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**Quest Investments Limited**

**Annual Report 2010**

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

ABN 59 004 749 044

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## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### COMPANY PARTICULARS

#### BOARD OF DIRECTORS

Wee Tiong Chiang, (Chairman) B.Sc (Hons), MBA

Grant Anthony Robertson, B.Ec, LLB, CPA

Dr Kim Chan Koh, MBBS (Malaya), MRCP(G), MRACP, DIH

#### COMPANY SECRETARY

Grant Anthony Robertson, B.Ec, LLB, CPA

#### REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

In Australia

Level 2, 11 Queens Road, Melbourne, Victoria 3004, Australia

Telephone : (03) 9867 7033

Fax : (03) 9867 7088

Principal place of business in Hong Kong

Room 202, 2<sup>nd</sup> Floor, Chinaweal Centre 414-424 Jaffe Road, Hong Kong

Telephone : (852) 2877 6828

Fax : (852) 2596 0451

#### SHARE REGISTRY

Registries Limited

Level 7, 207 Kent Street,

Sydney, NSW 2000

Australia

Telephone : (02) 9290 9600

Fax : (02) 9279 0664

#### AUDITOR

Bentleys Melbourne Partnership (In Australia)

Level 7, 114 William Street,

Melbourne, VIC 3000,

Australia

NK Wong & Co (In Hong Kong)

Room 1206, Harbour Crystal Centre

100 Granville Road,

Tsim Sha Tsui,

Kowloon, Hong Kong

#### BANKERS

Commonwealth Bank of Australia

367 Collins Street,

Melbourne, VIC 3000,

Australia

National Australia Bank Limited

271 Collins Street,

Melbourne, VIC 3000,

Australia

#### STOCK EXCHANGE LISTING

Quest Investments Limited is listed and its shares are quoted on the Australian Stock Exchange.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CHAIRMAN'S STATEMENT

Dear Shareholders,

A year ago, the world economy was teetering on the verge of a deep recession. The quantitative easing measures adopted by various governments had stabilised the global financial systems. Recovery in the world economy was evident and the global capital markets rallied on better economic fundamentals this past year.

I am glad, therefore, to report that Quest Investments Limited ("QST") and its controlled entities continued to deliver satisfactory results for what had been a volatile and often challenging year. Total revenues from ordinary activities increased 33% to \$6.005 million for the year ended 30 June 2010 as compared to the previous corresponding period ("pcp"). Net Profit in continuing operations excluding "Excess of investor's share of the net value on acquisition" rose 67% to \$545,251 for the full-year ended 30 June 2010 as compared to \$326,150 achieved in the pcp. In the pcp, there was an amount attributable to "Excess of investor's share of the net value on acquisition" of \$3.56 million arising from the acquisition of the food processing company in China.

Our financial position continued to strengthen. Our total net assets continued to grow whilst our current liabilities continued to fall. Total net assets rose to \$8.864 million from \$8.825 million in the pcp. Total liabilities fell further by 25.6% to \$5.913 million from the previous year's \$7.951 million.

Mindful of the greater uncertainty surrounding the state of economic recovery, operating costs containment remained an important emphasis for our management. I am satisfied that this objective had been achieved with good reduction in our operating costs. Finance costs stood at a modest \$40,000, reflecting our low gearing position and prudent capital management.

#### Stockbrokerage Business

Our stockbrokerage business conducted through Quest Stockbrokers (HK) Limited ("QSB") registered a credible performance in volatile and difficult trading conditions. The quantitative easing measures implemented by various governments prevented a complete meltdown in the global financial system. These measures also precipitated a mild recovery in the world economy and helped stabilize jittery global capital markets.

Hong Kong continued to benefit from a strong Chinese economy. QSB's commission income was HK\$6.541 million, an increase of 125% as compared to the pcp.

Total value of transactions executed by QSB was HK\$2.2 billion (A\$321m) as compared to HK\$0.961 billion (A\$140m) in the pcp.

Operating Profit rose 2178% to HK\$1.824 million as compared to HK\$0.08 million achieved in the pcp.

#### Nominees Services

Our nominees and secretarial services business conducted through Quest Nominees Limited ("QNL") achieved a good improvement in both its revenue and profitability. Profit for the year rose 2480% to HK\$75,754 on a revenue of HK\$4.23 million (A\$0.616m). Income from traditional activities of secretarial services and reduction in administrative expenses contributed to the better performance.

#### Direct Investment

Our strategy on scaling up the size of the operations of our two direct investments continued in the year under review.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CHAIRMAN'S STATEMENT (CONT'D)

#### (A) Telecommunications

Quest Telecom Limited ("QTL") continued to operate in difficult market conditions in a mature industry. QTL contributed HK\$7.3 million (A\$1.06m) in revenue. A loss of HK\$158,362 (A\$23,082) was recorded for the year.

#### (B) Marine Resource

We have been advised by Quest Marine Resources Limited ("QMR"), and its wholly-owned subsidiary Dalian Jixiang Food Co. Limited ("DJFL") that each of them recorded better sales and profits. QMR's contribution to the Group's earnings rose 68% to \$250,511 as compared to the pcp. DJFL's sales rose 25% to Rmb16.75million for the first four months of 2010. After accounting for increased processing activities in its 10,000 metric ton plant in Dalian PRC, net operating profit rose 29% to Rmb3.34 million from Rmb2.58 million achieved in the pcp.

Notwithstanding the poorer state of the Spanish economy coupled with the severe contraction in bank borrowings affecting our customers in Spain, DJFL was able to gain market share in the anchovy export business to various EU countries.

#### Outlook

The Global Financial Crisis that severely shook the world financial system and caused the global economy to fall into a recession in 2009 demanded swift and large quantitative easing measures from the central banks of OECD countries. These measures helped the world to stage a strong recovery and capital markets responded accordingly by rebounding strongly from a depressed level in the latter half of 2009.

However, signs are emerging that this recovery is stalling. Downturns in leading indicators in the US, Europe and Asia in recent months has led to increasing concern of a possible 'double-dip' recession for the world economy. This unsettling concern came shortly after the disturbing sovereign debt crisis in a number of EU countries in the early part of 2010. Outlook for the US economy was, in the words of Chairman Ben Bernanke of US Federal Reserve Bank, "unusually uncertain".

In the US, private sector deleveraging has begun in tandem with a rise in saving rates. This means that credit is contracting and demand is depressed. With the prevailing high 9.5% unemployment rate not helping the situation, the risk of private demand in US and other advanced economies remaining weak for a considerable period of time is increasingly high. Some economists believe that the US economy may remain anaemic for the next couple of years.

For the PRC, a moderation in the growth rate for the second quarter of this year is also a cause for concern. A rebalancing of its economy from an over-reliance on exports to developed countries to a more focused plan of enhancing domestic consumption and infrastructural investments is presently taking place. The success of this rebalancing of its economy is far from certain. It will depend on the outcome of its policy and various measures undertaken to spur consumption at a time of economic uncertainties precipitated by the fall in export demand for Chinese-made goods. 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.

Much is also dependent on the PRC's present effort in reining in an overheated domestic housing market through tightening credit availability. A hard landing of the property market will have massive negative implications for its domestic banking system. This follows from a massive 30% expansion in credit and loan facilities to domestic companies and local government-owned entities in the past year. In a sense, this massive credit expansion was the inevitable outcome of the Government's effort to restore growth and expand domestic demand to counter the negative impact of synchronous recessions in most of the OECD countries. A large portion of this massive credit expansion has found its ways into the property and stock markets, resulting in a massive rally in all sorts of risky assets – equities, oil, commodity and food - that led to the fear of "bubbles" being formed.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CHAIRMAN'S STATEMENT (CONT'D)

The rebalancing acts of US, Europe and China suggest that the economic performance of the world's major economies is set to disappoint in the medium term. It also suggests that the much-touted need for an early exit from quantitative easing measures is unlikely to take place in the short term for most developed western economies. On the contrary, we believe that further stimulus measures are likely to be introduced to forestall a "double-dip" recession from taking place. This will be positive for the capital markets for the rest of the year.

With more than US\$2.1 trillion in foreign reserves, a modest government debt of about 23% of GDP and a strong fiscal position, the PRC Government has the financial means to withstand any sharp slowdown in economic growth. This is crucial for the rest of Asia since it has been the driver of growth in the region. In some respect, the PRC economy is in a "sweet spot". Its growth is neither too strong nor too weak for 2010. We expect its growth rate is likely to be in the high single-digit range for 2010 and 2011.

For Australia, the anticipated slowdown in the major economies is likely to translate into softer demand for its mineral exports. Any unwinding of the carry trades in the currency market could accelerate the currency decline, particularly in the light of uncertainties in the political arena concerning the length of time the new government has going forward given the wafer-thin margin it commands in the Parliament. There is also further concern on the need to exit the stimulus programme and restore fiscal discipline. We expect further rises in interest rates and therefore do not expect a buoyant stock market for the rest of the year.

#### The Way Forward

Our continued focus on operational and financial disciplines in times of greater uncertainty and volatility has served the Group well in the 2009/10 FY. The "unusually uncertain" economic environment is expected to continue. Concerns are increasingly being felt across Asian exporting countries following recent confirmed signs of a general slowdown in the US economy.

Shareholders will undoubtedly recall that QSB is now a wholly-owned subsidiary of the Group following the re-purchase of the 40% equity interest from our then US partner. QSB has not been making any capital investments in the past several years due primarily to the legal uncertainties affecting its previous US partner. Now that this issue has been resolved and as part of our revitalization plan to ensure sustainability of our long-term revenue and income streams, QSB has applied to the Hong Kong Stock Exchange to set up an internet-based brokerage and trading system to augment its traditional telephone-based service presently offered to its clients.

Installation of the communication lines and trading platform is slated to begin in end-September 2010. Further testing on the software and hardware integration will take about 3 months. QSB has targeted the full introduction of internet-based brokerage services to its international and domestic clients to commence in the latter half of December 2010.

We have been informed by QNL that it intends to further expand its businesses by tapping into demand for secretarial services from foreign investors seeking to invest in the PRC through companies incorporated in Hong Kong. QNL is debt free and intends to deploy its liquid funds to further support its treasury and investment activities. Currently its long-term investment in a Hong Kong recreation club corporate membership earns a high yield of more than 12%p.a. from leasing out the membership to an unrelated third party. QNL has carried this investment at its historical cost. The present market value of the corporate membership is significantly higher.

QMR's lack of success in raising capital from the Australian capital market to further expand QMR's businesses is indeed disappointing. We have been informed by the management that it will seek loan financing locally in the PRC. As a significant shareholder of QMR, QST intends to assist in seeking funding from its existing network of relations to support QMR and its operating entities in the PRC as they strive to meet its expanding order book.

We remain of the view that the acquisition of DJFL by QMR is the right way forward for us in the longer term 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.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CHAIRMAN'S STATEMENT (CONT'D)

We have set a course to build stronger earnings base for the Quest Group. Our traditional financial services business will continue to be the primary earning driver as it expands its business coverage. We will continue to seek ways to help fund the business expansion in QMR's marine resources activities in order to deliver on the prevailing strong order book.

Initial results for the first two months of 2009/10 FY are encouraging. QSB's turnover and revenue for the first two months of the new financial year are about 15% ahead of the pcp. Although it is still premature to extrapolate on these results, it appears that our various operating units are trading well despite the presence of enhanced uncertainties and greater volatility in the financial markets. Nonetheless, it is difficult to predict how the Group will perform for the rest of the year given the myriad of unforeseen variables that could derail the fragile economic recovery globally. We are cautiously optimistic for the medium term.

#### Appreciation

On behalf of the Board of Directors, let me conclude by expressing my sincere appreciation to all our employees, shareholders and clients for their continued support.



Chiang Wee Tiong

Chairman

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## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CORPORATE GOVERNANCE STATEMENT

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2010.

#### Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report.

The names of independent directors of the company are:

Koh Kim Chan

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- less than 10% of company shares are held by the director and any entity or individual directly or indirectly associated with the director;
- no sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and
- none of the directors' income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the chair prior to incurring any expense on behalf of the company.

The Board of Directors perform the functions ordinarily carried out by a nomination committee.

#### Ethical Standards

The Board acknowledges and emphasises the importance of all directors and employees maintaining the highest standards of corporate governance practice and ethical conduct.

A code of conduct has been established requiring directors and employees to:

- • act honestly and in good faith;
- • exercise due care and diligence in fulfilling the functions of office;
- • avoid conflicts and make full disclosure of any possible conflict of interest;
- • comply with the law;
- • encourage the reporting and investigating of unlawful and unethical behaviour; and
- • comply with the share trading policy outlined in the Code of Conduct.

Directors are obliged to be independent in judgment and ensure all reasonable steps are taken to ensure due care is taken by the Board in making sound decisions.

#### Trading Policy

The company's policy regarding directors and employees trading in its securities is set by the management committee. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

#### Audit Committee

The Board of Directors perform the functions ordinarily carried out by an audit committee.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### Performance Evaluation

An annual performance evaluation of the Board and all Board members was conducted by the Board for the financial year ended 30 June 2010. The Board developed an internal review system for all Board members and members of the senior management team to provide feedback on how they thought the Board had performed. The chairman also speaks to each director individually regarding their role as director. The results from the internal review system were collated and developed into a series of recommendations to improve performance. This was presented to the Board at which time an action plan was developed to implement the recommendations and set the performance criteria and goals for the next year.

#### Board Roles and Responsibilities

The Board is first and foremost accountable to provide value to its shareholders through delivery of timely and balanced disclosures.

The Board sought external guidance to assist the drafting of its 'Board Governance Document' which has been made publicly available on the company's website. This document details the adopted practices and processes in relation to matters reserved for the Board's consideration and decision-making and specifies the level of authorisation provided to other key management personnel. The Board is ultimately responsible for ensuring its actions are in accordance with key corporate governance principles.

#### Shareholder Rights

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of annual and interim financial statements. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of Quest Investments Limited, to lodge questions to be responded by the Board and are able to appoint proxies.

#### Risk Management

The Board considers identification and management of key risks associated with the business as vital to maximize shareholder wealth. A yearly assessment of the business's risk profile is undertaken and reviewed by the Board, covering all aspects of the business from the operational level through to strategic level risks. The Board has been delegated the task of implementing internal controls to identify and manage risks for which the Board provides oversight. The effectiveness of these controls is monitored and reviewed regularly. The worsening economic environment has emphasised the importance of managing and reassessing its key business risks.

#### Remuneration Policies

The remuneration policy, which sets the terms and conditions for the key management personnel, was developed by the management committee. All executives receive a base salary, superannuation, mandatory provident fund, fringe benefits and retirement benefits. The management committee reviews executive packages annually by reference to company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice. The performance of executives is measured against criteria agreed half yearly which is based on the forecast growth of the company's profits and shareholders value. The policy is designed to attract the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.

Executives are also entitled to participate in the employee share and option arrangements.

The amount of remuneration for all key management personnel for the company and the seven highest paid executives, including all monetary and non-monetary components, are detailed in the directors report under the heading Key Management Personnel Compensation. All remuneration paid to executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

The Board expects that the remuneration structure implemented will result in the company being able to attract and retain the best executives to run the consolidated group. It will also provide executives with the necessary incentives to work to grow long-term shareholder value.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CORPORATE GOVERNANCE STATEMENT (CONT'D)

The grant of options and other incentive payments are reviewed by the management committee annually as part of the review of executive remuneration and a recommendation is put to the Board for approval. All options and incentives must be linked to predetermined performance criteria. The Board can exercise its discretion in relation to approving incentives, bonuses and options and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

#### Remuneration Committee

The Group does not have a remuneration committee. The management committee performs the function of a remuneration committee in determining the package for all senior executives.

There are no schemes for retirement benefits other than statutory superannuation or mandatory provident funds for non-executive directors.

#### ASX Listing rules 4.10.3

The Board of Directors of Quest Investments Limited ("Company") is committed to the implementation and maintenance of a comprehensive system of corporate governance over the Company and its controlled entities ("Group") consistent with the size and nature of the Company. The Board recognizes its responsibilities to stakeholders to maximize value whilst maintaining a strong corporate governance, risk management and control framework.

As a listed entity, the Company must comply with the Corporations Act 2001, the Australian Securities Exchange Listing Rules (ASX Listing Rules) and other laws.

ASX Listing Rule 4.10.3 requires ASX listed companies to report on the extent to which they have followed the Principles of Good Governance and Best Practice Recommendations ("Recommendations") released by the ASX Corporate Governance Council.

The Recommendations encourage the Board to carefully consider the development and adoption of appropriate corporate governance policies and practices founded on the Recommendations. However, in view of the Company's current size and extent and nature of its operations, full adoption is currently not beneficial, practical or cost effective for the Company. Consequently, the Board does not consider that full implementation of the Recommendations is presently justified or in the interests of shareholders. The Board will continue to work towards full adoption of the Recommendations in line with the growth and development of the Company in the years ahead.

The purpose of this Corporate Governance Statement ("Statement") is to outline the main corporate governance principles and practices of the Company subject to timely update by the Company. The Statement identifies where the Company is in compliance with the Governance Principles. It also highlights and explains any departures of the Company's principles and practices from the Governance Principles.

The Company's charters, policies and codes in relation to corporate governance are available on the Company's website ([www.murchisongroup.com](http://www.murchisongroup.com)).

#### ASX Principle 1

Lay solid foundations for management and oversight

##### *Recommendations 1.1*

Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The Board's objective is to increase shareholder value within an appropriate framework that ensures the Company's affairs are properly managed and controlled and sets the strategic business directions to be followed.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CORPORATE GOVERNANCE STATEMENT (CONT'D)

The powers reserved to the Board include the following:

- formulating the strategic objectives of the Company and establishing goals designed to promote the achievement of those strategic objectives;
- reviewing and approving corporate strategies, budgets, plans and policies developed by management and evaluating performance of the Group against those strategies and business plans in order to:
- monitor the performance of functions delegated to senior management including the progress of major capital expenditure, capital management, acquisitions, divestments, and strategic alliances and commitments, and
- assess the suitability of the Company's overall strategies, business plans and resource allocation;
- establishing and maintaining appropriate corporate governance, risk management and control systems;
- ensuring that effective audit, risk management and regulatory compliance programmes are implemented to protect the Group's assets and shareholder value;
- reviewing and approving corporate governance policies;
- oversight of corporate governance matters pertaining to the Board;
- appointing and removing the Managing Director ("MD");
- ratifying the appointment of the Chief Financial Officer ("CFO") and the Company Secretary;
- reviewing Board and executive management succession planning;
- monitoring financial performance and business results (including the audit process) to understand at all times the financial position of the Group;
- oversight of the Company's continuous disclosure obligations including approving the Group's statutory accounts and directors' reports and the declarations of any dividends;
- reporting to shareholders and other stakeholders;
- capital management including issues, calls on, forfeiture of shares, declaration of dividend and share buybacks;
- membership and role of Board sub-committees;
- reviewing the performance of the Board and board committees; and
- implementing a culture of compliance with legal and ethical standards with the aim of achieving industry best practice.

The Board has delegated to the MD and, under the MD's leadership, executive management, the powers and authority necessary to implement the strategies approved by the Board and to manage the day to day business affairs of the Company. The MD is required to consult the Board on matters that are sensitive, extraordinary, of a strategic nature or are otherwise outside the MD's delegated authority limits as specified by the Board from time to time.

At the time of their appointment, non executive directors receive a formal letter of appointment which sets out key terms and conditions of their appointment, including expectations of attendance and preparation for all board meetings, appointment to other boards, the procedure for dealing with conflicts of interest, and the availability of independent professional advice. The service agreements of the MD and CFO formally outline their roles and responsibilities.

Senior managers who are not Board Members have formal contracts with the Company which includes details of their role and job descriptions.

#### *Recommendation 1.2*

Disclose the process for evaluating the performance of senior managers

All senior managers are subject to a performance appraisal and remuneration review annually. As noted in Recommendation 8.1, such reviews are undertaken by the MD in accordance with the Company's performance based remuneration policy, details of which are set out in the Remuneration Report in the Directors' Report.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### Recommendation 1.3

Provide the information indicated in the Guide to reporting on Principle 1

A performance evaluation for all senior managers took place during the reporting period.

#### ASX Principle 2:

Structure the Board to add value

#### Recommendation 2.1

A majority of the Board should be independent directors

A Director is considered independent when he or she is independent of management (that is, non-executive), and free from any business or other relationship that could materially interfere with, or could be reasonably perceived to materially interfere with, the exercise of his or her unfettered and independent judgement.

Materiality is considered on a case by case basis by reference to the director's individual circumstances rather than general materiality thresholds.

The Board has made its own assessment to determine the independence of each director on the Board.

The Board comprises an executive chairman, Mr Wee Tiong Chiang, an executive director Mr Grant Anthony Robertson and a non-executive director Kim Chan Koh.

The composition of the Board is based on the following factors:

- current size of the Company;
- nature and extent of operations;
- stage of its development;
- tenure of directors;
- interests associated with directors hold a majority of the Company's issued securities; and
- limited trading in the Company's securities.

Notwithstanding the nature of the Board's composition, the Board maintains protocols to ensure that any potential or actual conflicts of interest and duty are properly identified and managed, and to ensure directors act in accordance with their fiduciary responsibilities.

The criteria for Board membership and the selection of appropriate members of the Board are determined by the Board itself. Election and rotation of directors is governed by the Company's constitution. Shareholder approval is sought where appropriate. In determining the appointment and retirement of non-executive directors, a cross section of skills and experience is sought.

The Company's Constitution specifies, amongst other things, that no director except a MD shall retain office for a period in excess of 3 years without submitting himself for re-election.

Details of the directors who are considered independent appear under Recommendation 2.6. The Company has not adopted the recommendation for a majority of the Board to be independent directors given the nature and extent of the Company's operations, the fact that interests associated with directors hold a majority of the Company's issued securities and that full adoption is currently not beneficial, practical or cost effective for the Company. This recommendation is inappropriate to the Company's particular circumstances.

#### Recommendation 2.2

*The chairman should be an independent director*

The Company has not adopted the recommendation given the nature and extent of the Company's operations, the fact that interests associated with the Chairman hold a majority of the Company's issued securities and that full adoption is currently not beneficial, practical or cost effective for the Company. This recommendation is inappropriate to the Company's particular circumstances.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### Recommendation 2.3

The roles of chairman and chief executive officer should not be exercised by the same individual

The Company has not adopted the recommendation given the nature and extent of the Company's operations, the fact that interests associated with the Chairman hold a majority of the Company's issued securities and that full adoption is currently not beneficial, practical or cost effective for the Company. This recommendation is inappropriate to the Company's particular circumstances. The Board of Directors has taken the view that at the present stage of development, it is in the best interests of the Company and its shareholders that Mr. Wee Tiong Chiang serves in both capacities as Chairman and CEO. This view departs from Recommendations 2.2 and 2.3.

#### Recommendation 2.4

The Board should establish a nominations committee

The Company has not adopted this recommendation as the practices relating to the selection and appointment of directors, detailed within this statement, are an efficient means of meeting the needs of the Company, having regard to the relative size of the Company which is reflected in the Board structure and composition.

The Board consists of 3 directors, one of whom is considered independent, and it is considered that the Company has the capacity to consider director nomination practices within the duly constituted meetings of the Board, and that the establishment of a formal committee structure would not add greater value to this process. The Company has not adopted this recommendation as it is inappropriate to its particular circumstances.

#### Recommendation 2.5

Disclose the process for evaluating the performance of the Board, its committees and individual directors

The performance of the Board and individual directors is considered on an informal, as needs basis.

For the reasons set out herein there are no committees of the Board save for the management committee.

All directors have direct access to the entire senior management team, including the company secretary, and are provided with information on a timely basis.

#### Recommendation 2.6

Provide information indicated in the Guide to reporting on Principle 2

Skills, experience and expertise of directors

Information relevant to the position of each director in office at the date of this report is set out in the Directors' Report.

#### Independent directors

Kim Chan Koh is considered "independent" in terms of the recommendations, holding a nominal number of shares as set out in the Directors' Report. The Board has set a materiality threshold for determining "independence". As set out herein. The independent director has not undertaken any employment with, nor acted as a principal of a material professional adviser or material consultant of; nor is a material supplier or customer of; nor has a material contractual relationship with; a member of the Group other than as a director.

#### Independent professional advice

Directors are able to seek reasonable independent professional advice, as appropriate, in the furtherance of their duties. Any such advice may be at the Company's expense, subject to prior approval of the Chair.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### CORPORATE GOVERNANCE STATEMENT (CONT'D)

Period of Office held by each director

Information in relation to the period of office held by each director can be found in the Directors' Report.

Process of selection and appointment of directors

Given the strength of service of directors, the Board does not consider it necessary to develop succession plans or procedures for the appointment and re-election of directors other than as set out in the Company's Constitution.

Performance evaluation

A performance evaluation of the Board and directors did take place in the relevant period for the reasons given under Recommendation 2.5. as previously referred to herein.

Departures from recommendations

Any departure from Recommendation 2.1 to 2.6 is explained under the relevant Recommendation.

ASX Principle 3:

Promote ethical and responsible decision-making

*Recommendation 3.1*

Establish a code of conduct and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the Company's integrity;
- the practices necessary to take into account the Company's legal obligations and the reasonable expectations of shareholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices

As part of the Board's commitment to the high standards of conduct, the Company has established operational protocols to deal with various issues including:

- conflicts of interest;
- employment practices;
- fair trading;
- health and safety; and
- relations with client, customers and suppliers.

These are designed to:

- clarify the standards of ethical behavior required of the Board, senior managers and employees and encourage compliance with those standards;
- assist the Company to comply with its legal obligations and have regard to the reasonable expectations of shareholders.

The recommendation to establish and publish formal code has not been adopted in view of the nature and extent of the Company operations, the long-standing tenure of directors and the close relationship with the senior management team.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### *Recommendation 3.2*

Establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

The Board has an informal policy to restrict directors and senior managers from acting on material information to trade in the Company's securities until such information has been released to the market and adequate time has passed for it to be reflected in the price of those securities.

Material information means information concerning the Company's financial position, strategy or operations and any other information which a reasonable person might consider, if it were made public, would be likely to have a material impact on a decision to buy or sell the Company's securities.

The recommendation to publish details of the trading policy has not been adopted in view of the limited dealings undertaken by directors and senior managers in the Company's securities and the fact that interests associated with the directors hold a majority of the Company's issued securities.

#### *Recommendation 3.3:*

Provide the information indicated in the Guide to reporting on Principle 3

Any departure from Recommendations 3.1 to 3.3 is explained under the relevant recommendations.

#### **ASX Principle 4:**

Safeguard integrity in financial reporting

##### Recommendation 4.1:

Establish an audit committee

The Board has not established an audit committee in view of the nature and extent of the Company's operations, the long-standing tenure of directors, the close relationship with the senior management team, interests associated with the directors hold a majority of the issued securities of the Company and that ultimate responsibility for the integrity of the Company's financial reporting rests with the full Board.

##### Recommendation 4.2:

The audit committee should be structured so that it:

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not chair of the board; and
- has at least three members.

For the reasons set out in under Recommendation 4.1 the Board has not established an audit committee.

##### Recommendations 4.3:

The audit committee should have a formal charter

The role and responsibilities of the Board include:

- oversee the existence and maintenance of internal controls and accounting systems;
- ensure the integrity of the financial reporting process;
- review the annual and half-yearly financial statements;
- oversee the independence of the external auditor; and
- ensure the existence of a process for identification and management of key business risks.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

The Board has rights of access to management, rights to seek explanations and additional information, and access to external auditors without management being present.

The Board has not adopted the recommendations to establish a committee charter in view of the nature and extent of company operations, the experience of each member of the Board and close access to the executive team.

Recommendation 4.4:

Provide the information indicated in the guide to reporting on Principle 4

For the reasons set out in under Recommendation 4.1 to 4.3 the Board has not established an audit committee or a formal charter or information on procedures for the selection and appointment of the external auditor, and the rotation of external audit engagement partners as these matters are dealt with informally.

Any departure from Recommendation 4.1 to 4.4 is explained under the relevant Recommendation.

#### **ASX Principle 5:**

##### **Make timely and balanced disclosure**

Recommendation 5.1:

Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies

The Managing Director has been nominated as the person responsible for communication with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirement in the ASX listing rules and overseeing and coordinating information disclosure to the ASX and the public.

The Managing Director and/or the Company Secretary jointly ensure that any proposed announcement is drafted in a timely manner, is factual, expressed in a clear and consistent manner and does not omit material information.

Except for standard secretarial and procedural matters, all material announcements to the ASX are authorized by the Board.

The Recommendation to establish and publish written policies regarding compliance with ASX Listing Rule disclosure requirements has not been adopted in view of the nature and extent of Company's operations.

*Recommendation 5.2:*

Provide the information indicated in the Guide to reporting on Principle 5

Any departure from Recommendation 5.1 and 5.2 is explained under Recommendation 5.1 above.

#### **ASX Principle 6:**

##### **Respect the rights of shareholders**

Recommendation 6.1:

Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy

The Recommendation to publish a communications policy has not been adopted in view of the nature and extent of Company's operations.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

#### *Recommendation 6.2:*

Provide information indicated in the Guide to reporting on Principle 6

The Company aims to keep shareholders informed of its performance and all major developments in an ongoing manner. Information disclosed to the ASX is available by a link on the Company's website.

Additionally, information is communicated to shareholders through:

- the annual report which is distributed to all shareholders and is available on the Company's website;
- the half annual report which is available on the Company's website; and
- other correspondence regarding matters impacting on shareholders as required which is also available on the Company's website.

Any departure from Recommendations 6.1 and 6.2 is explained under Recommendation 6.1 above.

#### ASX Principle 7:

Recognize and manage risk

#### Recommendation 7.1:

Establish policies for the oversight and management of material business risks and disclose a summary of those policies

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. The risk management system is established and implemented by the management of the Company. It consists of assessing, monitoring and managing operational, financial reporting and compliance risks for the Group. The MD and the CFO are required to declare, in writing to the Board, that the financial reporting, risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risks assessments cover the entire financial year and the period up to the signing of the annual financial report for all material operations of the Group.

The Group's risk management policies and procedures are aimed at ensuring risks are identified, assessed and appropriately managed. The Board reviews the status of the Group's risk profile annually. Each business unit is responsible and accountable for implementing and managing the standards required.

Major risks arise from such matters as project investment performance, interest rate and exchange rate movements, actions by competitors, counterparty risk, system risk, regulatory and policy changes by government, financial reporting and the purchase, development and application of information technology systems.

The Group strives to ensure that its services and products are of a high standard. The Board is responsible for the internal control framework, but recognizes that no cost-effective internal control system will preclude all human errors and irregularities. The Board's policy on internal control comprises the Company's internal compliance and control systems, including:

- operating unit controls – operating units confirm compliance with financial controls and procedures including information systems controls;
- functional specialty reporting- key areas subject to regular reporting to the Board include finance, operations and regulatory and compliance matters;
- Investment appraisal – guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority, and due diligence requirements where businesses are being acquired or divested.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

Comprehensive practices have been established to ensure:

- strict compliance with all financial services regulations;
- financial exposures are controlled. Further details of the Company's policies relating to interest rate management, foreign exchange rate management and credit risk management are included in the financial business transactions are properly authorized and executed;
- the quality and integrity of personnel;
- financial reporting accuracy and compliance with financial regulatory framework; and
- environmental regulation compliance.

Given the size, nature and stage of business development of the Group, the Board does not consider it necessary to establish an internal audit function. The Group has a number of alternative policies in place in relation to independent oversight of compliance with financial services legislation, such as the annual reporting to the financial supervisory and regulatory authorities by its statutory auditors for its Hong Kong regulated financial services business.

#### *Recommendation 7.2:*

Require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. Disclose that management has reported to the board as to the effectiveness of the company's management of its material business risks

We refer to Recommendation 7.1 above.

#### *Recommendation 7.3:*

Disclose whether the board has received assurance from the chief executive (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Board has received the declaration in accordance with section 295A of the Corporation Act and has had an opportunity to question whether the declaration is founded on a system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

#### *Recommendation 7.4:*

Provide the information included in the Guide to reporting on Principle 7

Any departure from Recommendations 7.1 to 7.4 is explained under the relevant Recommendation.

ASX Principle 8

### **Remunerate fairly and responsibly**

#### *Recommendation 8.1:*

Establish a remuneration committee

The Board has not established a remuneration committee in view of the nature and extent of the Company's operations, the long-standing tenure of directors, the close relationship with the senior management team, interests associated with the directors hold a majority of the issued securities of the Company and that ultimate responsibility for the Company's remuneration policy rests with the full Board.

The role and responsibilities of the Board includes the review and adoption (with or without amendment) of the Managing Director's recommendation concerning::

- appropriate remuneration policy for directors and senior managers;
- the performance reviews of senior managers; and

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### CORPORATE GOVERNANCE STATEMENT (CONT'D)

the remuneration and employment terms of senior managers in accordance with the adopted remuneration policy.

Remuneration for non-executive directors is determined by the full Board and is subject to shareholder approval (where required).

The Board considers that the skills, experience and expertise of its members are entirely suited to the effective discharge of Recommendation 8.1.

For the reasons set out herein the Board does not have a remuneration committee and consequently does not have a committee charter.

#### *Recommendation 8.2:*

Clearly distinguish the structure of non-executive directors' remuneration from that of directors and senior managers

The Company's remuneration policy for senior managers and non-executive directors is set out in the Remuneration Report.

#### *Recommendation 8.3*

Provide the information indicated in the Guide to reporting on Principle 8

For the reasons set out herein the Board does not have a remuneration committee and consequently does not have a committee charter.

There is no scheme for retirement benefit for non-executive directors.

The Company has not published a summary of its policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration scheme as the directors consider that such a policy is inappropriate to the Company's particular circumstances.

Any departure from Recommendation 8.1 to 8.3 is explained under the relevant Recommendations.

#### **Other Information**

Further information relating to the company's corporate governance practices and policies has been made publicly available on the company's website at <[www.murchisongroup.com](http://www.murchisongroup.com)>.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the Group, being the company and its controlled entities, for the financial year ended 30 June 2010.

#### Principal Activities

The principal activities of the consolidated group during the financial year were:

- Investments
  - Investments in marketable securities
- Stockbroking
  - Provision of share trading services to clients
- Venture capital investment
  - Mezzanine investments in companies suitable for eventual floatation on recognised stock exchanges.
- Telecom
  - Provision of communication services to clients.

There were no significant changes in the nature of the consolidated group principal activities during the financial year.

#### Operating Results

The consolidated profit of the consolidated group amounted to \$ 545,251 after providing for income tax and eliminating minority equity interests. The Excess of the investor's share of the net value on acquisition of \$3.5 million in the previous financial year was not repeated in the 2009/2010 year. Further discussion on the Group's operations now follows.

#### Review of Operations

Quest Investments Limited's core performance improved in the financial year ended 30 June 2010. Hong Kong continued to benefit from a strong Chinese economy. The Group's main subsidiary, Quest Stockbrokers (HK) Limited's commission income was HK\$6.541 million, an increase of 125% as compared to the previous financial period.

#### Financial Position

The net assets of the consolidated group did not significantly change during the year ended 30 June 2010. The directors believe the Group is in a healthy and stable position to develop and expand its current operations.

#### Significant Changes in State of Affairs

There was no significant change in the state of affairs of the parent entity during the financial year.

#### Dividends Paid or Recommended

No dividends were paid or declared during the year.

#### After Balance Date Events

No event after the balance sheet date has to be disclosed.

#### Future Developments, Prospects and Business Strategies

The Group's continued focus on operational and financial disciplines in times of greater uncertainty and volatility has served the Group well in the financial year ended 30 June 2010. Quest Stockbrokers (HK) Limited ("QSB") is now a wholly-owned subsidiary of the Group following the re-purchase of the 40% equity interest from a US partner. QSB has applied to the Hong Kong Stock Exchange to set up an internet-based brokerage and trading system to augment its traditional telephone-based service presently offered to its clients.

The first two months of financial year ending 30 June 2011 are encouraging. QSB's turnover and revenue for the new financial year are about 15% ahead of the previous financial year. The Group various operating units are trading well despite the presence of enhanced uncertainties and great volatility in the financial market.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### DIRECTORS' REPORT (CONT'D)

#### Environmental Issues

The consolidated group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or State or Territory.

#### Information on Directors

##### Wee Tiong Chiang

- Chairman (executive)
- Qualifications – B. Sc (Hons), MBA
- Experience – Appointed Chairman and Board member since 1991. Mr. Chiang has considerable experience in stock broking, investment, banking and asset management gained in Singapore, Hong Kong and the PRC.
- Interest in Shares and Options – 1,652,448 Ordinary Shares in Quest Investments Limited
- Special Responsibilities – Mr Chiang is also the Senior Economic advisor to The People's Government of Nan'an District, Chongqing City, PRC.
- Directorships held in other listed entities during the these years prior to the current year – Current director and chairman of Murchison Holdings Limited since 1991.

##### Grant Anthony Robertson

- Director (Executive)
- Qualifications – B. Ec, LLB., CPA
- Interest in Shares and Options – 32,094,599 Ordinary Shares of Quest Investments Limited.
- Experience – Board member since 1991. Mr. Robertson was a lawyer and general counsel of Dibbs Abbott Stillman, and has considerable experience in property development, corporate and taxation matters.
- Directorships held in other listed entities during the these years prior to the current year – Current director of Murchison Holdings Limited since 1991.

##### Kim Chan Koh

- Director (Non-executive)
- Qualifications – MBBS, MRCP, MRACP, DIH
- Experience – Board member since 2001. Dr Koh is a retired medical practitioner specialising in aviation medicine.
- Interest in Shares and Options – 5,400 Ordinary Shares of Quest Investments Limited.
- Directorships held in other listed entities during the these years prior to the current year – Current director of Murchison Holdings Limited since 2001

#### Company Secretary

The following person held the position of company secretary at the end of the financial year:

Grant Anthony Robertson - B. Ec, LLB., CPA, the director and company secretary of the Group. Details information for Mr Robertson can be referred to the information on the directors.

#### Meetings of Directors

During the financial year, 6 meetings of directors were held. Attendances by each director during the year were as follows:

	Directors' Meetings	
	Number eligible to attend	Number Attended
Wee Tiong Chiang	6	6
Grant Anthony Robertson	6	6
Kim Chan Koh	6	6

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### DIRECTORS' REPORT (CONT'D)

#### **Indemnifying Officers or Auditor**

During or since the end of the financial year the company has agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the following directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was \$16,000

Wee Tiong Chiang

Grant Anthony Robertson

Kim Chan Koh

#### **Options**

Option holders do not have any rights to participate in any issues of shares or other interests in the company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since reporting date.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

During the year ended 30 June 2010, no ordinary shares of Quest Investments Limited were issued on the exercise of options granted. No further shares have been issued since year end. No amounts are unpaid on any of the shares.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

#### **Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

#### **Non-audit Services**

The auditors of the Group and its controlled entities did not provide non-audit services during the year. This is not incompatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

#### **Auditor's Independence Declaration**

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 28 of the Annual Report.

#### **ASIC Class Order 98/100 Rounding of Amounts**

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### REMUNERATION REPORT

#### Remuneration Policy

The remuneration policy of Quest Investments Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The board of Quest Investments Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Consolidated Group is as follows:

- The remuneration policy is to be developed by the management committee and approved by the Board.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, MPF, fringe benefits and options.
- No performance incentives are paid during the year.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The management committee reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed bi-annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. Incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

Key management personnel receive a superannuation guarantee contribution and Mandatory provident funds (MPF) which is currently 10% and 5% of salary respectively and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation and MPF.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. Any options not exercised before or on the date of termination will lapse.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The management committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Key management personnel are also entitled and encouraged to participate in the employee option arrangements to align directors' interests with shareholders' interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share at that time and is valued using the Black-Scholes methodology.

Key management personnel who are subject to the arrangement are subject to a policy governing the use of external hedging arrangements. Such personnel are prohibited from entering into hedge arrangements, ie put options, on unvested shares and options which form part of their remuneration package

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### REMUNERATION REPORT

#### Performance-based Remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually. Following the assessment, the KPIs are reviewed by the management committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, Quest Investments Limited bases the assessment on audited figures; however, where the KPI involves comparison of the Group, or a division within the Group, to the market, independent reports will be obtained from organisations.

#### Relationship between Remuneration Policy and Company Performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The options method has issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy was effective in increasing shareholder wealth over the past 5 years.

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually. Following the assessment, the KPIs are reviewed by the management committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, Quest Investments Limited bases the assessment on audited figures; however, where the KPI involves comparison of the Group, or a division within the Group, to the market, independent reports will be obtained from reputable organisations.

The following table shows the gross revenue, profits and dividends for the last five years for the listed entity, as well as the share prices at the end of the respective financial years.

	2006	2007	2008	2009	2010
	\$000	\$000	\$000	\$000	\$000
Revenue	5,070	8,033	9,987	10,535	6,521
Net Profit / (loss)	(145)	262	1,089	3,888	545
Dividend	-	-	-	-	-
Share price	\$0.40	\$0.12	\$0.15	\$0.11	\$0.08

During the year there was an on-market share buy-back. The directors felt this was appropriate as it enabled the company to tidy up odd lot shares. The buy-back took effect from 12 Aug 2009 and expires 12 Aug 2010.

During the year, the share price traded between a low of \$0.06 and a high of \$0.16. The Board has decided to improve investor awareness of the company with the aim of ensuring that the company's share price is in tandem with a consistent and stable financial position of the Company.

#### Performance Conditions Linked to Remuneration

The Group seeks to emphasise reward incentives for results and continued commitment to the Group through the provision of share option schemes. Incentive payments provide management with a performance target which focuses upon organic sales growth utilising existing Group resources.

There are no options currently granted

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### REMUNERATION REPORT

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

#### Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated group, and to the extent different, among the key Group executives or company executives receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

	Position held as at 30 June 2010 and any change during the year	Contract details (duration & termination)	Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
			Non-salary cash-based incentives	Shares/Units	Options/Rights	Fixed Salary/Fees	Total
			%	%	%	%	%
<b>Group Key Management Personnel</b>							
Wee Tiong Chiang	Director	No-fixed term	-	-	-	100	100
Grant Anthony Robertson	Director	No-fixed term	-	-	-	100	100
Kim Chan Koh	Director	No-fixed term	-	-	-	100	100
<b>Other Executives</b>							
Jason Chiu	Dealing Director	3 months notice period	-	-	-	100	100
Brian Wong	Chief Financial Officer	3 months notice period	-	-	-	100	100
Sharon Tan	Senior Manager	1 month notice period	-	-	-	100	100
Wendy Cheung	Administration manager	1 month notice period	-	-	-	100	100

The employment terms and conditions of key management personnel and Group executives are formalised in contracts of employment.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### REMUNERATION REPORT

Terms of employment require that the relevant Group entity provide an executive contracted person with a minimum of 1-3 months notice prior to termination of contract. Termination payments equal to the required notice of termination are generally payable. A contracted person who is deemed employed on a permanent basis may terminate their employment by providing at least one month notice. No termination payments are payable on resignation.

Non-executive directors do not have a definite employment term. No termination payments will be paid upon termination.

#### Changes in Directors and Executives Subsequent to Year-end

There were no changes in directors during the year.

#### Remuneration Details for the Year Ended 30 June 2010

The following table of benefits and payments details, in respect to the financial year, the components of remuneration for each member of the key management personnel of the consolidated group and, to the extent different, the key Group executives receiving the highest remuneration:

#### Table of Benefits and Payments for the Year Ended 30 June 2010

Key Management Personnel		Short-term Benefits				Total
		Salary and Fees	Superannuation Contribution	Non-cash Benefits	Options	
Directors		\$	\$	\$	\$	\$
Wee Tiong Chiang	2010	255,000	6,000	-	-	261,000
	2009	300,000	10,000	-	-	310,000
Grant Anthony Robertson	2010	164,000	17,000	-	-	181,000
	2009	106,000	7,000	-	-	113,000
Kim Chan Koh	2010	25,000	5,000	-	-	30,000
	2009	25,000	-	-	-	25,000
Key Management Personnel		Short-term Benefits				Total
Executives		\$	\$	\$	\$	
Jason Chiu	2010	64,000	3,000	-	-	67,000
	2009	77,000	3,000	-	-	80,000
Brian Wong	2010	64,000	3,000	-	-	67,000
	2009	55,000	2,000	-	-	57,000
Sharon Tan	2010	40,000	3,000	-	-	43,000
	2009	46,000	3,000	-	-	49,000
Wendy Cheung	2010	47,000	3,000	-	-	50,000
	2009	56,000	3,000	-	-	59,000

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

ABN 59 004 749 044

**REMUNERATION REPORT**

**Securities Received that are not Performance Related**

No members of the key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

**Cash Bonuses, Performance-related Bonuses and Share-based Payments**

No options and bonuses were granted as remuneration during the year to key management personnel and other executives.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Wee Tiong Chiang, Director

Dated : 1<sup>st</sup> October 2010

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**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF QUEST INVESTMENTS LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010, there have been:

- a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

**BENTLEYS MELBOURNE PARTNERSHIP  
CHARTERED ACCOUNTANTS**

**MARTIN FENSOME  
PARTNER**

Dated in Melbourne on this 1 day of October 2010

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**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

ABN 59 004 749 044

**STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2010**

		Consolidated group	
	Note	2010 \$000	2009 \$000
<b>Continuing operations</b>			
Revenue	2	6,006	4,449
Other income	2	515	2,525
Excess of the investor's share of the net value on acquisition		-	3,561
Cost of sales		(5,029)	(4,646)
Employee benefits expense		(513)	(635)
Depreciation and amortisation expense		(11)	(11)
Finance costs		(40)	(63)
Other expenses		(633)	(1,411)
Gain in disposal of an associated company		-	71
Share of net profits of associates		250	48
<b>Profit before income tax</b>	3	545	3,888
Income tax expense	4	-	-
<b>Profit from continuing operations</b>		545	3,888
Profit from discontinued operations after tax		-	-
<b>Profit for the year</b>	3	545	3,888
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operation :		(244)	677
<b>Other comprehensive income/(loss) for the year, net income tax</b>		(244)	677
<b>Total comprehensive income for the year</b>		301	4,565
<b>Total comprehensive income attributable to:</b>			
Owners of the parent entity		301	4,565
Non-controlling interest		-	-
<b>Total comprehensive income for the year</b>		301	4,565

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

ABN 59 004 749 044

**STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2010**

<b>Earnings per share</b>	<b>Note</b>	<b>Consolidated group</b>	
		<b>2010</b>	<b>2009</b>
From continuing and discontinued operations:			
Basic earnings per share (cents)	7	1.22	8.70
Diluted earnings per share (cents)	7	0.64	7.94
From continuing operations:			
Basic earnings per share (cents)	7	1.22	8.70
Diluted earnings per share (cents)	7	0.64	7.94

The accompanying notes form part of these financial statements.

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**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

ABN 59 004 749 044

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010**

		<b>Consolidated group</b>	
	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>\$000</b>	<b>\$000</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	843	450
Trade and other receivables	9	5,789	5,761
Financial assets	12	303	307
Other assets	15	13	10
<b>TOTAL CURRENT ASSETS</b>		<b>6,948</b>	<b>6,528</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	9	4,058	6,477
Investments accounted for using the equity method	10	3,863	3,613
Financial assets	12	8	8
Plant and equipment	14	36	29
Other non-current assets	15	114	121
<b>TOTAL NON-CURRENT ASSETS</b>		<b>8,079</b>	<b>10,248</b>
<b>TOTAL ASSETS</b>		<b>15,027</b>	<b>16,776</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	5,234	7,714
Borrowings	17	679	237
<b>TOTAL CURRENT LIABILITIES</b>		<b>5,913</b>	<b>7,951</b>
<b>TOTAL LIABILITIES</b>		<b>5,913</b>	<b>7,951</b>
<b>NET ASSETS</b>		<b>9,114</b>	<b>8,825</b>
<b>EQUITY</b>			
Issued capital	18	16,951	16,942
Reserves		1,084	1,349
Accumulated losses		(8,921)	(9,466)
Parent interest		9,114	8,825
Non-controlling interest		-	-
<b>TOTAL EQUITY</b>		<b>9,114</b>	<b>8,825</b>

The accompanying notes form part of these financial statements.

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

ABN 59 004 749 044

**STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2010**

**Consolidated Group**

	Note	Reserves				Accumulated Losses	
		Ordinary share	Capital Profits	Share Options	Foreign Currency Translation		Minority Equity interests
		\$000	\$000	\$000	\$000	\$000	
<b>Balance at 1 July 2008</b>		16,955	1,129	151	(618)	-	(13,354)
<b>Total comprehensive income for the year</b>							
Profit and loss		-	-	10	-	-	3,888
<b>Other comprehensive income</b>							
Foreign currency translation differences		-	-	-	677	-	-
<b>Total comprehensive income for the year</b>		-	-	10	677	-	3,888
<b>Transactions with owners, recorded directly in equity</b>							
Share issued during the year		15	-	-	-	-	-
Shares bought back during the year		(28)	-	-	-	-	-
<b>Balance at 30 June 2009</b>		16,942	1,129	161	59	-	(9,466)
<b>Balance at 1 July 2009</b>		16,942	1,129	161	59	-	(9,466)
<b>Total comprehensive income for the year</b>							
Profit and loss		-	-	(21)	-	-	545
<b>Other comprehensive income</b>							
Foreign currency translation differences		-	-	-	(244)	-	-
<b>Total comprehensive income for the year</b>		-	-	(21)	(244)	-	545
<b>Transactions with owners, recorded directly in equity</b>							
Shares issued during the year		12	-	-	-	-	-
Shares bought back during the year		(3)	-	-	-	-	-
<b>Balance at 30 June 2010</b>		16,951	1,129	140	(185)	-	(8,921)

The accompanying notes form part of these financial statements.

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**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

ABN 59 004 749 044

**STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2010**

		<b>Consolidated group</b>	
	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>\$000</b>	<b>\$000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		6,425	4,499
Payments to suppliers and employees		(6,172)	(4,904)
Dividends received		3	11
Interest received		8	44
Finance costs		(40)	(63)
Net cash provided by (used in) operating activities	22	224	(413)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment		(18)	(13)
Net cash used in investing activities		(18)	(13)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		12	15
Repayment of related party receivables		-	(520)
Share buy back payment		(3)	(28)
Net cash provided by (used in) financing activities		9	(533)
Net increase / (decrease) in cash held		215	(959)
Cash and cash equivalents at beginning of financial year		213	485
Effect of exchange rates on cash holdings in foreign currencies		(264)	687
Cash and cash equivalents at end of financial year	8	164	213

The accompanying notes form part of these financial statements.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

This financial report includes the consolidated financial statements and notes of Quest Investment Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Quest Investment Limited as an individual parent entity ('Parent Entity').

#### **Note 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

##### **(a) Principles of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Quest Investments Limited at the end of the reporting period. A controlled entity is any entity over which Quest Investments Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 13 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

##### **Business Combinations**

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

#### (b) **Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the statement of comprehensive income is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the statement of comprehensive income when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### (c) Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

##### Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

##### Depreciation

The depreciable amount of all fixed assets including capitalised lease assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

#### (d) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 1: Statement of Significant Accounting Policies (CONT'D)

##### (e) Financial Instruments

###### Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to statement of comprehensive income immediately.

###### Classification and Subsequent Measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

*Amortised cost* is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- d. less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in statement of comprehensive income.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

###### i. *Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in statement of comprehensive income.

###### ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

###### iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 1: Statement of Significant Accounting Policies (CONT'D)

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

##### iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets.)

##### v. Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

##### Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

##### Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

##### Financial Guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

##### De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in statement of comprehensive income.

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## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 1: Statement of Significant Accounting Policies (CONT'D)

(f) **Impairment of Assets**

At each the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(g) **Investments in Associates**

Associate companies are companies in which the Group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the company. Investments in associates are accounted for in the financial statements by applying the equity method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate company. In addition the Group's share of the profit or loss of the associate company is included in the Group's profit or loss.

The carrying amount of the investment includes goodwill relating to the associate. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the relation to the Group's investment in the associate.

When the reporting dates of the Group and the associate are different, the associate prepares, for the Group's use, financial statements as of the same date as the financial statements of the Group with adjustments being made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume the recognition of its share of those profits once its share of the profits equals the share of the losses not recognised.

Details of the Group's investments in associates are shown at Note 11.

(h) **Intangibles**

**Goodwill**

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest; and
- (iii) the acquisition date fair value of any previously held equity interest,

over the acquisition date fair value of net identifiable assets acquired.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 1: Statement of Significant Accounting Policies (CONT'D)

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value (*full goodwill method*) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (*proportionate interest method*). The Group determines which method to adopt for each acquisition.

Under the *full goodwill method*, the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

#### (i) Foreign Currency Transactions and Balances

##### Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

##### Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

##### Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 1: Statement of Significant Accounting Policies (CONT'D)

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

#### (j) **Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy vesting requirements. Those cash outflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

#### **Equity-settled compensation**

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

#### (k) **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

#### (l) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

#### (m) **Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All dividends received shall be recognised as revenue when the right to receive the dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST)

#### (n) **Trade and Other Payables**

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 1: Statement of Significant Accounting Policies (CONT'D)

(o) **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(p) **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cashflows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(q) **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

(r) **Rounding of Amounts**

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

(s) **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

**Key Estimates**

(i) *Impairment*

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

No impairment has been recognised in respect of in respect of property, plant, equipment and trade and others receivable for the year ended 30 June 2010.

(t) **Adoption of New and Revised Accounting Standards**

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Quest Investments Limited.

**AASB 8: Operating Segments**

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 1: Statement of Significant Accounting Policies (CONT'D)

##### Measurement impact

Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

##### Impairment testing of the segment's goodwill

AASB 136: Impairment of Assets, para 80 requires that goodwill acquired in a business combination shall be allocated to each of the acquirer's CGUs, or group of CGUs that are expected to benefit from the synergies of the combination. Each cash generating unit (CGU) which the goodwill is allocated to must represent the lowest level within the entity at which goodwill is monitored, however it cannot be larger than an operating segment. Therefore, due to the changes in the identification of segments, there is a risk that goodwill previously allocated to a CGU which was part of a larger segment could now be allocated across multiple segments if a segment had to be split as a result of changes to AASB 8.

Management have considered the requirements of AASB 136 and determined the implementation of AASB 8 has not impacted the CGUs of each operating segment.

##### Disclosure impact

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

#### **AASB 101: Presentation of Financial Statements**

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

##### Disclosure impact

Terminology changes — the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 1: Statement of Significant Accounting Policies (CONT'D)

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

#### (u) New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  - a. the objective of the entity's business model for managing the financial assets; and
  - b. the characteristics of the contractual cash flows.

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

- AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

	Note	Consolidated Group	
		2010 \$000	2009 \$000
<b>Note 2: Revenue and other income</b>			
<b>Revenue from continuing operations</b>			
Sales revenue			
– Proceeds from sales of quoted securities		5,052	3,947
– Commission		954	502
		<u>6,006</u>	<u>4,449</u>
Other revenue			
– Dividends received	(a)	3	11
– Interest received	(b)	8	44
– Other revenue		504	2,470
		<u>515</u>	<u>2,525</u>
Total Revenue		<u>6,521</u>	<u>6,974</u>
<b>Other income</b>			
– Gain on disposal of non-current investments		-	71
		<u>-</u>	<u>71</u>
a. Dividend revenues from :			
– Other corporations		3	11
Total dividend revenue		<u>3</u>	<u>11</u>
b. Interest revenue from :			
– Other persons		8	44
Total interest revenue on financial assets not at fair value through profit or loss		<u>8</u>	<u>44</u>
c. Total revenue and other income from continuing operations			
Attributable to members of the parent entity		301	4,565
Attributable to non-controlling interests		-	-
		<u>301</u>	<u>4,565</u>

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 3: Profit for the year	Note	Consolidated Group	
		2010 \$000	2009 \$000
<b>a. Expenses</b>			
Cost of sales		5,029	4,646
Finance cost - external		40	63
Rental expense on operating leases		102	90
<b>b. Significant Revenue and Expenses</b>			
The following significant revenue and expense items are relevant in explaining the financial performance:			
Excess of the investor's share of the net value on acquisition			
		-	3,561

**Note 4: Income Tax Expense**

- a. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30% (2009: 30%)

- consolidated group

Add : Tax effect of :

- Adjustment for foreign tax rate

Recoupment of prior year tax losses not previously brought to account

Income tax attributable to entity

Deferred income tax assets not brought to account

164	1,166
<u>164</u>	<u>1,166</u>
(31)	(44)
<u>133</u>	<u>1,122</u>
(133)	(1,122)
<u>-</u>	<u>-</u>
<u>2,707</u>	<u>2,840</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010****Note 5: Interests of Key Management Personnel (KMP)**

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Short-term employee benefits	659	665
Post-employment benefits	40	28
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	699	693
	699	693

**KMP Options and Rights Holdings**

The number of options over ordinary shares held by each KMP of the Group during the financial year is as follows:

<b>30 June 2010</b>	<b>Balance at beginning of year</b>	<b>Granted as remuneration during the year</b>	<b>Exercised /lapsed during the year</b>	<b>Other changes during the year</b>	<b>Balance at end of year</b>	<b>Vested during the year</b>	<b>Vested and exercisable</b>	<b>Vested and unexercisable</b>
<b>Directors</b>								
WeeTiong Chiang	824,000	-	(824,000)	-	-	-	-	-
Grant Anthony Robertson	900,000	-	(900,000)	-	-	-	-	-
Kim Chan Koh	200,000	-	(200,000)	-	-	-	-	-
<b>Executives</b>								
Jason Chiu	100,590	-	(100,590)	-	-	-	-	-
Sharon Tan	150,958	-	(150,958)	-	-	-	-	-
Brian Wong	-	-	-	-	-	-	-	-
Wendy Cheung	161,409	-	(161,409)	-	-	-	-	-
	2,336,957	-	(2,336,957)	-	-	-	-	-
	2,336,957	-	(2,336,957)	-	-	-	-	-

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 5: Interests of Key Management Personnel (KMP) (CONT'D)**

**KMP Shareholdings**

The number of ordinary shares in Quest Investments Limited held by each KMP of the Group during the financial year is as follows:

30 June 2010	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
<b>Directors</b>					
Wee Tiong Chiang (1)	1,652,448	-	-	-	1,652,448
	-	-	-	405,366	405,366
	-	-	-	170,000	170,000
	-	-	-	997,596	997,596
Grant Anthony Robertson (2)	4,000	-	-	-	4,000
	31,927,524	-	-	-	31,927,524
Grant Anthony Robertson (3)	43,517	-	-	119,558	163,075
	-	-	-	-	-
Kim Chan Koh	5,400	-	-	-	5,400
<b>Executives</b>					
Sharon Tan (2)	12,000	-	-	12,100	24,100
	31,927,524	-	-	-	31,927,524

**Note**

(1) 1,652,448 ordinary shares are relevant interest in own name.

405,366 ordinary shares are relevant interest as director of Toptrend Group Limited

170,000 ordinary shares are relevant interest as director of Samfield Investments Limited

997,596 ordinary shares are relevant interest as director of Even More Profits Limited

(2) 31,927,524 ordinary shares are relevant interest as a director of Jondara Pty Limited

(3) 163,075 ordinary shares are relevant interest as a director of Serenar Nominees Pty Ltd.

**Other KMP Transactions**

There have been no other transactions involving equity instruments other than those described in the tables above.

No loans to KMP are granted during the year.

**Note 6: Auditors' Remuneration**

	Consolidated Group	
	2010 \$000	2009 \$000
Remuneration of the auditor of the parent entity for:		
– auditing or reviewing the financial statements	52	68
Remuneration of other auditors of subsidiaries for:		
– auditing or reviewing the financial statements of subsidiaries	39	36
	91	104

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 7: Earnings per Share**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
a. Reconciliation of Earnings to Profit and Loss		
Profit for the year	545	3,888
Profit attributable to minority equity interest	-	-
Earnings used to calculate basic EPS	545	3,888
b. Reconciliation of earnings to profit or loss from continuing operations		
Profit from continuing operations	545	3,888
Profit attributable to minority equity interest in respect of continuing operations	-	-
Earnings used in the calculation of basic and dilutive EPS from continuing operations	545	3,888
	<b>No.</b>	<b>No.</b>
c. Weighted average number of ordinary shares outstanding	44,512,822	44,686,597
Weighted average number of options outstanding	40,990,925	4,282,630
Weighted average number of ordinary share outstanding during the year used in calculating dilutive EPS	85,503,747	48,969,227

**Note 8: Cash and Cash Equivalents**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$000</b>	<b>\$000</b>
Cash at bank and in hand		843	450
	<b>26</b>	843	450

Cash at bank includes \$843,000 (2009: \$449,996) pledged as security for overdraft facilities. The effective interest rate on short-term bank deposits was less than 1% (2009: 1%); these deposits have an average maturity of seven to thirty days.

**Reconciliation of cash**

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalents		843	450
Bank overdrafts	<b>17</b>	(679)	(237)
		164	213

A floating charge over cash and cash equivalents has been provided for certain debts. Refer note 17 for further details.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

<b>Note 9: Trade and Other Receivables</b>	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010 \$000</b>	<b>2009 \$000</b>
<b>CURRENT</b>			
Trade receivables		5,789	5,761
Provision for impairment		-	-
<b>Total current trade and other receivables</b>	<b>26</b>	<b>5,789</b>	<b>5,761</b>
<b>NON-CURRENT</b>			
Term receivables	<b>9(a)</b>	4,058	6,477
Provision for impairment		-	-
	<b>26</b>	<b>4,058</b>	<b>6,477</b>
<b>(a) Amounts receivable from :</b>			
- Associated companies		4,058	6,477
<b>Total non-current trade and other receivables</b>		<b>4,058</b>	<b>6,477</b>

Current trade and term receivables are non-interest bearing loans and generally on 30-120 day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairments is recognized when there is an objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item. No provision of impairment has been provided in the account during the year.

**Credit Risk – Trade and Other Receivables**

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 9. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group has significant credit risk exposures in Hong Kong given the substantial operations in those regions. The Group's exposure to credit risk for receivables at the end of the reporting period in those regions is as follows:

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 9: Trade and Other Receivables (CONT'D)**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Hong Kong	5,789	5,761
	5,789	5,761

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	<b>Gross amount</b>	<b>Past due and impaired</b>	<b>Past due but not impaired</b>				<b>Within initial trade terms</b>
			<b>(days overdue)</b>				
			<b>&lt; 30</b>	<b>31-60</b>	<b>61-90</b>	<b>&gt; 90</b>	
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	
<b>Consolidated Group</b>							
<b>2010</b>							
Trade and term receivables	5,789	-	-	-	-	-	5,789
Other receivables	-	-	-	-	-	-	-
Total	5,789	-	-	-	-	-	5,789
<b>2009</b>							
Trade and term receivables	5,761	-	-	-	-	-	5,761
Other receivables	-	-	-	-	-	-	-
Total	5,761	-	-	-	-	-	5,761

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, which would otherwise be past due or impaired.

**a. Collateral held as security**

The bank overdraft of the parent entity and subsidiaries are secured by fixed deposit, and available for sales securities pledged with the bank and a personal guarantee from a director.

**b. Collateral pledged**

No charge over trade receivables has been provided for during the year.

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$000</b>	<b>\$000</b>
<b>Note 10: Investments Accounted for Using the Equity Method</b>			
Associated companies		3,613	3,565
Share of profits		250	48
	<b>11(a)</b>	3,863	3,613

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 11: Associated Companies**

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		Carry amount of investment	
				2010	2009	2010	2009
Unlisted:				%	%	\$000	\$000
Quest Marine Resources Ltd	Seafood Product	Australia	Ord	43.37%	43.37%	3,863	3,613
Quest Securities Limited	Investment	Hong Kong	Ord	49%	49%	-	-
Meredeen Investment Limited	Investment	Hong Kong	Ord	39%	39%	-	-

(i) On 1 April 2009, Quest Marine Resources Ltd acquired 100% ownership in Dalian Jixiang Food Co., Ltd in exchange for shares amounting to \$9,421,842. Hence, Quest Marine Resources Ltd became an associate of Quest Investments Ltd with 43.37% ownership.

(ii) The investment in Quest Securities Limited and Meredeen Investments Limited were fully written off in previous financial year.

Note	Consolidated Group	
	2010 \$000	2009 \$000
<b>a. Movements During the Year in Equity Accounted Investment in Associated Companies</b>		
Balance at beginning of the financial year	3,613	229
Add New investment during the year	-	3,565
Share of associated company's profit after income tax	250	48
Less Dividend revenue from associated company	-	-
Disposals during the year	-	(229)
Balance at end of the financial year	3,863	3,613
<b>b. Equity accounted profits of associates are broken down as follows:</b>		
Share of associate's profit before income tax expense	250	48
Share of associate's income tax expenses	-	-
Share of associate's profit after income tax	250	48
<b>c. Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates</b>		
Current Assets	5,587	4,512
Non-current Assets	7,466	7,466
Total Assets	13,053	11,978
Current Liabilities	(3,422)	(3,752)
Total Liabilities	(3,422)	(3,752)
Net Assets	9,631	8,226
Revenues	2,780	1,667
Profit / (Loss) after income tax of associates	577	111

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

	Note	Consolidated Group	
<b>Note 12: Financial Assets</b>		<b>2010</b>	<b>2009</b>
		<b>\$000</b>	<b>\$000</b>
Current			
Financial assets at fair value through profit or loss	<b>12(a)</b>	303	307
Non-Current			
Available-for-sale financial assets	<b>12(b)</b>	8	8
<b>(a) Financial assets at fair value through profit or loss</b>			
Held-for-trading Hong Kong listed shares	<b>26</b>	303	307
Shares held for trading are traded for the purpose of short-term profit taking. Changes in fair value are included in the statement of comprehensive income.			
<b>(b) Available-for-sale financial assets comprise:</b>			
Listed investments, at fair value			
– Shares in listed corporations		8	8
Total available-for-sale financial assets	<b>26</b>	8	8

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010****Note 13: Controlled Entities****(a) Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2010	2009
<b>Parent Entity:</b>			
Quest Investments Limited	Australia	-	-
<b>Ultimate Parent Entity</b>			
Murchison Holdings Limited	Australia	-	-
<b>Subsidiaries of Quest Investments Limited</b>			
Quest Securities (Australia) Limited	Australia	100	100
Genequest Pty Ltd.	Australia	100	100
Techgene Pty Ltd.	Australia	100	100
Tivuna Pty Limited	Australia	100	100
MQ Holdings Limited	British Virgin Islands	100	100
Quest Stockbrokers (HK) Limited	Hong Kong	100	100
Quest Nominees Limited	Hong Kong	100	100
Quest Investments Limited	Hong Kong	100	100
Quest Telecom Ltd.	Hong Kong	100	100

\* Percentage of voting power is in proportion to ownership

**(b) Acquisition of Controlled Entities**

There were no acquisitions of subsidiaries during the year

**(c) Disposal of Controlled Entities**

There were no disposals of subsidiaries during the year

**(d) Controlled Entities with Ownership interest of 50% or Less**

Other than those already disclosed in Note 11, the Group did not have any equity interest of 50% or less in any company during the year.

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**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 14: Plant and Equipment**

	Note	Consolidated Group	
		2010 \$000	2009 \$000
At cost		88	73
Accumulated depreciation		(52)	(44)
		<u>36</u>	<u>29</u>

**a. Movements in Carrying Amounts**

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year

	Plant and Equipment \$000	Total \$000
<b>Consolidated Group</b>		
Balance at 1 July 2008	27	27
Additions	13	13
Depreciation Expenses	(11)	(11)
Balance at 30 June 2009	<u>29</u>	<u>29</u>
Additions	18	18
Depreciation Expenses	(11)	(11)
Balance at 30 June 2010	<u>36</u>	<u>36</u>

**Note 15: Other Assets**

	Note	Consolidated Group	
		2010 \$000	2009 \$000
<b>CURRENT</b>			
Prepayments		13	10
<b>NON-CURRENT</b>			
Funds reserves	<b>15(a)</b>	60	64
HKCC Membership		54	57
		<u>114</u>	<u>121</u>

(a) Funds reserves represents deposits with and refundable admission fee paid to Hong Kong Securities Clearing Company Limited and deposits with the Stock Exchange of Hong Kong Limited.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 16: Trade and other payables**

	Note	Consolidated Group	
		2010 \$000	2009 \$000
CURRENT			
Trade payables		1,768	2,822
Amounts payable to:			
– Parent entity		3,466	4,162
– Associated companies		-	730
	26	<u>5,234</u>	<u>7,714</u>

**Financial liabilities at amortised cost  
classified as trade and other payables**

Trade and other payables			
– Total Current		5,234	7,714
		<u>5,234</u>	<u>7,714</u>

**Note 17: Borrowings**

		2010 \$000	2009 \$000
CURRENT			
Secured liabilities			
Bank overdrafts	17(a),(b)	679	237
Total current borrowings	26	<u>679</u>	<u>237</u>
a. Total current secured liabilities :			
Bank overdrafts		679	237
		<u>679</u>	<u>237</u>

**b. Collateral Provided**

The bank overdraft of the parent entity and subsidiaries are secured by fixed deposit and available for sales securities pledged with the bank and a personal guarantee from a director.

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**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010****Note 18: Issued Capital**

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
44,622,810 (2009 44,526,716) fully paid ordinary shares	16,951	16,942
<hr/>		
<b>a. Ordinary Shares</b>	<b>No.</b>	<b>No.</b>
At the beginning of reporting period	44,526,716	44,716,458
Shares issued during the year	-	99,494
24 June 2010	120,094	-
Shares bought back during the year	-	(289,236)
10 July 2009	(10,000)	-
21 August 2009	(4,000)	-
2 April 2010	(8,000)	-
11 February 2010	(2,000)	-
At the end of the reporting period	44,622,810	44,526,716
<hr/>		

On 24 June 2010 the company issued 120,094 ordinary shares at \$0.0965 each to shareholders.

From 10 Jul 2009 to 11 Feb 2010 the company bought back 24,000 ordinary shares on issue from the market for the price not exceed \$0.15 per share. The total purchase consideration of the buy-back was \$2,710. The nature and terms of the buy-back were:

- the buy-back will not exceed 10% of total issued share from the market.
- the accepting shareholders would be paid and have their shares cancelled within 1 week from the date of buy-back
- the full amount of the buy-back would be debited to issued capital.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**b. Options**

- i. For information relating to the Quest Investments Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 23: Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 23: Share-based Payments.

**c. Capital Management**

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the *management* of debt levels, distributions to shareholders and share issues.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the Group's gearing ratio between below 50%. The gearing ratio's for the year ended 30 June 2010 and 30 June 2009 are as follows:

	Note	Consolidated Group	
		2010 \$000	2009 \$000
Total borrowings	17	679	237
Total and other payables	16	5,234	7,714
Less cash and cash equivalents	8	(843)	(450)
Net equity		5,070	7,501
Total equity		9,114	8,825
Total capital		14,184	16,326
Gearing ratio		36%	46%

#### Note 19: Capital and Leasing Commitments Note

##### a. Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable — minimum lease payments

– not later than 12 months	-	75
– between 12 months and 5 years	-	-
– greater than 5 years	-	-

-	75
---	----

The Group did not have any property lease commitment during the financial year as the lease was signed by one of the group's related companies, Murchison International Limited.

#### Note 20: Contingent Liabilities and Contingent Assets

There were no significant contingent liabilities and contingent assets at 30 June 2010 and subsequent to the financial year end.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 21: Operating Segments

##### Segment Information

##### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

##### Types of products and services by segment

###### (i) Business segments

- Investments are invested in marketable securities.
- Stockbroking is provision of share trading services to clients.
- Provision of telecom services to clients

###### (ii) Geographical segments

The economic entity's business segments are located in Australia with the Investments & Stockbroking division also having operations in the Australia *and* Hong Kong.

##### Basis of accounting for purposes of reporting by operating segments

###### a. Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

###### b. Inter-segment transactions

An internally determined transfer price is set for all inter-segment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

###### c. Segment assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

###### d. Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 21: Operating Segments (Cont)**

**e. Unallocated items**

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Derivatives
- Net gains on disposal of available-for-sale investments
- Impairment of assets and other non-recurring items of revenue or expense
- Income tax expense
- Deferred tax assets and liabilities
- Current tax liabilities
- Other financial liabilities
- Intangible assets
- Discontinuing operations
- Retirement benefit obligations

**i. Segments performance**

	Consolidated Group			
	Investment	Stockbroking	Telecom	Total
30 June 2010	\$000	\$000	\$000	\$000
<b>REVENUE</b>				
External Sale	3,988	954	1,064	6,006
Other revenue	344	171	-	515
<b>Total segment revenue</b>	4,332	1,125	1,064	6,521
Reconciliation of segment revenue to group revenue				
Inter-segment elimination	-	-	-	-
Total group revenue	4,332	1,125	1,064	6,521
<b>Segment net profit before tax</b>	77	241	(23)	295
Reconciliation of segment result to group net profit/loss before tax				
i. Amount not included in segment result but reviewed by Board				
- Equity accounted profits of associates	250	-	-	250
Net profit before tax from continuing operations	327	241	(23)	545
Profit (loss) for the year	327	241	(23)	545

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 21: Operating Segments (Cont)**

	Consolidated Group			Total \$000
	Investment \$000	Stockbroking \$000	Telecom \$000	
<b>30 June 2009</b>				
<b>REVENUE</b>				
External Sale	3,005	502	942	4,449
Other revenue	1,894	631	-	2,525
<b>Total segment revenue</b>	<b>4,889</b>	<b>1,133</b>	<b>942</b>	<b>6,974</b>
Reconciliation of segment revenue to group revenue				
Inter-segment elimination	-	-	-	-
Total group revenue	4,889	1,133	942	6,974
<b>Segment net profit before tax</b>	<b>(411)</b>	<b>628</b>	<b>(9)</b>	<b>208</b>
Reconciliation of segment result to group net profit/loss before tax				
i. Amount not included in segment result but reviewed by Board				
- Excess of the investor's share of the net value on acquisition	3,561	-	-	3,561
- Gain on disposal of an associated company	71	-	-	71
- depreciation	-	-	-	-
- Equity accounted profits of associates	48	-	-	48
Net profit before tax from continuing operations	3,269	628	(9)	3,888
Profit (loss) for the year	3,269	628	(9)	3,888
<b>30 June 2010</b>				
<b>Segment Assets</b>				
Segment assets increases for the year	10,009	4,734	34	14,777
- capital expenditure	-	-	-	-
	10,009	4,734	34	14,777
Included in segment assets are:				
- Equity accounted associates	250	-	-	250
Reconciliation of segment assets to group assets				
Inter-segment eliminations				-
<b>Total group assets</b>				<b>15,027</b>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 21: Operating Segments (Cont)**

	Consolidated Group			Total \$000
	Investment \$000	Stockbroking \$000	Telecom \$000	
<b>30 June 2009</b>				
<b>Segment Assets</b>				
Segment assets increases for the year	5,309	7,749	105	13,163
- capital expenditure	-	-	-	-
	<u>5,309</u>	<u>7,749</u>	<u>105</u>	<u>13,163</u>
Included in segment assets are:				
- Equity accounted associates	3,613	-	-	3,613
Reconciliation of segment assets to group assets				
Inter-segment eliminations				-
<b>Total group assets</b>				<u><u>16,776</u></u>
<b>30 June 2010</b>				
<b>Segment liabilities</b>				
Reconciliation of segment liabilities to group liabilities	4,247	1,621	45	5,913
Inter-segment eliminations	-	-	-	-
Unallocated liabilities	-	-	-	-
Current tax liabilities	-	-	-	-
<b>Total group liabilities</b>				<u><u>5,913</u></u>
<b>30 June 2009</b>				
<b>Segment liabilities</b>				
Reconciliation of segment liabilities to group liabilities	5,731	2,128	92	7,951
Inter-segment eliminations	-	-	-	-
Unallocated liabilities	-	-	-	-
Current tax liabilities	-	-	-	-
<b>Total group liabilities</b>				<u><u>7,951</u></u>
<b>Revenue by Geographical region</b>				
			<b>2010</b>	<b>2009</b>
			<b>\$000</b>	<b>\$000</b>
Australia			1,342	944
Hong Kong			5,179	6,030
<b>Total revenue</b>			<u>6,521</u>	<u>6,974</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010****Note 21: Operating Segments (Cont)****Assets by Geographical region**

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Australia	8,947	7,561
Hong Kong	6,080	9,215
<b>Total revenue</b>	<u>15,027</u>	<u>16,776</u>

**Note 22: Cash Flow Information**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>a. Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>		
Profit after income tax	545	3,888
Non-cash flows in profit		
Depreciation	11	11
Changes in assets and liabilities		
(Increase) / decrease in trade and others receivables	2,394	(2,539)
Increase / (decrease) in trade payables and accruals	(2,480)	1,141
(Increase) / decrease in marketable securities	(246)	(2,914)
Cash inflows/(outflows) from operating	<u>224</u>	<u>(413)</u>

**(b) Acquisition of Entities**

During the financial year ended 30 June 2010, the Group did acquire any equity interest of a company.

**(c) Non-cash Financing and Investing Activities**

No option was exercised during the year.

**(d) Non-current Financing and Investing Activities**

The Group did not have any acquisition during the financial year,

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010****Note 23: Share Based Payments**

- i. During the year no share options were granted to employee as share.

A summary of the movements of all company options issued is as follows:-

	Number	Weighted average exercise price
<b>Options outstanding as at 30 June 2008</b>	1,924,000	-
Granted	-	-
Forfeited	-	-
Exercised	(531,483)	0.15
Expired	-	-
<b>Options outstanding as at 30 June 2009</b>	1,392,517	0.15
Lapsed	(1,392,517)	0.15
<b>Options outstanding as at 30 June 2010</b>	-	-
Options exercisable as at 30 June 2010:	-	-
Options exercisable as at 30 June 2009:	1,924,000	0.15

As at the date of exercise, the weighted average share price of options exercised during the year was \$0.15.

The weighted average remaining contractual life of options outstanding at year end was 1 year. No option is outstanding at the end of the reporting period.

The fair value of the options granted to employees is deemed to represent the value of the employee services received over the vesting period.

The weighted average fair value of options granted during the year was \$0.15 (2009: \$0.15). These values were calculated using the Black-Scholes option pricing model applying the following inputs:

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

- ii. During the year, no shares granted to key management personnel as share-based payments.

**Note 24: Events after the Reporting Period**

No event after the reporting period has to be disclosed.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010****Note 25: Related Party Transactions**

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
<b>Associated Companies</b>		
Commission income charged by Quest Stockbroker to Meredeen Investments Limited	5	3
Commission income charged by Quest Stockbroker to Quest Securities Limited	9	4
	<hr/> 14	<hr/> 7
	<hr/> <hr/>	<hr/> <hr/>
Term receivables from :		
Murchison International Limited	-	2,086
Quest Securities Limited	2,653	2,862
Meredeen Investments Limited	1,405	1,529
	<hr/> 4,058	<hr/> 6,477
	<hr/> <hr/>	<hr/> <hr/>
Account payable to :		
Murchison Holdings Limited	3,466	4,162
A director : Chiang Wee Tiong	110	77
	<hr/> 3,576	<hr/> 4,239
	<hr/> <hr/>	<hr/> <hr/>

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 26: Parent Entity**

	<b>PARENT</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Current assets	854	258
Non-current assets	4,474	8,373
<b>Total assets</b>	<b>5,328</b>	<b>8,631</b>
Current liabilities	448	3,587
<b>Total liabilities</b>	<b>448</b>	<b>3,587</b>
<b>Net Assets</b>	<b>4,880</b>	<b>5,044</b>
Issued capital	16,951	16,942
Reserves	1,269	1,291
Retained earnings	(13,340)	(13,189)
<b>Total Shareholders' equity</b>	<b>4,880</b>	<b>5,044</b>
<b>Financial Performance</b>		
Profits/(Loss) for the year from continuing operations	(2)	153
Total comprehensive income for the year	(2)	153

**Note 27: Financial Risk Management**

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable and loans to and from subsidiaries.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$000</b>	<b>\$000</b>
<b>Financial Assets</b>			
Cash and cash equivalents	8	843	450
Financial assets at fair value through profit or loss	12	303	307
Trade and other receivables	9	9,847	12,238
Available-for-sale financial assets			
— Equity investments	12	8	8
Total available-for-sale financial assets		11,001	13,003
<b>Total Financial Assets</b>		<b>11,001</b>	<b>13,003</b>

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## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 27: Financial Risk Management (CONT'D)

##### Financial Liabilities

Financial liabilities at amortised cost

— Trade and other payables	16	5,234	7,714
— Borrowings	17	679	237
<b>Total Financial Liabilities</b>		<b>5,913</b>	<b>7,951</b>

##### Financial Risk Management Policies

The Management Committee (MC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The MC has, undertake such responsibilities. The MC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk.

The MC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

##### Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk, commodity and equity price risk.

##### a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 14 to 30 days from the invoice date.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the MC has otherwise cleared as being financially sound. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

##### *Credit Risk Exposures*

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position. Credit risk also arises through the provision of financial guarantees, as approved at Board level, given to parties securing the liabilities of certain subsidiaries.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographical basis, the Group has significant credit risk exposures to China and the Hong Kong given the substantial operations in those regions. Details with respect to credit risk of Trade and Other Receivables are provided in Note 11.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 27: Financial Risk Management (CONT'D)

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 11.

Credit risk related to balances with banks and other financial institutions is managed by the MC in accordance with approved Board policy.

#### b. **Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

The Group's policy is to ensure no more than 10% of borrowings should mature in any 12 month period.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year end could become repayable immediately subject to further mutually negotiation.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

ABN 59 004 749 044

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 27: Financial Risk Management (CONT'D)**

*Financial liability and financial asset maturity analysis*

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Consolidated Group</b>								
Borrowings	679	237	-	-	-	-	679	237
Trade and other payables (excluding estimated annual leave)	5,234	7,714	-	-	-	-	5,234	7,714
Total contractual outflows	5,913	7,951	-	-	-	-	5,913	7,951
less bank overdrafts	(679)	(237)	-	-	-	-	(679)	(237)
Total expected outflows	5,234	7,714	-	-	-	-	5,234	7,714
<b>Financial assets — cash flows realisable</b>								
Cash and cash equivalents	843	450	-	-	-	-	843	450
Trade, term and loans receivables	5,789	5,761	4,058	6,477	-	-	9,847	12,238
Financial assets -current	303	307	-	-	-	-	303	307
Financial assets – non current	-	-	-	-	8	8	8	8
Other current assets	13	10					13	10
Total anticipated inflows	6,948	6,528	4,058	6,477	8	8	11,014	13,013
Net (outflow)/inflow on financial instruments	(1,714)	(1,186)	4,058	6,477	8	8	5,780	5,299

*Financial Assets Pledged as Collateral*

Certain financial assets have been pledged as security for debt and their realisation into cash may be restricted subject to terms and conditions attached to the relevant debt contracts.

**c. Market Risk**

**i. Interest rate risk**

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is not exposed to earnings volatility on floating rate instruments.

*Interest Rate Swaps*

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 27: Financial Risk Management (CONT'D)

Interest rate swap transactions are entered into by the Group to exchange variable and fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The consolidated group does not use swap contracts to maintain a designated proportion of fixed to floating debt.

At balance date, there is no outstanding interest rate swap contract.

#### ii. *Foreign exchange risk*

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in the Australian Dollar and Hong Kong Dollar may impact on the Group's financial results unless those exposures are appropriately hedged. At present, the group maintains 50% of its cash reserve in AUD deposit to minimise its foreign exchange rate exposure.

#### iii. *Price risk*

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The Group is not exposed to commodity price risk.

The Group is exposed to securities price risk on investments held for trading or for medium to longer terms. Such risk is managed through diversification of investments across industries and geographical locations.

The Group's investments are held in the following sectors at the end of the reporting period:

	Consolidated Group	
	2010 %	2009 %
Banking and finance	40	50
Property	20	50
Resources	20	-
Utilities	20	-
	<hr/>	<hr/>
	100	100

#### *Sensitivity Analysis*

The following table illustrates sensitivities to the Group's exposures to changes in interest rates, exchange rates and equity prices. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 27: Financial Risk Management (CONT'D)

	Consolidated Group	
	Profit \$000	Equity \$000
<b>Year ended 30 June 2010</b>		
+/-2% in interest rates	15	15
+/-5% in \$A/HKD	370	370
+/-10% in listed investments	477	477
<b>Year ended 30 June 2009</b>		
+/-2% in interest rates	(28)	(28)
+/-5% in \$A/HKD	(249)	(249)
+/-10% in listed investments	1,044	1,044

#### *Net Fair Values*

##### **Fair value estimation**

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments which are carried at amortised cost (i.e. term receivables, held-to-maturity assets, loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the Group.

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

ABN 59 004 749 044

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**Note 27: Financial Risk Management (CONT'D)**

Consolidated Group	Footnote	2010		2009	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
		\$000	\$000	\$000	\$000
<b>Financial assets</b>					
Cash and cash equivalents	(i)	843	843	450	450
Trade and other receivables	(i)	5,789	5,789	5,761	5,761
Loans and advances — related parties	(ii)	4,058	4,058	6,477	6,477
<i>Financial assets at fair value through profit or loss</i>					
Investments — held-for-trading	(iii)	303	303	307	307
<i>Available-for-sale financial assets:</i>					
— at fair value					
— listed investments	(iii)	8	8	8	8
<b>Total financial assets</b>		11,001	11,001	13,003	13,003
<b>Financial liabilities</b>					
Trade and other payables	(i)	5,234	5,234	7,714	7,714
Borrowings	(iv)	679	679	237	237
<b>Total financial liabilities</b>		5,913	5,913	7,951	7,951

The fair values disclosed in the above table have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is not considered a financial instrument.
- (ii) Term receivables generally reprice to a market interest rate every six months, and fair value therefore approximates carrying value.
- (iii) For listed available-for-sale and held-for-trading financial assets, closing quoted bid prices at the end of the reporting period used. In determining the fair values of the unlisted available-for-sale financial assets, the directors have used inputs that are observable either directly (as prices) or indirectly (derived from prices).

The directors have determined that the fair values of the available-for-sale financial assets carried at cost and at recoverable amount cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. Consequently, such assets are recognised at cost and their fair values have also been stated at cost in the table above. There is no active market for these investments, and there is no present intention to dispose of such investments.

- (iv) Fair values are determined using a discounted cash flow model incorporating current commercial borrowing rates. The fair values of fixed rate bank debt will differ to the carrying values.

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## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

#### Note 27: Financial Risk Management (CONT'D)

##### *Financial Instruments Measured at Fair Value*

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

##### **Consolidated**

<b>2010</b>	<b>Level 1 \$000</b>	<b>Level 2 \$000</b>	<b>Level 3 \$000</b>	<b>Total \$000</b>
<b>Financial assets:</b>				
<i>Financial assets at fair value through profit or loss:</i>				
— investments — held-for-trading	303	-	-	303
<i>Available-for-sale financial assets:</i>				
— listed investments	8	-	-	8
	<u>311</u>	<u>-</u>	<u>-</u>	<u>311</u>
<b>2009</b>				
<b>Financial assets:</b>				
<i>Financial assets at fair value through profit or loss:</i>				
— investments — held-for-trading	307	-	-	307
<i>Available-for-sale financial assets:</i>				
— listed investments	8	-	-	8
	<u>315</u>	<u>-</u>	<u>-</u>	<u>315</u>

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets have been based on the closing quoted bid prices at reporting date, excluding transaction costs.

#### **NOTE 28: RESERVE**

- a. *Capital Profits Reserve*  
The capital profits reserve records non-taxable profits on sale of investments.
- b. *Foreign Currency Translation Reserve*  
The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.
- c. *General Reserve*  
The general reserve records funds set aside for future expansion of the consolidated group.
- d. *Option Reserve*  
The option reserve records items recognised as expenses on valuation of employee share options.

**QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES**

ABN 59 004 749 044

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 29: COMPANY DETAILS**

The registered office of the company is:

Quest Investments Limited

Level 2, 11 Queens Road, Melbourne, VIC 3004, Australia

The principal places of business are:

Quest Investments Limited

Room 201, 2<sup>nd</sup> Floor, Chinaweal Centre, 414-424 Jaffe Road, Wanchai, Hong Kong

Quest Stockbrokers (HK) Ltd

Room 203, 2<sup>nd</sup> Floor, Chinaweal Centre, 414-424 Jaffe Road, Wanchai, Hong Kong

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## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

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### DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 29 to 75, are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards; and
  - b. give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
  - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Director

Wee Tiong Chiang

Dated this 1<sup>st</sup> October 2010

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUEST INVESTMENTS LIMITED**

We have audited the accompanying financial report of Quest Investments Limited and controlled entities, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF QUEST INVESTMENTS LIMITED (Continued)**

**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Quest Investments Limited on 1 October 2010, would be in the same terms if provided to the directors as at the date of this auditor's report.

**Auditor's Opinion**

In our opinion:

- (a) the financial report of Quest Investments Limited and controlled entities is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 23 to 27 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

In our opinion the Remuneration Report of Quest Investments Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

**BENTLEYS MELBOURNE PARTNERSHIP  
CHARTERED ACCOUNTANTS**

**MARTIN FENSOME  
PARTNER**

Dated in Melbourne on this 1 day of October 2010

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## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

#### 1. Shareholding

##### a. Distribution of Shareholders

Category (size of holding)	Number	
	Ordinary	Preference
1 – 1,000	880	
1,001 – 5,000	134	
5,001 – 10,000	39	
10,001 – 100,000	40	
100,001 – and over	15	
	<hr/>	
	1,108	

b. The number of shareholdings held in less than marketable parcels is 1,034.

c. The names of the substantial shareholders listed in the holding company's register as at 30 June 2010 are:

Shareholder	Number	
	Ordinary	Preference
Murchison Holdings Ltd	19,594,802	43.91
Quest Stockbrokers (HK) Ltd <Client A/C>	16,171,972	36.24

##### d. Voting Rights

The voting rights attached to

Ordinary shares are

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

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## QUEST INVESTMENTS LIMITED AND CONTROLLED ENTITIES

ABN 59 004 749 044

### ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

#### e. 20 Largest Shareholders — Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. Murchison Holdings Ltd	19,594,802	43.91
2. Quest Stockbrokers (HK) Ltd <Client A/C>	16,171,972	36.24
3. ANZ Nominees Ltd <Cash Income A/C>	1,957,646	4.39
4. Mr Cheng Tuan Donald Teo	1,000,000	2.24
5. Mr Wee Tiong Chiang	592,000	1.33
6. STAR BLOOM INVESTMENT LIMITED	555,000	1.24
7. MRS CHEOW MOI CHUA	500,000	1.12
8. M Q SERVICES PTY LTD	455,696	1.02
9. BRONTE INDUSTRIES PTY LTD <NO 2 ACCOUNT>	320,000	0.72
10. FORTIS CLEARING NOMINEES P/L <NEXT CUSTODIAN A/C>	279,475	0.63
11. PAULON ASSETS LIMITED	260,300	0.58
12. WELLBUILD INTERNATIONAL LIMITED	231,500	0.52
13. NATIONAL NOMINEES LIMITED	200,000	0.45
14. MEUTER ANDRE	100,000	0.22
15. MR RHETT MORSON <BOMIMO FAMILY A/C>	100,000	0.22
16. SERENAR NOMINEES PTY LTD <S/F ACCOUNT>	97,034	0.22
17. MARTIN PLACE SECURITIES NOMINEES PTY LTD	93,000	0.21
18. DMG & PARTNERS SECURITIES PTE LTD <CLIENTS A/C>	91,000	0.20
19. OPTEX EXCHANGE PTY LIMITED <DAVID SUTTON SUPER FUND A/C>	85,000	0.19
20. DR MOHAMMED AL KAMIL	83,333	0.19
	<hr/>	
	42,767,758	95.84

- 
2. The name of the company secretary is Grant Anthony Robertson
3. The address of the principal registered office in Australia is Level 2, 11 Queens Road, Melbourne, Victoria 3004, Australia.  
Telephone (03) 9867 7033
4. Registers of securities are held at the following addresses  
Registries Limited- Level 7, 207 Kent Street, Sydney, NSW 2000, Australia
5. **Stock Exchange Listing**  
Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.
6. **Unquoted Securities**  
No options are on issue to directors and employees under the Quest Investments Limited employee option plan.