



QUEST INVESTMENTS LIMITED

ABN 59 004 749 044

ASX Announcement & Media Release

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Sailing Into The Eye Of The Financial Storm

Half-Year To 31 December 2008 Financial Results Highlights

Financial results for the half-year ended 31 December 2008, compared to the previous Corresponding period ("pcp")

Quest Investments Limited (ASX : QST) today announced a Net Loss of \$ 392,000 for the half-year ended 31 December 2008 as compared to a Net profit of \$102,000 achieved in the pcp.

Most operating businesses suffered falls in revenue.

Operating cost containment achieved desired target reduction.

Financial position remained healthy with small financial liabilities.

We are pleased to advise that it is the intention of the Directors to issue in about April 2009 1 free bonus option for every 1 share held in MCH at the date of the prospectus. The options will be convertible into a share in MCH at any time within 15 months of issue date at a conversion price of \$0.20 each.

Financial Highlights

- ❖ Revenue from ordinary activities was \$1.199 million , a decrease of 79% as compared to the pcp;
- ❖ Net loss after minority interests was \$392,000, a four-fold fall as compared to \$102,000 in the pcp;
- ❖ Finance cost rose to \$41,000 primarily due to currency exchange translation;
- ❖ Expense base fell by 33.7%, the result of a strictly enforced cost containment programme.



Highlights of the operating businesses

Stockbrokerage

QSB's commission income was HK\$783,007, a fall of 79.8% as compared to the pcp. Both the falls in revenue and commission income mirrored accurately the loss of investors' confidence and their flight from global equity markets.

The unexpected collapse of investment bank, Lehman Brothers, in the US triggered the massive sell off in worldwide equities. The consequent unwinding of various derivatives and credit instruments and the flight to cash resulted in serious dislocations in the Asia-Pacific financial and equity markets. Most of the regional bourses fell by more than 60% in tandem with their peers in US and Europe.

The drastic fall of the Australian Dollar on unwinding of carry-trades had a large impact on QSB's performance in the period under review. The realized exchange loss in converting our term deposits to pay down our financial liabilities in order to mitigate the negative effect of interest rate differential (which was working against us) form a significant part of the negative performance.

Telecommunications

Quest Telecom Limited ("QTL") also suffered from difficult trading conditions with most service providers slashing their call rates. Despite our ability to reduce our overheads by some 70%, the fall in revenue resulted in a loss of HK\$99,591 for the period under review.

Marine Resource

In our regular review of our investment portfolio, we have decided that the performance and direction of Oceanic Processors Pty Limited (a 45% associate company) do not merit our spending of management time and effort in trying to steer its management towards a common objective of building a sustainable business in the Asia-Pacific region. Therefore, a decision was made to exit this investment by opting to return as part of the original Agreement the 45% shareholdings in Oceanic to its major shareholder and simultaneously cancel the 375,000 Murchison Holdings Limited shares which were previously issued. The disengagement formalities were completed at the end of January 2009.

Outlook

The unprecedented decline in world economies, particularly drastic in the OECD countries, and the tumultuous meltdown of the world's financial markets on the back of a dislocated international banking system have combined to unnerve global investment community. In a sense, the easy and cheap money credit creations fed by loose supervision by regulatory agencies had been identified as the main cause of the current financial crisis. The poorly defined ratings by rating agencies on some of the synthetic instruments also contributed to the mayhem.

For most Asia-Pacific countries, including the PRC, the extent of the carnage is of a lesser degree than those experienced in the G8 countries. The contagion impact of problems arising in the developed countries however cannot be discounted. The region witnessed a net portfolio capital outflow of US\$70 billion in 2008 driven largely by risk aversion and carry-trade unwinding. Also evident was a drastic fall in exports from the PRC, Taiwan, Singapore, South Korea, Hong Kong, and Australia as reflected in their latest economic statistics. Due to their structural dependence on a growth engine abroad, the 'decoupling' of the Asia-Pacific economies from OECD countries, which many had hoped for, remained an illusion.



The question that confronts most, however, is how deep and protracted will the present contraction in Asia-Pacific be? More importantly, how quickly can the region recover? A number of factors can be advanced to support the view that Asia-Pacific economies are likely to experience a deep, but albeit short-lived contraction. The more salient of these are:

First, the Asia-Pacific economies have solid banking system with limited exposure to toxic assets and are not generally over leveraged. Asia-Pacific based banks are well-capitalised, with loan-to-deposit ratios largely below 100%. Non-performing loans have dropped to below 10% in most cases. With the exception of India and South Korea, few Asia-Pacific banks are facing the same dislocations as those in the West.

Secondly, after five years of unrelentingly strong global growth, the region had enjoyed strong GDP growth and burgeoning current account and budget surpluses. All of these should assist in cushioning against the tough times in 2009, thereby enabling regional governments to launch fiscal stimulus packages and relax their traditionally tight monetary policies.

Thirdly, the PRC's role as a regional economic stabilizer is also a significant factor. With its enormous foreign reserves of over US\$1.95 trillion, it has both the fiscal and monetary means to support its own domestic economy. This is evident in the recently announced US\$586 billion fiscal stimulus programme. If one includes similar stimulus programmes announced by its provincial governments to support local industries and boost domestic demand, the total stimulus package should have more than an even-chance of preventing a boom-bust scenario.

Ultimately, we believe that the mission for Asia-Pacific countries is to engineer a paradigm shift from a predominantly export growth model to a more broadly based growth model, of which the domestic consumption plays a major and significant part. We also believe that American and European consumers are likely to lift their saving ratios and cut back their consumption spending, thereby prolonging recovery in Asia-Pacific's manufacturing and trade sectors. This will make the task of balancing the loss on exports with gains in domestic demand a crucial one indeed.

The Way Forward

Our early adoption of a more prudent and risk-averse investment strategy in 2008 had helped us to limit the size of our losses amidst the largest financial storm that has hit the world since the 1930s. Most of the Asia-Pacific economies have started to contract, but the bottom of this downturn is not yet in sight. The next several months will give us a fair assessment of how long and how deep this downturn is going to be. Initial results of the first two months of 2009 suggest that the operating environment had become even more challenging and difficult. If the difficult trading conditions persist, our second half performance would likely be impacted more negatively.

In addressing the challenging and difficult operating conditions, your management will remain vigilant and adopt a more defensive investment posture for its trading portfolios. We had conducted a thorough review of our present operations in the light of a drastic change in world's economic conditions. The result of our review recommend that we focus our attention in deploying resources to support those part of our businesses that are not too susceptible to recessionary pressure (such as in our marine resource and food business that are more defensive).

In line with our stated objective of separately listing our various businesses once they are entering expansion phase, we are now in advanced-stage of preparing the necessary offer information document to list our marine resource subsidiary on the National Stock Exchange ("NSX") in Australia. This follows the rapid growth of our "resource pillar" in our parent entity's well-defined "Five Growth pillars" business strategy and our exit from Oceanic.



We have experienced a strong and encouraging built-up in our order book for various seafood products since the beginning of 2009. We have completed the incorporation and will shortly transfer of our marine resource business into a newly established public non-listed subsidiary –Quest Marine Resources Limited (“QMR”).

We have also signed with two stockbroking firms in Sydney and Melbourne letters of undertaking to assist QMR in its pre-IPO and IPO fund raisings ahead of the proposed listing on the NSX. We intend to price our issue at a price –earnings multiple of 6 times our projected forward 12-month earnings, valuing QMR at A\$4 million. We aim to raise \$2 million from the listing exercise in order to achieve our earnings projection.

The marine resources division has an order book of about A\$4 million since January 2009. Of these orders, we have successfully delivered in January 2009 US\$1.2 million worth of canned abalone to our clients in Malaysia and Hong Kong. The abalone were principally sourced from Tasmania and processed from our designated processing plant located in Gold Coast, Australia.

In addition to abalone, the division has also secured orders from European buyers for delivery of processed anchovy products from our designated food processor in Dalian, PRC. QMR is in the process of evaluating a proposition to acquire this Chinese food processing company who presently has the only exclusive licence granted by the PRC Government to export anchovy products to the European Union (“EU”) countries. It has also the necessary food health and safety permit to export seafood products to the EU countries.

The third product which the division exports from its designated processing plant is frozen octopus to South Korea. An average of 4 containers per week delivery to wholesalers in Seoul, South Korea, from the Dalian plant is presently achieved.

Recent negotiations with our buying clients suggest that the demand for our products is expected to grow significantly over the rest of the 2009. We believe the potential prospect of QMR is bright, and hence the need to increase our funding to foster a more rapid growth in our order book. The eventual listing on the NSX will greatly assist our fund-raising possibilities to support QMR’s anticipated growth.

Our seafood division is also evaluating the prospect of exporting sea cucumber to Japan, South Korea, Hong Kong, and other overseas Chinese markets. As sea cucumber is one of highest price-margin delicacies for Chinese cuisines (the same is true for abalone), we are very much focused on adding this product to our existing portfolio of quality and high price-margin products.

Notwithstanding the recent tumultuous economic conditions, we are hopeful that America’s US\$787billion stimulus package can create the proposed 3 million-plus jobs President Obama’s administration is targeting and stabilize the housing and financial markets. In some sense, the world is rooting for this new US President and his team to succeed. For QST, it has charted as best a stable course as its fundamentals allow in navigating through this treacherous sea amidst a ragging financial storm. We remain positive and hopeful. As the ancient Chinese once remarked –“even a rainy day will in due course give way to a sunny sky”.

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