

A large, light grey, stylized logo consisting of a 'Q' and an 'M'. The 'Q' is on the left and the 'M' is on the right. The 'Q' has a circular shape with a tail that curves downwards and to the right, overlapping the 'M'. The 'M' is a simple, blocky letter with a slight curve at the top. The logo is centered on the page.

QUAYLE      MUNRO

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HOLDINGS PLC

INTERIM REPORT  
FOR THE SIX MONTHS ENDED  
31ST DECEMBER 2007

## H I G H L I G H T S

- The half year showed noteworthy progress following the acquisition in July 2007 of London based corporate finance boutique New Boathouse Capital.
- On an IFRS basis, earnings per share increased by 13% to 61p per share over the corresponding period in 2006. If the impact of the expected temporary consolidation of an unlisted investment were excluded, ongoing earnings per share increased by 65%.
- There was a negative total return of 164p per share, however, due to a significant write down of the valuation of our investment in Morris Group following the recent major re-rating of shares in housebuilders. In the corresponding period last year the total return per share was 138p per share.
- Net assets fell during the half year by £9.3 million, of which £6.3 million was paid out by way of a special dividend in November 2007. Adjusting for this, net assets fell by £3.0 million, or 6.5%. Net assets were 864p compared with 1202p at 30th June 2007.
- Revenue was £7.5 million compared with £4.1 million the previous year – an increase of 81%. A major factor of this increase was the contribution from New Boathouse Capital. Excluding the impact of the temporary consolidation, revenue increased by 116% from £1.9 million to £4.1 million.
- Group operating profit rose to £2.1 million from £0.8 million – an increase of 151%. Excluding the impact of the temporary consolidation, group operating profit increased by 160% from £0.5 million to £1.3 million.
- Group profit before tax for the half year was £3.2 million compared with £2.4 million the previous period – an increase of 32%. Excluding the impact of the temporary consolidation, attributable group profit before tax increased by 65% from £1.3 million to £2.1 million.
- Following the payment of a special dividend of 150p per share in November 2007, an unchanged interim dividend of 10p per share will be paid in April.
- Difficulties affecting the credit markets are bound to be reflected in the levels of activity in corporate finance markets, but we remain confident of our longer term prospects and will continue to broaden our professional base and areas of expertise. We have maintained liquidity at as high a level as possible both for defensive purposes and to take advantage of suitable opportunities should they arise. As in previous years and notwithstanding current uncertainties we remain confident for the future.

The current financial year which commenced on 1st July 2007 has been one of great uncertainty in financial markets with major falls in stock market indices caused primarily by markdowns of financial stocks. When we last reported to shareholders in September, confidence was already deteriorating. Since then the trend has become more pronounced.

It is against this background that I can report that our revenue has increased significantly compared to the same period last year but inevitably the valuation of our investments has fallen. The fall is due almost entirely to our major investment in the housebuilder Morris Group Limited (Morris), which was foreshadowed in my Statement in September.

The presentation of these results has been complicated by our having to consolidate our 93% shareholding interest in Submersible Television Surveys Limited (STS) and our adoption of International Financial Reporting Standards (IFRS). The consolidation of a significant controlling interest in STS is likely to be temporary and for that reason we are showing in note 5 the impact of this consolidation, without which ongoing earnings per share increased from 30.2p in the six months to 31st December 2006 to 49.7p – an increase of 65%, attributable in no small part to the contribution from New Boathouse Capital Limited, which we acquired in July 2007. The figures which are referred to below are those of the published standard.

#### PROFITS

For the six months ended 31st December 2007, group profit before taxation was £3.219m compared with £2.439m for the same period last year, an increase of 32%. Group turnover was £7.491m compared with £4.131m the previous year. Group operating profit was £2.101m compared with £0.837m the previous year. After a slightly higher tax charge the profit after tax was £2.593m against £2.056m, giving basic earnings per share of 60.9p as against 54.0p the previous year, an increase of 13%. Diluted earnings per share are 60.5p compared with 53.4p for the previous year. Comparative profits for the half year ending 31st December 2006 are artificially enhanced by the inclusion of a £0.600m write back of goodwill and, if this was excluded, EPS would have been 38.2p and the increase would have been 59%.

#### NET ASSETS

The group balance sheet as at 31st December 2007 shows net assets of £36.624m which is equivalent to 864.4p per share and this compares with £45.880m as at 30th June 2007 and £38.769m as at 31st December 2006. NAV per share has therefore decreased by 28% since 30th June 2007 and 15% since 31st December 2006. The negative return per share for the six months is 163.6p compared with a positive return of 137.7p per share for the same period last year and a positive return of 362.2p for the full year to 30th June 2007.

The significant reduction in net assets results from the payment of special and ordinary dividends of £1.70 per share (absorbing £7.095m) to shareholders in November 2007 and a reduction in the valuation of the investment portfolio totalling £9.395m; of this £8.700m was attributable to our holding in Morris. There has been a significant reduction in the ratings of housebuilders which are listed on the London Stock Exchange and on which we base our valuation of Morris.

#### DIVIDENDS

The Directors have decided to pay an interim dividend of 10p per share which is unchanged from last year. This will be paid on 10th April 2008 to shareholders on the register at close of business on 14th March 2008.

#### THE PORTFOLIO

As I have implied there has been some uncertainty in the trading environment affecting our principal unlisted investment, Morris. In the financial year which ends on 31st March 2008 Morris is presently anticipating operating profits of approximately £33.0m and profits before tax but after shareholder loan stock interest of approximately £15.5m. This compares with operating profits of £40.0m and pre-tax profits of £25.0m in the year to 31st March 2007.

The interim valuation of Morris has presented something of a challenge. Trading has improved since the late Autumn but profits will be lower than the preceding year. If we were to maintain our historic practice at the interim stage of applying a PER based on an average for listed equivalent companies as at 31st December 2007 but discounted first because Morris is

# CHAIRMAN'S STATEMENT

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(CONTINUED)

unquoted, secondly because it is more heavily geared than listed equivalents and thirdly because of the prospective nature of the profits on which the valuation is based, this would result in our applying a PER of only 4.2 to notionally taxed prospective profits, adjusted for shareholder bond interest, compared with an average historic PER for listed companies of 6.5. We believe that this may be too low in a financial year which extends beyond that reported by the listed housebuilders whose PERs are currently applied to historic higher profits in a period when reduced profitability is widely anticipated.

Accordingly we have decided to value at a PER of 3.2, being 50% of the PERs applied to listed companies as at 31st December, and apply this to Morris's historic (i.e. 2006/2007) attributable profits. This implies a prospective PER of 5.2 on projected 2007/2008 attributable profits, giving a valuation for our equity in Morris of £10.5m (compared to £19.2m as at 30th June 2007) whilst valuing the shareholder loan stock at par. By the time we report in September we will have Morris's audited figures for the year to 31st March 2008 and also those for the listed sector for roughly equivalent trading periods. This should make the Morris valuation somewhat more straightforward.

The smaller investments in our unlisted portfolio have continued to perform satisfactorily. As I have already indicated, we hold a controlling interest of 93% in STS. STS's unaudited accounts show pre-tax profits for the year ended 31st December 2007 of £1.100m compared with £1.307m the previous year. Prospects for the current financial year which started on 1st January 2008 are good. We are presently contemplating two different options for the company, either a restructuring to reduce our interest to below the level of control, or possibly the more radical alternative of an outright sale.

AMG Systems Limited (AMG) has performed well in the year ended 31st December 2007 with unaudited profit before tax approximately similar to last year's strong performance. Present expectations are that profitability will reduce in 2008 due to the timing of major contracts but the company continues to develop new markets and new products.

Tayside Flow Technologies Limited (TFT) is continuing with human clinical trials. At present, twenty-three patients have received the TFT spiral laminar flow graft for one year or more with excellent results. TFT has a new board and management and they are investigating a number of options for the possible licensing out of the TFT technology. A CE mark has been awarded and this enables the TFT spiral laminar graft to be marketed in Europe. A 510k application is pending in the United States.

In October 2007, the Company acquired a loan note and 3% equity share in Duncton Investco Limited, a provider of vehicle financing to credit impaired customers for an aggregate consideration of £250,112. Duncton's loan book is experiencing good growth, and the company is performing on budget in the year to date. The wider credit crunch is throwing up interesting opportunities which Duncton is currently exploring with our corporate finance team in London, although the market for raising debt finance for these opportunities remains challenging.

We have a small investment of just over 2% in Cath Kidston Limited. Cath Kidston designs and produces soft furnishings and clothing for sale through retail and wholesale channels. The company is performing well notwithstanding the retail downturn, and this is expected to continue with new stores opening in Chiswick, Edinburgh, Cheltenham, Kingston-upon-Thames and Bath.

During the summer period we purchased a number of UK listed equities, mainly banks, as financial markets reacted to the current uncertainty. Shares have continued to fall back with continued bad news in regard to provisions against potential or actual bad debts and exposure to subprime property lending. The positions we have taken are not significant in relation to our overall resources. Notwithstanding the special dividend paid to shareholders in November, cash resources continue at relatively high levels. A special fee from The PFI Infrastructure Company PLC (PFICo) has now been agreed at £5.75m, of which 60% has already been received with the balance anticipated over the next few weeks. This is payable pursuant to the revision of our existing management contract (now finalised) to reflect the new ownership of that company. Cash will also increase following any restructuring or sale of STS.

CHAIRMAN'S  
STATEMENT

(CONTINUED)

ASSETS

As at 31st December 2007 the breakdown of our assets together with the equivalent figures as at 30th June 2007 were as follows:

	December 2007		June 2007	
	£ million	%	£ million	%
Intangible assets	6.9	19	–	–
Office building and other fixed assets	6.4	17	6.1	13
House building	14.7	40	23.4	51
Other unlisted investments	1.1	3	1.6	4
Cash, or cash equivalents, listed securities and net working capital	7.5	21	14.8	32
<b>TOTAL NET ASSETS</b>	<b>36.6</b>	<b>100</b>	45.9	100

CORPORATE FINANCE

Our professional teams have been busy over the last six months and have increased revenues by comparison to the previous year. Our involvement as joint advisers to the Virgin consortium which proposed a recapitalisation transaction to Northern Rock has been widely reported. There have been a number of other major transactions, including the taking private of Monsoon Group PLC and the sales of the Soho House Group and the Virgin Retail Group.

The environment for professional work involving the public sector has been less positive. In Scotland, fewer PPP projects have been coming forward, resulting in a reduced level of professional work. We remain managers of PFICo following its acquisition by Infrastructure Investors and this will continue until June 2009 under the revised management agreement. Nevertheless we are now free to invest directly or raise new funds to invest in PFI/PPP projects both at home and abroad, and are considering various options for new investment management projects in this sector.

PROSPECTS

We have been making significant progress in London. Edinburgh is maintaining a satisfactory level of activity. Despite uncertainty over the future of PPP in Scotland, and some scaling back of PFI in England, we are currently busy on a number of bids and depending on our success rate these should translate into a reasonable forward workload. Our debt advisory activity, concentrating mainly on higher and further education, continues to make good progress.

The six months ended on 31st December have been noteworthy for the significant fall-off in the valuation of UK housebuilders in which we have a major investment interest. It is difficult to say at this stage whether the outlook in this sector is going to continue to deteriorate or may start to improve. However, current trading of Morris, whilst at somewhat lower levels than last year, is satisfactory in the circumstances.

The difficulties affecting the credit markets are bound to be reflected in the levels of activity in corporate finance markets. The environment is more uncertain than it has been for a number of years. However, we remain confident of our longer term prospects and will continue to broaden our professional base and areas of expertise. We have maintained liquidity at as high a level as possible both for defensive purposes and to take advantage of suitable opportunities should they arise. As in previous years and notwithstanding current uncertainties we remain confident for the future.

I. Q. JONES  
Chairman  
4th March 2008

**G R O U P**  
**I N C O M E**  
**S T A T E M E N T**

FOR THE SIX MONTHS ENDED  
31ST DECEMBER 2007

	<b>Six Months</b> <b>31st December</b> <b>2007</b> <b>Unaudited</b> <b>£'000</b>	Six Months 31st December 2006 Unaudited £'000	Year 30th June 2007 Unaudited £'000
<b>REVENUE</b>			
From continuing operations	<b>5,377</b>	4,131	12,320
Arising from acquisitions	<b>2,114</b>	–	–
	<b>7,491</b>	4,131	12,320
Distribution costs	<b>(1,652)</b>	(1,579)	(3,463)
Administrative expenses	<b>(3,463)</b>	(1,595)	(4,382)
Other expenses	<b>(275)</b>	(120)	(333)
	<b>(5,390)</b>	(3,294)	(8,178)
<b>GROUP OPERATING PROFIT</b>			
From continuing operations	<b>1,375</b>	837	4,142
Arising from acquisitions	<b>726</b>	–	–
	<b>2,101</b>	837	4,142
Goodwill adjustment	–	600	600
Finance revenue	<b>1,268</b>	1,063	3,722
Finance costs	<b>(82)</b>	(40)	(99)
Other finance costs – pensions	<b>(68)</b>	(21)	(132)
	<b>1,118</b>	1,602	4,091
<b>PROFIT ON ORDINARY ACTIVITIES</b> <b>BEFORE TAXATION</b>	<b>3,219</b>	2,439	8,233
Taxation	<b>(626)</b>	(383)	(1,701)
<b>PROFIT ON ORDINARY ACTIVITIES</b> <b>AFTER TAXATION</b>	<b>2,593</b>	2,056	6,532
Profit attributable to shareholders of the company	<b>2,559</b>	2,043	6,501
Profit attributable to minority interests	<b>34</b>	13	31
	<b>2,593</b>	2,056	6,532
Basic earnings per share	<b>60.9p</b>	54.0p	171.3p
Diluted earnings per share	<b>60.5p</b>	53.4p	169.0p
Ordinary dividends per share	<b>10p</b>	10p	30p
Special dividend per share	<b>150p</b>	–	–

G R O U P  
S T A T E M E N T  
O F  
R E C O G N I S E D  
I N C O M E A N D  
E X P E N S E

FOR THE SIX MONTHS ENDED  
31ST DECEMBER 2007

	<b>Six Months</b> <b>31st December</b> <b>2007</b> <b>Unaudited</b> <b>£'000</b>	Six Months 31st December 2006 Unaudited £'000	Year 30th June 2007 Unaudited £'000
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
Revaluation of property	–	–	710
(Losses)/gains on valuation of available-for-sale financial assets	<b>(9,395)</b>	3,086	6,330
Actuarial (loss)/gain on defined benefit pension scheme	<b>(43)</b>	23	308
	<b>(9,438)</b>	3,109	7,348
TRANSFERS TO THE INCOME STATEMENT			
On disposal of available-for-sale financial assets	–	57	(62)
TRANSFERS TO THE BALANCE SHEET			
Tax on items taken directly to equity	–	–	(39)
NET (EXPENSE)/INCOME RECOGNISED DIRECTLY IN EQUITY	<b>(9,438)</b>	3,166	7,247
PROFIT FOR THE YEAR	<b>2,593</b>	2,056	6,532
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD			
	<b>(6,845)</b>	5,222	13,779
Attributable to:			
Equity holders of the parent	<b>(6,879)</b>	5,209	13,747
Minority interest	<b>34</b>	13	32
	<b>(6,845)</b>	5,222	13,779
Return per share	<b>(163.6)p</b>	137.7p	362.2p
Diluted return per share	<b>(162.6)p</b>	136.2p	357.5p

**G R O U P  
B A L A N C E  
S H E E T**

AS AT  
31ST DECEMBER 2007

NON-CURRENT ASSETS

Property, plant and equipment  
Intangible assets – goodwill  
Financial assets  
Defined benefit pension scheme surplus

<b>Six Months 31st December 2007 Unaudited £'000</b>	Six Months 31st December 2006 Unaudited £'000	Year 30th June 2007 Unaudited £'000
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6,353	5,479	6,132
6,913	–	–
17,539	28,288	24,958
429	220	428
<b>31,234</b>	<b>33,987</b>	<b>31,518</b>

CURRENT ASSETS

Trade and other receivables  
Work in progress  
Current tax asset  
Cash and short term deposits

10,490	4,078	8,876
207	273	132
275	21	392
5,367	7,617	14,946
<b>16,339</b>	<b>11,989</b>	<b>24,346</b>

TOTAL ASSETS

<b>47,573</b>	<b>45,976</b>	<b>55,864</b>
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CURRENT LIABILITIES

Trade and other payables  
Financial liabilities  
Deferred income  
Current tax liabilities

(2,902)	(2,502)	(2,600)
(1,366)	(2,179)	(929)
(1,108)	–	(1,108)
(2,138)	(908)	(2,095)
<b>(7,514)</b>	<b>(5,589)</b>	<b>(6,732)</b>

NON-CURRENT LIABILITIES

Deferred income  
Financial liabilities  
Deferred tax liabilities

(1,108)	–	(1,662)
(948)	(455)	(405)
(1,379)	(1,163)	(1,185)
<b>(3,435)</b>	<b>(1,618)</b>	<b>(3,252)</b>

TOTAL LIABILITIES

<b>(10,949)</b>	<b>(7,207)</b>	<b>(9,984)</b>
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NET ASSETS

<b>36,624</b>	<b>38,769</b>	<b>45,880</b>
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CAPITAL AND RESERVES

Equity share capital  
Revaluation reserve  
Other reserves  
Retained earnings

6,514	1,698	1,715
13,700	20,461	23,095
1,469	1,389	1,407
14,782	15,128	19,538
<b>36,465</b>	<b>38,676</b>	<b>45,755</b>

Minority interests

159	93	125
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TOTAL EQUITY

<b>36,624</b>	<b>38,769</b>	<b>45,880</b>
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NAV per share

<b>864.4p</b>	1,016.7p	1,201.7p
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**GROUP  
CASH FLOW  
STATEMENT**

FOR THE SIX MONTHS ENDED  
31ST DECEMBER 2007

	<b>Six Months 31st December 2007 Unaudited £'000</b>	Six Months 31st December 2006 Unaudited £'000	Year 30th June 2007 Unaudited £'000
<b>OPERATING ACTIVITIES</b>			
Profit before tax	<b>3,219</b>	2,439	8,233
<b>ADJUSTMENTS TO RECONCILE PROFIT FOR THE YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			
Finance revenue	<b>(327)</b>	(196)	(493)
Finance expense	<b>82</b>	40	99
Depreciation	<b>275</b>	88	282
Adjustments on subsidiary	<b>(177)</b>	–	96
Share based payments	<b>62</b>	32	51
Gains on disposals of financial assets	<b>(42)</b>	(211)	(2,122)
Movement in pensions	<b>(43)</b>	(2)	36
(Increase) in assets	<b>(1,572)</b>	(2,839)	(7,868)
Increase in liabilities	<b>841</b>	4,198	5,991
Cash generated from operations	<b>2,318</b>	3,549	4,305
Taxation	<b>(389)</b>	1,062	952
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1,929</b>	4,611	5,257
<b>INVESTING ACTIVITIES</b>			
Finance revenue received	<b>327</b>	196	493
Proceeds from sales of available-for-sale financial assets	<b>446</b>	1,103	8,388
Payments to acquire plant and equipment	<b>(495)</b>	(4,102)	(4,239)
Payments to acquire available-for-sale financial assets	<b>(2,381)</b>	(2,190)	(2,309)
Acquisition of goodwill	<b>(6,913)</b>	–	–
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(9,016)</b>	(4,993)	2,333
<b>FINANCING ACTIVITIES</b>			
Dividends paid to equity shareholders of the parent	<b>(7,095)</b>	(556)	(934)
Minority interest acquired	<b>–</b>	80	80
Proceeds from share issues	<b>4,799</b>	82	99
Proceeds from borrowings	<b>–</b>	325	325
Repayment of borrowings	<b>(114)</b>	(65)	(288)
Finance expense paid	<b>(82)</b>	(40)	(99)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(2,492)</b>	(174)	(817)
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,579)</b>	(556)	6,773
Cash and cash equivalents at the beginning of the period	<b>14,946</b>	8,173	8,173
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>5,367</b>	7,617	14,946

## 1. ACCOUNTING POLICIES

### *(a) Adoption of International Financial Reporting Standards*

The consolidated financial statements are prepared, for the first time, in accordance with all relevant International Financial Reporting Standards (“IFRS”) adopted for use in the European Union. The date of transition to IFRS and the date of the opening IFRS balance was 1st July 2006.

The accounting policies set out below have been applied consistently to all periods presented in this interim financial information and in preparing an opening IFRS balance sheet at 1st July 2006 for the purposes of the transition to IFRS.

As required by IFRS 1, the impact of the transition from UK GAAP to IFRS is explained in notes 3 and 4.

### *(b) Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the holding company (Quayle Munro Holdings PLC) and entities controlled by the group (its subsidiaries). Control exists where the group has the power to govern the financial and operating policies of the entity. All intra-group balances, transactions, income and expenses are eliminated on consolidation.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the period are included in the consolidated income statement from the date of acquisition or up to the date of disposal. The consolidated income statement and consolidated balance sheet consolidate the financial statements of the company and all its subsidiaries.

### *(c) Revenue*

Revenue comprises fee income from the provision of corporate finance advisory services, the provision of other professional services and amounts derived from the provision of goods and services in the activity of specialised underwater inspection and intervention using a fleet of remotely operated vehicles. Where fees are earned on the execution of a significant act, such as fees arising from negotiating or arranging a transaction for a third party, they are recognised as revenue when that act has been completed. Fees and corresponding expenses in respect of other services are recognised in the income statement as the right to consideration or payment accrues through performance of services. To the extent that fees and commissions are recognised in advance of billing they are included as work in progress.

### *(d) Work in progress*

Work in progress is stated at the lower of cost and net realisable value.

### *(e) Finance leases, operating leases and instalment finance*

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the assets’ useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rental costs under operating leases and hire purchase contracts are charged to the income statement in equal annual amounts over the period of the leases.

## 1. ACCOUNTING POLICIES (CONTINUED)

### *(f) Equity shares and debt securities*

Investments classified as available-for-sale are recognised at fair value with changes being accounted for through equity. If such an asset is sold the cumulative gains and losses recognised in equity are transferred to the income statement. Investments are fair valued at bid market values if listed and at directors' valuation if unlisted.

### *(g) Property, plant and equipment*

Property, plant and equipment are stated at cost, or in the case of property at revalued amount, less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

For the revalued property, the revaluation surplus is credited to the revaluation reserve included in the equity section of the balance sheet, except to the extent it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets as follows:

Property	50 years
Office equipment	3 to 5 years
Furniture and fittings	5 to 10 years
Leasehold improvements	25 years
Machinery	12 years

Freehold land is not depreciated. The carrying values of property, plant and equipment are reviewed for impairment in periods when events or changes in circumstances indicate the carrying value may not be recoverable. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end.

### *(h) Foreign currencies*

The consolidated financial statements are presented in pounds, which is the Group's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. Foreign currency transactions are translated into sterling at the rates of exchange ruling at the date of the transaction, and exchange differences are taken to the income statement.

### *(i) Taxation*

#### Current Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

#### Deferred Taxation

Deferred taxation is provided in full on temporary differences, at the rates of taxation expected to apply when these differences crystallise, between the tax bases of the assets and liabilities and their carrying amounts in the financial statements. Deferred taxation assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be utilised.

## NOTES

(CONTINUED)

## NOTES

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(CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

Deferred income tax liabilities are recognised for all taxable differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit for loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

#### *(j) Intangible assets – goodwill*

Goodwill arising on the acquisition of business assets before 1st July 1993, representing the excess of the purchase consideration over the fair value ascribed to the net tangible assets, has been written off to reserves. Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually.

Negative goodwill arising on acquisition is recognised directly in the income statement.

#### *(k) Pensions*

Contributions to defined contribution schemes are charged in the income statement when they become payable. For the group's one defined benefit scheme, which was closed to new entrants in 2000 and involved at 30th June 2007 17 active and deferred members, scheme liabilities are measured on an actuarial basis using the projected credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of recognised income and expense.

The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan past service cost is recognised immediately.

The defined benefit asset comprises the fair value of the plan assets less the present value of the defined benefit obligation after deducting past service costs. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

#### *(l) Share-based payments*

The group has for many years operated long term incentive arrangements. These comprise the 1995 Unapproved Share Option Scheme and the Inland Revenue approved Executive Share Option Scheme 1993, together "Incentive Schemes". The group has applied IFRS 2 "Share-based Payment" to all grants of equity instruments under these Incentive Schemes after 7th November 2002.

The expense for these Incentive Schemes is measured by reference to the fair value of the shares or share options granted on the date of grant. Such fair values are determined using option pricing models which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the company's share price over the life of the option/award and other relevant factors. Vesting conditions not based on the share price of the Company are not taken into account when measuring fair value, but are reflected by adjusting the number of equity instruments included in the measurement of the transaction such that the amount recognised reflects the number that actually vest. The fair value is expensed in the income statement on a straight line basis over the vesting period.

1. ACCOUNTING POLICIES (CONTINUED)*(m) Cash and cash equivalents*

Cash and short term deposits in the balance sheet comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

*(n) Interest bearing loans and borrowings*

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost, with gains and losses recognised in profit or loss when the liabilities are derecognised.

*(o) Derecognition of financial assets and liabilities*Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired and the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

2. BASIS OF PREPARATION

Quayle Munro Holdings PLC (“the Company”) is registered in Scotland. This interim report contains the financial information of the Company and its subsidiaries (together “the Group”) for the six month period ended 31st December 2007.

The comparative figures for the financial year ended 30th June 2007 are not the company’s statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP, have been reported on by the company’s auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The AIM Rules require that the next annual consolidated financial statements of the company, for the year ending 30th June 2008, be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (“adopted IFRSs”).

This interim financial information has been prepared on the basis of the recognition and measurement requirements of adopted IFRSs as at 31st December 2007 that are effective at 30th June 2008, the Group’s first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted IFRSs, the directors have applied the accounting policies which they expect to apply when the first annual IFRS financial statements are prepared for the year ending 30th June 2008.

However, the adopted IFRSs that will be effective in the annual financial statements for the year ending 30th June 2008 may still be subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 30th June 2008.

# N O T E S

(CONTINUED)

## 3. CONSOLIDATED INCOME STATEMENT RECONCILIATION

The tables below compare the consolidated income statements now reported under IFRS with those previously reported under UK Generally Accepted Accounting Practice (“UK GAAP”).

	6 months ended 31st December 2006			Year ended 30th June 2007		
	UK GAAP in IFRS format <sup>1</sup>		IFRS	UK GAAP in IFRS format <sup>1</sup>		IFRS
	As previously reported £'000	IFRS adjustments £'000	£'000	As previously reported £'000	IFRS adjustments £'000	£'000
REVENUE						
From continuing operations	4,131		4,131	12,320		12,320
Distribution costs	(1,579)		(1,579)	(3,463)		(3,463)
Administrative expenses	(1,595)		(1,595)	(4,382)		(4,382)
Other expenses	(120)		(120)	(333)		(333)
	(3,294)		(3,294)	(8,178)		(8,178)
GROUP OPERATING PROFIT						
From continuing operations	837		837	4,142		4,142
Goodwill adjustment	–	600 <sup>3</sup>	600	–	600 <sup>3</sup>	600
Finance revenue	1,120	(57) <sup>2</sup>	1,063	3,660	62 <sup>2</sup>	3,722
Finance costs	(40)		(40)	(99)		(99)
Other finance costs – pensions	(21)		(21)	(132)		(132)
	1,059	543	1,602	3,429	662	4,091
PROFIT ON ORDINARY ACTIVITIES						
BEFORE TAXATION	1,896	543	2,439	7,571	662	8,233
Taxation	(383)		(383)	(1,701)		(1,701)
PROFIT ON ORDINARY ACTIVITIES						
AFTER TAXATION	1,513	543	2,056	5,870	662	6,532
Profit attributable to shareholders of the company	1,500	543	2,043	5,839	662	6,501
Profit attributable to minority interests	13		13	31		31
	1,513	543	2,056	5,870	662	6,532

<sup>1</sup> These are the previously reported UK GAAP numbers reclassified into IFRS format, plus the retrospective consolidation of Submersible Television Surveys Limited highlights of which are shown in note 5.

<sup>2</sup> The impact of the realisation of unrealised appreciation arising in prior periods in respect of financial assets.

<sup>3</sup> The impact of recognising negative goodwill arising from the consolidation of Submersible Television Surveys Limited.

# NOTES

(CONTINUED)

## 4. CONSOLIDATED BALANCE SHEET RECONCILIATION

The tables below compare the consolidated balance sheets now reported under IFRS with those previously reported under UK Generally Accepted Practice (“UK GAAP”).

	1st July 2006			31st December 2006			30th June 2007		
	UK GAAP in IFRS format <sup>1</sup>		IFRS	UK GAAP in IFRS format <sup>1</sup>		IFRS	UK GAAP in IFRS format <sup>1</sup>		IFRS
	As previously reported £'000	IFRS adjust- ments £'000	£'000	As previously reported £'000	IFRS adjust- ments £'000	£'000	As previously reported £'000	IFRS adjust- ments £'000	£'000
<b>NON-CURRENT ASSETS</b>									
Property, plant and equipment	1,465		1,465	5,479		5,479	6,132		6,132
Intangible assets -goodwill	–		–	(600)	600 <sup>2</sup>	–	(600)	600 <sup>2</sup>	–
Financial assets	24,748		24,748	28,288		28,288	24,958		24,958
Defined benefit pension scheme surplus	195		195	220		220	428		428
	<u>26,408</u>		<u>26,408</u>	<u>33,387</u>	<u>600</u>	<u>33,987</u>	<u>30,918</u>	<u>600</u>	<u>31,518</u>
<b>CURRENT ASSETS</b>									
Trade and other receivables	878		878	4,078		4,078	8,876		8,876
Work in progress	607		607	273		273	132		132
Tax recoverable	47		47	21		21	392		392
Cash and short term deposits	8,173		8,173	7,617		7,617	14,946		14,946
	<u>9,705</u>		<u>9,705</u>	<u>11,989</u>		<u>11,989</u>	<u>24,346</u>		<u>24,346</u>
<b>TOTAL ASSETS</b>	<b>36,113</b>		<b>36,113</b>	<b>45,376</b>	<b>600</b>	<b>45,976</b>	<b>55,264</b>	<b>600</b>	<b>55,864</b>
<b>CURRENT LIABILITIES</b>									
Trade and other payables	(677)		(677)	(2,502)		(2,502)	(2,600)		(2,600)
Financial liabilities	–		–	(2,179)		(2,179)	(929)		(929)
Deferred income	–		–	–		–	(1,108)		(1,108)
Current tax liabilities	(401)		(401)	(908)		(908)	(2,095)		(2,095)
	<u>(1,078)</u>		<u>(1,078)</u>	<u>(5,589)</u>		<u>(5,589)</u>	<u>(6,732)</u>		<u>(6,732)</u>
<b>NON-CURRENT LIABILITIES</b>									
Deferred income	–		–	–		–	(1,662)		(1,662)
Financial liabilities	–		–	(455)		(455)	(405)		(405)
Deferred tax liabilities	(226)		(226)	(1,163)		(1,163)	(1,185)		(1,185)
	<u>(226)</u>		<u>(226)</u>	<u>(1,618)</u>		<u>(1,618)</u>	<u>(3,252)</u>		<u>(3,252)</u>
<b>TOTAL LIABILITIES</b>	<b>(1,304)</b>		<b>(1,304)</b>	<b>(7,207)</b>		<b>(7,207)</b>	<b>(9,984)</b>		<b>(9,984)</b>
<b>NET ASSETS</b>	<b>34,809</b>		<b>34,809</b>	<b>38,169</b>	<b>600</b>	<b>38,769</b>	<b>45,280</b>	<b>600</b>	<b>45,880</b>
<b>CAPITAL AND RESERVES</b>									
Equity share capital	1,617		1,617	1,698		1,698	1,715		1,715
Revaluation reserve	18,298		18,298	20,461		20,461	23,095		23,095
Other reserves	1,356		1,356	1,389		1,389	1,407		1,407
Retained earnings	13,538		13,538	14,528	600 <sup>2</sup>	15,128	18,938	600 <sup>2</sup>	19,538
	<u>34,809</u>		<u>34,809</u>	<u>38,076</u>	<u>600</u>	<u>38,676</u>	<u>45,155</u>	<u>600</u>	<u>45,755</u>
Minority interests	–		–	93		93	125		125
<b>TOTAL EQUITY</b>	<b>34,809</b>		<b>34,809</b>	<b>38,169</b>	<b>600</b>	<b>38,769</b>	<b>45,280</b>	<b>600</b>	<b>45,880</b>

<sup>1</sup> These are the previously reported UK GAAP numbers reclassified into IFRS format, plus the retrospective consolidation of Submersible Television Surveys Limited.

<sup>2</sup> The impact of recognising negative goodwill arising from the consolidation of Submersible Television Surveys Limited.

# N O T E S

(CONTINUED)

## 5. BUSINESS COMBINATIONS

### New Boathouse Capital Limited

On 6th July 2007 the acquisition of New Boathouse Capital Limited was completed. The consideration comprised £2,084,314 in cash and the issue of £596,939 in Unsecured Floating Rate Loan Notes and 375,000 Ordinary Shares. The bid price of an ordinary share at completion was 1250p per share, resulting in a total consideration of £7,368,754. Of this, £959,000 was represented by net assets based on the management accounts of New Boathouse Capital Limited at 30th June 2007 giving rise to goodwill on acquisition of £6,913,000.

### Submersible Television Surveys Limited

Submersible Television Surveys Limited (STS Ltd) has been consolidated for the first time from 1st November 2006, and the impact of consolidating the results of STS Ltd is shown below:

	Six months to 31st December 2007			Six months to 31st December 2006			Year to 30th June 2007		
	Excluding STS Ltd	STS Ltd	Including STS Ltd	Excluding STS Ltd	STS Ltd	Including STS Ltd	Excluding STS Ltd	STS Ltd	Including STS Ltd
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
REVENUE									
From continuing operations	2,020	3,357	5,377	1,918	2,213	4,131	7,011	5,309	12,320
Arising from acquisitions	2,114	–	2,114	–	–	–	–	–	–
	<u>4,134</u>	<u>3,357</u>	<u>7,491</u>	<u>1,918</u>	<u>2,213</u>	<u>4,131</u>	<u>7,011</u>	<u>5,309</u>	<u>12,320</u>
GROUP OPERATING PROFIT									
From continuing operations	555	821	1,376	500	337	837	3,291	851	4,142
Arising from acquisitions	726	–	726	–	–	–	–	–	–
	<u>1,281</u>	<u>821</u>	<u>2,102</u>	<u>500</u>	<u>337</u>	<u>837</u>	<u>3,291</u>	<u>851</u>	<u>4,142</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	<u>2,088</u>	<u>471</u>	<u>2,558</u>	<u>1,268*</u>	<u>176</u>	<u>1,444*</u>	<u>5,463*</u>	<u>437</u>	<u>5,900*</u>
Basic earnings per share *	49.7p	11.2p	60.9p	30.2p	8.0p	38.2p	130.0p	25.5p	155.5p

\* excluding goodwill adjustment

## 6. CASH FLOW STATEMENT

The transition from UK GAAP to IFRS resulted in the changes in the presentation of the cash flows to conform with the requirements of IFRS.

## NOTES

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(CONTINUED)

7. The interim dividend of 10.0p per share will be paid on 10th April 2008 to members on the register at 14th March 2008 and will absorb £422,000.

8. The calculation of return per share for the six months to 31st December 2007 of (163.6)p. per share is based on total recognised income and expenses of £(6,879,000) (2006 – £5,209,000) and on 4,203,318 ordinary shares, being the weighted average number of shares in issue during the period (2006 – 3,784,246). This return per share compares with 137.7p for the six months ended 31st December 2006.

The calculation of return per share when diluted for options granted of (162.6)p. per share is based on the weighted average of 4,231,487 ordinary shares (2006 – 3,825,120) and on the average share price during the period. This diluted return per share compares with 136.2p for the six months ended 31st December 2006.

9. The calculation of basic earnings per share for the six months to 31st December 2007 is based on earnings of £2,559,000 (2006 – £2,043,000) and on 4,203,318 ordinary shares, being the weighted average number of shares in issue during the period (2006 – 3,784,246).

The calculation of fully diluted earnings per share is based on the weighted average of 4,231,487 ordinary shares (2006 – 3,825,120) and the average share price during the period.

10. The net assets per share are based on 4,218,442 ordinary shares in issue as at 31st December 2007 (30th June 2007 – 3,807,693), (31st December 2006 – 3,803,845).

11. The financial information contained in this interim statement does not constitute statutory accounts as defined in section 240 of The Companies Act 1985.

12. This report will be circulated to all shareholders, and copies will be available from the Company Secretary at 8 Charlotte Square, Edinburgh EH2 4DR.

I N D E P E N D E N T  
R E V I E W  
R E P O R T

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TO QUAYLE MUNRO  
HOLDINGS PLC

INTRODUCTION

We have reviewed the accompanying Balance Sheet of Quayle Munro Holdings Plc and related statements of income, changes in equity, and cash flows for the six month period ended 31st December 2007, and the accounting policies, and explanatory notes.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

DIRECTORS' RESPONSIBILITIES

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with International Financial Reporting Standards as required by the rules of the Alternative Investment Market issued by the London Stock Exchange.

SCOPE OF REVIEW

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of an Entity". A review of interim financial information consists of making enquiries, primarily of those responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REVIEW CONCLUSION

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial information does not give a true and fair view of the financial position of the entity as at 31st December 2007, and of its financial performance and its cash flows for the six month then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG LLP  
Edinburgh

4th March 2008