



MURCHISON HOLDINGS LIMITED

ABN 52 004 707 260

ASX Announcement & Media Release

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Consolidation of businesses continues in preparation for the next growth phase

Half-Year To 31 December 2010 Financial Results Highlights

Financial results for the half-year ended 31 December 2010, compared to the previous Corresponding period ("pcp")

Murchison Holdings Limited (ASX : MCH) today announced that it is presenting for the first time its financial accounts in Hong Kong Dollar ("HKD"). This is to better reflect the operating results as its main earnings are HKD and USD based.

Total Revenues from Ordinary Activities rose to HK\$261.9 million for the half-year ended 31 December 2010 as compared to the pcp.

Net Profit attributable to members fell 73% to HK\$1,165,000 for the interim period as compared to the pcp of HK\$ 4.272 million. Basic earnings per share was 1.15 HK cents as compared to the pcp of 18.97 HK cents. Fully diluted earnings per share was 1.14 HK cents as compared to 8.37 HK cents in the pcp.

The financial position remained healthy with no external financial liabilities following the full repayment of bank loan in Australia. Total assets rose by 6.3% to HK\$217 million with Net Tangible Assets per share of HK\$9.01.

Financial Highlights

- ❖ Revenue from ordinary activities was HK\$261.9 million , a rise of 471% as compared to the pcp;
- ❖ Net profit on continuing operations was HK\$1,165,000;
- ❖ Expense base increase was due to increase in senior managerial head count;
- ❖ Gearing level continued to trend down with loan to capital ratio at 1% as compared to 4% in the pcp;
- ❖ Less cash being applied to funding new projects and investment in this consolidation phase.

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Highlights of the operating businesses

Quest Investments Limited

We are advised by Quest Investments Limited, our 63.85% subsidiary, that it registered a significant improvement in both operating revenue and net profit. Revenue from operating activities rose 533% to HK\$149.27 million on higher contributions from its stockbrokerage, treasury and investment activities.

Net attributable Profit increased by 40% to HK\$3.124 million as compared to HK\$2.238 million profit registered in the pcp.

QST's financial liabilities fell to a modest HK\$2.1 million from \$4.5million. Balance sheet continued to be healthy with current ratio standing at 1.67.

The cash flow position remained strong , mainly resulting from net cash contribution from operating businesses.

Stockbrokerage

Our stockbrokerage business conducted through Quest Stockbrokers (HK) Limited ("QSB") continues to register good increases in both turnover and commission earned. Total value of transactions executed by QSB was HK\$1.847 billion. This represents a significant increase of 49.3% from the pcp. Commission income earned was HK\$4.361 million, an increase of 28.5% as compared to the pcp.

In line with our business plan to expand on the services QSB can provide to our corporate and institutional clients, QSB has placed greater emphasis on corporate fund raising activities to augment its traditional stock brokerage business. Total income from underwriting activities rose 251% to HK\$1.3m as compared to pcp. A total of HK\$250 million was raised for a number of corporate clients in the period under review.

Reflecting the enhanced level of activities, QSB registered a 84% increase in Net Profit to HK\$2.953m as compared to HK\$1.602m in the pcp.

QSB's internet brokerage system is at the final in-house testing phase before launching the service to our clients globally. QSB plans to launch this new platform by April 2011.

Telecommunications

Quest Telecom Limited ("QTL") managed to record a modest profit of HK\$1,525 in a highly competitive market. This is in contrast to the loss of HK\$155,174 suffered in the pcp. Revenue from telecom and treasury activities rose to HK\$21.74m, an increase of 538% from the pcp.

Marine Resource

We have been advised by Quest Marine Resources Limited ("QMR"), and its wholly-owned subsidiary Dalian Jixiang Foods Limited ("DJFL") that each of them recorded lower sales and profits. QMR's contribution to the Group's earnings was HK\$0.35 million as compared to HK\$0.65 million in the pcp. DJFL's sales were also lower due to seasonal factors and lower demand from European buyers due to the poorer economic conditions in some of the EU countries.

Murchison International Limited

For the past six months, MHI had been reorganizing its business focus with a view to widen its scope of products sourcing to include commodities and support services to its clients in Asia as well as in Europe. It also focused more on its proprietary trading in regional equities to complement its knowledge of business and fund flows

between the emerging economies and those of the developed world. The need for this refocusing has become more urgent given the negative impact the economic malaise in some of the weaker EU countries has on MHI's performance in the past two years.

This effort appears to show tentative and encouraging results. For the half-year to 31 December 2010, MHI recorded a strong increase in its revenue from operating activities. Total operating revenue stood at HK\$89 million. MHI managed to reduce significantly its loss for the present interim loss to HK\$127,871. This contrasted markedly the loss of HK\$1.4 million in the pcp.

MHI's 2% investment in the Zhongshan property project continued to progress satisfactorily. Construction on the six residential blocks of 25-storey has begun following the completion of the 3 levels of underground carpark. We have been informed by the project manager that pre-sale activities are slated to start in the last quarter of 2011. Notwithstanding the present measures undertaken by the relevant authorities in the PRC to cool demand in the real estate market, MHI remains cautiously optimistic about the potential contribution of this project to our income stream in future year. MHI is expected to benefit from both the currency appreciation of the Rmb and the appreciation of real estate prices in Zhongshan since it made the investment some 2 years ago.

Outlook

The past six months had seen the continuation of contrasting economic trends between the emerging markets and those of the developed world. Emerging markets such as China, India, and Brazil have continued to drive economic growth. Those in the developed world, namely the US and parts of Europe, have remained mired in debt and high unemployment. In many ways, this decoupling process contributed to greater volatility in the world financial and capital markets and caused new imbalances in asset markets.

The implementation by the US Federal Reserves ("FED") of the two quantitative easing schemes and the near-zero interest rates have combined to fuel further new imbalances in asset markets globally. The massive influx of "hot" money seeking investments in the emerging economies has accentuated the massive rise seen in commodity prices. These unsettling developments have raised legitimate fear of overheating and formation of bubbles in the emerging economies. This factor combined with the unfolding sovereign debt problems in some of the weaker countries in the European Union ("EU") generated greater volatility in the global financial markets.

It is an accepted belief that the imbalances in the world economies are structural rather than a temporary misallocation of resources. For most Asia-Pacific countries, including the PRC, the need to increase domestic demand through increasing consumption and lowering savings is crucial in engineering structural changes to the composition of their economies. For some countries, this adjustment may prove an immense challenge.

For the developed economies, such as the US, the need to cut rising government spending and debt while fostering incentives for growth has gained more urgency. The recent draft budget presented for 2012 by the US does not appear to be well accepted by the international community. It does not seem a credible effort to most observers in addressing the fundamental causes of US economic problems. The proposed budget seeks to cut the deficit from 11% of the GDP this year to 3.1% by 2021.

Assuming that the deficit is reduced to 3.1%, which hopefully would stabilize government debt, the US debt to GDP ratio would nonetheless still be at an inordinate high of around 80% as estimated by The Economist. This does not bode well for the future if the US continues to maintain its trillion-dollar annual deficit. Eventually, the financial markets will have to force US politicians to address the dire consequences of higher inflation, a weaker dollar and possibly the eventual loss of US's AAA sovereign credit ratings. It is definitely a worry for the global financial markets.

China, being an important hinterland for Hong Kong, is presently facing intense international pressure to save less, build up its domestic demand and consume more foreign products. It is also under intense pressure to address the imbalances in its massive US\$3 trillion foreign exchange reserves. In trade terms, the PRC's trade surplus is shrinking as a percentage of GDP. The trade surplus shrank to US\$183 billion in 2010, representing about 3% of its GDP as compared to about 10% during 2007-2008. Rising inflation, increasing imports and wage rises combined to balance the trade figures. However, a closer analysis of its capital account showed that this surplus rose 14% in 2010 to US\$166 billion. This anomaly is the result of various restrictions placed on money

flowing out of the country and from an actively managed effort to keep the value of the Renminbi within a tight trading range.

Domestically, the PRC is taking a number of measures to prevent 'bubbles' being formed in its property market. It raised interest rates and banking reserves on a number of occasions to cool demand in the real estate market and to rein in the massive credit expansion in its domestic banking system. Official statistics suggest fixed-asset investment accounts for 70% of economic activity. Much of that comes from real estate investment.

Rising food prices is another potentially troublesome development especially in the context of social stability in China. The US Federal Reserves Bank's QE scheme, coupled with near-zero interest rates, are pushing hot money into quick-growing emerging markets and driving up both soft commodity and metal prices. With a large population and a severe drought affecting its wheat production, volatility in food prices has become a major challenge facing the PRC in 2011.

The recent instability in North Africa and in the Middle East on regime change has focused investors' concern on the issue of oil and gas supplies. The recent substantial rise in the oil prices to well over US\$110 per barrel, if sustained at such price levels, may well stall the global economic recovery. Libya (which accounts for 2% of the world oil output) has provided the catalyst to focus markets' concern on 'contagion' effect on other larger Middle Eastern producers. It is difficult to predict the eventual outcome and the deep impact on the world economy. This could potentially be worse than the 1973 oil crisis.

The Way Forward

It is our considered view that small companies in building sustainable earning streams should avoid leverage and build their capital structure with substantially more equity and reserves than debt. It would be beneficial that some should have little or no debt. Maximizing profits through high leverage is not often an appropriate strategy to pursue particularly in periods of great economic uncertainties such as the world is presently facing.

In line with this philosophy, it is gratifying to report that our company has fully repaid all our outstanding loans through internally generated funds to our Australian banker in December 2010. MCH is therefore effectively debt free.

Our plan to focus the Group's resources in expanding its existing businesses was implemented in this financial year. I am therefore happy to report that at this interim stage our pro-active focus on expanding the depth and coverage of our subsidiary's, Quest Investments Limited, business has yielded satisfactory results. We will continue to press on in executing a clearly-defined strategy of boosting revenue and earnings over the next several years.

Shareholders would undoubtedly have noticed the growing disconnect between our Net Tangible Assets ("NTA") per share and the prevailing market price of the company's shares traded on the ASX. Our NTA per share stood at HK\$9.01(A\$1.15) in marked contrast to the HK\$1.82 (A\$0.30) traded on the ASX. The Board of Directors is considering a more aggressive buy-back programme in the coming months as part of a proposal of returning cash back to our shareholders. We would also like to register our conviction that the Company's shares are fundamentally undervalued.

The decision to report our financial results in Hong Kong Dollar represents one of a number of measures the management is taking to address the issue of achieving a better understanding on the nature and performance of the company by the market and Australian investors in general.

Your Company had declared a modest dividend for the last financial year. It is our intention to continue to declare dividends annually subject to the Company's performance.

The year 2010 has been an outstanding year for emerging markets. The general consensus within the investment community that these markets are likely to be the drivers of global economic growth rather than the troubled developed economies supported a consistent inflow of capital to the emerging markets. However, the first two months of 2011 has witnessed a gradual shift in this perception. There are increasing signs of a flow of funds back to the developed markets of some EU countries and to US in particular. The next several months will



give us a clearer assessment of how large this outflow from Asia is and how prolonged this fund flow shift is likely to be.

Initial results of the first two months of 2011 suggest that the operating environment had become even more challenging and uncertain. If the uncertainties associated with price and volume levels persist, we anticipate a more gradual leveling off in activities. Our second half performance would likely therefore be impacted more negatively.

We will remain therefore more vigilant in monitoring our various business activities. We intend to be prudent in 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.

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