



MURCHISON HOLDINGS LIMITED

ABN 52 004 707 260

ASX Announcement & Media Release

Date : 31st August 2011

Holding fast to our defined mission in challenging times

Full Year To 30 June 2011 Financial Results Highlights

Financial results for the full-year ended 30 June 2011, 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") for the financial year ended 30 June 2011. This change will provide shareholders with a more accurate reflection of the Company's underlying performance given that in excess of 90% of the Company's revenue and the Group's banking facilities are denominated in HKDs.

Total Revenues from Ordinary Activities rose 728% to HK\$509.75 million for the financial year ended 30 June 2011 as compared to the pcp.

Net Profit attributable to members fell 27% to HK\$5.34 million for the full year ended 30 June 2011 as compared to the pcp of HK\$ 4.201 million. Basic earnings per share was 26.49 HK cents as compared to the pcp of 20.86 HK cents. Fully diluted earnings per share was 25.02 HK cents as compared to 10.41 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 5.6% to HK\$216.32 million with Net Tangible Assets per share of HK\$9.41 as compared to HK\$8.89 for the pcp.

Financial Highlights

- ❖ Revenue from ordinary activities was HK\$509.75 million, a rise of 728% as compared to the pcp;
- ❖ Net profit on continuing operations was HK\$5.34 million;
- ❖ Expense base increase was due to increase in senior managerial head count and trade support;
- ❖ Gearing level continued to trend down with loan to capital ratio at 2% 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 (“QST”), our 63.87% subsidiary, that it registered a significant improvement in both operating revenue and net profit. Revenue from operating activities rose 543% to HK\$264.75 million on higher contributions from its stockbrokerage, marine resources, treasury and investment activities.

Net attributable Profit increased by 173% to HK\$10.195 million as compared to HK\$3.741 million profit registered in the pcp. Basic earnings per share was 22.79 HK cents as compared to the pcp of 8.38 HK cents. Fully diluted earnings per share was 21.58 HK cents as compared to 4.37 HK cents in the pcp.

QST’s financial liabilities fell to HK\$3.04 million from \$4.5 million. Balance sheet continued to be healthy with current ratio standing at 1.98. Total assets rose by 5.6% to HK\$107.148 million with Net Tangible Assets per share of HK\$1.56 as compared to HK\$1.355 for the pcp.

The cash flow position remained healthy, 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\$3.285 billion. This represents a significant increase of 48% from the pcp. Commission income earned was HK\$7.396 million, an increase of 13% 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 450% to HK\$3.05m as compared to pcp. A total of HK\$385 million was raised for a number of corporate clients through placements and rights issues in the period under review.

Reflecting the enhanced level of activities, QSB registered a 85% increase in Net Profit to HK\$3.375m as compared to HK\$1.824m in the pcp.

QSB’s internet brokerage system was launched in April 2011 to service its clients globally.

Nominee Services

Quest Nominees Limited (“QNL”) continued to expand its traditional activities of providing secretarial and nominee services to its regional clients who have business exposure in Hong Kong. QNL is effectively debt free with a good portfolio of investment assets. Net profit rose 1850% to HK\$1,477,282 as compared to HK\$75,754 achieved in the pcp.

Telecommunications

Quest Telecom Limited (“QTL”) recorded a profit of HK\$94,209 in a highly competitive market. This is in contrast to the loss of HK\$158,362 suffered in the pcp. Revenue from telecom and treasury activities rose to HK\$74.573m, an increase of 924% from the pcp. A more focused and active management of treasury and investment activities helped support the telecom business segment. QTL balance sheet is healthy with modest liabilities.



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 improved sales and profits. QMR’s contribution to the MCH Group’s earnings was HK\$7.555 million as compared to HK\$1.718 million in the pcp. DJFL’s sales increased strongly due primarily to better processing margins and increases being achieved in product pricing. QMR benefited from an increase in out-sourcing by food companies in Europe to our Dalian-based factories and our available processing capacity. With poorer economic and tighter financial conditions prevailing in Europe, DJFL’s lower processing cost base and available capacity benefitted from this switching by European-based food companies.

Murchison International Limited

Murchison International Limited (“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 switch in strategy has enabled MHI to report strong rise in revenue and profitability. For the financial year ended 30 June 2011, MHI recorded a strong increase in its revenue and net profit. Total operating revenue stood at HK\$205.71 million. Net profit was HK\$2.65 million. This contrasted markedly with the loss of HK\$3.19 million in the pcp.

MHI’s investment in the Zhongshan property project continued to progress satisfactorily. Our main partner in this project is an established property group listed on the main board of the Hong Kong Stock Exchange. The project is a residential and commercial development comprising 7 high-end towers with 1,150 residential units, a club house and retail shops. Total Gross Floor Area is about 129,000 sq m. We have been advised by the majority owner of the project that the expected date of completion is in late 2012. We have been further 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 the future. 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 a marked deterioration of the economic conditions in both the US and EU countries. The situation is not helped by the disruption to the global supply chain in the automobile and electronics industries caused by the devastating effects of the tsunami that hit Japan. The re-emergence of the sovereign debt crisis in peripheral European countries and the downgrade of the US credit status were also other unsettling factors. The bi-partisan wrangling over the extension of the debt ceiling has caused further disruption to the US economy at a time when its unemployment levels remained stubbornly high and a marked slow down of the US economy in the second-quarter of 2011.

The implementation by the US Federal Reserves (“FED”) of the quantitative easing schemes and the near-zero interest rates did not result in significant improvement to the US economy. To some observers, these schemes benefited Wall Street more rather than to the “Main Street”. 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 implement fiscal discipline rather than relying on monetary policy remedies has become the clarion call. The financial markets will continue to remain vulnerable to wide swings in sentiment as long as the US continues to maintain its trillion-dollar annual deficit and without a clear and credible plan to address its inordinately high debt level to GDP ratio of over 90%.

China, being an important engine of growth for the global economies, is presently facing a number of significant challenges. The recent market shocks in the developed economies have caused great concern for the Chinese economic policymakers. This comes at a time when the Chinese government is grappling with ongoing efforts to control rising inflation and to ensure that economic growth does not slacken to below 8% given the recent slowing growth trajectory. China's inflation rose to a three-year high of 6.5% in July 2011 from the same month a year ago. However, exports in July were higher than anticipated. Given the conflicting trends, it is unlikely that the policymakers will ease off its present tight monetary policy.

Food prices have been China's main inflationary component. It contributed in July 4.38% to overall inflation of 6.5%. Rising food prices is potentially a troublesome development especially in the context of social stability in China. Social stability is of paramount importance and concern to the PRC authorities.

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. From January to July 2011, fixed asset investment increased 25.4% over the same period last year. Although this growth has moderated, it remains relatively robust. Hence, it is our perception that it may not be time yet for monetary easing in the near term.

The Way Forward

It is important to recognise that MCH is a small company in the process of building sustainable earning streams. MCH has been adopting a prudent strategy of avoiding high leverage to increase revenue and profitability. This emphasis has served us well 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 strategic decision to focus the Group's resources in expanding its existing businesses rather than seeking out new investments had yielded satisfactory results. Our operating businesses conducted through our 63.87% subsidiary, Quest Investments Limited ("QST"), have reported good growth in both revenue and profits. This encouraging development augurs well for the MCH Group. It is our objective to continue to support QST's business expansion, with emphasis focused on further expanding both the brokerage and marine resources businesses. Both of these businesses have good clients and order books.

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\$9.41 (about A\$1.13) in marked contrast to the A\$0.30 (about HK\$2.49) traded on the ASX. In line with our conviction that the market price of MCH shares traded on the ASX does not reflect the fundamental value of the Company, we will continue to pursue a share buy-back programme in the coming months as part of our declared objective of returning cash back to our shareholders. The buy-back programme will also assist the Company to tidy up its shareholders list and to enable shareholders with small and non-marketable parcel of shares to liquidate their holdings if they so desire. The programme will also reduce the economic cost of maintaining non-marketable parcel of shares in our registered shareholders list.



The decision to report our financial results in Hong Kong Dollar also 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.

It is the Directors' intention to recommend to shareholders at the 2011 Annual General Meeting that the Company pay a of 0.275 of an Australian cent (A\$0.00275) per share unfranked for the year ended 30 June 2011. The financial effect of this proposed dividend has not been brought to account in the financial statements for the year ended 30 June 2011 and will be recognized in subsequent financial periods. The proposed record date for determining entitlements to the dividend will be determined at the said AGM. This proposed dividend is an increase of 10% from the previous dividend paid in 2009/10 FY and reaffirms the continuation of our objective in maintaining a steady dividend policy based on earning streams for future years. Shareholders will be afforded the opportunity to either receive a cash dividend or to receive the same in a scrip form pursuant to our Dividend Reinvestment Plan.

As mentioned in our interim report in February 2010, there has been a flow of funds back to the developed markets of both the US and some EU countries from the emerging markets and flight to safety to US treasuries in the past several months. Initial results of the first two months of our 2011/12 FY suggest that the operating environment had become even more challenging and uncertain. Based on the economic data recently released on the second-quarter 2011 global economic performance, it is apparent that the growth recovery has stalled for both the US and Europe. It is unlikely that pressure on price and volume levels will ease in the near term. This will negatively impact our future performance.

We will continue to press on with our stated objective of expanding and deepening the scope of our existing businesses. However, we shall remain vigilant and nimble in reacting to changes brought about by the anticipated increase in volatility. It is also our intention 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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