MURCHISON HOLDINGS LIMITED

ABN 52 004 707 260

ASX Announcement
& Media Release
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Keeping Faith With The Course Set

Full Year 2009 Financial Results Highlights

Financial results for the full-year ended 30 June 2009, compared to the previous corresponding period ("pcp')

Murchison Holdings Limited (ASX: MCH) today announced an increase of 50 % in Profit before Minority Interest to $3.274 million as compared to $2.062 million in the pcp.

Reflecting the drastic fall in economic activities globally, Revenue from Ordinary Activities fell by 50% to A$5.435 million for the year ended 30 June 2009 as compared to $10.915 in the pcp.

Quest Marine Resources Limited ("QMR"), an associated company of our subsidiary Quest Investments Limited (ASX Code: QST) acquired by "share swap" Dalian JiXiang Food Co., Ltd ("JiXiang"), a seafood processor in Dalian, the People's Republic of China ("PRC"), thereby paving the way for the QST Group to tap into the emerging and large consumer food markets in the PRC. QST owns about 43.37% of the issued shares in QMR. The acquisition of JiXiang crystallized an acquisition gain of about $3.56 million.

The Profit for the period attributable to members rose by 22% to $1.910 million from $1,566 in the pcp.

Our balance sheet remains healthy, with Net Assets rising to $27.02 million, an increase of 22.3% from $22.09 in the pcp.

Financial Highlights

- Revenue from ordinary activities was $5,435 million , a fall of 50% as compared to $10.915 million in the pcp;
- Profit for the year rose 53.9% to $3.274 million, as compared to $2,062 million achieved in the pcp;
- Net Profit attributable to members of parent rose 22% to $1.910 million, as compared to $1.566 million in the pcp;
- Expense base is well-contained against poorer economic conditions;
- Finance cost was a modest $121,000 a decrease from $141,000 in the pcp, reflecting low gearing and prudent capital management;
- A bonus issue of 1 option for every 1 share held was concluded in May 2009.

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Highlights of the operating businesses

Quest Investments Limited

We are advised by QST as set out below.

For the greater part of the 2008/09 FY, our 64.33% subsidiary QST continued to operate in a poor economic climate. The fall out in capital markets globally and an intensely competitive telecommunications market in Hong Kong combined to affect QST's sales and commission income. Revenue from ordinary activities registered a 36% fall to $4.504 million from $7,003 in the pcp. Revenue recovered in the second-half of 2008/09FY after a poor initial six months. Profit for the period attributable to members of parent however rose to $3,888 million, a rise of 257% over the $1,089 achieved in the pcp.

Interest expense registered a small increase to $63,000 from $59,000 in the pcp.

QST registered Quest Marine Resources Limited ("QMR") to consolidate its white-protein and other food businesses under one entity. QMR acquired a PRC-based seafood processor in Dalian through a "share-swap" agreement with the Chinese vendor. As a result of the transaction, QST's stake in QMR now stands at about 43.37%.

Stockbrokerage

The collapse of Lehman Brothers, a major financial institution in the U.S. in October 2008 coupled with the need to provide major support by various governments in the world to prop-up financially troubled banks in their countries had a calamitous effect on the global capital markets. The inevitable credit squeeze seen in the past year had a disastrous impact on global trades. For a time, the prospect of a complete financial meltdown was indeed too horrifying to countenance.

The worst economic situation since the Great Depression of the 1930s impacted negatively on Quest Stockbrokers (HK) Ltd's ("QSB") performance. QSB's commission income was HK$2.906 million, a decrease of 46% as compared to HK$5.369 million in the pcp. The fall in revenue and commission income mirrored the loss of investor confidence and their flight from global equity markets.

QSB Operating Profit after providing for 'marked-to-market' investment portfolio's carrying values was HK$ 80,074 compared to HK$172,201 in the pcp.

Telecommunications

Quest Telecom Limited ("QTL") continued to face difficult market conditions for the greater part of the year. The telecom market in Hong Kong is highly competitive, with most service providers slashing their rates. QTL contributed HK$5.45 million (A$0.785million) in revenue and a gross profit of HK$203,323 (A$35,128) after carrier-partners' costs. After accounting for administration and other expenses, a profit of HK$6,876 (A$1,188) was recorded for the period under review. The fall in profits was mainly due to the weak macroeconomic environment arising from the global financial crisis.

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Marine Resource

There had been major changes to the development of the Group's marine resource investments in the year under review.

QST decided that the performance and direction of Oceanic Processors Pty Limited ("Oceanic") (a 45% associate company of QST) did not merit the spending of management time and effort in trying to steer its management towards a common objective of building a sustainable business in the Asia-Pacific region. In accordance with our original agreement QST decided to return the 45% shareholding in Oceanic to its major shareholder and simultaneously cancel 375,000 Murchison Holdings Limited shares issued to an associate of Oceanic's major shareholder. The disengagement formalities were completed at the end of January 2009 and the relevant issued Murchison shares were cancelled in March 2009.

Following the exit of QST's investment in Oceanic, the QST Board concluded after a review of its various businesses that the best way forward was for the QST Group to set up an enterprise to tap the vast opportunities offered by the food industry of Australia and the PRC. Following QST's pilot shipment of about US$1.5 million worth of Australian abalone to Asian clients, the QST Group decided to register QMR to carry on its seafood activities.

An opportunity arose during the financial year for QMR to acquire a 100% interest in Dalian JiXiang Food Co., Ltd ("JiXiang"), a seafood processor based in Dalian in the PRC. JiXiang operates a 22,800 sq m new processing plant with an annual capacity of more than 10,000 metric tonnes. It currently operates at 4,800 metric tonnes due primarily to lack of operating capital funding. JiXiang complies with EEC and HACCP standards. It was recently selected by the EU Food and Health authority for their inspection tour of Chinese food processors. We have been informed that JiXiang received favourable assessment from the EU inspection team and confirmed its status as an authorised exporter to EU countries, particularly anchovies.

JiXiang also exports frozen octopus and other fishery products to various Asian countries. At present, an average of 4 containers per week are delivered by JiXiang to wholesalers in Seoul, South Korea.

Murchison International Limited

Murchison International Limited ("MHI") - a wholly owned Hong Kong subsidiary of MCH - has been investing to expand its market coverage and services to clients in Asia as well as in Europe. The large fall in exports to Europe and US markets coupled with the credit crunch combined to undermine MHI's operating performance in the period under review. MHI managed to moderate the poor first half performance following a tentative recovery in the second six months. A modest 5% rise in Net Profits to HK$366,631 was achieved compared to HK$350,673 in the pcp.

MHI's 2% investment in the Zhongshan property project continued to progress satisfactorily. The new major shareholder of the project has redrawn the development plan which was subsequently approved. Upon receiving the approval, the old unfinished tower block was demolished to pave way for the start of the construction phase.

With a mild recovery in the property market in recent months and the prime-nature and location of the site, we remain optimistic that the project will be a successful.

The favourable movement of $718,498 in the Foreign Currency Translation Reserves is attributable to this investment.

Chongqing East Toptrend Domo Limited

Our acquisition of 46.428% equity in Chongqing East Toptrend Domo Limited ("CETD") was completed in 2008FY. We have been advised by CETD that it has an order book of more than Rmb 200 million (about A$40 million) including a contract to supply mobile TVs to 200,000 taxis in 16 cities in the PRC. CETD has completed delivery of 2,530 mobile TV sets of the 200,000 units order to be installed in taxis operating in Tsingtao, the city which hosted the 2008 Olympic sailing competitions.

The trial results of this initial pilot run in Tsingtao confirmed that CETD's technology solution was sound save for some minor problems associated with the suitability and durability of materials used for the connecting wiring cables. These problems have been addressed and CETD is looking forward to producing the DTT mobile TV sets in its own manufacturing facilities in Cha Yuen Industrial Park in Chongqing, PRC where it can have better control of the quality standard of its products.

Of greater importance is the break-through CETD achieved for being the first technology manufacturing company in the PRC to successfully develop and produce the high speed WiFi internet access USB card (TD-HSDPA) for use in the 3G telecommunications market. We have been informed by CETD that its device, known as TCN 230, is the fastest and most stable device presently in the market with file transfer speed of 1.1MB/second (1,100 KB/second). Most of CEDT's competitors' products are known to achieve stability at 384 KB /second.

In June 2008 the PRC Government announced the adoption of TD-SCDMA as its national standard for 3G telecommunications as part of its reorganization of the telecommunications industry. A handing over ceremony was organized in July 2008 in Chongqing by the relevant authorities on CEDT's behalf whereby the first hand-over of 5000 sets of TCN230 was made by CETD to Chongqing Chongyu Information Technology Co Ltd ("CYIT"). CYIT is a well-established company owned by Chongqing Municipality Government and Chongqing University of Posts and Telecommunications. CETD and CYIT also signed an agreement to further co-operate in the development and marketing of more 3G accessory products.

Since the launch of CETD's TCN 230 product, it has negotiated and obtained "in-principle" agreements to supply its products to a number of leading telecom equipment supplying companies who are designated suppliers to China Mobile, the telecom company selected by the Chinese Government to implement the TD-SCDMA 3G telecommunication services. Subject to a visit to CETD's new factory for factory audits by these established companies, CETD is cautiously optimistic that further large scale orders will eventuate as China Mobile expands its network infrastructure buildup.

It is pertinent to note that there are estimated to be over 600 million mobile subscribers and over 200 million laptop notebook computers in China. China Mobile has over 400 million subscribers and was known to be adding 7 million new customers each month. As for 3G services, China Mobile presently has about 104,000 TD-SCDMA trial customers, 60,000 Olympic-related users and 11,000 commercial trial customers.

In assessing the outlook for the telecom services industry, we are encouraged not only by the potential offered by the sheer size of the market but also the existence of major shortages in telephony services. The more salient shortages are: (1) limited broadband infrastructure outside urban centres; (2) limited fixed line telephony services in the rural heartland; and (3) a lack of choice in wireless services in rural areas.

It has been estimated that there are over 200 million broadband users presently in the PRC, or 16% of the population. This contrasts markedly with 48% wireless penetration. CETD believes that having spent considerable amount of development funds on establishing its own national standard in TD-SCDMA, the PRC is unlikely to remain passive in propagating the usage of this 3G telecom standard. The recent award of 3G licences will assist in promoting greater capital spending by the three network operators in tandem with the declared objective of the Chinese Government's Village Connected Project, which seeks to provide capital to expand telephony services to more rural villages and the interior heartland of China. We believe that significant levels of capex will be spent over the next three years (2009-2011) to expand the 3G network coverage.

MCS Engines Limited

MCS Engines Limited – our automotive division - has been advised by its German partner that the full design of 110cc to 175cc motorcycle engines with Euro3 emission standards and EFI has now been completed. However, before we could implement the project, our German partner suffered a serious setback as it fell victim to the recession and lack of banking support for its on-going operations in Germany. We were informed that the loss of a major customer order through cancellation led to receivers and managers being appointed to it.

We have been advised by the engineering managers who previously worked on the project with us that they have secured the rights to use the technical drawings from the receivers and managers and would be prepared to continue with the project with us. Your Board had considered the matter and has reached the view that it would be in our mutual interest to wait for a recovery in the motorcycle industry globally before we commit any funds to implement the project in the PRC.

Murchison International Industrial Park

We have been approached by a US-based pension fund interested in investing in the development of logistic parks in the PRC including a possible joint-venture with us in Chongqing. The US party appointed an independent group of consultants based in Shanghai to prepare a feasibility study with the assistance of MCH on the proposed joint-venture project. A detailed study was conducted with on-site visits to Chongqing carried out in April 2009.

The consultants are finalizing their report on the proposed project and we have been informed that they would recommend the project to go ahead with us as partners to their client in the US. We await the appointment being set up for all parties to meet and discuss the viability of the projects and the terms of the proposed joint-venture.

Outlook

The 2008/09 FY had seen monumental declines in asset values globally. What were once large and powerful financial institutions collapsed under mountains of debts arising from their imprudent exposures to various derivative products and to the collapsed US housing market. The collapse of Lehman Brothers in October 2008 shook the foundations of capitalism. The free fall in investment sentiment and a near-total freeze in credit markets (particularly in the inter-bank markets) deepened to the point of sending the global economy into a near meltdown. The world faced an unprecedented deep recession, not seen since the Great Depression.

In response to the crisis of confidence, policymakers in the US and Europe undertook massive quantitative easing measures to flood the global economy with liquidity. Under the stewardship of Chairman Ben Bernanke, the US Federal Reserve cut the benchmark lending rates to as low as zero and expanded credit to the economy by US$1.1 trillion over the past year.

For most of the developed economies, signs are emerging that the real economy is recovering from a recession after aggressive actions by central banks and governments. The prospects for a return to growth in 2010 appear good. Notwithstanding the appearance of “green shoots” in the economy, measures undertaken to stabilize financial markets and to unfreeze credit markets have yet to prove fully effective. Consumers and businesses are still having difficulties getting loans. We believe that restoring the free flow of credit is a critical component to a lasting recovery.

Economists are forecasting that the US will emerge in the third quarter of 2009 from its recession. It is expected to expand by an annualized 2.2 per cent. Similarly, the International Monetary Fund has recently forecast that the world economy would expand 2.5% in 2010 after contracting 1.4% in 2008/09. Japan, Germany and France have all returned to growth, rather unexpectedly, in the second quarter of 2009.

As most of our shareholders know, our Group's principal activities are centred on Australia, China and Hong Kong. The economic performances of these areas have significant bearing on our performance going forward. It is necessary to gain a balanced perspective on the macroeconomic developments in these centers of our operations. To that end, I intend to dwell deeper in my analysis of the possible future trends and challenges in this annual review.

For most Asia-Pacific countries, including the PRC, which are dependent on external trade, the synchronous recessions in the OECD countries led to a massive collapse in export demand that adversely affected these export dependent economies. For example, the PRC's current account surplus declined by 32% to US$130 billion in the first six months of 2009 as the global downturn affected the nation's exports. The region also witnessed a net portfolio capital outflow of US$70 billion in 2008 driven largely by risk aversion and carry-trade unwinding.

In response to the external demand shock, many of these countries made major macroeconomic reversals from fighting overheating in 2007/08 to actively stimulating domestic investment and expanding domestic demand. For the PRC, the central government announced a 4-trillion-yuan (US$586 billion) stimulus package to restore rapid growth and prevent social instability resulting from retrenchment of millions of workers in its export-intensive coastal provinces. Additionally, the People's Bank of China (the central bank) actively cut interest rates on several occasions to loosen the tight monetary conditions.

With more than US$2 trillion in foreign reserves, a modest government debt of about 23% of GDP and national savings exceeding investments, the PRC Government has the financial means to pump-prime its slowing economy. Currently, consumption in China accounts for about 37% of its GDP. This contrasts with consumption accounting for about 70% of GDP in the U.S.

In an effort to engineer an increase in consumer confidence and convert it into purchasing power, the PRC government also recently announced major reform to the health and pension system. It will spend US$125 billion to build hospitals across China as well as expand medical insurance to cover 90% of China's 1.4 billion people by 2011. The government has also announced a significant expansion of its pension program. All these are in addition to other stimulus programmes announced by various provincial governments to support local industries and boost domestic demand. Therefore, the total stimulus package should have more than an even-chance of preventing a boom-bust scenario.

For all the positive implications that these enormous spending programmes may have on the PRC economy, some reservations were recently expressed on the sustainability and the productivity of the current levels of investment. The PRC's ratio of gross fixed capital formation to GDP is estimated in some quarters to be close to 50%. This perceivably high percentage outstrips similar ratios seen in Japan and South Korea at their height of their development phases.

On the issue of productive returns on these huge infrastructure investments, some questioned whether China really needs further build-up of what was already enviable infrastructure. For example, over the past 25 years, China has built about 60,000 kms of highways. Considering the number of vehicles it presently has on the roads, it is difficult to see any further multiplier effect arising from recent further spending in this area.

On the government effort to push liquidity into the economy through the banks, as in years past, the vast majority of lending is being tapped by well-connected state enterprises rather than by small and medium-size companies in the private sector. Furthermore, given the speed at which Chinese banks have issued new financing, there are also fears that inevitably money will be lost to the inefficient pet projects of local governments or find their way into stock market and property speculation rather than the infrastructure and social welfare benefits necessary to spark a lasting economic recovery.

Even if the government does begin to tighten liquidity towards the end of 2009, much of the stimulus will be embedded in the economy for years to come, as more than half the new loans extended this year are for long-term infrastructure projects.

On balance, it is important to recognise that although the PRC is statistically one of the largest economies in the world, in many parts of this vast country, it is still a developing country with major needs for upgrades in infrastructure and basic health services. The public face of modern cities, such as Shanghai, Beijing, and Tianjin are not truly representative of other cities and townships in China. With a major portion (nearly 70%) of its vast population located in the interior regions, these infrastructure needs to uplift the standard of living of its populace will place continuous demand for funds that will make the present US$586 billion stimulus package seem small in the longer term. Therefore, I believe that recent questioning on sustainability and productive returns of investment should focus on longer term perspectives rather than short term considerations.

Preliminary statistics suggests that the Chinese economy is likely to register a robust 8.5% growth in the third quarter of 2009 according to a report by the Government's State Information Centre. Most economists now believe that the PRC should be able to reach its target of 8% growth for 2009 as the economy picks up momentum on the back of better export performance in the run-up to the traditional Christmas festivities in the developed countries.

The PRC's all-out commitment to its target is already flowing through the global economy, in the form of higher commodities prices and record iron ore imports. This should definitely benefit Australia.

For Australia, blessed with abundant mineral resources, and a banking system that has limited exposure to toxic assets and is not over-leveraged, the prospect of a recovery in 2010 is bright. After a decade of strong global growth and its concomitant demand for Australia's mineral, oil and gas resources, Australia has both the fiscal and monetary means to support its own domestic stimulus programmes.

The excesses seen in the credit markets, brought about by the sharp fall in Australian equity values, are likely to result in more prudent risk management by the lending institutions and a change in the regulatory approaches to prevent future reoccurrence of ill-disciplined excesses. We believe the Australian economy is still fundamentally sound and this drastic fall in asset prices will enable values to emerge.

Ultimately, we believe that the mission for Asia-Pacific countries is to engineer a paradigm shift from a predominantly export growth model to a more broadly based growth model, of which the domestic consumption plays a major and significant part. We also believe that American and European consumers are likely to lift their saving ratios and cut back their consumption spending, thereby prolonging recovery in Asia-Pacific's manufacturing and trade sectors. This will make the task of balancing the loss on exports with gains in domestic demand a crucial one indeed.

The Way Forward

Our early adoption of a more prudent and risk-averse investment strategy at the onset of the financial crisis has enabled us to maintain a steady course amidst the largest financial storm that has hit the world since the 1930s.

Initial results of the first two months of 2009/10 FY indicate that the operating environment had improved from the difficult and uncertain conditions that had beset the world's economies. Although uncertainties will continue to affect market sentiment, most economists are of the opinion that the worst phase of the economic downturn is over.

In addressing the challenging and difficult operating conditions, your management will remain vigilant and adopt a more defensive investment posture for its trading portfolios. We had conducted a thorough review of our present operations in the light of a drastic change in world's economic conditions. The result of our review recommends that we focus our attention in deploying resources to support those part of our businesses that are not overly susceptible to recessionary pressure (such as investment in the marine resource and food business that are more defensive), and work on the delivery of the existing order book in CEDT's technology business. We will also seek to postpone our cash commitment to those 'mezzanine' projects that are still some time away from being cash flow positive and revenue generating. This will enable us to conserve cash and avoid untimely cash-burns in these times of contracting funding potential from both the capital markets and from the traditional banking sector.

In line with our stated objective of separately listing our various businesses once they are enter the expansion phase, we are now at an advanced-stage of preparing the necessary offer information document to list QMR on a recognized stock exchange. This follows the rapid growth of the "resource pillar" in our "Five Growth pillars" business strategy. QMR has experienced a strong and encouraging build-up in its potential order book for various seafood products since the beginning of 2009.

We are advised by QMR that it is finalizing negotiations with fund raisers in Australia and Hong Kong to assist it in raising about $7 million and listing of QMR on a recognised stock exchange.

We are further advised by QMR that following negotiations in August 2009 with buying clients in Germany and Spain of QMR that demand for QMR's products is expected to grow significantly in 2010. QMR believes its prospects are bright and hence the need to increase its funding to foster a more rapid growth in its order book. We are further advised by QMR that JiXiang has plans to achieve US$30 million export turnover for the next two years. The eventual listing will greatly assist our fund-raising possibilities to support QMR's anticipated growth.

QMR has advised us that it is evaluating the prospect of exporting sea cucumber from China to Japan, South Korea, Hong Kong, and other overseas Chinese markets in its 2nd phase of expansion for 2010-11. As sea cucumber is one of highest price-margin delicacies for Chinese cuisines (the same is true for abalone), QMR is desirous of adding this product to its existing portfolio of quality and high price-margin products.

JiXiang has also recently informed MCH that it has successfully been granted by the relevant authorities an Import Licence for food products into China. This Licence is valuable to JiXiang's expansion plan to be a leading food company with a fuller range of food products both for export from China and import to China.

During QMR's recent marketing trip to Europe, preliminary contacts have been established with both pork and chicken processors in Spain and Germany with a view to import into China selected products from these established processors who are looking to break into the enormous PRC food market. A test order of one 40ft refrigerated container of mixed chicken parts was placed with a Spanish supplier for shipment and customs and health clearance formalities before JiXiang expands on its import volume.

We also believe that Australia, being a major agriculture and food suppliers, will also be an important source for products to be imported by JiXiang. In that regard, the Managing Director of Jixiang and QST's executive directors will be attending a food exhibition in Sydney in September 2009 with a view to establishing business channels with Australian cattle, sheep, pork and poultry exporters seeking partners or strategic alliances in the PRC. With rising disposable incomes and the preference for imported branded food products in the PRC, QMR believes that it is in well positioned to be a "bridge" between Australia and the PRC in facilitating the development of an enhanced flow of food businesses.

We are of the view that the acquisition of Jixiang by QMR is the right way forward for MCH to tap into the large and emerging consumer food markets in Hong Kong and in the PRC. Given the recently announced policy emphasis of the central government on expanding the disposable income of the rural population in the agricultural sector, and the need to exploit PRC's hitherto untapped and vast marine resources, we are confident that the prospects of the food industry in the PRC are very promising indeed.

We have also decided to deploy more of our resources in support of our "Technology Pillar". CEDT has advised us that it has reached a preliminary understanding with a major telecommunications company in the PRC to jointly market our TCN230 high speed WiFi internet access USB device (TD-HSPDA) nationwide. CEDT intends to embed the TCN230 into its newly developed netbook computer for co-branding exercise with this telecom partner. We are cautiously optimistic that the final netbook computer with the embedded 3G telecom capability will be the first such product globally.

We believe that digital convergence will be the final solution converging telecom services with "infotainment" programmes made possible by CEDT's technology. We await China Mobile's completion of its 3G telecom infrastructural programmes and the launch of its 3G telecom services in the 38 new cities in the PRC. China Mobile has over 500 million subscribers on its present 2.5G GSM services. A commitment has been made by China Mobile to the Chinese Government that it aims to migrate 30 million subscribers to TD-SCDMA services in 2 years.

If the economic recovery gains momentum in 2010, we are hopeful that our performance will benefit from that recovery.

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