QUEST INVESTMENTS LIMITED
ABN 59 004 749 044

ASX Announcement
& Media Release

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Global slowdown and unresolved debt crisis impacted performance

Full Year To 30 June 2012 Financial Results Highlights

Financial results for the full year ended 30 June 2012, compared to the previous Corresponding period ("pcp')

Quest Investments Limited (ASX : QST) today announced that its operating performance for the year ended 30 June 2012 was affected by the poorer economic conditions that prevailed in most countries in which it conducted business. The unresolved European debt crisis and a significant slowdown in the global economies had continued to undermine investors' confidence.

Revenue declined for most operating businesses.

Net attributable loss for the full year ended 30 June 2012 was HK$2.49 million, as compared to a Net profit of HK$5.36 million achieved in the pcp.

Expense base declined in tandem with poorer operating conditions.

Significant reduction in financial liabilities reflecting our de-gearing effort in times of economic uncertainties.

Financial Highlights

- Revenue from ordinary activities was HK$95.3 million, a fall of 64% as compared to the pcp;
- Net Loss after minority interests was HK$2.49 million, as compared to HK$5.36 million Profit in the pcp;
- Financial liabilities fell to a modest HK$1.56 million , an improvement of nearly 50% from the pcp;
- Net Tangible Asset per share was HK$1.51;
- Decline in expense base mirrored the reduced turnover and the positive impact of on-going cost management programme implemented.

Highlights of the operating businesses

Stockbrokerage

Our stockbrokerage business conducted through Quest Stockbrokers (HK) Limited ("QSB") experienced markedly reduced turnover in line with the significant fall in volume of equities traded on the Hong Kong Stock Exchange and other regional exchanges. Total turnover of shares traded on the Hong Kong Stock Exchange fell by about 35% in the year under review. Total value of transactions executed by QSB was HK$1.898 billion. This represents a decrease of 42% from the pcp. Commission income earned was HK$4.419 million, a fall of 28% as compared to the pcp.

The uncertainties caused by the lack of progress in resolving the European debt crisis and the economic weakness in the US and OECD countries contributed to the much reduced market turnover globally.

Reflecting the poorer economic and market conditions, QSB registered a Net Loss of HK$2.042million. This was the first loss recorded since the 2005 FY.

Nominees Services

Quest Nominees Limited ("QNL") continued to receive steady income from its traditional activities of providing secretarial and nominees services to its regional clients who have business exposure in Hong Kong. The rental income it obtained for leasing out its membership in a leading club in Hong Kong carried a yield of about 22% per annum. QNL's carrying cost for this investment is HK$360,000. The market value for the club membership is presently around HK$650,000.

In view of the sharp fall in the equity market in the financial year, QNL's management deemed it prudent to provide HK$169,528 against diminution in the value of its investment portfolio. This provision resulted in QNL achieving only a modest profit of HK$1,606.

Telecommunications

Quest Telecom Limited ("QTL") recorded a satisfactory performance. Net profit for the year was HK$68,854. Revenue from telecom and treasury activities was HK$32.02m. A more focused and active management of treasury and investment activities continued to generate good returns for its investment portfolio. QTL would have recorded better profitability had it not been for a HK$92,000 redundancy payment arising from a rationalization of its technical support staff. QTL has practically no liabilities on its balance sheet.

Marine Resource
We have been advised by Quest Marine Resources Limited ("QMR"), and its wholly-owned subsidiary Dalian Jixiang Foods Limited ("DJFL") that they have recorded decline in sales and profits. QMR's contribution to the Group's earnings was HK$1.42 million as compared to HK$1.74 million in the pcp. DJFL's sales was adversely affected by the contraction in the EU economies

Outlook

The bleak outlook for the global economy in 2012 remains a constant concern. There are presently 3 major headwinds confronting the global economy: the lack of genuine and timely progress in resolving the European debt crisis and the accompanied recession : the "fiscal cliff" confronting the US : and a possible 'hard landing' for the PRC economy and other emerging economies.

The unsustainable social overheads in some of the EU countries are mainly structural in nature. They are expected to remain unresolved unless drastic measures at great social costs are implemented. We do not expect this situation will be resolved in the short term.

For the US, its deficit amounts to US$1.3 trillion and it continues to grow. The "fiscal cliff" of broad-based tax increases and spending cuts in 2013 if the US Congress does not reach agreement on deficit-reduction targets are expected by many analysts to have a devastating impact on the financial markets globally. The risk of that occurring is regarded by many to be relatively high.

Added to these potential adverse developments is the slowing economy in the PRC. China's economy grew at the slowest pace in 3 years in the second quarter of 2012. Recent signs that its economic slowdown is worsening has fueled fears of a hard landing. China's factory output dropped to a nine-month low. The HSBC Flash Purchasing Managers Index (PMI) fell to 47.8% in August 2012 from 49.5% in July. Of significance is the fall in export orders, which slumped to their lowest level since March 2009 on weak external demand and a glut in stocks of finished goods. Further decelerating growth in China would have significant and substantial impact on the global economy.

Domestically, the PRC is taking a number of administrative measures to cushion these adverse developments. Since November 2011, the People's Bank of China has cut its Reserve Requirement Ratio three times, by 50 basis points on each occasion. It also reduced interest rate twice to try to bolster the economic growth. The steps taken thus far have reinforced the perception that further round of stimulus can be expected.

Given the rather bleak landscape, it is not surprising for the financial markets to expect another co-ordinated round of interventions by central banks worldwide to inject liquidity into the global financial system.

The Way Forward

Our company's focus in the 2011/12 FY was principally on managing our risk exposure given the deteriorating operating environment. The wide swings in investors' sentiment and market gyrations this past year have become more frequent and more volatile in nature. This trend has been unprecedented in an increasingly globalised world as no economies or markets could be decoupled from others.

Initial results of the first two months of 2012/13 financial year suggest that the difficult operating environment is likely to persist, at least for the fourth quarter of 2012. Policy uncertainty in both the US and EU countries are immediate causes of concern. This coupled with a significant slow down in the Chinese economy are dampening investors' sentiment. We do not expect both the volume and turnover in the capital markets to reverse the present downward trend. This will impact negatively on our brokerage subsidiary's performance.

Notwithstanding the rather bleak prospect confronting all small and medium size enterprises such as ours, your management has undertaken a strategic review of our existing businesses, with an objective of building sustainable income streams over the longer term.

We have embarked on a defined programme for QTL to expand into infrastructure projects in the telecom sector. The signing of 2 MOU with a well-known technology company to build submarine fibre optic telecommunications system between Taiwan and Hong Kong, and between Australia and New Zealand represents our commitment to further diversify our present income stream. We expect to raise further equity funding in the near future to finance the necessary feasibility studies and other associated “soft costs” in anticipation of signing formal agreements to implement the building programmes.

Barring unforeseen “Black Swan” events developing in the new financial year, we remain hopeful in achieving better performance for the next six months.

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