated unaudited statement of changes in equity

for the period from 1 January 2001 to 31 December 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**
Surpluses / (losses) reclassified to the income statement	–	–	(106’245’765)	**(106’245’765)**
Equity at end of reporting period	**100**	**241’028’914**	**(113’484’637)**	**127’544’377**

Consolidated unaudited cash flow statement

for the period from 1 January 2002 to 31 December 2002

	Notes	**01.10.02–31.12.02**	**01.01.02–31.12.02**	*01.10.01–31.12.01*	*01.01.01–31.12.01*
Cash flow from operating activities					
– Management fees		**(3'538'863)**	**(14'526'568)**	*(3'927'052)*	*(15'825'395)*
– Administration fees		**(71'844)**	**(303'579)**	*(69'812)*	*(352'722)*
– Insurance fees		**(2'155'342)**	**(9'107'402)**	*(2'555'444)*	*(10'581'659)*
– Other operating expenses		**(232'457)**	**(443'010)**	*(172'277)*	*(580'640)*
– Realised gains / (losses) on hedging	4	**(2'349'052)**	**(15'418'624)**	*(5'346'888)*	*(1'810'969)*
– (Increase) / Decrease in other short-term receivables		**(89'591)**	**98'820**	*5'426'092*	*5'113'300*
– Increase / (Decrease) in other short-term payables		**228'388**	**189'765**	*(209'421)*	*(209'421)*
– Interest and dividend income from limited partnerships and directly held investments	4	**580'857**	**2'864'378**	*635'711*	*2'336'068*
– Purchase of limited partnerships and directly held investments	4	**(34'358'949)**	**(119'849'809)**	*(28'061'632)*	*(151'547'123)*
– Distributions of limited partnerships and directly held investments		**22'936'918**	**49'447'332**	*10'613'505*	*45'679'845*
– Interest income received from short-term investments	5	**44'701**	**1'860'680**	*(1'882'714)*	*6'154'832*
– Purchase of short-term investments	5	**–**	**(154'190'387)**	*(109'278'439)*	*(346'037'683)*
– Repayment at cost of short-term investments	5	**9'952'267**	**283'136'288**	*148'327'741*	*457'091'782*
– Interest income received from cash and cash equivalents	7	**321'860**	**931'310**	*88'679*	*3'682'527*
Net increase / (decrease) in cash and cash equivalents		**(8'731'107)**	**24'689'194**	*13'588'049*	*(6'887'258)*
Cash and cash equivalents at beginning of reporting period	7	**87'201'190**	**53'785'261**	*40'196'797*	*60'675'702*
Effect of exchange rate changes on cash and cash equivalents		**(7'361)**	**(11'733)**	*415*	*(3'183)*
Cash and cash equivalents at end of reporting period	7	**78'462'722**	**78'462'722**	*53'785'261*	*53'785'261*

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 GBP 600.

4 Limited partnerships and directly held investments

4.1 Investments

	31.12.02	*31.12.01*
Balance at beginnning of reporting period	**461’574’349**	*415’975’657*
Capital activity recorded at the transaction rate	**118’501’832**	*149’830’213*
Out of commitment expenses	**1’347’977**	*1’716’910*
Distributions	**(49’447’332)**	*(38’315’707)*
Revaluation	**(69’675’403)**	*(65’306’122)*
Foreign exchange gain / (loss)	**23’266’965**	*(2’326’602)*
Balance at end of reporting period	**485’568’388**	*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	**246’970’510**	*256’799’915*
Europe	**219’888’936**	*184’853’665*
Rest of World	**18’708’942**	*19’920’769*

Notes to the consolidated unaudited financial statements (continued)

4.2 Distributions

	01.01.02–31.12.02	*01.01.01–31.12.01*
Dividends	–	–
Interest income	**2'864'378**	*2'336'068*
	2'864'378	*2'336'068*
Return of investments – received in cash	**49'447'332**	*38'315'707*
Return of investments – received in kind	–	–
Total distributions	**52'311'710**	*40'651'775*

4.3 Foreign exchange

	1.01.02–31.12.02	*01.01.01–31.12.01*
Foreign exchange revaluation	**23'266'965**	*(2'326'602)*
Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments	**(9'176'440)**	*807'030*
Realised gain / (loss) from foreign exchange hedges relating to investments in limited partnerships and directly held investments	**(15'418'624)**	*(1'810'969)*
	(1'328'099)	*(3'330'541)*

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) 31.12.02	*Surplus / (loss) 31.12.01*
Buy USD against GBP	80'000'000	1.4389	27. Mar 02	**–**	*561'540*
Buy USD against Euro	45'000'000	0.8946	27. Mar 02	**–**	*90'543*
Buy USD against CHF	5'000'000	1.6336	27. Mar 02	**–**	*(11'683)*
Buy USD against SEK	9'000'000	10.5710	27. Mar 02	**–**	*19'559*
Buy USD against GBP	80'000'000	1.5460	29. Jan 03	**(3'151'358)**	*–*
Buy USD against Euro	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)**	*–*
				(8'516'481)	*659'959*

5 Short-term investments

5.1 Investments

	31.12.02	*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	**1'860'680**	*2'908'218*
Redemptions	**(284'996'968)**	*(460'000'000)*
At end of reporting period	**–**	*128'945'901*
Valuation		
At end of reporting period	**–**	*129'674'211*
At beginning of reporting period	**129'674'211**	*239'675'000*

5.2 Income

	01.01.02– 31.12.02	*01.01.01– 31.12.01*
Interest income		
Interest received from investments issued at a discount	**1'860'680**	*2'908'218*
Net interest accrued from investments issued at a discount	**(728'310)**	*728'310*
Interest received from investments issued at par	**–**	*2'606'795*
Net interest accrued from investments issued at par	**–**	*639'820*
Total interest income from short term investments	**1'132'370**	*6'883'143*
Revaluation		
Fair value revaluation of investments issued at par	**–**	*325'000*

6 Other short-term receivables

	31.12.02	*31.12.01*
Bank deposit interest receivable	**1'647**	*16'049*
Hedging gain	–	*135'890*
Stock distributions	**60'869**	–
Sundry prepayments	**27'545**	*36'942*
	90'061	*188'881*

7 Cash and cash equivalents

7.1 Balance

	31.12.02	*31.12.01*
Cost		
Cash equivalents at beginning of reporting period	–	*29'649'884*
Additions	**229'128'404**	*302'497'605*
Interest received on redemption	**733'519**	*2'852'511*
Redemptions	**(179'996'698)**	*(335'000'000)*
Cash equivalents at end of reporting period	**49'865'225**	–
Cash at banks	**28'597'497**	*53'785'261*
Total cost recorded in the cash flow statement	**78'462'722**	*53'785'261*
Valuation		
Cash equivalents	**49'929'322**	–
Cash at banks	**28'597'497**	*53'785'261*
Total cash and cash equivalents	**78'526'819**	*53'785'261*

7.2 Interest income

	01.01.02–31.12.02	*01.01.01–31.12.01*
Interest received from cash equivalents on maturity	**733'519**	*2'852'511*
Net interest accrued from cash and cash equivalents	**64'097**	*(86'116)*
Interest received from cash at banks	**197'791**	*830'016*
Total interest income from cash and cash equivalents	**995'407**	*3'596'411*

8 Share capital

	31.12.02	*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

	31.12.02	*31.12.01*
Balance at beginning of reporting period	**518'297'701**	*487'527'439*
Amortisation of transaction costs	**1'567'071**	*1'567'071*
Finance cost on convertible bond	**30'919'382**	*29'203'191*
Balance at end of reporting period	**550'784'154**	*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

	31.12.02	*31.12.01*
Sundry accruals	**230'348**	*40'583*

11 Commitments

	31.12.02	*31.12.01*
Total committed translated at the rate prevailing at the balance sheet date	**1'132'528'051**	*1'090'470'850*
Actual funded at the transaction rate	**680'406'752**	*561'904'920*
Unutilised commitment translated at the rate prevailing at the balance sheet date	**432'248'165**	*536'611'271*
Differences due to foreign exchange movements	**19'873'134**	*(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.

	31.12.02	*31.12.01*
Net assets of the company	**555'438'439**	*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	**79.2352**	*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.

	31.12.02	*31.12.01*
Basic surplus / (loss) per share		
Surplus / (Loss) for the financial period	**(122'890'092)**	*(106'245'765)*
Outstanding shares at the balance sheet date	**10'000**	*10'000*
Net surplus / (loss) per share	**(12'289.0092)**	*(10'624.5765)*
Diluted surplus / (loss) per share		
Surplus / (Loss) for the financial period	**(122'890'092)**	*(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	**(17.5307)**	*(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 31.12.02	*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

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