QUEST INVESTMENTS LIMITED

ABN 59 004 749 044

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The Work Goes On, The Cause Endures

Full Year To 30 June 2009 Financial Results Highlights

Financial results for the Full Year ended 30 June 2009, compared to the previous Corresponding period ("pcp')

Quest Investments Limited (ASX : QST) today announced a 257% rise in Profit for the period attributable to members to $3.888 million for the full-year ended 30 June 2009 as compared to $1.089 million achieved in the pcp.

Reflecting the drastic fall in economic activities globally, Revenue from Ordinary Activities fell by 36% to A$4.504 million for the year ended 30 June 2009 as compared to $7,003 in the pcp.

Quest Marine Resources Limited ("QMR") acquired by "share swap" Dalian JiXiang Food Co., Ltd ("JiXiang"), a seafood processor in Dalian, the People's Republic of China ("PRC"), thereby paving the way for the QST Group to tap into the emerging and large consumer food markets in the PRC. QST owns about 43.37% of the issued shares in QMR The acquisition of JiXiang crystallized an acquisition gain of about A$3.56 million.

Operating cost containment achieved desired target reduction.

Financial position remained healthy with small financial liabilities.

Net Assets rose 107% to $8.825 million as compared to $4,263 million in the pcp.

Financial Highlights

- Revenue from ordinary activities was $4.504 million , a decrease of 36% as compared to $7,003 in the pcp;
- 'Marked to Market' Provision of $243,896 against investment portfolio moderated performance;
- Profit for ordinary activities after tax attributable to members was $3.888 million, an increase of 257% as compared to the pcp;
- Finance cost remained well contained at $63,000, a modest increase from $59,000 in the pcp;
- Expense base fell by 24% to $2.120 miilion from $2.774 million in the pcp, the result of a strictly enforced cost containment programme;
- A bonus issue of 1 option for every 1 share held was concluded in May 2009.

Highlights of the operating businesses

Stockbrokerage

The collapse of Lehman Brothers, a major financial institution in the U.S., in October 2008 coupled with the need to provide major support by various governments in the world to prop-up financially troubled banks in their countries had a calamitous effect on the global capital markets. The inevitable credit squeeze seen in the past year had a disastrous impact on global trades. For a time, the prospect of a complete financial meltdown was indeed too horrifying to countenance.

The worst economic situation since the Great Depression of the 1930s impacted negatively on QSB's performance. QSB's commission income was HK$2.906 million, a decrease of 46% as compared to HK$5.369 million in the pcp. Both the falls in revenue and commission income mirrored the loss of investor confidence and their flight from global equity markets.

Operating Profit after providing for 'marked-to-market' investment portfolio's carrying values was HK$80,074 compared to HK$172,201 in the pcp.

Telecommunications

Quest Telecom Limited ("QTL") continued to face difficult market conditions for the greater part of the year. The telecom market in Hong Kong is highly competitive with most service providers slashing their rates. QTL contributed HK$5.45 million (A$0.785million) in revenue and a gross profit of HK$203,323 (A$35,128) after carrier-partners' costs. After accounting for administration and other expenses, a profit of HK$6,876 (A$1,188) was recorded for the period under review. The fall in profits was mainly due to the weak macroeconomic environment arising from the global financial crisis.

Marine Resource

In our regular review of our investment portfolio, we decided that the performance and direction of Oceanic Processors Pty Limited ("Oceanic") (a 45% associate company) did not merit the 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. In accordance with our original agreement we decided to return the 45% shareholding in Oceanic to its major shareholder and simultaneously cancel 375,000 Murchison Holdings Limited shares issued to an associate of Oceanic's major shareholder. The disengagement formalities were completed at the end of January 2009 and the relevant Murchison shares were cancelled in March 2009.

Following the exit from our investment in Oceanic, the Board concluded after a review of our various businesses that the best way forward was for QST to set up an enterprise to tap the vast opportunities offered by the food industry of Australia and the People Republic of China ("PRC"). Following our pilot shipment of about US$1.5 million worth of Australian abalone to Asian clients, QST decided to register QMR to carry on its seafood activities.

An opportunity arose during the financial year for QMR to acquire a 100% interest in Dalian JiXiang Food Co., Ltd ("JiXiang"), a seafood processor based in Dalian in the PRC. JiXiang operates a 22,800 sq m new processing plant with an annual capacity of more than 10,000 metric tonnes. It currently operates at 4,800 metric tonnes due primarily to lack of operating capital funding. JiXiang complies with EEC and HACCP standards. It was recently selected by the EU Food and Health authority for its inspection tour of Chinese food processors. We have been informed that JiXiang received favourable assessment from the EU inspection team and confirmed its status as an authorised exporter to EU countries, particularly anchovies.

JiXiang also export frozen octopus and other fishery products to various Asian countries. At present, an average of 4 containers per week are delivered by JiXiang to wholesalers in Seoul, South Korea.

Outlook

The 2008/09 FY has seen significant declines in asset values globally. The collapse of Lehman Brothers in October 2008 shook the foundations of capitalism. The free fall in investment sentiment and a near-total freeze in credit markets (particularly in the inter-bank markets) deepened to the point of sending the global economy into a near meltdown. The world faced an unprecedented deep recession not seen since the Great Depression.

In response to the crisis of confidence policymakers in the US and Europe undertook massive quantitative easing measures to flood the global economy with liquidity. Under the stewardship of Chairman Ben Bernanke, the US Federal Reserve cut the benchmark lending rates to as low as zero and expanded credit to the economy by US$1.1 trillion over the past year.

For most of the developed economies, signs are emerging that those economies are recovering from a recession after aggressive actions by central banks and governments. The prospects for a return to growth in 2010 appear good. Notwithstanding the appearance of "green shoots" in the economy, measures undertaken to stabilize financial markets and to unfreeze credit markets have yet to prove fully effective. Consumers and businesses are still having difficulties getting loans. We believe that restoring the free flow of credit is a critical component to a lasting recovery.

Economists are forecasting that the US will emerge in the third quarter of 2009 from its recession. It is expected to expand by an annualized 2.2 per cent. Similarly, the International Monetary Fund has recently forecast that the world economy will expand 2.5% in 2010 after contracting 1.4% in 2008/09. Japan, Germany and France have all returned to growth, rather unexpectedly, in the second quarter of 2009.

It is important for our shareholders that they gain a balanced perspective of the macroeconomic developments in the PRC. To that end, I intend to dwell deeper in my analysis of the possible future trends and challenges of the PRC in this annual review.

The PRC has been dependent on external trades. The synchronous recessions in the OECD countries that led to a massive collapse in export demand devastated PRC's single most important growth engine. For the six months of 2009, the PRC's current account surplus declined by 32% to US$130 billion as the global downturn affected the nation's exports.

In response to the external demand shock, the PRC central government made a major macroeconomic reversal in its policy response. From fighting overheating in 2007/08, the central government switched to actively stimulating domestic investment and expand domestic demand through a 4-trillion-yuan (US$586 billion) stimulus package to restore rapid growth and prevent social instability resulting from the retrenchment of millions of workers in its export-intensive coastal provinces. Additionally, the People's Bank of China (the central bank) actively cut interest rates on several occasions to loosen the tight monetary conditions.

With more than US$2 trillion in foreign reserves, a modest government debt of about 23% of GDP and national savings exceeding investments, the PRC Government has the financial means to pump-prime its slowing economy. Currently, consumption in China accounts for about 37% of its GDP. This contrasts with consumption accounting for about 70% of GDP in the U.S.

In an effort to engineer an increase in consumer confidence and convert it into purchasing power, the PRC Government recently announced major reform to the health and pension systems. It will spend US$125 billion to build hospitals across China as well as expand medical insurance to cover 90% of China's 1.4 billion people by 2011. The Government has also announced a significant expansion of its pension program. All these are in addition to other stimulus programmes announced by various provincial governments to support local industries and boost domestic demand. Therefore, the total stimulus package should have more than an even-chance of preventing a boom-bust scenario.

For all the positive implications that these enormous spending programmes may have on the PRC economy, some reservations were recently expressed on the sustainability and the productivity of the current levels of investment. The PRC's ratio of gross fixed capital formation to GDP is estimated in some quarters to be close to 50%. This perceivably high percentage outstrips similar ratios seen in Japan and South Korea at the height of their development phases.

On the issue of productive returns on these huge infrastructure investments, some questioned whether China really needs further build-up of what was already an enviable infrastructure. For example, over the past 25 years, China has built about 60,000 kms of highways. Considering the number of vehicles it presently has on the roads, it is difficult to see any further multiplier effect arising from recent further spending in this area.

On the PRC's Government effort to push liquidity into the economy through the banks, as in years past, the vast majority of lending is being tapped by well-connected state enterprises rather than by small and medium-size companies in the private sector. Furthermore, given the speed at which Chinese banks have issued new financing, there are also fears that inevitably money will be lost to the inefficient "pet" projects of local governments or find their way into stock market and property speculation rather than the infrastructure and social welfare benefits necessary to spark a lasting economic recovery.

Even if the PRC Government does begin to tighten liquidity towards the end of 2009, much of the stimulus will be embedded in the economy for years to come, as more than half the new loans extended this year are for long-term infrastructure projects.

On balance, it is important to recognise that although the PRC is statistically one of the largest economies in the world, in many parts of this vast country, it is still a developing country with major needs for infrastructure upgrades and basic health sector upgrades. The public faces of modern cities, such as Shanghai, Beijing and Tianjin, are not true representatives of other cities and townships in China. With a major portion (nearly 70%) of its vast population located in the interior regions, these infrastructure needs to uplift the standard of living of its populace will place even greater demand for funds that will make the present US$586 billion stimulus package seem small in the longer term. Therefore, I believe that the recent questioning on sustainability and productive returns of investment should focus on longer term perspectives rather than short term concerns.

Preliminary statistics suggests that the Chinese economy is likely to register a robust 8.5% in the third quarter of 2009 according to a report by the PRC's Government's State Information Centre. Most economists now believe that the PRC should be able to reach its target of 8% growth for 2009 as the economy picks up momentum on the back of better export performance in the run-up to the traditional Christmas festivities in the developed countries.

The PRC's all-out commitment to its target is already flowing through the global economy in the form of higher commodities prices and record iron ore imports. This should definitely benefit Australia.

For Australia, blessed with abundant mineral resources and a banking system that has limited exposure to toxic assets and that is not over-leveraged, the prospect of a recovery in 2010 is bright. After a decade of strong global growth and its concomitant demand for Australia's mineral, oil and gas resources, Australia has both the fiscal and monetary means to support its own domestic stimulus programmes.

The excesses seen in the credit markets brought about by the sharp fall in Australian equity values are likely to result in more prudent risk management by lending institutions and a change in the regulatory approaches to prevent the future reoccurrence of ill-disciplined excesses. We believe the Australian economy is still fundamentally sound and this drastic fall in asset prices will enable values to emerge.

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 domestic consumption plays a more 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 at the onset of the financial crisis has enabled us to maintain a steady course amidst the largest financial storm that has hit the world since the 1930s.

Initial results of the first two months of 2009/10 FY indicate that the operating environment has improved from the difficult and uncertain conditions that beset the world's economies. Although uncertainties will continue to affect market sentiment, most economists are of the opinion that the worst phase of the economic downturn is over.

In line with our stated objective of separately listing our various businesses once they commenced entering the expansion phase, we are now at an advanced-stage of preparing the necessary offer information document to list QMR on a recognized stock exchange. This follows the rapid growth of the "resource pillar" in our parent company's defined "Five Growth pillars" business strategy. QMR has experienced a strong and encouraging build-up in its anticipated order book for various seafood products since the beginning of 2009.

We are advised by QMR that it is finalizing negotiations with fund raisers in Australia and Hong Kong to assist it in raising about $7 million and listing of QMR on a recognised stock exchange.

We are further advised by QMR that following negotiations in August 2009 with buying clients in Germany and Spain of QMR that demand for QMR's products is expected to grow significantly in 2010. QMR believes its prospects are bright and hence the need to increase its funding to foster a more rapid growth in its order book. We are further advised by QMR that JiXiang has plans to achieve US$30 million export turnover for the next two years. The eventual listing will greatly assist our fund-raising possibilities to support QMR's anticipated growth.

QMR has advised us that it is evaluating the prospect of exporting sea cucumber from China to Japan, South Korea, Hong Kong and other overseas Chinese markets in its 2nd phase of expansion for 2010-11. As sea cucumber is one of highest price-margin delicacies for Chinese cuisines (the same is true for abalone), QMR is desirous of adding this product to its existing portfolio of quality and high price-margin products.

JiXiang has also recently informed QMR that it has successfully been granted by the relevant authorities an Import Licence for food products into China. This Licence is valuable to JiXiang's expansion plan to be a leading food company with a larger range of food products both for export from China and import to China.

During QMR's recent marketing trip to Europe, preliminary contact have been established with both pork and chicken processors in Spain and Germany with a view to import into China selected products from these established processors who are looking to break into the enormous PRC food market. A test order of one 40ft refrigerated container of mixed chicken parts was placed with a Spanish supplier for shipment, customs and health clearance formalities before JiXiang expands on its import volume.

We also believe that Australia, being a major agriculture and food supplier, will also be an important source for products to be imported by JiXiang. In that regard, the Managing Director of Jixiang and QST's executive directors will be attending a food exhibition in Sydney in September 2009 with a view to establishing business channels with Australian cattle, sheep, pork and poultry exporters seeking partners or strategic alliances in the PRC. With rising disposable incomes and the preference for imported branded food products in the PRC, QMR believes that it is well positioned to be a "bridge" between Australia and the PRC in facilitating the development of an enhanced flow of food businesses.

We are of the view that the acquisition of Jixiang by QMR is the right way forward for us to tap into the large and emerging consumer food markets in Hong Kong and in the PRC. Given the recently announced policy emphasis of the central government on expanding the disposable income of the rural population in the agricultural sector and the need to exploit PRC's hitherto untapped and vast marine resources, we are confident that the prospects of the food industry in the PRC are very promising indeed.

We have set a course to expand the earnings base of the QST Group to augment its traditional financial services business. It will take a few years for our investments to take root. As the ancient Chinese proverb once said, "A journey of a thousand miles begins with the first step". We intend to grow QST into a meaningfully sized entity for our shareholders.

For further details please contact:

Chiang Wee Tiong
Chairman
(852) 2877 6828
Email: cwt@murchisongroup.com

Grant Robertson
Director and Company Secretary
(03) 9867 7033
Email: garobertson@murchisongroup.com