



# MURCHISON HOLDINGS LIMITED

ABN 52 004 707 260

## ASX Announcement & Media Release

Date : 29<sup>th</sup> February 2008

### *Ready to begin implementation phase of projects undertaken*

### **Half-Year To 31 December 2007 Financial Results Highlights**

*Financial results for the half-year ended 31 December 2007, compared to the previous corresponding period ("pcp")*

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Murchison Holdings Limited (ASX : MCH) today announced an increase of 216% in Total Revenues from Ordinary Activities to \$8.713 million for the half-year ended 31 December 2007 as compared to the pcp.

Gross Profit before Minority Interests rose 17.48% to \$ 344,289 for the interim period as compared to the pcp of \$ 293,051. After accounting for minority interests (mainly arising from the 40% equity interest held by an external party in our better performing stock brokerage subsidiary), Net Profit registered a modest 15% decline to \$209,833.

In addressing the ramifications arising from the sharp 'sell off' in world equity markets in December 2007, the Directors considered it prudent to set aside a provision of \$345,031 against the diminution in value of MCH's investment portfolio. This provision moderated an otherwise good interim performance.

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### ***Financial Highlights***

- ❖ Revenue from ordinary activities was \$8.713 million , an increase of 216% as compared to the pcp;
- ❖ Gross Profit before Minority Interests was \$344,289, a rise of 17.48% from the pcp;
- ❖ Net profit was down 15% to \$209,833, as compared to \$247,586 achieved in the pcp;
- ❖ Expense base increase mainly driven by expansion of core businesses;
- ❖ Finance cost was a modest \$59,153, a fall of 25% over the pcp;

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- ❖ Net improvement of 16.9% in cash held at 31 December 2007 from pcp;

## **Highlights of the operating businesses**

### **Quest Investments Limited**

Our 57.55% subsidiary continued to maintain a healthy growth trend in both revenue and reported profit. Revenue grew 222% in buoyant equity market conditions that prevailed for most part of the period under review. Profit before Minority interests rose a credible 30.8% to \$175,764. After accounting for minority interests held by an external party in its brokerage subsidiary, Net profit moderated to \$102,541, a gain of 12% over the pcp.

QST remained virtually debt free. Interest expense fell 61% to \$17,576. Balance sheet continued to be healthy with current ratio standing at 1.68.

#### **Stockbrokerage**

Total revenue increased 42.42% to HK\$4.45 million from HK\$3.12 million in the pcp. All segments of the firm's operations registered credible performance.

QSB's commission income was HK\$3.884 million, an increase of 48% as compared to the pcp.

The Asia-Pacific stockmarkets fell sharply in December 2007 triggered by massive sell-off in US and European markets. This impacted negatively on QSB's trading portfolio and a provision of HK\$447,632 was made against the carry values of the trading portfolio. Despite this set back, the overall performance of the portfolio was still positive and had out-performed the Hang Seng Index which fell nearly 18% in the period under review.

#### **Telecommunications**

Quest Telecom Limited ("QTL") contributed HK\$2.7 million (A\$0.35million) in revenue and a gross profit of HK\$900,983 (A\$131,530) after carrier-partners' costs. After accounting for administration and staff costs, a profit of HK\$747,880 (A\$109,180) was recorded for the period under review.

We have been informed by QST that it intends to spin off QTL for a separate listing on a recognized stock exchange as part of a move to assist QTL in establishing its own funding base for its future business expansion. QST sees the intended spin-off as one of a number of ways to unlock some of the inherent value of its investments made in the past years which it feels has not been adequately reflected in its present market capitalization.

#### **Marine Resource**

Oceanic Seafood Processing Pty Limited, a 45% associate company of QST, continued to face difficult trading conditions. Strong Australian Dollar impacted negatively the costs of goods sold, whilst a weak US Dollar accentuated sale margin squeeze. On equity accounting basis, our share of the loss amounted to \$21,832.



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## **Murchison International Limited**

MHI had been investing to expand its market coverage and services to clients in Asia as well as in Europe. For the half-year to 31 December 2007, MHI registered a profit of HK\$2.398 million. It benefited from fee income from managing clients' business expansion into other non-traditional operating markets and countries.

In line with its marketing role in promoting the telecommunication and multi-media products with QTL, MCH management decided that the Group's 2% investment in the Zhongshan property project should be held by MHI. 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 began preliminary work to prepare the development company for injecting into an AIM-listed company following recent discussions with market sponsors and corporate finance professionals.

### **Outlook**

The first two months of 2008 had seen drastic changes to the world's economic and financial landscapes. The virtual financial meltdown seen in the 'opaque' OTC market for CDOs and various exotic derivative products, the contagion effect brought about by the sub-prime mortgage loan crisis in the US to the wider credit market, and the severe dislocations seen in the financial system are likely to preoccupy market participants the world over. For the pessimists, this is akin to financial 'Armageddon'. To the optimists, the present predicament is a temporary aberration as market always corrects its own excesses in the long run.

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 strong economic fundamentals and low market multiples brought about by recent sharp corrections. Added to the general jittery investor sentiment is the concern over PRC's centrally-planned policy response to the high inflationary pressure presently prevailing in the country.

Initial results of the first two months of 2008 indicate that the operating environment had become more uncertain. If the uncertainties continue and result in lower absolute market levels, this will undoubtedly affect our second half performance.

In addressing the challenges posed by a more volatile and uncertain operating climate, your management will continue to maintain vigilance over its risk-management function and adopt a more defensive investment posture for its trading portfolios. We will continue to focus attention in managing an efficient cash cost base.



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However, we believe that the underlying fundamentals of most Asian-Pacific economies remain strong. 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.

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. 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. These development works are now coming to an end. We are therefore entering the implementation phase for our various projects in automotive engine design and production as well as the industrial park in Chongqing, PRC.

For the automotive engine project, MCS Engines Limited has completed the full design of 110cc to 175cc motorcycle engines with Euro3 emission standards and EFI. The engine drawings have now been delivered to our Chinese Joint-venture partner, HSUN, for them to produce a number of proto-type engines for further testing before mass-production can be scheduled. We anticipate that the production of proto-type engines and testing processes will take about 3-4 months to complete. The incorporation process of the Chinese JV Company is now at the final stage. We have targeted the JV Company to produce 600,000 engines in the first year.

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 February 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 the first half of March 2008. It is interesting to note that Ho Chi Ming City is only over 50 miles from the Cambodian Border. We have been informed that the total size of the small-capacity motorcycle market in these two countries is about 4 million.

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 667sqm 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 and tyre plants (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.

Notwithstanding the recent volatility in the global financial markets affecting investment sentiment, we believe that market volatility is likely to be short-term in nature. The Asia-Pacific and the PRC economies do have strong long-term macro fundamentals. In fact, semblance of stability has returned to the jittery markets. With aggressive rate cuts and fiscal stimulus the US economy has a good chance to achieve a soft landing. For MCH, it is ready and well-positioned to begin the implementation phase of its various projects.

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