

The background features large, light-colored, stylized letters. A large 'Q' is on the left, a large 'M' is on the right, and a large 'N' is in the center, partially overlapping the 'Q' and 'M'.

QUAYLE MUNRO

HOLDINGS PLC

INTERIM REPORT
FOR THE SIX MONTHS ENDED
31ST DECEMBER 2005

I am pleased to be able to report another period of strong trading with growth both in professional fee earning activities and in our investments. However, reported profits show a fall as last year had the benefit of certain large investment gains.

PROFITS

For the six months ended 31st December 2005, group profit before taxation was £1,511,000 compared with £2,065,000 for the same period last year, a decrease of 27%. The fall in pre tax profit is due entirely to lower sales of fixed asset investments which contributed gains of £407,000 compared with £1,270,000 for the same period last year which chiefly included £1,140,000 from the disposal of our PFI investment in Falkirk Schools Partnership Limited. In the current six months there was one major disposal, namely the sale of our interest in the Second Quayle Munro PFI Fund Limited Partnership with Bank of Scotland which had a single investment in the Calderdale Hospital PFI project. This sale realised a net profit of £342,000 over original cost.

Fee and other income, adjusted for work in progress, actually rose significantly to £2,111,000 compared with £1,634,000 the previous year, an increase of 29%. After provision for taxation the overall result is an after tax profit of £1,068,000 compared with £1,935,000, a decrease of 45%. Basic earnings per share were 28.3p compared with 51.9p the previous year, a decrease of 45%. The total return per share was 101.7p compared with 107.4p for the same period last year, a decrease of 5%. The decrease in profits, basic earnings and total returns per share is due mainly to reduced profits on sales of fixed asset investments and also to an increased tax charge.

I should also report that the figures both for the current and the comparative periods reflect newly introduced 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). The full impact of the introduction of these new reporting standards is set out in note 1 to the accounts.

DIVIDENDS

In view of the strong revenue and capital performance the Directors have decided to increase the interim dividend by 10.6% to 7.3p per share. This will be paid on 6th April 2006 to shareholders on the register at close of business on 17th March 2006.

NET ASSETS

The group balance sheet as at 31st December 2005 shows net assets of £29.22 million, which is equivalent to 773.4p per share, and compares with £25.86 million as at 30th June 2005 and £22.54 million as at 31st December 2004. NAV per share shows an increase of 12.5% since 30th June 2005 and 28.3% since 31st December 2004 – 21.3% and 39.9%, respectively, if last year's special dividend is excluded. The figures for 30th June 2005 and 31st December 2004 are also restated to reflect the effects of FRS 17 and FRS 21.

Our principal unlisted investment, Morris Group Limited, has continued to perform well. In the financial year which ends on 31st March 2006, Morris is presently anticipating operating profits of £35 million and profits before tax of £22.1 million. This compares with pre tax profits of £22.6 million in the year to 31st March 2005, but those profits included a substantial land sale. If land sales are excluded, turnover in Morris will have risen from £150.5 million to £183 million, an increase of 21.6% over the previous year, and profits before tax will have risen by 16%. Current trading in Morris is very satisfactory, and budgets for the forthcoming financial year which starts on 1st April anticipate continued growth in turnover and profits.

As I have mentioned before, Morris is very significant in the affairs of our company. As at this interim stage, when we are looking to base our valuation on profits for Morris's full year, i.e. their year ending on 31st March 2006, we apply a PER to the profits for

the year which is about to end but discount it against current market multiples, 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 has resulted in our applying a PER of 3.5 (which compared with an average PER for listed companies of 8.8) to notionally taxed profits, adjusted for goodwill amortisation and shareholder bond interest, of £16.9 million. When Morris is valued at the year end we have in the past observed the same criteria but removed the discount for the prospective nature of profits.

The smaller investments in our unlisted portfolio continue to perform broadly satisfactorily. There was a small additional investment in Tayside Flow Technologies Limited (TFT) in November 2005, and I am pleased to report that after a long period of development TFT's specially designed vascular grafts will be implanted in humans on a clinical trial basis commencing in the Spring. Submersible Television Surveys Limited (STS) has experienced a significant turnaround in trading as a result of higher oil prices. During the second half of its financial year ended on 31st December 2005 earlier losses were replaced by significant profitability so that STS will show a pre tax profit for the year of just under £319,000, which compares with a loss the previous year. This much more satisfactory profile is expected to continue in 2006 with a high level of utilisation of its fleet of advanced work class ROVs. AMG Systems Limited, a new investment made in 2005, has performed below expectations and appropriate provision has been made in its valuation to allow for this. However, with projects now coming to fruition the company is seeing an upturn in order intake, and it is to be hoped that this will be sustained in the second half of our financial year.

We continue to maintain a modest investment in listed equities to take advantage of improved sentiment in the financial markets. Cash resources continue at historically high levels following the various realisations made over the last two years. As at 31st December 2005 the breakdown of our assets, together with the equivalent figures at 30th June 2005, was as follows:

	December 2005		June 2005	
	£ million	%	£ million	%
Office building and other fixed assets	1.426	4.9	1.441	5.5
House building	14.636	50.1	12.536	48.5
PFI investments	–	–	0.304	1.2
Other unlisted investments	1.500	5.1	1.472	5.7
Cash, or cash equivalents, listed securities and net working capital	11.660	39.9	10.103	39.1
Total Net Assets	<u>29.222</u>	<u>100.0</u>	<u>25.856</u>	<u>100.0</u>

THE PFI INFRASTRUCTURE COMPANY plc (PFICo)

We are managers of PFICo, and I am pleased to report that this specialist AIM listed £47 million investment fund has been making steady progress and is on schedule to meet its dividend and new investment targets, mainly through the flow of "primary" opportunities generated by QM with successful bidding groups for new PFI developments. PFICo has also made a number of investments in "secondary" PFI projects, i.e. those which are fully operational and beyond the development stage.

PROSPECTS

The strong figures for the first six months reflect increased professional fee earning activity. Our main investment, Morris, continues to make good progress, as do most of our smaller unlisted investments. At this stage we see no reason why these positive trends should not continue.

I. Q. JONES

Chairman

2nd March 2006

GROUP
PROFIT AND
LOSS
ACCOUNT

FOR THE SIX MONTHS
ENDED
31ST DECEMBER 2005

	Half Year 31st December 2005 Unaudited £'000	Restated Half Year 31st December 2004 Unaudited £'000	Restated Year 30th June 2005 Audited £'000
TURNOVER – Group and share of joint venture's turnover	1,849	1,741	2,932
Less: share of joint venture's turnover	–	(8)	(29)
GROUP TURNOVER	1,849	1,733	2,903
Movements in work in progress	262	(99)	100
	2,111	1,634	3,003
Other operating charges	(1,374)	(1,131)	(2,435)
GROUP OPERATING PROFIT	737	503	568
Share of joint venture's operating profit	–	8	27
TOTAL OPERATING PROFIT	737	511	595
Profit on sales of fixed asset investments	407	1,270	1,392
Income from investments	168	161	378
Interest receivable	205	143	318
Other finance costs	(6)	(20)	(12)
TOTAL PROFIT BEFORE TAXATION	1,511	2,065	2,671
Taxation	(443)	(130)	(444)
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY	1,068	1,935	2,227
BASIC EARNINGS PER SHARE (Note 4)	28.3p	51.9p	59.5p
DILUTED EARNINGS PER SHARE (Note 4)	27.9p	51.0p	58.5p
DIVIDEND PER SHARE (Note 2)	7.3p	6.6p	19.8p
SPECIAL DIVIDEND PER SHARE	–	50.0p	50.0p

GROUP
STATEMENT OF
TOTAL
RECOGNISED
GAINS AND
LOSSES

FOR THE SIX MONTHS
ENDED
31ST DECEMBER 2005

Profit for the period excluding share of profit of joint venture	1,068	1,927	2,200
Share of joint venture's profit for the period	–	8	27
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY	1,068	1,935	2,227
Unrealised revaluation gains during the period	2,204	2,357	5,782
Actuarial gain/(loss) during the period net of deferred tax	561	(287)	(486)
TOTAL RECOGNISED GAINS RELATING TO THE PERIOD	3,833	4,005	7,523
RETURN PER SHARE (Note 3)	101.7p	107.4p	201.1p
DILUTED RETURN PER SHARE (Note 3)	100.1p	105.5p	197.8p

GROUP
BALANCE
SHEET

AS AT

31ST DECEMBER 2005

	31st December 2005 Unaudited £'000	Restated 31st December 2004 Unaudited £'000	Restated 30th June 2005 Audited £'000
FIXED ASSETS			
Tangible assets	1,426	1,386	1,441
Investment in joint venture			
- share of gross assets	-	286	306
- share of gross liabilities	-	-	(2)
Investments			
- listed	3,234	1,944	3,290
- unlisted	16,136	9,883	14,007
	20,796	13,499	19,042
CURRENT ASSETS			
Debtors	680	716	1,027
Work in progress	650	189	388
Taxation recoverable	25	30	121
Short term deposits and cash at bank	8,297	9,578	6,703
	9,652	10,513	8,239
CREDITORS:			
AMOUNTS FALLING DUE WITHIN ONE YEAR			
Creditors	469	1,075	498
Taxation payable	600	87	208
	1,069	1,162	706
NET CURRENT ASSETS	8,583	9,351	7,533
TOTAL ASSETS LESS CURRENT LIABILITIES	29,379	22,850	26,575
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	(224)	(10)	(226)
TOTAL NET ASSETS EXCLUDING PENSION ASSET/(LIABILITY) NET OF TAX	29,155	22,840	26,349
Pension Asset/(Liability) Net of Tax	67	(296)	(493)
TOTAL NET ASSETS	29,222	22,544	25,856
CAPITAL AND RESERVES			
Called up share capital	378	374	376
Share premium account	1,239	1,174	1,211
Profit and loss account	12,866	11,828	11,651
Other reserves	14,739	9,168	12,618
TOTAL SHAREHOLDERS' FUNDS	29,222	22,544	25,856
NET ASSET VALUE PER SHARE (Note 5)	773.4p	602.6p	687.4p
DILUTED NAV PER SHARE FRS 14 (Note 5)	760.7p	589.5p	674.5p

SUMMARISED
STATEMENT OF
GROUP
CASH FLOWS

FOR THE SIX MONTHS ENDED
31ST DECEMBER 2005

	Half Year	Half Year	Year
	31st December	31st December	30th June
	2005	2004	2005
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	485	(200)	123
Returns on investments and servicing of finance	382	601	986
Taxation	40	(145)	(205)
Capital expenditure and financial investment	1,157	6,079	2,766
Equity dividends paid	(499)	(2,251)	(2,500)
Management of liquid resources	(495)	(3,559)	(1,368)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING	1,070	525	(198)
Financing	29	242	281
INCREASE IN CASH	1,099	767	83

RECONCILIATION OF
NET CASH FLOW TO
MOVEMENT IN
NET FUNDS

FOR THE SIX MONTHS ENDED
31ST DECEMBER 2005

INCREASE IN CASH	1,099	767	83
Cash used to decrease liquid resources	495	3,559	1,368
Movement in net funds	1,594	4,326	1,451
NET FUNDS AT 1 JULY	6,703	5,252	5,252
NET FUNDS AT 31 DECEMBER/30 JUNE	8,297	9,578	6,703

RECONCILIATION OF
OPERATING PROFIT
TO NET CASH FLOW
FROM OPERATING
ACTIVITIES

FOR THE SIX MONTHS ENDED
31ST DECEMBER 2005

		Restated	Restated
GROUP OPERATING PROFIT	737	503	568
Depreciation net of profits on sales of tangible fixed assets	26	27	52
Changes in working capital and other non cash items	(278)	(730)	(497)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	485	(200)	123

- The interim financial information has been prepared on the basis of accounting policies which are consistent with those expected to be adopted in the Group's statutory accounts for the year ended 30th June 2006. These policies are consistent with those adopted in preparing the Group's statutory accounts for the year ended 30th June 2005 with the exception that, during the current period, Financial Reporting Standards "FRS 17: Retirement Benefits" and "FRS 21: Post Balance Sheet Events" have been adopted.

As a result of the adoption of FRS 17: Retirement Benefits, Group operating profit for the period has increased by £16,000, net interest costs have increased by £6,000, and taxation on total profits has increased by £3,000. Prior period adjustments have been made to the previously reported full year and half year results. The prior period adjustment to the last full year increased Group operating profit by £27,000 (half year: £13,000), increased net interest costs by £12,000 (half year: £20,000), reduced taxation on total profits by £106,000 (half year: £116,000) and decreased shareholders' funds by £781,000 (half year: £596,000). The amounts charged to the profit and loss account in the current period are based on the June 2005 actuarial assessment. This assessment will be updated at the year end and any actuarial gains or losses arising on pension assets and liabilities will be shown in the Statement of Total Recognised Gains and Losses for the year to 30th June 2006.

Under FRS 21: Post Balance Sheet Events, dividends declared after the balance sheet date are not recognised as a liability at that period end. As a result, at the relevant period end dates no provision has been made for the interim dividends declared in respect of the interim periods to 31st December 2004 and 31st December 2005 or for the final dividend in respect of the year to 30th June 2005. This has had the effect of increasing shareholders' funds at 31st December 2005 by £276,000, at 30th June 2005 by £497,000 and at 31st December 2004 by £247,000.

Restatement of Group Profit and Loss Account
For the six months ended 31st December 2005

	Unaudited £'000
Balance at 1st July 2005 (as previously reported)	11,935
Prior years' FRS 17 adjustment	(781)
Prior years' FRS 21 adjustment	<u>497</u>
Balance at 1st July 2005 (restated)	11,651
Profit attributable to members of the parent company for the period	1,068
Realisation of revaluation gains of previous periods	83
Actuarial gain net of tax	561
Final dividend for year ended 30th June 2005 paid in the period	<u>(497)</u>
Balance at 31st December 2005	<u>12,866</u>

- The interim dividend of 7.3p per share will be paid on 6th April 2006 to members on the register at 17th March 2006 and will absorb £276,000.
- The calculation of return per share for the six months to 31st December 2005 is based on total recognised gains of £3,833,000 (2004 - £4,005,000) and on 3,770,354 ordinary shares, being the weighted average number of shares in issue during the period (2004 - 3,727,729).
The calculation of return per share when diluted for options granted is based on the weighted average of 3,829,704 ordinary shares (2004 - 3,810,554) and on the average share price during the period.
- The calculation of basic earnings per share for the six months to 31st December 2005 is based on earnings of £1,068,000 (2004 - £1,935,000) and on 3,770,354 ordinary shares, being the weighted average number of shares in issue during the period (2004 - 3,727,729).
The calculation of fully diluted earnings per share is based on the weighted average of 3,829,704 ordinary shares (2004 - 3,810,554) and the average share price during the period.
- The net assets per share as at 31st December 2005 are based on 3,778,398 ordinary shares in issue as at that date (30th June 2005 - 3,761,268).
The diluted net assets per share calculated in accordance with FRS 14 are based on net assets and on 3,841,646 ordinary shares (30th June 2005 - 3,833,319), being the number of ordinary shares in issue plus 63,248 ordinary shares (30th June 2005 - 72,051), being the notional number of shares that would have been issued for no consideration using the share price of 950p as at 31st December 2005 (30th June 2005 - 850p) to represent the fair value of an ordinary share.
- The financial information contained in this interim statement does not constitute statutory accounts as defined in section 240 of The Companies Act 1985. The figures for the year to 30th June 2005 are extracted from the statutory accounts for the year to that date, on which the auditors gave an unqualified report and which have been filed with the Registrar of Companies, and restated following the adoption of FRS 17: Retirement Benefits and FRS 21: Post Balance Sheet Events.
- This report will be circulated to all shareholders, and copies will be available from the Company Secretary at 8 Charlotte Square, Edinburgh EH2 4DR.

INDEPENDENT REVIEW REPORT

TO QUAYLE MUNRO
HOLDINGS PLC

We have been instructed by the Company to review the financial information for the six months ended 31st December 2005 which comprises the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Summarised Statement of Group Cash Flows, Reconciliation of Net Cash Flow to Movement in Net Funds, Reconciliation of Operating Profit to Net Cash flow from Operating Activities, and the related notes 1 to 6. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent required by the 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 as required by the Rules of The Alternative Investment Market issued by The London Stock Exchange.

REVIEW WORK PERFORMED

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquires of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

REVIEW CONCLUSION

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31st December 2005.

ERNST & YOUNG LLP
Edinburgh
2nd March 2006