



MURCHISON HOLDINGS LIMITED

ABN 52 004 707 260

ASX Announcement & Media Release

Date : 26th February 2010

Maintaining a steady course in the midst of greater volatility

Half-Year To 31 December 2009 Financial Results Highlights

Financial results for the half-year ended 31 December 2009, compared to the previous Corresponding period ("pcp")

Murchison Holdings Limited (ASX : MCH) today announced a large increase of 142% in Total Revenues from Ordinary Activities to \$6.724 million for the half-year ended 31 December 2009 as compared to \$2.777 million achieved in the pcp.

Net Profit before Minority Interest rose 130% to \$ 626,221 for the interim period as compared to the pcp of \$272,244. Net profit attributed to members rose 25% to \$561,095. Basic earnings per share was 2.78 cents as compared to the pcp of 2.32 cents. Fully diluted earnings per share was 1.23 cents.

Unfavourable movement of a strong Australian Dollar against the Hong Kong Dollar moderated the strong underlying performances (on currency translation) achieved by most of our operating subsidiaries.

Balance sheet continued to strengthen with a repayment of \$500,000 bank loan. The repayment was mainly through operating cash flow.

We are pleased to advise that it is the intention of the Directors to issue in about the second quarter of 2010 a 1 free bonus option for every 1 share held in MCH at the date of the prospectus. The options will be convertible into a share in MCH at any time within 15 months of issue date at a conversion price of \$0.60 each.

Financial Highlights

- ❖ Revenue from ordinary activities was \$6.724 million , a rise of 142% as compared to the pcp;
- ❖ Net profit rose 25% to \$561,095, as compared to \$448,088 achieved in the pcp;
- ❖ Share of net profit from PRC-based associate was \$95,421;
- ❖ Expense base remained stable despite increase in revenue;
- ❖ Repayment of \$500,000 bank loan primarily funded by internally generated free cash flow.



Highlights of the operating businesses

Quest Investments Limited

Our 64% subsidiary Quest Investments Limited (“QST”) registered strong operating performance on the back of a recovery in the global economy, particularly benefiting from stronger economic performance in the Asia-Pacific region. Most of the subsidiaries of QST recorded good turnover and revenue growth in the interim period under review.

Net attributable profit stood at \$382,042 in marked contrast to the \$392,470 loss registered in the pcp.

QST’s balance sheet continued to be healthy with current ratio standing at 1.82 and gearing remained modestly low.

Stockbrokerage

The stockbrokerage business of our wholly owned subsidiary Quest Stockbrokers (HK) Limited (“QSB”) had a strong first-half performance. QSB’s commission income registered an increase of 333% to HK\$3.393 million. This contrasted markedly with the HK\$0.783 million achieved in the pcp. It is perhaps informative to note that QSB’s commission income for the six-month interim period ended 31 December 2009 was more than the entire commission income achieved in the full 2009 FY.

This significant increase in commission income mirrored in part the recovery seen in the global financial markets in the period under review. The strong rebound in the equity market of the People’s Republic of China (“PRC”) and those in the Asia-Pacific region also contributed to enhanced investment activities. According to data from specialist fund flow research company EPFR Global, between the depth of the financial crisis in late 2008 and the end of 2009 mutual funds pumped almost HK\$90 billion (approximately A\$12.86 billion) into Chinese stocks, mostly those listed on the Hong Kong Stock Exchange. This was a complete reversal of the previous year’s loss in investor confidence following the collapse of a number of financial institutions in the US.

The large rise in commodities prices and the return of carry trades combined to push the Australian Dollar higher on the FX market. QSB’s income is principally derived from US dollar-linked activities. The translation impact of a stronger Australian Dollar had a large moderating impact and masked an otherwise sterling performance contribution from QSB and other HK-based subsidiaries to the Group.

Nominees Services

Quest Nominees Limited (“QNL”) registered a significant increase in both revenue and profitability for the interim period under review. Revenue surged to HK\$1.44 million, a six-fold increase over the pcp. Contributions from the provision of secretarial services to clients and treasury activities formed a significant part of the profit achieved. Net profit for the interim period was HK\$152,239 compared to a loss of HK\$204,461 in the pcp.

Telecommunications

Quest Telecom Limited (“QTL”) faced difficult trading conditions with most service providers slashing their call rates in a competitive and mature market. Despite our ability to reduce our overheads and increase our revenue, a loss of HK\$155,174 for the period under review.

Marine Resource

Quest Marine Resources Limited (“QMR”), a 28% owned associate, and its wholly owned subsidiary Dalian Jixiang Foods Limited (“DJFL”) , recorded stronger sales and profits for the interim period end 31st December 2009. Sales rose 101% to \$ 3.35 million as compared to \$1.67 million in the pcp. After accounting for increased



processing activities in its 10,000 metric tonnes plant in Dalian PRC, net operating profit rose 306% to \$463,334 from \$114,136 achieved in the pcp.

Notwithstanding the poorer state of the Spanish economy coupled with the severe contraction in bank borrowings affecting our competitors in Spain, DJFL was able to increase its market share in the anchovy export business to various EU countries.

Murchison International Limited

The difficult trading conditions faced by Murchison International Limited (“MCHI”) continued to prevail for the greater part of 2009. Despite reining in our operating costs, the lower margins achieved on higher turnover failed to stem the loss. For the half-year to 31 December 2009, MCHI registered a loss of HK\$1.401 million, a reduction of 33% from that achieved in the pcp. The recessionary pressure in Europe and the weak US consumer market continued to affect demand for products from the Asia-Pacific region. This coupled with the credit crunch experienced by most importers in the developed countries combined to undermine MCHI’s operating performance in the period under review.

MCHI’s 2% investment in the Zhongshan property project continued to make good progress. The new revised development plan had been approved by the relevant PRC authorities. The new plan involves the need to demolish the old building block and an increase in the total saleable areas. We have been informed that demolition work and the additional foundation work phase of the project had been completed. Tender for the complete building work for the project had commenced and selection of the suitable building contractors is currently in progress.

The strong rise in the real estate prices in the PRC, particularly in Southern China and other big cities, augurs well for the future prospect of this project. We remain optimistic over the longer term when the project is completed.

Chongqing East Toptrend Domo Limited

We have been informed by Chongqing East Toptrend Domo Limited (“CETD”) that its original plan to begin assembly of netbook computers in Chongqing was delayed due to the inability of one of our designated component suppliers to meet its delivery commitment. The particular component supplier had fallen victim to the global financial crisis. In addition, one of our major telecom clients had postponed the roll-out of their 3G telecom services due to the teething problems encountered by their other netbook computers suppliers and the delay in the completion of the infrastructural network in supporting the 3G services. The management of CETD is of the view that given the changed economic and credit situation in the PRC, it would be prudent not to begin production until such time the various teething and technical problems affecting the industry are resolved. Notwithstanding this development, CETD will continue to concentrate its resources in bringing forth new innovative products and on its role as a solution provider on the technology front.

Outlook

The unprecedented and coordinated interventions by central banks of major industrialized countries in pumping massive liquidities into the global financial system helped stave off a much-feared global depression. The worst economic conditions appear to be over, with modest growth seen returning to the global economy in the second half of 2009.

For most Asia-Pacific countries, including the PRC, the extent of the recovery is on much firmer footing. Although the synchronous recessions in OECD countries had a material impact on the PRC’s export sector, the 4-trillion-yuan (US\$586 billion) stimulus package to restore growth and expand domestic demand in the PRC has achieved its desired twin-objectives of stabilizing the Asia-Pacific economies and attaining PRC’s 8% GDP growth target for 2009. The positive impact of the measures adopted by the PRC is evident in the recovery in commodities prices and record iron ore imports. Both Australia and Hong Kong were two of the primary beneficiaries of the PRC’s massive pump-priming measures.



Whilst the worst period of the world economy may appear to be over, we have nonetheless found ourselves at a major cross-road. The issue that confronts most policy makers and investors is the timing for an inevitable exit and unwinding of the stimulus measures that were implemented to prevent the massive collapse of the global financial system. The era of cheap and easy monetary conditions portends genuine risks of enormous inflationary pressures in the foreseeable future. The huge public sector debts assumed by the US and various other developed nations are a continuing concern.

We believe that financial markets in the year 2010 are likely to experience greater volatility. Different economic blocks (such as the EU, PRC, and the US) will have to adjust their strategies and policies to address the economic malaises that affect them differently from others. Instead of focusing on growth, investors switched to worrying about rising inflation, higher interest rates, over-investment, a bubbly PRC property market, the chances of a surge in non-performing loan levels, and even worsening relations between US and the PRC.

A number of recent developments have troubled us, the more salient of these are:

First, most of the Asia-Pacific economies have thus far managed to avoid the nastier dislocations as those experienced in the West on the back of a sounder banking system and stabilizing influence of the PRC's economic policies. However, the PRC has recently adopted a number of measures to rein in its 'perceived' overheated property sector and its domestic fixed asset investments to forestall the formation of "asset bubbles".

Reserve ratios at all PRC banks have twice been raised recently and various stringent administrative directives have been implemented to restrict PRC banks from granting further credits. Whilst these preventive measures are necessary for the longer-term good of PRC, they also presage the withdrawal of massive liquidities from the capital and property markets which were the primary beneficiaries of enhanced credit growth seen in the past year. We see therefore greater volatility ahead for the financial markets, particularly for Hong Kong.

Secondly, the unfolding saga of the PIIGS countries in the EU (Portugal, Ireland, Italy, Greece, and Spain) will continue to focus investors' attention on the vulnerability of the 27-members block to differing problems peculiar to its 'weaker' member states. In essence, the crisis over Greece and the rest of PIIGS lies in the future not the past. There is no uniformity in stages of economic development for EU countries. The expansion of EU memberships, particularly in the aftermath of the Cold War, was premised more on political rather than economic considerations.

With nearly 19% unemployment in Spain and a severe debt problem faced by Greece, the high public sector debt levels in Ireland, Italy, and Portugal, a possible contagion affecting the entire EU community cannot be ruled out. Greece needs to raise Euro 20 billion whilst Spain and Portugal have Euro 31 billion and Euro 11 billion of government debt maturing in the next three months. Other "weak" members also face significant debt refunding schedules between March and May 2010. In some sense, the "ghost" of the Asian financial crisis in the late 1990s seems eerily similar.

Growth in stronger countries such as Germany and France is seen to be slowing after fairly promising performances in the second half of 2009. Whether there is domestic political will in some of these stronger member states to bail out those troubled members is another unsettling factor. This could fuel further uncertainties and generate greater volatility in the global capital markets.

Thirdly, the recently announced increase in discount rate by the FED in the US signaled the beginning of an unwinding of the stimulus measures engineered by the FED. It also marked the first tinkering of interest rates by a central bank from the Group of Seven industrialized nations after emerging from recession. Although most investors believe that it is only a matter of time that the US needs to address its 'ballooned' deficit problems, uncertainties over the speed and extent of the unwinding process will only add to further volatility in 2010.

On balance, it is our view that greater volatility is likely to affect global financial markets. Investor sentiment is likely to swing from excess confidence in the recovery process to pessimistic fear of a 'double dip' recession precipitated by a possible deterioration in the debt situations affecting Dubai, Greece, and Eastern European countries.



Fortunately for Hong Kong and Australia, the recently adopted measures by the PRC to handle possible overheating of its real estate market in some of the large Chinese cities (such as Shanghai, Beijing, and Guangzhou) and to address the side effects arising from the more than a trillion Rmb in lending are not likely to result in a 'hard landing' for its economy. The PRC has the right financial strength and the ability to stay focused in addressing its varied problems of misallocation of capital and industrial over-capacity. The step up in efforts to increase domestic consumption represents a paradigm shift for the PRC and is much welcomed by most exporting countries seeking to tap into the vast Chinese consumer market.

The Way Forward

In addressing a more volatile and uncertain operating environment for the second-half of our 2010 FY, your management is focused on pursuing a continuation of our prudent and risk-averse investment strategy in 2010. We have also set our objective of paying a cash dividend to our loyal shareholders as soon as MCH achieves certain performance targets for 2010. We therefore will remain vigilant in defending the growth in our revenue and profitability achieved in the first-half of the current financial year.

Initial results of the first two months of 2010 suggest that the operating environment has indeed become even more volatile and challenging with wide swings in market movements. Our turnover and revenue for the past 8 months are now way past our entire 2009 FY performance. Notwithstanding the revenue momentum continuing, if the volatile trading conditions persist, it would be difficult to predict how our second half performance would pan out.

Shareholders will recall that following QST's purchase back in 2009 of the 40% equity interest in our stockbrokerage business from our previous US partner that QSB is now a wholly-owned subsidiary of the QST Group. In the past several years, QSB has not made any capital investment in expanding the reach and range of its stockbrokerage business. We have been informed by QSB's management that it believes the time has now come to address this issue as part of the forward planning to ensure long-term sustainability of their revenue and income streams. This is also very much in line with our previously enunciated plan of conserving cash and avoid untimely cash-burn in these times of contracting funding potential from both the capital markets and from the traditional banking sector.

Accordingly, after much deliberations and market research, QSB intends to invest in a new internet-based trading system to enlarge its client base and reach out to tap the rising trend of using computer and internet based trading by individual retail investors. Of particularly important consideration are the rising affluence of PRC retail investors and the relaxation of currency movement by the PRC authorities for its citizen and corporate sector to invest overseas.

The PRC is known to have in excess of 330 million investor accounts. Of more significance is the rapid expansion in internet user population in recent years. Over 600 million internet users are known to be in China. Our market research confirms that most Chinese investors use the internet trading system to execute their overseas trades in stocks and shares. With our various offices in the larger PRC cities, and an efficient-cost based settlement system, QSB has the suitable infrastructure in place to tap into this potentially rich vein of PRC-based investors. We have been informed by QSB that it has budgeted a capital expenditure of HK\$1.75 million (approximately A\$250,000) to install and implement internet-based trading system along side its traditional trading system.

For the initial phase of the introduction of the internet-based trading system (expected to begin in the third quarter of 2010), QSB expects to reap benefits on cost-contribution basis and to recoup its capital investment in 12-18 months.

For the nominee and secretarial services business, we have been informed by QNL that it intends to further expand its businesses by tapping into foreign investors who may need to incorporate Hong Kong-based companies for their business activities into the PRC. QNL is debt-free and intends to deploy its liquid resources to better support its treasury and investment activities. Currently, its long-term investment in a leading HK-based recreation club corporate membership earns a high yield in excess of 12% p.a. from leasing out the membership to a unrelated third party. QNL has carried this investment at its historical cost. The present market value of the membership is significantly higher.



We have also been informed by QMR that its subsidiary DJFL in Dalian, PRC intends to increase its procurement and processing of anchovy for the coming season in April and May 2010. DJFL has plans to expand its other food import business following the granting of an import licence from the relevant PRC authorities. Therefore, we intend to concentrate our effort in the coming months to source the much needed funds to support DJFL in its expansion plans.

Despite our continuing effort to raise capital from Australian investors to fund QMR's expansion plans, we are encountering difficulties as investors shied away from funding junior companies given the calamitous collapse in share prices of most non-blue chip companies in 2008/09. A cursory look at the tepid number of new listings on the ASX and the yet to recover junior companies' share prices indicates that the present cycle is not suitable for fund raising in Australia.

We see greater volatility ahead as MCH navigates its chartered course of defending our revenue and income streams for the next few months leading to our year end in June 2010. Your management is cautiously optimistic that barring unforeseen circumstance, and on the premise that we have attained certain performance objectives, the board of directors intends to recommend the declaration of a modest cash dividend to our loyal shareholders.

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