

QUAYLE MUNRO HOLDINGS PLC
Statement of preliminary results for the year ended 30 June 2006

HIGHLIGHTS

- Another year of strong trading with good growth in both fee earning and our investments
- Group operating profit increased by 76% from £0.6 million to £1 million, reflecting a rise of 27% in turnover
- Total return per share increased by 28% to 257.0p
- Net asset value per share increased by 34% to 921.2p
- Profit before tax decreased by 6% from £2.7 million to £2.5 million, reflecting a fall in profits from sales of investments – excluding profits from sales of investments, profit before tax increased by 42% to £1.8 million
- Basic earnings per share, after the fall in profits from sales of investments and after a higher tax charge, decreased by 17% to 49.4p
- Dividend per share increased by 11% to 22.0p
- Funds under management increased through a placing by The PFI Infrastructure Company plc which raised £30 million before expenses in March 2006, bringing the total raised to £77 million
- Financial close reached on 4 PFI/PPP projects as adviser
- Advice provided to 18 universities and colleges of further education

CHAIRMAN'S STATEMENT

Once again it is my pleasure to report another period of strong trading with good growth in our professional fee earning activities and in our investments.

RESULTS

The group profit before taxation was £2,510,000 compared with £2,671,000 (restated) for the previous year. The slight fall was entirely due to a reduction in gains on the sale of fixed asset investments which contributed only £691,000 compared with £1,392,000 the previous year.

I should report that the figures both for the current and the comparative periods reflect newly adopted Financial Reporting Standards, namely FRS 17 in respect of retirement benefits (where the assets and liabilities of the pension scheme are brought onto the balance sheet) and FRS 21 (where proposed but unpaid dividends are excluded).

Operating profits have once again risen significantly to £998,000 compared with £568,000 the previous year, a rise of 76%. Income from investments, together with interest receivable, rose to £797,000 compared with

£696,000 the previous year. If the profit on sales of fixed asset investments were excluded Group profit before taxation rose to £1,819,000 compared with £1,279,000 the previous year, a rise of 42%.

Basic earnings per share were 49.4p compared with 59.5p the previous year, a decrease of 17%. The decrease is due to the reduced profit on sales of fixed asset investments and to an increased tax charge.

The total return per share, which comprises earnings per share plus the increase in the value of the Group's assets, rose to another new record of 257.0p per share compared with last year's record of 201.1p, a rise of 28%. Net assets have risen to 921.2p per share, an increase of 34%.

In view of the continuing growth in net assets and satisfactory continuing level of activity the Directors are pleased to recommend a final dividend of 14.7p per share making 22p for the year as a whole, an increase of 11.1%.

OUR ASSETS

As at 30th June 2006 the breakdown of our net assets was as follows:

	£ million	%'age
Office building and other fixed assets	1.465	4
House building	19.639	56
Other unlisted investments	1.250	4
Cash, or cash equivalent, listed securities and net working capital	12.486	36
Other	(0.031)	-
Total Net Assets	<u>34.809</u>	<u>100</u>

Our investment in Morris Group has again been a main driver for asset growth. For the year ended 31st March 2006 Morris increased sales to £173 million compared with £148 million the previous year, a rise of 16.2%. Restated operating profits (before goodwill amortisation) were £36.6 million compared with £35.4 million the previous year, with profits after interest, goodwill amortisation and tax of £15.4 million. New housing units sold rose by 28% to 1,054.

Morris is continuing to make progress in the current financial year and for the six months ending on 30th September 2006 is anticipating operating profits of £14.5 million compared with £15.2 million for the same period last year. The slight fall is due to a lower production profile but this is expected to be reversed in the second half.

In our interim report I referred to our method of valuation of Morris. At the interim stage we based our valuation on profits for Morris's full year (i.e. ending on 31st March 2006), applying a PER but discounted to market multiples as at 31st December 2005, first because the company is unquoted, secondly because it is more heavily geared than listed equivalents and thirdly for the prospective nature of the profits on which the valuation is based. In respect of the valuation as at 31st December 2005, this resulted in our applying a PER of 3.5 (which compared with a then average PER for listed companies of 8.8) to notionally taxed profits, adjusted for goodwill amortisation and shareholder bond interest. At the year end we have observed the same criteria, altering the PER to reflect market multiples as at 30th June and removing the discount for the prospective nature of profits. This resulted in a PER as at 30th June of 5.0 (compared with a then average PER for listed companies of 9.0), valuing

Morris as a whole at £83 million. In its financial year starting on 1st April 2006, Morris commenced the payment of ordinary dividends, and we received an ordinary dividend in July 2006 of £460,000 which will fall into our current financial year. We shall keep under review the question of the most appropriate method of valuation for Morris, the factors underlying which are constantly changing. Our basic principle is to err on the prudent side whilst respecting the excellent performance of the company.

I am pleased to report that the smaller investments in our listed portfolio are performing satisfactorily. Submersible Television Surveys continues to experience a high level of utilisation of its ROV fleet as a result of higher oil prices. AMG Systems, which performed below expectations in 2005, has now turned losses in the second half of that year into good profitability in the current year and we have reduced the provision which we had made in its valuation. Tayside Flow Technologies (TFT) has, after a long period of development, initiated human clinical trials in Holland and Belgium and suitable patients are being recruited at a broadly satisfactory rate. We are advised we should have some understanding of how successful the TFT implants are by the time we report to shareholders in March 2007. We continue to maintain a modest investment in leading listed equities, and cash resources continue at historically high levels.

THE PFI INFRASTRUCTURE COMPANY plc (PFI Co)

In March, following a very satisfactory investment performance by our managed PFI specialist fund, a further £30 million of new share capital was raised by PFI Co. The Chief Executive's Report refers fully to this transaction and to PFI Co generally.

THE EXECUTIVE

This has been a very successful year, and progress has been made in all aspects of our business. There has been an increase in activity in our PFI investment management responsibilities and in our professional responsibilities related to PFI bidding syndicates. We also maintained a strong presence advising a wide number of corporate, educational and public sector bodies in respect of their debt and capital raising requirements. The team has worked extremely hard in a demanding year and once again on behalf of the Board I would like to express our thanks for the commitment that everybody has shown.

During this calendar year Alan Ritchie and Miriam Greenwood resigned, and we wish them well in their future careers. Their respective contributions to the development of our business have been much appreciated.

Brian Finlayson joined the board as a non-executive director on 4th November 2005. Brian's lengthy experience in private equity and banking is a very welcome addition to our skills base.

PROSPECTS

Corporate finance activity remains strong and we anticipate increased dividend income arising as a result of Morris commencing ordinary dividend payments. The fee income which we derive from our management responsibilities to PFI Co has also been rising as a result of the increase in capital and in the size of the invested portfolio. The work anticipated on PFI projects in our advisory pipeline is slightly down from its peak, two major completions having taken place since the end of our financial year, but thereafter we still expect a satisfactory level of activity in this area.

Once again I can report that we feel confident that the future should see continuing satisfactory performance in terms of net assets and professional revenue.

I. Q. JONES

Chairman

14th September 2006

CHIEF EXECUTIVE'S REPORT

The year has seen solid progress in our fee earning business, which continues to specialise in PFI, higher and further education and debt advisory.

During 2005/6 we completed three PFI projects as financial adviser on the private sector side. In December we closed Fife Primary Schools with Miller Construction, Bank of Scotland, FES and PFI Co, which is a £64 million project for the replacement of 10 primary schools. In March 2006 we closed the North Ayrshire Schools project with Hochtief, Nord LB and PFI Co, with a total project value of £84 million; and earlier in the year we closed the Gartnavel Hospital project with Robertson Capital Projects with a capital value of £17 million.

After the year end we closed Midlothian Schools with Skanska and PFI Co, a £41 million project for 8 new primary schools; and in August we closed our biggest project to date, the New Victoria and Stobhill Hospitals in Glasgow at £180 million. The two hospital buildings will represent a key part of the strategy of Greater Glasgow & Clyde Health Board to modernise service provision in the city. The consortium was led by Canmore Partnership with PFI Co, UME Investment and Barclays Private Equity.

In addition we completed investments for PFI Co in Argyll & Bute Schools, Stirling Schools, and after the year end East Ayrshire Schools, and we will be providing financial management services for these three project companies

These projects represent the fruits of our success in winning a good proportion of the school and healthcare projects which have been brought to the market in Scotland over the past few years. The Scottish schools PFI programme has been ambitious and successful, over a period while the equivalent programme in England, Building Schools for the Future (BSF) has been delayed as new contractual structures have been developed. We came into the current financial year with a good pipeline of projects to complete but the programme in Scotland is tailing off and we are increasingly looking elsewhere in the UK for the activity to refill the pipeline.

In working for private sector clients sponsoring bids, the important thing is that we help them win. We bring to bear not only our financial modelling capability developed over a number of years, but also our experience of all phases of PFI. This extends from assembling a potentially winning consortium, through bid strategy and tactics, and negotiations through the preferred bidder stage up to financial close - plus operating the special purpose vehicle (SPV) during the construction stage, through commissioning and into operations.

The highlight of our year in PFI/PPP was the successful placing in March of a further £30 million of shares in PFI Co, bringing the total raised to £77 million with a market capitalisation at the placing price of just under £90 million. This placing was on the back of strong performance both of PFI Co's starting portfolio, which was acquired in July 2004 from Quayle Munro and Bank of Scotland, and also the good rate of investment particularly in primary PFI projects – many of which are also advisory clients of Quayle Munro as described above. The placing has increased PFI Co to a more meaningful size in the marketplace and the associated

increase in QM's management fees is allowing us to increase the resources which we apply to this investment management activity, which represents a key component of our total fee income.

Besides our contract for investment management of PFI Co, QM also undertakes financial management for many of the PFI project companies (SPVs) in the PFI Co portfolio, running their financial affairs and producing management accounts. As PFI Co's portfolio has grown this represents an increasingly important activity where we add value to the financial management role through our intimate understanding of the complex contractual structures underlying the SPVs and the financial models on which their financing is based – whether or not these models were originally produced by QM. Active management of SPVs also involves remodelling and restructuring, for instance to deal with changes in the scope of projects initiated by the public authority client. This is a specialist area of corporate finance which is of growing importance to QM as projects mature.

We continue to be active in advising universities and further education colleges. During the year we worked for a total of eighteen institutions on various aspects of estates development, including business cases and debt financing using our specialist debt advisory skills. Significant new advisory remits were won from the Universities of Strathclyde, Aberdeen, Westminster and Bedfordshire. We are building a distinctive specialism in this sector which is increasingly recognised by cross referrals from existing to potential clients.

One significant remit was for Edinburgh College of Art, advising on the acquisition of a new building and on the associated debt funding. This will allow the College to realise its long-held ambition to concentrate its activities on a single site in the city and dispose of peripheral sites.

Our client Queen Margaret University College concluded its financing arrangements for the construction of its new campus at Old Craighall, Midlothian. Work is now well advanced on the development which will provide state-of-the-art facilities and transform the educational experience which it can offer students. It involved the completion of separate financing arrangements for the academic and residence elements of the new campus, as well as the completion of sale arrangements for the existing campus. Among other transactions in the HE/FE sector, Quayle Munro advised Dundee College on the preparation of their full business case for the acquisition and redevelopment of the Gardyne Campus, purchased in August 2006 from Dundee University.

Our corporate and debt advisory business was involved in various significant transactions, including advising Hochtief on expanding its interests in PFI equity investment. On the public sector side, we advised the Forestry Commission on their PPP joint venture with the Camping and Caravanning Club under which Forest Holidays has effectively been floated off into the private sector. Financial close was in May. The business has campsites across the UK, and the JV partners will bring investment funds and management to improve facilities and expand the business.

We worked for a number of other public sector agencies in Scotland during the year, continuing the theme of operating at the public/private sector interface, to bring private sector development skills and funding into projects which will involve major renewals of public infrastructure.

Our biggest transaction during the year was advising Cairn Energy on its \$1 billion debt facility to finance the further development of its Rajasthan oilfields in the Indian subcontinent. The facility blended corporate and project risk in an innovative manner. Reflecting the company's first class management and reputation, it was extremely well received by the banking market. Thirteen commercial banks signed into the deal along with IFC,

the private sector financing arm of the World Bank, and it was lead managed by Royal Bank of Scotland.

Looking forward, we continue to see good opportunities in our specialist areas. With the expectation that credit conditions will become tighter this year and the possibility of further interest rate rises in the pipeline we anticipate that the demand for debt advisory services in the corporate sector will increase as companies seek to manage their leverage effectively.

We continue to develop our practice in higher and further education, where student numbers and curriculum developments continue to put pressure on the estates of colleges and universities.

Although there are likely to be fewer schools PFI projects coming to the market in Scotland over the next twelve months, other sectors may take up the slack and the momentum of BSF should pick up in England. PFI/PPP will be a key procurement tool in addressing the historic infrastructure deficit in Northern Ireland. We shall be looking for new business across the UK and are pleased to have recruited Paul Williams as a Director of Quayle Munro Limited, based in our London office. Paul comes from a services background and held senior positions in the PFI industry with ISS and Serco. We are confident that our skills and experience, operating at the public/private interface and in debt advisory, will continue to find a market.

JO ELLIOT
Chief Executive
14th September 2006

**GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH JUNE 2006**

	Notes	2006 £'000	Restated 2005 £'000
TURNOVER – group and share of joint venture's turnover		3,616	2,932
Less: share of joint venture's turnover		(12)	(29)
GROUP TURNOVER		3,604	2,903
Movements in work in progress		219	100
		3,823	3,003
Other operating charges		(2,825)	(2,435)
GROUP OPERATING PROFIT		998	568
Share of joint venture's operating profit		11	27
TOTAL OPERATING PROFIT		1,009	595
Profit on sales of fixed asset investments		691	1,392
Income from investments		394	378
Interest receivable		403	318
Other finance income/(costs)		13	(12)
TOTAL PROFIT BEFORE TAXATION		2,510	2,671
Tax charge		(645)	(444)
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY		1,865	2,227
BASIC EARNINGS PER SHARE	2	49.4p	59.5p
DILUTED EARNINGS PER SHARE	2	48.6p	58.5p

GROUP STATEMENT OF TOTAL RECOGNISED

**GAINS AND LOSSES FOR THE YEAR ENDED
30TH JUNE 2006**

	2006	Restated 2005
	£'000	£'000
Profit for the year excluding share of profit of joint venture	1,854	2,200
Share of joint venture's profit for the year	11	27
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY	1,865	2,227
Other unrealised revaluation gains during the year	7,104	5,782
Actuarial gain/(loss) during the year net of deferred tax	729	(486)
TOTAL RECOGNISED GAINS RELATING TO THE YEAR	9,698	7,523
RETURN PER SHARE	3	257.0p
		201.1p

**GROUP BALANCE SHEET
AS AT 30TH JUNE 2006**

	Notes	2006	2006	Restated 2005	Restated 2005
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets			1,465		1,441
Investments in joint venture					
- share of gross assets		-		306	
- share of gross liabilities		-		(2)	
		-		304	
Investments – listed		3,859		3,290	
- unlisted		20,889		14,007	
			24,748		17,601
			26,213		19,042
CURRENT ASSETS					
Debtors		878		1,027	
Work in progress		607		388	
Taxation recoverable		47		121	
Short term deposits and cash at bank		8,173		6,703	
		9,705		8,239	
CREDITORS:					
AMOUNTS FALLING DUE WITHIN ONE YEAR					
Creditors		(677)		(498)	
Taxation payable		(401)		(208)	
		1,078		(706)	
NET CURRENT ASSETS			8,627		7,533
TOTAL ASSETS LESS CURRENT LIABILITIES			34,840		26,575
PROVISIONS FOR LIABILITIES AND CHARGES					
Deferred Taxation			(226)		(226)
TOTAL NET ASSETS EXCLUDING PENSION ASSET/(LIABILITY) NET OF TAX			34,614		26,349
PENSION ASSET/(LIABILITY) NET OF TAX			195		(493)
			34,809		25,586
CAPITAL AND RESERVES					
Called up share capital			378		376
Share premium account			1,239		1,211
Revaluation reserve			18,298		11,262
Other reserves			1,356		1,356
Profit and loss account			13,538		11,651

EQUITY SHAREHOLDERS' FUNDS		<u>34,809</u>	<u>25,856</u>
NET ASSET VALUE PER SHARE	6	921.2p	687.4p

**SUMMARISED STATEMENT OF GROUP CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2006**

	2006	2005
	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	894	123
Net cash inflow from returns on investments and servicing of finance	814	986
Taxation	(378)	(205)
Net cash inflow from capital expenditure and financial investment	886	2,766
Equity dividends paid	(775)	(2,500)
Management of liquid resources	(137)	(1,368)
Cash inflow from financing	29	281
INCREASE IN CASH	<u>1,333</u>	<u>83</u>

**RECONCILIATION OF NET CASH FLOW TO
MOVEMENT IN NET FUNDS FOR THE YEAR ENDED
30TH JUNE 2006**

	2006	2005
	£'000	£'000
INCREASE IN CASH IN THE YEAR	1,333	83
Cash used to increase liquid resources	137	1,368
Movement in net funds in the year	<u>1,470</u>	<u>1,451</u>
NET FUNDS AT 1 ST JULY 2005	6,703	5,252
NET FUNDS AT 30 TH JUNE 2006	<u>8,173</u>	<u>6,703</u>

**RECONCILIATION OF GROUP OPERATING
PROFIT BEFORE TAXATION TO NET CASH
INFLOW FROM OPERATING ACTIVITIES FOR
THE YEAR ENDED 30TH JUNE 2006**

	2006	Restated 2005
	£'000	£'000
OPERATING PROFIT	998	568
Depreciation net of losses on sales of tangible fixed assets	55	52
Adjustment in respect of FRS 17	35	-
Changes in working capital and other non cash items	(194)	(497)
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>894</u>	<u>123</u>

NOTES ON THE ACCOUNTS

- The preliminary financial information has been prepared on the basis of accounting policies which are consistent with those used in the Group's statutory accounts for the year ended 30th June 2005 with the exception that, during the current year, Financial Reporting Standards "FRS 17 : Retirement Benefits" and "FRS 21 : Post Balance Sheet Events" have been adopted.
- The calculation of basic earnings per share is based on earnings of £1,865,000 (2005 restated - £2,227,000) and on 3,774,343 ordinary shares, being the weighted average number of shares in issue during the year (2005 - 3,740,277). The calculation of diluted earnings per share is based on the weighted average of 3,833,696 ordinary shares (2005 - 3,803,345).
- The calculation of return per share is based on total recognised gains of £9,698,000 (2005 restated - £7,523,000) and on 3,774,343 ordinary shares, being the weighted average number of shares in issue during the year (2005 - 3,740,277). Return per share when diluted for options granted is 253.0p (2005 restated - 198.5p), and the calculation is based on the weighted average of 3,833,696 ordinary shares (2005 - 3,803,345).

4. The Directors recommend a final dividend of 14.7p per ordinary share which, with the interim dividend of 7.3p per ordinary share paid on 6th April 2006, makes a total of 22p per ordinary share amounting to £831,000 (2005 - £745,000) for the year. The amount of the dividend payable is based on 3,778,268 shares, being the present number in issue, and the proposed final dividend shall, if approved at the Company's Annual General Meeting on 3rd November 2006, be paid on 10th November 2006 to shareholders on the register on 13th October 2006.
5. The profit and loss account and balance sheet for the year ended 30th June 2006 do not constitute statutory accounts within the meaning of s240 Companies Act 1985. They are an extract from the full group accounts, which will be the subject of an unqualified audit report.
6. The net asset value per share was 921.2p (2005 restated – 687.4p) based on net assets of £34,809,000 (2005 restated - £25,856,000) and on 3,778,398 (2005 – 3,761,268) ordinary shares in issue at 30th June 2006.
7. The Annual Report will be circulated to all shareholders on or before 30 September 2006. Thereafter, copies will be available from the Company Secretary at 8 Charlotte Square, Edinburgh EH2 4DR.

END Company

Quayle Munro Holdings PLC

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The year has seen solid progress in our fee earning business, which continues to specialise in PFI, higher and further education and debt advisory.

During 2005/6 we completed three PFI projects as financial adviser on the private sector side. In December we closed Fife Primary Schools with Miller Construction, Bank of Scotland, FES and PFI Co, which is a £64 million project for the replacement of 10 primary schools. In March 2006 we closed the North Ayrshire Schools project with Hochtief, Nord LB and PFI Co, with a total project value of £84 million; and earlier in the year we closed the Gartnavel Hospital project with Robertson Capital Projects with a capital value of £17 million.

After the year end we closed Midlothian Schools with Skanska and PFI Co, a £41 million project for 8 new primary schools; and in August we closed our biggest project to date, the New Victoria and Stobhill Hospitals in Glasgow at £180 million. The two hospital buildings will represent a key part of the strategy of Greater Glasgow & Clyde Health Board to modernise service provision in the city. The consortium was led by Canmore Partnership with PFI Co, UME Investment and Barclays Private Equity.

In addition we completed investments for PFI Co in Argyll & Bute Schools, Stirling Schools, and after the year end East Ayrshire Schools, and we will be providing financial management services for these three project companies

These projects represent the fruits of our success in winning a good proportion of the school and healthcare projects which have been brought to the market in Scotland over the past few years. The Scottish schools PFI programme has been ambitious and successful, over a period while the equivalent programme in England, Building Schools for the Future (BSF) has been delayed as new contractual structures have been developed. We

came into the current financial year with a good pipeline of projects to complete but the programme in Scotland is tailing off and we are increasingly looking elsewhere in the UK for the activity to refill the pipeline.

In working for private sector clients sponsoring bids, the important thing is that we help them win. We bring to bear not only our financial modelling capability developed over a number of years, but also our experience of all phases of PFI. This extends from assembling a potentially winning consortium, through bid strategy and tactics, and negotiations through the preferred bidder stage up to financial close - plus operating the special purpose vehicle (SPV) during the construction stage, through commissioning and into operations.

The highlight of our year in PFI/PPP was the successful placing in March of a further £30 million of shares in PFI Co, bringing the total raised to £77 million with a market capitalisation at the placing price of just under £90 million. This placing was on the back of strong performance both of PFI Co's starting portfolio, which was acquired in July 2004 from Quayle Munro and Bank of Scotland, and also the good rate of investment particularly in primary PFI projects – many of which are also advisory clients of Quayle Munro as described above. The placing has increased PFI Co to a more meaningful size in the marketplace and the associated increase in QM's management fees is allowing us to increase the resources which we apply to this investment management activity, which represents a key component of our total fee income.

Besides our contract for investment management of PFI Co, QM also undertakes financial management for many of the PFI project companies (SPVs) in the PFI Co portfolio, running their financial affairs and producing management accounts. As PFI Co's portfolio has grown this represents an increasingly important activity where we add value to the financial management role through our intimate understanding of the complex contractual structures underlying the SPVs and the financial models on which their financing is based – whether or not these models were originally produced by QM. Active management of SPVs also involves remodelling and restructuring, for instance to deal with changes in the scope of projects initiated by the public authority client. This is a specialist area of corporate finance which is of growing importance to QM as projects mature.

We continue to be active in advising universities and further education colleges. During the year we worked for a total of eighteen institutions on various aspects of estates development, including business cases and debt financing using our specialist debt advisory skills. Significant new advisory remits were won from the Universities of Strathclyde, Aberdeen, Westminster and Bedfordshire. We are building a distinctive specialism in this sector which is increasingly recognised by cross referrals from existing to potential clients.

One significant remit was for Edinburgh College of Art, advising on the acquisition of a new building and on the associated debt funding. This will allow the College to realise its long-held ambition to concentrate its activities on a single site in the city and dispose of peripheral sites.

Our client Queen Margaret University College concluded its financing arrangements for the construction of its new campus at Old Craighall, Midlothian. Work is now well advanced on the development which will provide state-of-the-art facilities and transform the educational experience which it can offer students. It involved the completion of separate financing arrangements for the academic and residence elements of the new campus, as well as the completion of sale arrangements for the existing campus. Among other transactions in the HE/FE sector, Quayle Munro advised Dundee College on the preparation of their full business case for the acquisition and redevelopment of the Gardyne Campus, purchased in August 2006 from Dundee University.

Our corporate and debt advisory business was involved in various significant transactions, including advising Hochtief on expanding its interests in PFI equity investment. On the public sector side, we advised the Forestry Commission on their PPP joint venture with the Camping and Caravanning Club under which Forest Holidays has effectively been floated off into the private sector. Financial close was in May. The business has campsites across the UK, and the JV partners will bring investment funds and management to improve facilities and expand the business.

We worked for a number of other public sector agencies in Scotland during the year, continuing the theme of operating at the public/private sector interface, to bring private sector development skills and funding into projects which will involve major renewals of public infrastructure.

Our biggest transaction during the year was advising Cairn Energy on its \$1 billion debt facility to finance the further development of its Rajasthan oilfields in the Indian subcontinent. The facility blended corporate and project risk in an innovative manner. Reflecting the company's first class management and reputation, it was extremely well received by the banking market. Thirteen commercial banks signed into the deal along with IFC, the private sector financing arm of the World Bank, and it was lead managed by Royal Bank of Scotland.

Looking forward, we continue to see good opportunities in our specialist areas. With the expectation that credit conditions will become tighter this year and the possibility of further interest rate rises in the pipeline we anticipate that the demand for debt advisory services in the corporate sector will increase as companies seek to manage their leverage effectively.

We continue to develop our practice in higher and further education, where student numbers and curriculum developments continue to put pressure on the estates of colleges and universities.

Although there are likely to be fewer schools PFI projects coming to the market in Scotland over the next twelve months, other sectors may take up the slack and the momentum of BSF should pick up in England. PFI/PPP will be a key procurement tool in addressing the historic infrastructure deficit in Northern Ireland. We shall be looking for new business across the UK and are pleased to have recruited Paul Williams as a Director of Quayle Munro Limited, based in our London office. Paul comes from a services background and held senior positions in the PFI industry with ISS and Serco. We are confident that our skills and experience, operating at the public/private interface and in debt advisory, will continue to find a market.

JO ELLIOT
Chief Executive
14th September 2006

**GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH JUNE 2006**

	Notes	2006 £'000	Restated 2005 £'000
TURNOVER – group and share of joint venture's turnover		3,616	2,932
Less: share of joint venture's turnover		(12)	(29)
GROUP TURNOVER		<u>3,604</u>	2,903
Movements in work in progress		219	100
		<u>3,823</u>	3,003

Other operating charges		(2,825)	(2,435)
GROUP OPERATING PROFIT		998	568
Share of joint venture's operating profit		11	27
TOTAL OPERATING PROFIT		1,009	595
Profit on sales of fixed asset investments		691	1,392
Income from investments		394	378
Interest receivable		403	318
Other finance income/(costs)		13	(12)
TOTAL PROFIT BEFORE TAXATION		2,510	2,671
Tax charge		(645)	(444)
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY		1,865	2,227
BASIC EARNINGS PER SHARE	2	49.4p	59.5p
DILUTED EARNINGS PER SHARE	2	48.6p	58.5p

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 30TH JUNE 2006

		2006	Restated 2005
		£'000	£'000
Profit for the year excluding share of profit of joint venture		1,854	2,200
Share of joint venture's profit for the year		11	27
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY		1,865	2,227
Other unrealised revaluation gains during the year		7,104	5,782
Actuarial gain/(loss) during the year net of deferred tax		729	(486)
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		9,698	7,523
RETURN PER SHARE	3	257.0p	201.1p

GROUP BALANCE SHEET AS AT 30TH JUNE 2006

	Notes	2006	2006	Restated 2005	Restated 2005
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets			1,465		1,441
Investments in joint venture					
- share of gross assets		-		306	
- share of gross liabilities		-		(2)	
		-		304	
Investments – listed		3,859		3,290	
- unlisted		20,889		14,007	
			24,748		17,601
			26,213		19,042
CURRENT ASSETS					
Debtors		878		1,027	
Work in progress		607		388	
Taxation recoverable		47		121	
Short term deposits and cash at bank		8,173		6,703	
		9,705		8,239	
CREDITORS:					
AMOUNTS FALLING DUE WITHIN ONE YEAR					
Creditors		(677)		(498)	
Taxation payable		(401)		(208)	

	<u>1,078</u>	<u>(706)</u>
NET CURRENT ASSETS	<u>8,627</u>	7,533
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>34,840</u>	26,575
PROVISIONS FOR LIABILITIES AND CHARGES		
Deferred Taxation	(226)	(226)
TOTAL NET ASSETS EXCLUDING PENSION ASSET/(LIABILITY) NET OF TAX	<u>34,614</u>	26,349
PENSION ASSET/(LIABILITY) NET OF TAX	<u>195</u>	(493)
	<u>34,809</u>	<u>25,586</u>
CAPITAL AND RESERVES		
Called up share capital	378	376
Share premium account	1,239	1,211
Revaluation reserve	18,298	11,262
Other reserves	1,356	1,356
Profit and loss account	13,538	11,651
EQUITY SHAREHOLDERS' FUNDS	<u>34,809</u>	<u>25,856</u>
NET ASSET VALUE PER SHARE	6	921.2p
		687.4p

SUMMARISED STATEMENT OF GROUP CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2006

	2006 £'000	2005 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	894	123
Net cash inflow from returns on investments and servicing of finance	814	986
Taxation	(378)	(205)
Net cash inflow from capital expenditure and financial investment	886	2,766
Equity dividends paid	(775)	(2,500)
Management of liquid resources	(137)	(1,368)
Cash inflow from financing	29	281
INCREASE IN CASH	<u>1,333</u>	<u>83</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS FOR THE YEAR ENDED 30TH JUNE 2006

	2006 £'000	2005 £'000
INCREASE IN CASH IN THE YEAR	1,333	83
Cash used to increase liquid resources	137	1,368
Movement in net funds in the year	<u>1,470</u>	1,451
NET FUNDS AT 1 ST JULY 2005	<u>6,703</u>	5,252
NET FUNDS AT 30 TH JUNE 2006	<u>8,173</u>	<u>6,703</u>

RECONCILIATION OF GROUP OPERATING PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30TH JUNE 2006

	2006 £'000	Restated 2005 £'000
OPERATING PROFIT	998	568
Depreciation net of losses on sales of tangible fixed assets	55	52
Adjustment in respect of FRS 17	35	-

Changes in working capital and other non cash items	(194)	(497)
NET CASH INFLOW FROM OPERATING ACTIVITIES	894	123

NOTES ON THE ACCOUNTS

1. The preliminary financial information has been prepared on the basis of accounting policies which are consistent with those used in the Group's statutory accounts for the year ended 30th June 2005 with the exception that, during the current year, Financial Reporting Standards "FRS 17 : Retirement Benefits" and "FRS 21 : Post Balance Sheet Events" have been adopted.
2. The calculation of basic earnings per share is based on earnings of £1,865,000 (2005 restated - £2,227,000) and on 3,774,343 ordinary shares, being the weighted average number of shares in issue during the year (2005 - 3,740,277). The calculation of diluted earnings per share is based on the weighted average of 3,833,696 ordinary shares (2005 - 3,803,345).
3. The calculation of return per share is based on total recognised gains of £9,698,000 (2005 restated - £7,523,000) and on 3,774,343 ordinary shares, being the weighted average number of shares in issue during the year (2005 - 3,740,277). Return per share when diluted for options granted is 253.0p (2005 restated - 198.5p), and the calculation is based on the weighted average of 3,833,696 ordinary shares (2005 - 3,803,345).
4. The Directors recommend a final dividend of 14.7p per ordinary share which, with the interim dividend of 7.3p per ordinary share paid on 6th April 2006, makes a total of 22p per ordinary share amounting to £831,000 (2005 - £745,000) for the year. The amount of the dividend payable is based on 3,778,268 shares, being the present number in issue, and the proposed final dividend shall, if approved at the Company's Annual General Meeting on 3rd November 2006, be paid on 10th November 2006 to shareholders on the register on 13th October 2006.
5. The profit and loss account and balance sheet for the year ended 30th June 2006 do not constitute statutory accounts within the meaning of s240 Companies Act 1985. They are an extract from the full group accounts, which will be the subject of an unqualified audit report.
6. The net asset value per share was 921.2p (2005 restated - 687.4p) based on net assets of £34,809,000 (2005 restated - £25,856,000) and on 3,778,398 (2005 - 3,761,268) ordinary shares in issue at 30th June 2006.
7. The Annual Report will be circulated to all shareholders on or before 30 September 2006. Thereafter, copies will be available from the Company Secretary at 8 Charlotte Square, Edinburgh EH2 4DR.

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