

PRINCIPLE CAPITAL HOLDINGS S.A.

CONSOLIDATED INTERIM STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2006 TO 30 JUNE 2006

PRINCIPLE CAPITAL HOLDINGS S.A.

DIRECTORS

Chief Executive Officer

Brian A Myerson

Non-executive Directors

David J Cooley

Brian S Padgett

Leonard O'Brien

Richard Bolton (appointed on 1 July 2006)

Marco Felder (resigned on 30 June 2006)

SECRETARY

Maitland Luxembourg S.A.

6, rue Adolphe Fischer

L-1520 Luxembourg

REGISTERED OFFICE

6, rue Adolphe Fischer

L-1520 Luxembourg

COMPANY NUMBER

98144

BANKERS

Barclays Private Clients International Limited

Jersey, St Helier

PO Box 8

Jersey

JE4 8NE

AUDITORS

KPMG Audit S.à r.l.

31, allée Scheffer

L-2520 Luxembourg

PRINCIPLE CAPITAL HOLDINGS S.A.

CONTENTS

Pages	4-6	Chief Executive's Statement
	7	Review Report
	8	Unaudited consolidated Profit and Loss Account
	9	Unaudited consolidated Balance Sheet
	10	Unaudited consolidated Cash Flow Statement
	11-12	Notes to the Financial Statements

PRINCIPLE CAPITAL HOLDINGS S.A.

Chief Executive's Statement

Introduction

In the six months to 30 June 2006, our operational businesses, Principle Capital Partners Limited, Principle Capital Fund Managers Limited and Principle Capital Advisors Limited (together "Principle Capital") have made good progress both in raising further funds for investment as well as investing existing funds.

Investments and Investment Management

Principle Capital has three core investment activities, namely fund management, consortium investments and direct investments. As at 30 June 2006, direct investments and funds under management totalled £62.5 million (\$118m). Moreover, since the period end, we have raised further gross proceeds of £40.3 million (\$76m) for Principle Capital Investment Trust plc, taking the group to over £100m (\$189m) in direct investments and funds under management.

Investment Management

The first six months of this year saw us building a number of positions through Principle Capital Investment Trust plc ("PCIT"). I am pleased with the way in which these investments have performed despite very volatile markets over the period. As at 30 June 2006, PCIT's portfolio comprised investments in 11 companies with an aggregate market value representing 80.2% of the net asset value of PCIT.

Furthermore, the net asset value of Principle Capital Investment Trust plc rose by 7.2% from 97.2p to 104.22p per ordinary share between launch in October 2005 and the end of June despite being unable to make significant investments before the start of 2006 and despite very difficult markets which saw indices, as well as some comparator funds, fall very significantly in May and June of this year. From the market high in April, PCIT's net asset value rose by 4.9%. By contrast, over the same period the FTSE All-Share Index fell by 5%.

This performance has continued since the period end and the NAV per ordinary share has increased to 106.27p per ordinary share as of 15 September 2006 (being the NAV at the last practicable date before publication of this statement). This represents a 9.3% increase since launch in less than a year and incorporates an accrual for a performance fee payable to Principle Capital Fund Managers (although the amount of the performance fee, if any, is only determined at the year end).

The principal reason for the portfolio's strength and resilience at a time of market volatility has been the high level of corporate activity in the stocks in which we have invested since inception, as well as positive results from corporate initiatives.

In some of its targeted situations PCIT bought only small positions before the stocks moved away too far in price. Consequently, the positions were sold into rising share prices. These included Dobbies Garden Centres (strong industry sector), First Technology (announcement of multiple bid approaches), HMV (announcement of bid approach) and Topps Tiles (stock re-rating). There was also a partial realisation of Autologic Holdings (fully realised post the period end), a small holding that we decided not to pursue and a realisation of a strategic position in Regent Inns, following the announcement of a bid approach.

There has also been significant activity in three of PCIT's larger holdings, namely McCarthy & Stone (multiple bid approaches), Photo Me International (bid approach and strategic review) and Luminar (bid approach and stake building by potential bidder). Since the period end we have realised the McCarthy & Stone holding making a gain for PCIT of over 60% on book cost.

Clearly we are encouraged by the level of activity in the stocks in which we have invested on behalf of PCIT and, should this continue, the time horizon for making profitable realisations can be expected to shorten.

PRINCIPLE CAPITAL HOLDINGS S.A.

On the back of this solid start to PCIT's investment programme, we returned to the market and raised proceeds of £39.3 million by way of a placing of 'C' Shares. We were delighted at the strength of support from both existing investors and new investors and would like to thank everyone who has supported what is for the Principle Capital group, a flagship product.

PCIT not only enables us to forge closer relationships with other investors in our marketplace, but also, its closed end nature means that it should give long term visibility on revenues for Principle Capital, through the management and performance fees charged to PCIT.

Importantly good performance in PCIT seems already to be significantly assisting our efforts to launch our offshore fund, targeted at non-UK based pension and endowment fund(s), high net worth and fund of fund investors. We believe we are now getting close to a first launch of that product and will keep shareholders informed of our progress. We are also in discussions regarding the launch of a number of other investment products, two of which are at advanced stages.

Consortium Investments

In April 2005, we launched our first consortium vehicle, Bulldog Financial Limited, which is now the largest shareholder in Nord Anglia Education plc. Nord Anglia is a leading provider of education, training and childcare and is listed on the London Stock Exchange. Over the period we have been working closely with management to maximise the value of the position and have been assisting the company in its recovery programme and forward strategy. The share price of Nord Anglia has been strong in the six months to 30 June 2006 following a restructuring of its finances, rising 34% from 110.5p to 147.75p. We believe it has good prospects and are optimistic for the outcome of this investment.

In March 2006, we also entered into a co-investment arrangement with a hedge fund regarding Luminar plc, an investment owned by PCIT, and we continue to work together with them and other shareholders on that position. We believe the co-investment model should generate good business for Principle Capital, particularly if we can effect a successful outcome from our initial investments. It should also enable us to establish stronger links with our fund investors and provides extra firepower in our investment strategy.

Direct Investments

We have taken a decision to put our direct investments as far as possible through our managed funds (provided they fit within the investment mandate of those products) rather than investing in them directly. This also frees up our capital so that we can invest directly in our products, which demonstrates to potential investors in those products our confidence in the relevant strategy. It further helps to avoid conflicts of interest. Accordingly, in June 2006 we sold our holding in Bulldog Financial Limited to PCIT, realising a small profit of £240,049. For the time being, we retain our investment in 1.27m ordinary shares of Liberty plc, the London based luxury retailer, but we may at the appropriate time seek to move this into our managed funds in line with our policy, subject to the necessary board and regulatory approvals. Liberty continues to show improving results and the share price at the period end was steady at £2.60p per ordinary share.

At 30 June 2006, the Company's investment in the ordinary shares of PCIT was worth £5.25 million, slightly up on book cost. However, since the year end we have increased our investment in PCIT, with exposure at the time of writing to 3.7 million ordinary and 3.7 million C shares.

PRINCIPLE CAPITAL HOLDINGS S.A.

Financial Results and Outlook

I believe we have laid the foundations for an exciting future for our business. Naturally our results continue to reflect investment in the development and marketing of our products, but the improvement in turnover and other income (£755,328 versus £194,370 for the six months to 30 June 2005) and reduced losses (retained loss for the period of £175,293 versus £196,388 for the six months to 30 June 2005) indicate good progress across all quarters. Principle Capital Holdings S.A. (the Group) retains a strong balance sheet showing net assets of £12.36m, which, when compared to £12.45m at 31 December 2005, shows positive use of the resources available to us at the early stages of our development. As we build the business, however, we expect that we will need to invest in staff (and accompanying facilities) and therefore that the expenses of the business will rise. We will naturally only do so as far as possible in conjunction with visibility of an improved income stream. We should be well placed to benefit on both the P&L and balance sheet front from the good performance of PCIT. I also believe the group can expect to continue increasing funds under management as well as successfully launch new products.

I would like to thank everybody involved with Principle Capital for all their work to date in the establishment and development of our exciting business.



Brian Myerson
Chief Executive



KPMG Audit
31, Allée Scheffer
L-2520 Luxembourg

Téléphone +352 22 51 51 1
Fax +352 22 51 71
audit@kpmg.lu
www.kpmg.lu

To the Shareholders of
PRINCIPLE CAPITAL HOLDINGS S.A.
6, rue Adolphe Fischer
L-1520 Luxembourg

REVIEW REPORT

We have reviewed the accompanying consolidated balance sheet of **PRINCIPLE CAPITAL HOLDINGS S.A.** as of 30 June 2006 and the related consolidated profit and loss account, consolidated cash flow statement for the six-month period then ended. These consolidated interim statements are the responsibility of the Board of Directors. Our responsibility is to issue a report on these consolidated interim statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim statements do not give, in accordance with United Kingdom generally accepted accounting principles, a true and fair view of the financial position of the **PRINCIPLE CAPITAL HOLDINGS S.A.** as at 30 June 2006 and of the result of its operations and its cash flows for the six-month period then ended.

Luxembourg, 22 September 2006

KPMG Audit S.à r.l.
Réviseurs d'Entreprises

D. Wallace

PRINCIPLE CAPITAL HOLDINGS S.A.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM 1 JANUARY 2006 TO 30 JUNE 2006

	Group June 2006 (6 months) £	Group June 2005 (6 months) (restated *) £
TURNOVER		
Advisory fees	<u>560,286</u>	<u>11,200</u>
	560,286	11,200
Administrative expenses	(921,262)	(672,558)
Share based payments	<u>(84,846)</u>	<u>(98,002)</u>
	(1,006,108)	(770,560)
GROSS LOSS	(445,822)	(759,360)
OTHER INCOME		
Unrealised gain / (loss) on investments	(45,007)	621,408
Realised gain / (loss) on sale of investments	<u>240,049</u>	<u>(438,238)</u>
	195,042	183,170
OPERATING LOSS	(250,780)	(576,190)
Interest receivable and similar income	<u>33,023</u>	<u>227,589</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(217,757)	(348,601)
Taxation on loss on ordinary activities	<u>(7,981)</u>	<u>(8,120)</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	(225,738)	(356,721)
Minority interests	50,446	160,333
RETAINED LOSS FOR THE FINANCIAL PERIOD	<u><u>(175,292)</u></u>	<u><u>(196,388)</u></u>

The notes on pages 11 and 12 form an integral part of these statements.

* Please refer to note 2.

PRINCIPLE CAPITAL HOLDINGS S.A.

UNAUDITED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2006

	Group June 2006	Group December 2005 (restated *)
	£	£
FIXED ASSETS		
Tangible assets	25,302	33,237
Investments	8,558,651	10,968,415
	<u>8,583,953</u>	<u>11,001,652</u>
 CURRENT ASSETS		
Debtors	624,693	230,486
Cash at bank and in hand	2,932,755	1,017,139
	<u>3,557,448</u>	<u>1,247,625</u>
 CREDITORS: amounts falling due within one year	<u>(259,230)</u>	<u>(226,214)</u>
 NET CURRENT ASSETS	<u>3,298,218</u>	<u>1,021,411</u>
 NET ASSETS	<u>11,882,171</u>	<u>12,023,063</u>
 CAPITAL AND RESERVES		
Called up share capital	8,999,806	8,999,806
Share premium account	6,250,000	6,250,000
Share based payments	310,156	225,310
Profit and loss account	<u>(3,201,693)</u>	<u>(3,026,401)</u>
 TOTAL EQUITY SHAREHOLDERS' FUNDS	<u>12,358,269</u>	<u>12,448,715</u>
 Minority interests	(476,098)	(425,652)
	<u>11,882,171</u>	<u>12,023,063</u>

The notes on pages 11 and 12 form an integral part of these statements.

* Please refer to note 2.




PRINCIPLE CAPITAL HOLDINGS S.A.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY 2006 TO 30 JUNE 2006

	Group June 2006 (6 months) £	Group June 2005 (6 months) £
Operating activities		
Net cash outflow from operating activities	(688,644)	(573,148)
Capital expenditure		
Payments to acquire tangible assets	(546)	(26,100)
Acquisitions and disposals		
Payments to acquire investments	(525,000)	(2,445,238)
Receipt from sale of investments	3,129,806	1,032,000
Increase/(decrease) in cash in the period	<u>1,915,616</u>	<u>(2,012,486)</u>
 Reconciliation of net cash flow to movement in net debt		
 Increase/(decrease) in cash in the period	<u>1,915,616</u>	<u>(2,012,486)</u>
Movement in net funds in the period	1,915,616	(2,012,486)
Net funds at the beginning of the period	1,017,139	10,698,764
Net funds at the end of the period	<u>2,932,755</u>	<u>8,686,278</u>

The notes on pages 11 and 12 form an integral part of these statements.

PRINCIPLE CAPITAL HOLDINGS S.A.

NOTES TO THE INTERIM STATEMENTS FOR THE PERIOD FROM 1 JANUARY 2006 TO 30 JUNE 2006

1 ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom and under the historical cost convention. The interim statements cover the period from 1 January 2006 to 30 June 2006.

Basis of consolidation

The interim statements of the Company's subsidiaries are included in the consolidated interim statements.

Intra-group balances and transactions, and any related gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated interim statements.

Acquisitions of subsidiaries are accounted for by application of the purchase method of accounting.

Revenue recognition

Revenue is recognised on an accruals basis.

Set up costs

Set up costs have been written off in full.

Basis of conversion for items originally expressed in foreign currency

The Company maintains its accounts in Pounds Sterling ("£") and the balance sheet and profit and loss account are expressed in this currency.

Financial assets denominated in other currencies are translated into £ at the historical exchange rates.

Other assets and liabilities expressed in other currencies are translated into £ at the rates of exchange in effect at the balance sheet date. Realised and unrealised exchange gains and losses are recognised in the profit and loss account.

Income and charges denominated in foreign currencies are recorded at the rate prevailing on the transaction date.

Tangible Fixed Assets

Fixed assets are recorded at historical cost. Depreciation is provided on the reducing balance method at the following annual rate in order to write off each asset over its estimated life.

Fixtures and fittings	15%
Computer Equipment	33%

PRINCIPLE CAPITAL HOLDINGS S.A.

NOTES TO THE INTERIM STATEMENTS FOR THE PERIOD FROM 1 JANUARY 2006 TO 30 JUNE 2006 (continued)

Investments

Investments are initially recognised at cost (which includes transaction costs) on their trade date. Investments are subsequently re-valued based on quoted mid-market prices at the year-end. Non-quoted investments are valued using a net assets value basis, which is the method that best reflects the value that these assets could be sold in an open market. Gains and losses resulting from the changes in fair value are recognised in the profit and loss account as they arise.

Valuation of debtors

Debtors are stated at their nominal value. Value adjustments are recorded at the end of the financial year if the net realisable value is lower than the book value.

Valuation of creditors

Creditors are recorded at their nominal value.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated on the liability method.

Deferred tax is provided on timing differences, which will probably reverse at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided using timing differences which, in the opinion of the Directors, will probably not reverse.

Share-based payment transactions

The share option programme allows Group employees, Senior Management and Directors to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the enhanced binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

2 CHANGE IN ACCOUNTING POLICIES

The Company applied FRS 20 "Share-based payments" (see above) as from 1 January 2006. Opening balances and 2005 comparative figures were restated for the implementation of FRS 20. The impact of the restatement on the consolidated profit and loss account for the period from 1 January to 30 June 2005 amounts to GBP (98,002).

The impact on the consolidated profit and loss account for the full year 2005 amounts to GBP (196,003).

The impact on the cumulated profit and loss account (equity) as at 31 December 2005 amounts to GBP (225,310).