



# MURCHISON HOLDINGS LIMITED

ABN 52 004 707 260

## ASX Announcement & Media Release

Date : 31<sup>st</sup> August 2010

### *Maintaining a steady course in the midst of greater volatility*

#### Full-Year To 30 June 2010 Financial Results Highlights

*Financial results for the Full Year ended 30 June 2010, compared to the previous Corresponding period (“pcp”)*

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Murchison Holdings Limited (ASX : MCH) today announced an increase of 65% in Total Revenues from Ordinary Activities to \$8.978 million for the full year ended 30 June 2010 as compared to \$5.434 million achieved in the pcp.

Net Profit on continuing operations was \$ 611,922 with no gain like the “Excess of investor’s share of net value on acquisition” of \$3.56 million recorded in the previous financial year arising from the acquisition of the China-based food processing company.

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

Balance sheet continued to strengthen with a repayment of \$750,000 bank loan. The repayment was mainly through operating cash flow and rationalization of surplus assets.

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#### Financial Highlights

- ❖ Revenue from ordinary activities was \$8.978 million, a rise of 65% as compared to the pcp;
- ❖ Net profit on continuing operations was \$611,922.
- ❖ Share of net profit from PRC-based associate increased 419% to \$161,088 ;
- ❖ Expense base remained stable despite increase in revenue;
- ❖ Repayment of \$750,000 bank loan reducing further the gearing ratio.

## *Highlights of the operating businesses*

### **Quest Investments Limited**

We have been informed as follows by our 64.33% subsidiary Quest Investments Limited (“QST”) that it registered satisfactory operating performance on the back of a recovery in the global economy, particularly benefiting from stronger economic performance in the Asia-Pacific region. The rebound in global capital markets also contributed to the increase in turnover and revenue growth.

Revenue from Ordinary activities was \$6.005 million, an increase of 33% as compared to pcp.

Net profit from continuing operations reached \$545,251 with no extraordinary income being recorded. In the pcp, there was an acquisition gain of \$3.56 million arising from the acquisition of a food processing company in the PRC.

QST’s balance sheet continued to be healthy and gearing remained modestly low. Current ratio stood at 1.86, a marked improvement from the pcp.

#### **Stockbrokerage**

The stockbrokerage business of Quest Investments Limited’s wholly-owned subsidiary Quest Stockbrokers (HK) Limited (“QSB”) registered a credible performance despite an often volatile and difficult trading condition. QSB’s commission income registered an increase of 125% to HK\$6.541 million. Operating profits rose 2178% to HK\$1.824 million in contrast to the HK\$80,000 achieved in the pcp.

This significant increase in commission income and operating profits mirrored in part the recovery seen in the global financial markets. 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 moderation impact and masked an otherwise sterling performance contribution from QSB and other HK-based subsidiaries to the Group.

#### **Nominees Services**

We have been informed by Quest Nominees Limited (“QNL”) that it had achieved a good increase in both revenue and profitability for the year under review. Revenue surged to HK\$4.23 million, a six-fold increase over the pcp, with enhanced contributions from the provision of secretarial services to clients and treasury activities. Net profit for the year was HK\$75,754, a 2480% rise as compared to HK\$2,936 achieved the pcp.

## Telecommunications

Quest Telecom Limited (“QTL”) continued to operate in difficult trading conditions in a mature industry. Despite QTL’s ability to reduce its overheads and increase its revenue to HK\$7.3 million, a loss of HK\$158,362 was incurred for the year under review.

## Marine Resource

Quest Marine Resources Limited (“QMR”), a 28% owned associate, and its wholly owned subsidiary Dalian Jixiang Foods Limited (“DJFL”), recorded better sales and profits. Its contribution to Group’s earnings rose 68% to \$161,088 as compared to the pcp. We have been informed by DJFL’s management that its sales rose 25% to Rmb16.75million for the first four months of 2010. After accounting for increased processing activities in its 10,000 metric tones plant in Dalian PRC, net operating profit rose 29% to Rmb3.34 million from Rmb2.58 million achieved in the pcp.

Notwithstanding the poorer state of the Spanish economy coupled with the severe contraction in bank lending affecting our competitors in Spain, DJFL was able to gain 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 the financial year. MCHI registered a loss of HK\$3.19 million. Falling consumer spending in the US coupled with fiscal policy adjustments in Europe on sovereign risk concerns were the main factors affecting MCHI’s sourcing business.

MCHI’s 2% investment in the Zhongshan property project continued to make good progress. The additional foundation work phase of the project had been completed. Construction of the underground car parking facilities is presently in progress with end-December 2010 being the target date of completion. Construction of the various residential tower blocks is slated to begin in the first quarter of 2011. Pre-sale activities are expected to take place at the beginning of the second quarter of 2011.

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 its 3G telecom services due to the teething problems encountered by its 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 as 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.

We have also been informed by CETD that it is presently awaiting test reports from one of its European clients on its mobile phone set for senior citizens’ use. CETD’s quoted prices for delivery to EU countries by its distributor client have been accepted. Production of these EU-approved phones will begin as soon as the contract is confirmed.

## **Outlook**

A year ago, global capital markets were preoccupied by the daunting prospect of a deep and prolonged recession. The unprecedented and coordinated interventions by central banks of major industrialized countries in pumping massive liquidities into the global financial system averted this horrifying prospect from becoming a reality. Economic growth returned in the latter part of 2009 and the global capital markets rallied accordingly.

Whilst the worst period of the world economy may appear to be over, signs are emerging that the recent recovery is stalling. Leading economic indicators in the US and some other developed economies are exhibiting signs of weakness. US second quarter GDP growth moderated to 1.6% and unemployment rate remained stubbornly high at 9.5%. The downturn in these economic indicators fed into the fear that the world economy may be heading into a “double-dip” recession in the near future. Outlook for the US economy in the words of FED’s Chairman was “unusually uncertain”.

In the US, private sector deleveraging has begun in tandem with rise in saving rates. Credit is contracting and demand remains depressed. The situation is not helped by the persistent high unemployment situation. The risk of private demand in the US and other advanced economies remaining anaemic for the next couple of years is increasingly high.

For the PRC, a moderation in growth rate for the second quarter of 2010 is also a cause for concern. The PRC is trying to rebalance its economy from an over reliance on exports to a more focused plan on enhancing domestic consumption and infrastructural investments. The success or failure on this rebalancing is far from certain. Currently, consumption in China accounts for about 37% of its GDP. This is in marked contrast to the 70% level seen in the US.

Much is also dependent on its present effort to rein in the overheated property market. Any hard landing of the real estate market will have severe repercussions on the health of its domestic banking system. Credit expansion has registered a 30% increase since the introduction of its massive stimulus plan. A large portion of this credit expansion has found its way into the real estate and stock markets. Massive rally in all sorts of risky assets – equities, oil, commodities, and food – prices have led to the perception of “bubbles” being formed.

The rebalancing acts of US, China and Europe suggest that the economic performance globally is set to disappoint in the months ahead. Further stimulus measures are expected to be introduced to forestall a “double-dip” recession from taking shape. This again contrasts with the earlier avocation of an early exit from the quantitative easing measures adopted in 2009. We believe the global markets will welcome a new round of stimulus measures.

With more than US\$2.1 trillion in foreign reserves and a strong fiscal position, the PRC has the necessary financial means to withstand any sharp slowdown in economic growth. This is particularly crucial for Asia-pacific countries since it has been the primary driver of growth in the region. We expect China/s growth to be in high single-digit range for 2010 and 2011.

On balance, it is our view that greater volatility is likely to affect global financial markets. Investor sentiment is likely to swing from renewed confidence in the recovery process on further stimulus measures to pessimistic fear of a ‘double dip’ recession precipitated by a possible deterioration in the debt situations affecting various European countries.

## **The Way Forward**

In addressing a more volatile and uncertain operating environment your management is focused on pursuing a continuation of our prudent and risk-averse investment strategy in this new financial year.



**Our emphasis on operational and financial disciplines in conducting our businesses will continue.**

**Shareholders will recall that following QST's purchase back in 2009 of the 40% equity interest in its 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 expects to have suitable infrastructure in place to tap into this potentially rich vein of PRC-based investors.**

**Application had been made to the Hong Kong Stock Exchange to set up the internet-based brokerage and trading platform to augment its traditional telephone-based service presently offered to clients. Installation of the communication lines and trading platform is slated to begin at the end of September 2010. Further testing on the software and hardware integration will take about 3 months. QSB has targeted the full introduction of this service in December 2010. QSB expects to recoup its investment in 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 than that recorded in the books of accounts.**

**We remain of the view that QMR's acquisition of the Dalian-based food processor is the right way forward to tap into the growing food industry. We are disappointed that despite a growing order book, QMR has been unable to raise the necessary capital in Australia to support its inventory purchasing programme. We have been informed by the management in Dalian that it intends to seek local funding in the PRC and may have to lean on MCH to provide comfort for its bankers. With our Group's present low gearing, MCH stands ready to play its role as a significant shareholder in support of QMR and its China-based subsidiary.**

**We see greater volatility ahead as MCH navigates its chartered course of focusing on building up its existing businesses. Initial results of the first two months of 2010 are encouraging. Revenue and turnover for the first two months are about 20% ahead of the previous corresponding period. Notwithstanding the continuing revenue momentum, and with the anticipated slowdown in global economy, it is difficult to predict how our current year's performance will pan out. However, we remain cautiously optimistic for the medium term.**



## *Proposed Dividend*

Subject, inter alia, to the continuing profitability of the Company, the Directors have determined to recommend to shareholders at the 2010 Annual General Meeting of the Company to pay a dividend of 0.25 of a cent (\$0.0025) per share unfranked for the year ended 30 June 2010. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial periods. The proposed record date for determining entitlements to the dividend will be determined at the said AGM.

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