



QUEST INVESTMENTS LIMITED

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ASX Announcement & Media Release

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Revenue and Income Expansion gaining momentum

Half-Year To 31 December 2010 Financial Results Highlights

Financial results for the half-year ended 31 December 2010, compared to the previous Corresponding period ("pcp")

Quest Investments Limited (ASX : QST) today announced that it is presenting for the first time its financial accounts in Hong Kong Dollar ("HKD"). This is to better reflect the operating results as its main earnings are HKD and USD based.

Quest Investments Limited (ASX : QST) today announced a 40% increase in Net Profit of HK\$ 3.124 million for the half-year ended 31 December 2010 as compared to a Net profit of HK\$2.237 million achieved in the pcp.

Most operating businesses registered a strong rise in revenue.

Strong cash flow position resulting from net cash contribution from operating businesses.

Financial position remained healthy with large reductions in financial liabilities.

Financial Highlights

- ❖ Revenue from ordinary activities was HK\$149.27 million , a five-fold increase as compared to the pcp;
- ❖ Net Profit after minority interests was HK\$3.124million, a 40% rise as compared to HK\$2.237 million in the pcp;
- ❖ Finance cost rose moderately to HK\$171,687 primarily due to supporting expansion in business volume;
- ❖ Expense base rose as a result of increase in senior managerial head count.



Highlights of the 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\$1.847 billion. This represents a significant increase of 49.3% from the pcp. Commission income earned was HK\$4.361 million, an increase of 28.5% as compared to the pcp.

In line with our business plan to expand the services offered by QSB 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 251% to HK\$1.3m as compared to pcp. A total of HK\$250 million was raised for a number of corporate clients in the period under review.

Reflecting the enhanced level of activities, QSB registered a 84% increase in Net Profit to HK\$2.953m as compared to HK\$1.602m in the pcp.

QSB’s internet brokerage system is at the final in-house testing phase before being launched for use by our global client base. QSB plans to launch this new platform to the wider market investing in Hong Kong securities by April 2011.

Telecommunications

Quest Telecom Limited (“QTL”) managed to record a modest profit of HK\$1,525 in a highly competitive market. This is in contrast to the loss of HK\$155,174 suffered in the pcp. Revenue from telecom and treasury activities rose to HK\$21.74m, an increase of 538% from the pcp.

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 lower sales and profits. QMR’s contribution to the Group’s earnings was HK\$0.549 million as compared to HK\$1 million in the pcp. DJFL’s sales was also lower due to seasonal factors and lower demand from European buyers due to the poorer economic conditions in some of the EU countries.

Outlook

The past six months had seen contrasting economic trends between the emerging markets and those of the developed world. Emerging markets such as China, India and Brazil have continued to drive economic growth. Those in the developed world, namely the US and parts of Europe, have remained mired in debt and high unemployment. The massive influx of “hot” money seeking investments in the emerging economies has raised legitimate fear of overheating and formation of bubbles in the emerging economies. This factor combined with the unfolding sovereign debt problems in some of the weaker countries in the European Union (“EU”) helped generate greater volatility in the global financial markets.

It is an accepted belief that 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 cut rising government spending and debt while fostering incentives for growth has gained more urgency. The recent draft budget presented for 2012 by the US does not appear to be a credible effort to most observers. The proposed budget seeks to cut the deficit from 11% of the GDP this year to 3.1% by 2021. Assuming that the deficit is reduced to 3.1% (which would stabilize government debt), the US debt to GDP ratio would still be at an inordinate high of around 80% as estimated by The Economist. This does not bode well for the future if the US continues to maintain its trillion-dollar annual deficit. Eventually, the financial markets will have to force US politicians to address the dire consequences of higher inflation, a weaker dollar and possibly the eventual loss of US's AAA sovereign credit ratings.

China, being an important hinterland for Hong Kong, is presently facing intense international pressure to save less, build up its domestic demand and consume more foreign products. It is also under intense pressure to address the imbalances in its massive US\$3 trillion foreign exchange reserves. In trade terms, the PRC's trade surplus is shrinking as a percentage of GDP. The trade surplus shrank to US\$183 billion in 2010, representing about 3% of its GDP as compared to about 10% during 2007-2008. Rising inflation, increasing imports and wage rises combined to balance the trade figures. However, a closer analysis of its capital account showed that this surplus rose 14% in 2010 to US\$166 billion. This anomaly is the result of various restrictions placed on money flowing out of the country and from an actively managed effort to keep the value of the Renminbi within a tight trading range.

Domestically, the PRC is taking a number of measures to prevent 'bubbles' being formed in its property market. It has 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.

Rising food prices is another potentially troublesome development especially in the context of social stability in China. The US Federal Reserves Bank's QE scheme, coupled with near-zero interest rates, are pushing hot money into quick-growing emerging markets and driving up both soft commodity and metal prices. With a large population and a severe drought affecting its wheat production, volatility in food prices has become a major challenge facing the PRC in 2011.

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 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

For 2010, the hot story for global investors was emerging markets. A clear consensus was forged that emerging markets would be the drivers of global growth. Indeed, the flow of funds into Asian markets drove equity prices further. Our strategic plan in focusing on expanding our existing businesses in the 2010/11 FY has benefited from this consensus and yielded encouraging results.

We intend to continue devoting more resources to further deepen and strengthen our present market position. We will continue to adhere to our traditional emphasis on prudence and yet forward-looking in the way we conduct our businesses.

Initial results of the first two months of 2011 suggest that the operating environment had become more challenging and difficult. A number of developments presently unfolding have convinced us to be more vigilant in monitoring and executing our various plans.



Firstly, the continuing problems associated with imbalances in the global economy and the unfolding political turmoil in the Middle East and North Africa will rattle global financial and capital markets. Secondly, fears of disruption to the oil supplies from Middle East and rising food and commodities prices will further undermine investors' confidence. Thirdly, the fund flows that drove emerging market equity prices are showing signs of returning to the developed world. Therefore, we anticipate that emerging markets will level off in both price and volume in the next six months. If the difficult trading conditions persist, our second half performance would likely be impacted more negatively. However, we remain cautiously optimistic in safely navigating through this turbulent and volatile economic landscape.

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