QUAYLE MUNRO HOLDINGS PLC

INTERIM REPORT
FOR THE SIX MONTHS ENDED
31ST DECEMBER 2006

Chairman's Statement

I am pleased once again to be able to report another period of satisfactory trading with profit before taxation and earnings per share ahead of the same period last year and a strong performance from our capital assets.

Profits

For the six months ended 31st December 2006, group profit before taxation was £1,608,000 compared with £1,511,000 for the same period last year, an increase of 6.4%. Group turnover, after taking into account movements in work in progress, was slightly down at £1,918,000 compared with £2,111,000 for the same period last year. This has led to a fall in group operating profit to £479,000 compared with £737,000 for the equivalent period last year. However, notwithstanding reduced profits on the sales of investments of £211,000 compared with £407,000 for the same period last year there was a substantial increase in income from investments which rose to £722,000 compared with £168,000 for the same period last year. This was largely due to the first dividend received from our investment in Morris Group Limited which I reported to shareholders in September. After a reduced tax charge, the profit attributable to members is £1,325,000 compared with £1,068,000 for the previous year with diluted earnings per share of 34.6p compared with 27.9p per share the previous year, an increase of 24%.

Net Assets

The group balance sheet as at 31st December 2006 shows net assets of £38,800,000, which is equivalent to 1,020.0p per share, and this compares with £34,809,000 as at 30th June 2006 and £29,222,000 as at 31st December 2005. NAV per share has increased by 11% since 30th June 2006 and 32% since 31st December 2005. The diluted total return per share for the six months is 115.9p compared with 100.1p for the same period last year and 253.0p for the full year to 30th June 2006

Dividends

In view of the increase in earnings per share and the strong capital performance the Directors have decided to increase the interim dividend by 37% to 10p per share. This will be paid on 10th April 2007 to shareholders on the register at close of business on 16th March 2007.

The Portfolio

Our principal unlisted investment, Morris Group Limited, has continued to perform well. In the financial year which ends on 31st March 2007, Morris is presently anticipating operating profits of £37.7 million and profits before tax of £23.3 million. This compares with pre tax profits of £22.3 million in the year to 31st March 2006. There have been no land sales in the current year. Turnover in Morris is expected to rise from £173 million to £191 million, an increase of 10.5% over the previous year, with profits before tax up by 4.5%. Current trading continues to be very satisfactory, and budgets for the forthcoming financial year which starts on 1st April anticipate continued growth in turnover and profits.

Once again, at this interim stage, we have based our valuation on profits for Morris's full year, i.e. their year ending on 31st March 2007, against which we apply a PER based on an average for listed equivalent companies as at 31st December 2006 but discounted, first because Morris 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 2006, this has resulted in our applying a PER of 4.9 (which compared with an average PER for listed companies of 12) to notionally taxed profits, adjusted for goodwill amortisation and shareholder bond interest. When Morris is valued at the year end we anticipate that as in the past we will observe the same criteria but remove the discount for the prospective nature of profits.

The smaller investments in our unlisted portfolio continue to perform well. In October for a cash outlay of £850,000 we purchased the investment interest held by our long-standing co-investor in Submersible Television Surveys Limited (STS). This has resulted in our now having an ordinary shareholding interest in STS of 93.3% together with £270,000 8% redeemable preference shares and £500,000 10% redeemable preference shares.

Unaudited management accounts for STS for the financial year ended on 31st December 2006 suggest that profits before tax will amount to approximately £1.2 million. The initial budget for the current financial year which started on 1st January 2007 suggests continued profitability but perhaps at a somewhat lower level than occurred in 2006. We regard our current more significant shareholding as temporary only in that it is our intention at present to support the restructuring of the company's shareholding and financial base with a view to giving the company's long standing management a more significant equity interest and thereby taking our ordinary shareholding interest below 50%. The preference capital will be redeemed.

AMG Systems Limited (AMG) has also performed strongly with management accounts showing significant profitability in the year to 31st December 2006. At this stage it is anticipated that AMG will show continuing strength and we are currently assessing what may be an appropriate policy in respect of this much improved investment.

Tayside Flow Technologies Limited (TFT) is currently continuing with human clinical trials. At this stage we are advised that the TFT grafts are showing the performance which had been hoped for as a result of their spiral laminar flow characteristic. However, more clinical experience and assessment is required before it can be said with confidence that a major breakthrough has been made.

Throughout the six month period we maintained a position in leading UK listed equities to take advantage of the much improved sentiment in financial markets. Cash resources also continue at high levels. As at 31st December 2006 the breakdown of our assets, together with the equivalent figures at 30th June 2006, was as follows:

	December 2006		June 2006	
	£ million	%	£ million	%
Office building and other fixed assets	1.46	4	1.46	4
House building	21.24	55	19.64	56
Other unlisted investments	2.99	7	1.25	4
Cash, or cash equivalents, listed securities and net working capital	13.11	34	12.46	36
Total Net Assets	38.80	100	34.81	100

Corporate Finance

Activity has remained strong during the six months. We reached financial close on three substantial PFI projects: Forfar & Carnoustie Schools, Midlothian Primary Schools and the New Victoria and Stobhill Hospitals in Glasgow, our largest project to date where we have acted as financial adviser. We also continue to develop our debt advisory practice and our work for a growing number of Universities and Colleges. We earn a significant income stream from our work as financial managers of PFI project companies on a retained basis, as well as providing modelling and other advice for PFI special purpose companies.

The rate of release of new projects to the market has slowed somewhat, reducing the level of new bid activity both in Scotland, our traditional area of strength, and in England. Against that background, we are working to rebuild our forward pipeline of work in new geographical and sectoral areas of PFI.

The PFI Infrastructure Company plc (PFICo)

Quayle Munro are the managers of PFI Co, which invests in the equity of PFI/PPP projects. Investment momentum was maintained satisfactorily over the six month period, with total investment of £21.2 million in four primary projects and five secondary projects, of which three involved increasing PFI Co's stake in existing projects. In addition, we negotiated for PFI Co an agreement with Hochtief to acquire a minority stake in the holding company for Hochtief's holdings in six education projects.

Since 2004 PFI Co has raised a total of £77 million from its shareholders which is now close to being fully committed. The company is capitalised at over £110 million, representing very satisfactory progress. Over the last three years substantial management effort has gone into building up PFI Co which has benefited significantly from the opportunity to invest in primary PFI projects generated by Quayle Munro, and PFI Co has been a key driver of our revenue growth.

Prospects

In the September statement I referred to a slightly lower profile of professional activity. This has continued during the last few months but at this stage it is anticipated that professional revenue will still be at satisfactory levels for the financial year as a whole. Other income has benefited from the Morris dividend initiated in July and good performance from our listed equities. We anticipate continued growth in value in our portfolio of unlisted investments.

I. Q. JONES
Chairman
27th February 2007

Group Profit and Loss Account

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2006

	Half Year 31st December 2006 Unaudited £'000	Half Year 31st December 2005 Unaudited £'000	Year 30th June 2006 Audited £'000
TURNOVER – Group and share of joint venture's turnover	**2,252**	1,849	3,316
Less: share of joint venture's turnover	**–**	–	(12)
GROUP TURNOVER	**2,252**	1,849	3,604
Movements in work in progress	**(334)**	262	219
	1,918	2,111	3,823
Other operating charges	**(1,439)**	(1,374)	(2,825)
GROUP OPERATING PROFIT	**479**	737	998
Share of joint venture's operating profit	**–**	–	11
TOTAL OPERATING PROFIT	**479**	737	1,009
Profit on sales of fixed asset investments	**211**	407	691
Income from investments	**722**	168	394
Interest receivable	**172**	205	403
Other finance income/(costs)	**24**	(6)	13
TOTAL PROFIT BEFORE TAXATION	**1,608**	1,511	2,510
Taxation	**(283)**	(443)	(645)
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY	**1,325**	1,068	1,865
BASIC EARNINGS PER SHARE (Note 4)	**35.0p**	28.3p	49.4p
DILUTED EARNINGS PER SHARE (Note 4)	**34.6p**	27.9p	48.6p
DIVIDEND PER SHARE (Note 2)	**10.0p**	7.3p	22.0p

Group Statement of Total Recognised Gains and Losses

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2006

Profit for the period excluding share of profit of joint venture	**1,325**	1,068	1,854
Share of joint venture's profit for the period	**–**	–	11
PROFIT ATTRIBUTABLE TO MEMBERS OF PARENT COMPANY	**1,325**	1,068	1,865
Unrealised revaluation gains during the period	**3,086**	2,204	7,104
Actuarial gain/(loss) during the period net of deferred tax	**22**	561	(729)
TOTAL RECOGNISED GAINS RELATING TO THE PERIOD	**4,433**	3,833	9,698
RETURN PER SHARE (Note 3)	**117.2p**	101.7p	257.0p
DILUTED RETURN PER SHARE (Note 3)	**115.9p**	100.1p	253.0p

Group Balance Sheet

AS AT

31ST DECEMBER 2006

	31st December 2006 Unaudited £'000	31st December 2005 Unaudited £'000	30th June 2006 Audited £'000
Fixed Assets			
Tangible assets	**1,457**	1,426	1,465
Investments			
- listed	**6,327**	3,234	3,859
- unlisted	**24,232**	16,136	20,889
	32,016	20,796	26,213
Current Assets			
Debtors	**934**	680	878
Work in progress	**273**	650	607
Taxation recoverable	**21**	25	47
Short term deposits and cash at bank	**6,389**	8,297	8,173
	7,617	9,652	9,705
Creditors: Amounts falling due within one year			
Creditors	**(389)**	(469)	(677)
Taxation payable	**(441)**	(600)	(401)
	(830)	(1,069)	(1,078)
Net Current Assets	**6,787**	8,583	8,627
Total Assets Less Current Liabilities	**38,803**	29,379	34,840
Provisions for Liabilities and Charges			
Deferred taxation	**(223)**	(224)	(226)
Total Net Assets Excluding Pension Asset/(Liability) Net of Tax	**38,580**	29,155	34,614
Pension Asset/(Liability) Net of Tax	**220**	(67)	195
Total Net Assets	**38,800**	29,222	34,809
Capital and Reserves			
Called up share capital	**380**	378	378
Share premium account	**1,318**	1,239	1,239
Profit and loss account	**14,272**	12,866	13,538
Other reserves	**22,830**	14,739	19,654
Total Shareholders' Funds	**38,800**	29,222	34,809
Net Asset Value per Share (Note 5)	**1,020.0**	773.4p	921.2p

Summarised Statement of Group Cash Flows

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2006

	Half Year 31st December 2006 Unaudited £'000	Half Year 31st December 2005 Unaudited £'000	Year 30th June 2006 Audited £'000
Net Cash Inflow from Operating Activities	**585**	485	855
Returns on investments and servicing of finance	**850**	382	814
Taxation	**(220)**	40	(378)
Capital expenditure and financial investment	**(2,525)**	1,157	924
Equity dividends paid	**(556)**	(499)	(775)
Management of liquid resources	**1,759**	(495)	(137)
Net Cash (Outflow)/Inflow before Financing	**(107)**	1,070	1,303
Financing	**82**	29	30
(Decrease)/Increase in Cash	**(25)**	1,099	1,333

Reconciliation of Net Cash Flow to Movement in Net Funds

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2006

(Decrease)/Increase in Cash	**(25)**	1,099	1,333
Cash used to decrease liquid resources	**1,759**	495	137
Movement in net funds	**1,784**	1,594	1,470
Net Funds at 1 July	**8,173**	6,703	6,703
Net Funds at 31 December/30 June	**6,389**	8,297	8,173

Reconciliation of Operating Profit to Net Cash Flow from Operating Activities

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2006

Group Operating Profit	**479**	737	998
Depreciation net of profits on sales of tangible fixed assets	**31**	26	55
Changes in working capital and other non cash items	**75**	(278)	(198)
Net Cash Inflow from Operating Activities	**585**	485	855

NOTES TO THE ACCOUNTS

1. The interim financial information has been prepared on the basis of accounting policies which are consistent with those adopted in the Group's statutory accounts for the year ended 30th June 2006, except that FRS 20 (IFRS 2) 'Share-based payment' has been early adopted. The impact of this is a charge within other operating charges of £32,000, inclusive of an adjustment of £14,000 in respect of prior years, which has been credited to other reserves.
2. The interim dividend of 10p per share will be paid on 10th April 2007 to members on the register at 16th March 2007 and will absorb £380,000.
3. The calculation of return per share for the six months to 31st December 2006 is based on total recognised gains of £4,433,000 (2005 - £3,833,000) and on 3,784,246 ordinary shares, being the weighted average number of shares in issue during the period (2005 - 3,770,354).

   The calculation of return per share when diluted for options granted is based on the weighted average of 3,825,120 ordinary shares (2005 – 3,829,704) and on the average share price during the period.
4. The calculation of basic earnings per share for the six months to 31st December 2006 is based on earnings of £1,325,000 (2005 - £1,068,000) and on 3,784,246 ordinary shares, being the weighted average number of shares in issue during the period (2005 - 3,770,354).

   The calculation of fully diluted earnings per share is based on the weighted average of 3,825,120 ordinary shares (2005 - 3,829,704) and the average share price during the period.
5. The net assets per share as at 31st December 2006 are based on 3,803,845 ordinary shares in issue as at that date (30th June 2006 – 3,778,398).
6. 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 2006 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.
7. 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

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31st December 2006 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 Flows to Movement in Net Funds, Reconciliation of Operating Profit to Net Cash Flow from Operating Activities, and the related notes. 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 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 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 issued by the Auditing Practices Board. 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 International Standards on Auditing 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 2006.

ERNST & YOUNG LLP
Edinburgh
27th February 2007