



QUEST INVESTMENTS LIMITED

ABN 59 004 749 044

ASX Announcement & Media Release

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Healthy Growth, Stronger Foundations Amid Challenging Times

Full Year 2008 Financial Results Highlights

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

Quest Investments Limited (ASX : QST) today announced a 8% increase in Total Revenues from Ordinary Activities to \$7.003 million for the year ended 30 June 2008 as compared to pcp.

Net Profit after accounting for minority interests rose 316% to \$1,089 million as compared to \$262,112 in the pcp.

QST successfully negotiated and purchased back the 40% equity interest in MQ Holdings Limited ("MQH"), the immediate holding company of Quest Stockbrokers (HK) Limited ("QSB"), from the Trustees of Refco Group in March 2008. With this purchase, QSB is now a wholly-owned subsidiary of the Group.

In addressing the ramifications arising from a drastic decline in most Asia-Pacific stock markets and a strong rise in Australian Dollar in 2008FY, the Directors consider it prudent to set a side a provision of \$1 million against the 'Marked-to-market' values of QST's investment portfolio. A provision of \$618,712 was also made for the foreign exchange impact as most of our earnings are HK and US Dollar. These two provisions moderated an otherwise stronger earnings performance.

Financial Highlights

- ❖ Revenue from ordinary activities was \$7.003 million , an increase of 8% as compared to the pcp;
- ❖ Net profit \$1.089 million, up 316% as compared to the profit of \$262,112 in the pcp;
- ❖ Short term borrowings rose to \$1.4 million from \$0.152 million in the pcp;

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- ❖ Finance cost fell to \$59,000, an improvement of 54 % over the pcp;
- ❖ Cash and cash equivalents held at year end was \$1.903 million, a rise of 60% from pcp;
- ❖ A total of 8,741,638 options were converted in 2008 FY, bringing a total number of 18,877,309 options converted to ordinary shares to date, or 64.44% of the QST 2009 options issued.

Highlights of the operating businesses

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.

Leading Hong Kong equities fell by more than 30% in the 2008FY. The correction in Chinese equities was even more drastic. The China Indices fell by more than 50% after a massive run-up in 2007. In Australia, correction of broadly similar magnitude was also evident. Credit exposure worries, tight monetary policy, rising oil and commodities prices, and collapse of a number of financial firms were contributing factors to an already unsettled market sentiment globally.

QSB's commission income fell slightly by 2.6% to HK\$5.369 million as compared to the pcp. Operating profits after providing for 'marked-to market' investment portfolio's carrying values was HK\$172,201.

Telecommunications

Quest Telecom Limited contributed HK\$2.37 million (A\$0.34 million) in revenue and a gross profit of HK\$494,434 (A\$70,501) after carrier-partners' costs. After accounting for administration and other incidental costs, a net profit of HK\$72,581 (A\$10,349) was recorded for 2008FY.

Marine Resource

Oceanic Seafood Processing Pty Limited, a 45% associate company, continued to disappoint us in terms of its performance. Strong Australian Dollar contributed to the mismatch between sales (which are in US Dollar) and costs (which are in Australian Dollar). Our share of the loss amounted to \$70,000.



Outlook

The first six months of 2008 had seen difficult trading conditions globally as fall-out from the sub-prime and housing crises in the US continued to unsettle global capital and financial markets. Increased concern expressed by investors is focused on four unfolding phenomena : (1) the 'meltdown' in the US housing market; (2) a continuous fall in sentiment indices through EU countries and US; (3) a sharp decline in leading economic indices of OECD countries; and (4) a simultaneous fall in export leading indices in Asia. After more than a year of turmoil in the credit market, no end is in sight that can turn around investors' sentiment.

Initial results of the first two months of 2009FY indicate that the operating environment for our financial services business had deteriorated significantly. Much will depend on the turn around prospect of the Chinese equity market (after having fallen by more than 50% since last year) and the anticipated loosening of the tight monetary policy becoming reality. If the uncertainties continue and result in further fall in the Hong Kong market, our interim performance is likely to be affected.

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 also continue to focus attention in managing an efficient cash cost base.

QST is an Australian-China centric company. The health of these two economies has major impact on our future performance. Given that the US Dollar has been strengthening of late, the hot money inflow into China is fading. Exports are slowing down in China and this should go some way to reduce her large trade surpluses. Inflation should continue to trend downward. With this backdrop of good macro environment, the Chinese central bank would be encouraged to cut the reserve requirement ratio to Chinese banks. This could well set the stage for a loosening of monetary policy later in the year.

A general consensus in the business community points to the belief that the Chinese government is contemplating an economic stimulus package of at least Rmb300-400 billion (1-1.5% of GDP) to address the need to stabilise domestic capital market and to encourage a healthier development of domestic housing market. This is on top of the estimated cost of rebuilding the Sichuan earthquake zone, which had been estimated to have a budget of Rmb 500-600 billion. We believe that the bulk of spending needed for infrastructural build up is likely to start in 2009 and 2010.

For Australia, we foresee a gradual moderation in the pace of global demand for resources. However, the demand curve is still very much on the uptrend. Even though there had been excesses in the lending markets in Australia in recent year, the fundamental health of the economy is still sound. We see the fall in asset prices enabling values to emerge and an ideal opportunity to expand our business presence in Australia.



The Way Forward

We have successfully purchased back the 40% interest in MQH from the Trustees of Refco Group for a consideration of US\$150,000. Shareholders may recall that in 1998 we sold the 40% equity interest for a consideration of A\$10.72 million. Now that we have once again a 100% interest in our stock brokerage business, we intend to expand this business further with a view to establish some presence in the PRC as well as in Australia. We have begun the process of applying for an investment advisory licence in Australia as we seek to increase the content of our Australian business.

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. QST 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 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.

The new financial year marked the start of the execution of our transformation programme mapped out for QST. We intend to remain an Australian-China focused company. The transformation blueprint is focused on :

- (1) enlarging our presence mainly in the financial services business with presence in Australia, Singapore, and the PRC;
- (2) expanding our direct investment activities with emphasis on suitable businesses in the areas of environmental credits trading, protein-creation agri-marine resources, and eco-friendly ventures;
- (3) expanding our telecommunications businesses with cross-selling and marketing of our related technology company, Chongqing East Toptrend Domo Limited, particularly in the 3G accessory products market;
- (4) assuming incubation role for suitable young enterprises or technologies as part of the execution strategy for our parent company, Murchison Holdings Limited, as it executes the “five pillars growth” strategy moving forward.

Our new transformation programme is aimed at creating long term values for our shareholders by timely identifying, developing, and harvesting the investments made over the next several years. It is our preferred route to list/IPO our investments individually when they reached critical revenue mass on a recognized stock exchange. It is our belief that spinning-off for eventual listing on a recognized stock exchange is one of a number of ways to unlock some of the inherent values of any investments we made, which have not been adequately reflected in QST’s present market capitalization.

We have a relatively strong balance sheet with low gearing. It is our objective to enlarge our balance sheet to better position ourselves for executing an acquisition-driven growth strategy in the near future to enhance our earnings base.

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