



MURCHISON HOLDINGS LIMITED

ABN 52 004 707 260

ASX Announcement & Media Release

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Our Five Pillars of Growth Strategy

Full Year 2008 Financial Results Highlights

Financial results for the full-year ended 30 June 2008, compared to the previous corresponding period ('pcp')

Murchison Holdings Limited (ASX : MCH) today announced an increase of 27% in Total Revenues from Ordinary Activities to \$10.915 million for the year ended 30 June 2008 as compared to the pcp.

Gross Profit before Minority Interest rose 173.84% to \$2.062 million as compared to the pcp of \$ 753,000. Following the purchase back by our subsidiary, Quest investments Limited, of the 40% equity interest in MQ Holdings Limited from the US investor in our stock brokerage subsidiary, Net profit after accounting for minority interests registered a 353% rise to \$1.566 million.

In addressing the ramifications arising from the twin-effect of a sharp 'sell off' in world equity markets and a strong rise in the Australian Dollar in 2008FY, the Directors considered it prudent to set aside a provision of \$936,019 against the marked-to market value of MCH's investment portfolio and a foreign currency provision of \$471,936. These two provisions moderated an otherwise stronger earnings performance.

Financial Highlights

- ❖ Revenue from ordinary activities was \$10.915 million , an increase of 27% as compared to the pcp;
- ❖ Gross Profit before Minority Interests was \$2.062 million, a rise of 173.84% from \$0.753 million in the pcp;
- ❖ Net profit rose 353% to \$1.566 million, as compared to \$345,729 achieved in the pcp;
- ❖ Expense base increase mainly driven by expansion of core businesses through projects' implementation;
- ❖ Finance cost was a modest \$141,000, reflecting low gearing and prudent capital management;

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- ❖ A total of 1,475,236 options were converted in 2008FY, bringing a total number of Options converted to ordinary shares to date, or 21.1 % of the MCH2009 options outstanding.

Highlights of the operating businesses

Quest Investments Limited

Our 64.06.% subsidiary continued to maintain a healthy growth trend in both revenue and reported profit. Revenue from ordinary activities registered a modest 8% growth to \$7.003 million. Revenue growth moderated in the second-half of 2008FY due primarily to the sharp decline in equity and capital markets worldwide. Net Profit attributable to members rose to \$1,089 million, a gain of 316% over the pcp.

QST's balance sheet remained strong with current ratio standing at 1.48. Interest expense fell 54% to \$59,000.

QST successfully negotiated and purchased back the 40% equity interest in MQ Holdings Limited, the immediate holding company of Quest Stockbrokers (HK) Limited ("QSB"), from the Trustees of Refco Group in March 2008. Total consideration paid was US\$ 150,000. Shareholders would recall that in 1998, Refco had paid \$10.72 million for an effective stake of 40% in our brokerage business through its investment in MQ Holdings Limited.

In line with our objective of supporting and accelerating QST's transformation since the buy-back of the 40% equity stake in the stock brokerage business, MCH has converted all its 2009 listed options into ordinary shares in QST. MCH is also encouraged by the decision of QST to apply for an investment advisory licence in Australia as QST seeks to increase its business presence in Australia.

Stockbrokerage

QSB had a strong first-half performance in all segments of the business. Turnover contracted markedly in the second-half of the financial year against the background of rapidly declining stock markets in Asia-Pacific region. The contrasting performance in many ways mirrored the extremely difficult market conditions that were caused by the continuing saga of crisis in both the financial and housing markets in the US.

Concerns over the sub-prime problems and the contagion effects on other sectors of the US economy continued to unsettle investors. Added to these concerns were the raging appreciation in oil price and the massive rise in food and commodity prices. The drastic fall in China's stockmarkets on inflationary concerns, rising interest rates, and tight monetary policy also contributed to the poor market sentiment.

QSB's commission income was HK\$5.369 million, a slight decrease of 2.6% as compared to the pcp. Operating Profit after providing for 'marked-to-market' investment portfolio's carrying values was HK\$ 172,201.

Telecommunications

Quest Telecom Limited (“QTL”) contributed HK\$2.37 million (A\$0.34million) in revenue and a gross profit of HK\$494,434 (A\$70,501) after carrier-partners’ costs. After accounting for administration and other expenses, a profit of HK\$72,581 (A\$10,349) was recorded for the period under review.

Marine Resource

Difficult trading conditions continued to affect Oceanic Seafood Processing Pty Limited, a 45% associate company of QST. The continued strong rise in the Australian Dollar against the US Dollar in 2008FY contributed to the mis-match between sales (which were denominated in US Dollar) and costs of goods sold (which were in Australian Dollar). On equity accounting basis, our share of the loss amounted to \$70,000.

Murchison International Limited

MHI continued to achieve its various operating and strategic targets in the 2008FY. Revenue growth benefited from fee income from managing clients’ business expansion into other non-traditional operating markets and countries.

MHI registered a turn-around in Net Profit to HK\$350,672 million from the pc’s loss of HK\$700,837.

We had been informed by the development company that the Zhongshan residential real estate project had made good progress in its construction activities. Site formation and earth work on basement car park for the proposed five tower residential blocks had been completed to date.

We have also been informed by our partners in this project that they had reached agreement with a Hong Kong listed public company to take a 70% stake in the Zhongshan project by injecting HK\$400 million cash for completing the construction of the five tower blocks. This new investment by the HK listed company obviated the need for bank financing amidst tighter credit conditions in China and ensured that the project could be completed without undue delay.

Chongqing East Toptrend Domo Limited

Our acquisition of 46.428% equity interest in Chongqing East Toptrend Domo Limited (“CETD”) was completed in 2008FY. CETD has an order book of more than Rmb 200 million (about A\$40 million). For the contract to supply mobile TV to 200,000 taxis in 16 cities in the PRC, We have completed delivery of 2,530 mobile TV sets of the 200,000 units order to be installed in taxis operating in Tsingtao, a chosen city recently hosted the sailing competitions for the Summer Olympics. The trial results of this initial pilot run in Tsingtao confirmed that our 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 our own manufacturing facilities in Cha Yuen Industrial Park in Chongqing, PRC where it can have better control in 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 the competitors' products are known to achieve stability at 384 KB /second.

The PRC has in June 2008 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 CETD'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 would eventuate as China Mobile expands its network infrastructure buildup.

China Mobile is presently running commercial trials of its TD-SCDMA services in 10 cities, with introduction planned for 38 cities, mostly provincial capitals by June 2009. The parent China Mobile Group intends to open a tender in October for the second-phase construction of its TD-SCDMA wireless network in 28 cities including Chongqing, Fushou, Changchun, Lhasa and Wuhan. The 3G network will have 23,000 base stations.

It is pertinent to note that there are estimated 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 to promote 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 interior heartland of China. We believe that significant levels of capex would be spent over the next three years (2009-2011) to expand the 3G network coverage.

In an effort to encourage CETD to locate its manufacturing plant in Nan'an District in Chongqing, PRC, attractive incentives were offered to CETD. An entire factory floor in a high-tech building in Cha Yuen Industrial Park covering about 4,800 sq m was designated to house CETD's manufacturing facilities, and all renovation expenses were to be borne by the Cha Yuen Commission. Renovation work is presently taking place and is

expected to be completed by mid-October 2008. Further expansion in the future by CETD will also attract similar incentives.

CETD's proposed manufacturing plant will have four assembly lines for the 3G products and two lines for the LCD television screen products. CETD has budgeted \$1 million as capital expenditure for various testing and manufacturing equipments needed in this first phase of plant investments. CETD will scale up production facilities only when it enlarges the order book for its products.

MCS Engines Limited

For the automotive engine project, MCS Engines Limited 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. Our German partner, Carbosystems, is presently negotiating with a number of suppliers in Germany to undertake the supply of various components needed for the completion of the proto-type engine production. Notwithstanding the withdrawal of our original Chinese partner, HSUN, from the Chinese JV company, MCS is confident that it is able on its own to fully complete the production of proto-type engines. We anticipate that the production of proto-type engines and testing processes will take about 3-4 months to complete. MCS is able then to send the completed proto-type engines to customers for their final testing before any sales can be concluded.

The incorporation of MCS's Chinese JV Company is now completed following approvals received from the relevant Chinese authorities. Following HSUN's withdrawal from the JV company, MCS has successfully concluded with China Chongqing Shineray Motorcycle Co. Ltd ("Shineray") to be an equal shareholder in our newly-incorporated Chinese JV company. Shineray is to be responsible for the production, production facilities, and management of the proposed mass-production of our motorcycle engines. In addition, Shineray will invest Euro 300,000 for its 50% equity interest in our Chinese JV company.

Both Shineray and MCS have completed the evaluation of a site recommended by the Nan'an People's Government for our intended engine plant. The proposed factory layout has been drawn up by the technical team representing both Shineray and MCS and will be submitted in the near future to the Cha Yuen Industrial Park Commission for approval. As a sign of positive support for our engine project, the Commission has agreed to be fully responsible for the factory's renovation costs. We have planned for the JV Company to produce 600,000 engines in the first year of operation in a 11,000 sq m facility.

In addition to the Chinese JV interest, MCH has been approached by an interested party to replicate its engine programme for motorcycles in Cambodia and Vietnam. Preliminary visit to Phnom Penh and discussions with the Indo-China party had taken place in June 2008. A further on-site visit to evaluate the suitability of the proposed plant location at the boarder area between the two countries is scheduled for October 2008. It is interesting to note that Ho Chi Ming City is only over 50 miles from the Cambodian Boarder. We have been informed that the total size of the small-capacity motorcycle market in these two countries is about 4 million.

Murchison International Industrial Park

For the Industrial Park project in Chongqing, MCH and its partners have submitted all the necessary document for registering the Chongqing incorporated company to undertake the development and management of the industrial park. We are now awaiting the incorporation process to complete.

We have agreed with the relevant authorities in Chongqing that the first 200 mu (about 667sq m per mu) in the First Phase involving 1 Sq Km would be delivered to our Chongqing registered company once the registration is completed and approved. The industrial park project involves land area of up to 3 Sq Km in 3 major phases. Our preliminary marketing of the industrial park started in November 2007.

To date, two US-based automobile lighting parts manufacturers have indicated strong interest to take up space in the industrial park. They have been introduced by the Nan'an District People's Government, and are awaiting the outcome of the incorporation of their Chinese subsidiaries before proceeding to the next level of negotiation with MCH.

In additions to these two American companies, a number of German automotive parts manufacturers have contacted our German office to indicate their interest in taking up spaces as well. These are our supply partners for our engine programmes. We are cautiously optimistic that with our own engine plants and automotive engineering R&D centre being the anchor tenants, parts suppliers from US, Europe, and other Asian countries would congregate to ensure that they are closer to their clients' base of operations. This will enhance the take-up rate for the low-rise flatted factory blocks we intend to build on part of the 200 mu land. A common feature of the automotive parts industry is that most suppliers and manufacturers are medium to large-sized enterprises.

Outlook

The first six months of 2008 had seen drastic declines in the world's financial and equity markets. Continued weakness in the US Dollar coupled with further write-downs in credit exposure by major global financial institutions exacerbated the decline even further. After more than a year of sub-prime credit crisis, there is still no visible sign of recovery in the banking and real estate market in the US. Rising oil and basic commodity prices added further pressure on the inflationary front.

For most of the developed economies, preoccupation with the perceived inevitability of a US recession (and its effects on world trade) and the 'knock-on' impact on commodity prices will continue to provide fuel that sustains abnormal turbulence in the global financial markets.

For most Asia-Pacific countries, including the PRC, there is a growing divergence between stronger economic fundamentals and low market multiples brought about by recent sharp corrections. The Chinese equity markets had fallen by half, whilst Hong Kong equity fell by a-third. Added to the general jittery in sentiment is the concern over PRC's centrally-planned tight monetary policy response to the high inflationary pressure presently prevailing in the country.

For countries outside the OECD, most governments were watching with some degree of trepidation four unfolding phenomena: (1) the 'meltdown' in the US housing market; (2) a continuous fall in sentiment indices throughout EU and US; (3) a sharp decline in leading economic indices of OECD countries; and (4) a simultaneous fall in export leading indices in Asia.

Initial results of the first two months of 2009FY indicate that the operating environment had become more uncertain and had deteriorated significantly. If the uncertainties continue and result in lower absolute market levels, this will undoubtedly affect our first half 2009FY interim performance especially for our financial services business.

However, we believe that the underlying fundamentals of most Asian-Pacific economies remain strong. Stronger intra-Asian trades have to some extent mitigated the negative effects of a slowing US economy.

We are a Australia-China focused company. The state of health of these two countries is important for us. For the PRC, given that the US Dollar has been strengthening in recent weeks, the hot money inflow into China is fading. Exports are slowing down which should go in some way to reduce the large trade surpluses. Inflation should continue its downward trend. With this backdrop providing good macro environment for the Chinese central bank, there is basis for it to cut the reserve requirement ratio and precipitate a loosening of monetary policy later in the year.

A general consensus in the business community suggests that the PRC government is contemplating an economic stimulus package of at least Rmb 300-400 billion (or 1-1.5% of GDP). This is on top of the estimated cost of rebuilding the Sichuan earthquake zone, which had been estimated to have a budget of Rmb500-600 billion. Given the concerns for a need to stabilize domestic capital markets and the need to support a healthy development of the domestic housing market, we believe the bulk of the spending needed for infrastructural buildup will be spent for 2009 and 2010.

For Australia, we believe that the pace of global demand for mineral resources is likely to be moderated but the demand curve is still very much on the uptrend. 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.

The way Forward

The various objectives we set over the past 3 years in building a stronger foundation to ensure sustainable growth for future years have largely been met. The foundation of our value chain is based on “Five Pillars of Growth” which we had identified as the way forward in transforming the Murchison Group. The Five Pillars of Growth are focused on Technology, Transport, Resources, Land Management, and Finance. Grouping our businesses under each of these five pillars confers not only flexibility of an ‘end to end’ integration for each of the pillars, but also provides the ability to quarantine risk fallout without infecting the entire corporate whole as we execute our defined transformation strategy.

Most of our development works in various businesses we set up had been funded primarily by our internal-generated funds and had been expensed against revenue. We do not capitalize these preliminary operating expenses. This has been our guiding philosophy and we are unlikely to change it. The development works we have undertaken in the past years have largely come to an end. We are therefore entering the execution phase for our various projects in automotive engine design and production, electronics and Multi-media, as well as the industrial park in Chongqing, PRC.

Our execution strategy is premised on creating values for our shareholders by timely ‘harvesting’ the investments made. For the presence, spinning off some of our investments that are ready for separate listing on a recognized stock exchange is our preferred route. In addition to the benefit of establishing an independent funding base for future business expansion needs, the directors also believe that spin-off through IPO is one of a number of ways to unlock some of the inherent value of its investments made in the past years which they feel has not been adequately reflected in MCH’s present market capitalization.

In this regard, we are actively preparing CETD for an eventual listing on a recognized stock exchange as its order book is being built up.

We are encouraged by the granting of “Most favoured Nation” status by the PRC to Australia for in-bound investments for both the public as well as the private sectors from China. MCH has over the years built up a strong and extensive network of relationships in both countries, We believe we can play an effective role in being the “Bridge’ to link both countries in investment fields. Our investment presence in Chongqing and the role we played in bringing international technology companies (some as partners to our ventures) to that City have been well-regarded by the Chongqing Government as evident in the strength of support given to our projects. Our strength lies in the deep appreciation and understanding of the two cultures, particularly in the corporate and public sectors, after having been investing in these two countries since 1991. We view this important “Bridge” role as crucial in precipitating a two-way flow of business opportunities between Australia and the PRC.

In addressing the challenges posed by a more volatile and uncertain operating climate, your management will continue in the short term to maintain vigilance over its risk-management function and adopt a more defensive investment posture for its trading portfolios. We had for some years now developed a strong and loyal clientele. In this difficult time in the financial markets, we are committed to continue offering them good value services in our research, information flow, and insights to various issues affecting the market. We will continue to focus attention in managing an efficient cash cost base.

We have relatively strong balance sheet with low gearing. Our patient investment style with emphasis on quality is well-suited for this challenging time. Crises in history always breed attractive opportunities. We have identified a number of increasingly attractive opportunities. We are well-positioned to execute an acquisition-driven growth strategy in the near future to enhance our earnings base.

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