



Queste Communications Limited
A.B.N 081 688 164

and Controlled Entities

**ANNUAL
DIRECTORS' REPORT &
AUDITED FINANCIAL REPORT**

30 June 2002

www.queste.com.au

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**QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES**

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QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
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DIRECTORS' REPORT

The Directors present their report on Queste Communications Limited ("Company") and its controlled entities (the "Consolidated Entity") for the year ended 30 June 2002 ("Balance Date").

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year were the pursuit of opportunities to commercially exploit the Company's VoiceNet System Voice-over-Internet Protocol ("VoIP") technology, the provision of technical services to Central Exchange Ltd ("Central Exchange") in relation to the establishment and operation by Central Exchange of a telecommunication network in Australia utilising the Company's VoiceNet System VoIP technology and share investments.

OPERATING RESULTS

| | Consolidated Entity | |
|----------|---------------------|---------|
| | 2002 | 2001 |
| | \$ | \$ |
| Net loss | 1,801,776 | 912,728 |

EARNINGS PER SHARE

| | Consolidated Entity | |
|---|---------------------|------------|
| | 2002 | 2001 |
| Basic earnings per share (cents) | (6.04) | (3.07) |
| Weighted average number of ordinary shares outstanding during the half year used in the calculation of basic earnings per share | 29,843,726 | 29,710,584 |
| Diluted earnings per share (cents) | (3.69) | (1.87) |
| Weighted average number of ordinary shares outstanding during the half year used in the calculation of diluted earnings per share | 48,843,726 | 48,710,584 |

The Company's 20,000,0000 partly paid ordinary shares, to the extent that they have been paid (one cent per share), have been included in the determination of the basic earnings per share.

The Company's options and partly paid shares, to the extent of the balance of the call (19 cents per share), have not been included in the determination of basic earnings per share. These securities are included in the determination of diluted earnings per share on the basis that each option will convert to one ordinary share and each partly paid share will become fully paid.

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NET TANGIBLE ASSET BACKING

| | Consolidated Entity | |
|--|---------------------|-------------------|
| | 2002 | 2001 |
| Net assets | 4,303,289 | 6,120,707 |
| Less intangible assets: | | |
| VoiceNet VoIP technology | (69,000) | (1,300,000) |
| Net tangible assets of the Consolidated Entity | <u>4,234,289</u> | <u>4,820,707</u> |
| Issued ordinary share capital base of the Company: | | |
| Fully paid ordinary shares | 28,404,879 | 28,847,363 |
| Portion of 20,000,000 partly paid ordinary shares (representing the extent to which such shares have been paid, being one cent per share with a balance of the call of 19 cents per share) | <u>1,000,000</u> | <u>1,000,000</u> |
| Adjusted issued ordinary share capital base | <u>29,404,879</u> | <u>29,847,363</u> |
| Net tangible asset backing per issued ordinary share as at balance date (cents) | <u>14.40</u> | <u>16.15</u> |

REVIEW OF OPERATIONS

1. COMMERCIAL OPPORTUNITIES FOR VOIP TECHNOLOGY

The Company has been actively pursuing various means of commercially exploiting its VoiceNet System VoIP technology, including an outright sale of the VoiceNet System VoIP technology to established or new entrants in the worldwide telecommunications industry seeking to establishing carrier grade VoIP networks or provide corporate Virtual Private Network ("VPN") Internet telephony solutions.

The Company has directly approached a number of potential purchasers and or licensees and has engaged an Australian based agent experienced in the marketing and sale of technology assets worldwide to explore all possible commercial opportunities for the VoiceNet System VoIP technology.

To this end detailed marketing and promotional materials were prepared and studies conducted of potential purchasers and or licencees of the VoiceNet System VoIP technology worldwide. This resulted in the identification of several hundred organisations throughout the USA, Asia and Europe that presented sale and or licencing prospects. Pursuant to this process, all of these organisations were contacted and provided with details of the VoiceNet System VoIP technology.

The Company and its agent have been actively pursuing all organisations that expressed an interest in the VoiceNet System VoIP technology and this process is ongoing. However, there has, to date, been a disappointing response overall to the Company's marketing activities as no offers for such technology have been received.

The Company believes that the following factors are relevant to the disappointing results so far:

- The telecommunications industry has suffered a significant downturn worldwide resulting in even large companies facing financial difficulty. In the USA, bankruptcy, lay-offs, restructuring and mergers and acquisitions are now commonplace and it is difficult in such environment to capture people's attention about a telecommunications opportunity utilising a new technology platform such as that of the VoiceNet System.
- There are a number of competing VoIP technologies now available worldwide and due to the severe downturn in the international telecommunications sector a number of technology owners are also aggressively seeking to sell or licence their technology.

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- There has been a very large investment in traditional telecommunications infrastructure worldwide leading to a significant overcapacity in the telecommunications sector. This overcapacity has led to a highly competitive market for the provision of traditional telephony services - leading to falling long distance telecommunications charges, thereby eroding the competitive advantage that VoIP technology potentially affords.
- The USA market is moving to new telecommunication standards beyond the H.323 standard upon which the VoiceNet System architecture is based and which new standards are not supported by the VoiceNet Systems product line. In this regard the Company does not believe it prudent to expend further funds on the modification of its current platform to comply with these new standards.

Whilst the Company still hopes to realise value for the technology, based upon the above factors, the disappointing results of the commercialisation process to date, and an independent assessment of the carrying value of such asset commissioned by the Directors, the carrying value of the technology at Balance Date has been amortised/written-down from \$1.3 million to \$69,000.

2. CENTRAL EXCHANGE LTD

Central Exchange, a licenced telecommunications carrier, was granted a 14 year non-exclusive Australian licence to the Company's VoiceNet System VoIP technology. Furthermore, the Company was assisting Central Exchange in establishing an Australian telecommunications network utilising the VoiceNet System VoIP technology, pursuant to a technical services agreement.

The Company currently owns 4,149,112 ordinary shares in Central Exchange representing approximately 48.817% of its issued ordinary share capital.

3.1. Technical Services Fees

During the financial year, the Company derived \$550,000 technical service fee revenues from Central Exchange. Such revenues were derived pursuant to a technical services agreement dated 4 June 1999 ("Technical Services Agreement").

By the Technical Services Agreement, the Company agreed to provide technical support services to Central Exchange for the set up, support and administration of a telephony network based on the Company's VoiceNet System Voice-over Internet Protocol technology, which was licensed to Central Exchange pursuant to the licence agreement between the Company and Central Exchange dated 4 June 1999.

The Technical Services Agreement was for a term of three years and Central Exchange was required to pay the Company for the provision by the Company of 3,000 hours per annum of technical support services fee of \$1,000,000 per annum (indexed for inflation after the first 12 months), payable by equal monthly payments in advance ("Monthly Fees"). The first instalment of Monthly Fee commenced in November 1999.

The last instalment of Monthly Fees made by Central Exchange was on 1 August 2001 in relation to technical support services attributable to the months of July, August and September 2001. Monthly Fees in the sum of \$1,167,000 remained unpaid for the period from 1 September 2001 to the end of the term of the Technical Services Agreement.

During the financial year, Central Exchange requested that the Technical Services Agreement be terminated as it no longer required the provision of technical services. The Board subsequently entered into discussions with the Board of Central Exchange regarding the outstanding Monthly Fees from 1 September 2001 and with respect to the balance of the term of the Technical Services Agreement (up to and including 1 September 2002) with the view to a possible termination of the Technical Services Agreement prior to its natural effluxion.

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The Company received legal advice that the Technical Services Agreement was only terminable by Central Exchange if:

- (a) it gave written notice to the Company of such termination, and paid to the Company the total outstanding Monthly Fees which would have been payable to the Company for the balance of the term had the Technical Services Agreement not been terminated; or
- (b) if the Company was in default in the due performance of its obligations under the Technical Services Agreement and such default was not remedied within 30 days of notice of the default being provided to the Company.

The Company did not believe that it would be in default of performance of its obligations under the Technical Services Agreement. However, the Company received legal advice that the obligation imposed by (b) above may constitute a penalty (because it does not provide a discount for early payment). If this were the case, the Company would only be entitled to recover on termination of the Technical Services Agreement its actual damages at common law, which would be its actual loss of profit, i.e. gross income less costs. There was also a dispute between the Company and Central Exchange as to whether the Company was entitled to payment if it did not provide the 3,000 hours of support services per annum pursuant to the Technical Services Agreement.

In light of such legal advice, the independent directors of the Company at the relevant time agreed with the independent director of the Central Exchange, subject to shareholder approvals being obtained, to terminate the Technical Services Agreement on the basis that Central Exchange paid to the Company, in full and final satisfaction of all fees currently payable, or which would become payable, under the Technical Services Agreement:

- (1) the sum of \$300,000 to be satisfied by the issue of 19,342,360 shares in Central Exchange at an issue price of 80% of the weighted average price for fully paid ordinary shares in Central Exchange for the period from 28 December 2001 to 26 March 2002, being 1.551 cents per share (on a pre 1:10 consolidated basis); and
- (2) \$150,000.00 cash.

Under such settlement and termination proposal, the Company will not be providing any further services to Central Exchange under the Technical Service Agreement.

The Company notes that the common directors of the Company and Central Exchange were not involved in any determination with respect to the terms of the proposed termination and settlement of the Technical Services Agreement. Both companies have had separate legal representation in this matter and the settlement was reached on an arm's length basis.

The Board called a general meeting on 8 August 2002 to allow shareholders to consider and, if thought fit, pass a resolution approving the termination of the Technical Services Agreement and the settlement of all past and future fees outstanding and payable under the Technical Services Agreement as described above.

The Board considered that the termination of the Technical Service Agreement on terms described above was in the best interests of the Company in light of the legal advice received as to there being some uncertainty over the Company's entitlement to seek the full balance of the Monthly Fees outstanding and payable under the Technical Services Agreement.

On 8 August 2002, shareholders passed a resolution approving the settlement and termination of the Technical Services Agreement. Central Exchange shareholders also approved the same at their general meeting held on 30 July 2002.

Pursuant to such shareholder approvals:

- (i) Central Exchange issued 1,934,236 shares (on a post 1:10 share consolidation basis) to the Company on 12 August 2002 at a deemed consideration of \$300,000; and
- (ii) Central Exchange paid \$150,000 cash to the Company on 5 September 2002.

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The Company currently holds 4,149,112 shares in Central Exchange (being 48.817% of its issued ordinary share capital).

The Company notes that Central Exchange has entered into a conditional agreement to acquire a mining company and lodged a Prospectus as described below. Upon the successful completion of such acquisition and capital raising, the Company's interest in Central Exchange will reduce significantly as its pro-forma issued ordinary share capital may increase to 38,499,236 shares (excluding acceptance of oversubscriptions pursuant to the Prospectus) from a current base of 8,499,263 shares. That is, the Company's interest in Central Exchange may reduce to 10.77% of its issued ordinary share capital

3.2. Change of Activities and Prospectus of Central Exchange

At a general meeting on 30 July 2002, Central Exchange shareholders approved various resolutions, including, inter alia, with respect to the following matters:

- the change in the nature and scale of Central Exchange's activities from a company involved in telecommunications to a company primarily involved in resources exploration and exploitation;
- the acquisition of Juniper Resources Ltd in consideration for the issue of 15,000,000 shares in Central Exchange at an issue price of 20 cents per share. Juniper Resources Ltd is an Australian public company involved in 6 gold, base metal, copper and iron-ore resource projects in Western Australia;
- the issue of the shares and options pursuant to a prospectus; and
- the change of name to "Juniper Resources Limited",

Central Exchange lodged a Prospectus dated 1 August 2002 seeking to raise a total of 15,000,000 shares at an issue price of 20 cents per share to raise \$3,000,000 (with a minimum subscription of \$1,500,000 and oversubscriptions of an additional \$3,000,000) and options. On 5 September 2002, Central Exchange announced an extension of the indicative closing date of the prospectus to 8 November 2002.

Upon the successful completion of such capital raising, the Company's current 48.817% interest in the fully paid ordinary shares of Central Exchange will reduce significantly as described above.

3. CANCELLATION OF PROPOSED ANZOIL NL INVESTMENT

As part of the Company's strategy to grow shareholder value through the acquisition of strategic investments, on 17 January 2002 the Company announced that it had entered into an agreement with IGM Group Ltd ("IGM") (an ASX listed mining company) to acquire from IGM 18,440,158 shares and from other parties 3,059,842 shares, being a total of 21,500,000 shares in Anzoil NL (the "Anzoil Transaction Agreement").

The acquisition of the Anzoil shares was conditional upon a number of matters including the contemporaneous settlement of an agreement for the sale by the Company of its share holding of 1,469,584 shares in ASX listed Suan Australia Ltd ("Suan") to third party advisors (and/or nominee/s) (the "Suan Transaction Agreement").

On 7 March 2002, the Company received a notice from representatives of the abovementioned third party advisors seeking to terminate the Anzoil and Suan Transaction Agreements.

After seeking legal advice in the matter, the Company decided not to proceed with this acquisition or enforce its rights pursuant to the Anzoil and Suan Transaction Agreements and as a consequence have also disposed of all its shares in DSG Australia Ltd (formerly Suan Australia Ltd).

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4. GENERAL INVESTMENT STRATEGIES

In addition to the commercial exploitation of the Company's investment in its VoiceNet System VoIP technology, the Board is actively seeking to add value to the asset base and underlying share price of the Company through the pursuit of selective investment and other commercial opportunities.

Such selective investment and commercial opportunities will be pursued with the objective(s) of creating a secure income stream for the Company and/or the acquisition of assets that provide for capital growth. Assets will be acquired either on the basis that they are currently undervalued or present the opportunity for superior capital growth.

The intention is to increase the asset base of the Company to a level which the Directors considers is a prudent capital base from which it will be able to take advantage of further commercial investment activities. The Directors will also consider the expansion of the capital base of the Company through the issue of equity capital and/or the formation of strategic alliances or mergers with other companies.

5. CORPORATE

5.1. Sale of Unmarketable Parcels

As disclosed in the Company's 2001 Annual Report, the share register contained a large number of shareholders holding less than a marketable parcel of shares in the Company.

Under the ASX business rules, an unmarketable parcel is considered to be a shareholding valued at \$500 or less (Unmarketable Parcel). Unmarketable Parcels represent additional maintenance costs to the Company in relation to share registry fees, annual report and other mail-out printing costs, and associated postage. Furthermore, for shareholders, the sale of their Unmarketable Parcel of shares may result in a proportionally high transaction/brokerage cost compared to the gross proceeds of sale.

Clause 31.1 of the Company's constitution provides a mechanism by which the Board can, with the agreement of the relevant shareholder, aggregate Unmarketable Parcels of shares and sell them on the shareholders' behalf. Briefly, the sale of Unmarketable Parcels would operate as follows:

- (i) The Company must give relevant shareholders a notice, to which the shareholders must respond within the specified date of at least 6 weeks after the notice is given.
- (ii) Shareholders may respond by advising the Company that they do not wish their shares to be sold, in which case the shares will not be sold pursuant to that notice.
- (iii) If Shareholders do not respond, the Company, as agent, may sell shares held by such shareholders at a price and upon terms determined by the Board.
- (iv) If shares are sold on behalf of shareholders, the Company will forward the sale proceeds to each shareholder concerned in accordance with their written instructions. All costs in relation to the sale of the shares will be borne by the purchaser or the Company, but not the shareholders concerned.

To this end, on 4 January 2002, the Board gave notice to shareholders holding Unmarketable Parcels (being 9,090 or less shares based on the Company's then last sale share price on the ASX of \$0.055) of its intention to sell such shares. Affected shareholders had until 19 February 2002 to notify the Company of their intention to retain their Unmarketable Parcels.

The Company despatched notices to 398 shareholders holding an aggregate of 1,554,288 shares in the Company or 5.21% of its then issued ordinary share capital.

At the expiry of the notice period on 19 February 2002, 173 shareholders had advised the Company of their intention to retain their Unmarketable Parcels. The Company also accepted late notices of intention to retain Unmarketable Parcels.

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The sale of 691,704 Unmarketable Parcels of shares on-market was completed on 28 June 2002 with the proceeds of sale despatched shortly after settlement.

5.2. On-Market Buy-Back Of Shares

On 26 June 2002, the Company announced an intention to commence an on-market "within 10/12 limit" share buy-back pursuant to Part 2J.1 Division 2 of the Corporations Act 2001. That is, the Company is permitted to buy-back on-market up to 10% of its issued ordinary share capital within a 12 month period.

To this end, 442,484 fully paid ordinary shares were bought-back on 28 June 2002 at a cost of \$15,642 (including transaction costs) with such shares being cancelled on 4 July 2002.

The Company is able to buy-back up to a further 2,442,252 shares by 26 June 2003.

The Directors note that the buy-back of shares at prices below the Company's net tangible asset backing per share will improve the net tangible asset backing per share for existing shareholders.

5.3. Adoption of New Constitution

At the Company's 2001 Annual General Meeting on 23 November 2001, shareholder approved a special resolution adopting a new constitution. Such constitution is consistent with changes to the law introduced by the *Corporate Law Economic Reform Program Act 1999* (Cth), the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

SECURITIES IN THE COMPANY

At the date of this report, there are the following numbers of the Company's securities on issue:

- (i) 28,404,879 listed fully paid ordinary shares;
- (ii) 5,000,000 unlisted options, each to take up one fully paid ordinary share in the Company at an exercise price of 20 cents per option, on or before 21 July 2003;
- (iii) 20,000,000 unlisted partly paid ordinary shares, each paid to one cent with 19 cents per partly paid ordinary share outstanding.

There were no securities issued or granted by the Company during or since the financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no significant change in the state of affairs of the Consolidated Entity during the financial year other than that referred to in this report or the financial report.

FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the Consolidated Entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Consolidated Entity. Accordingly, this information has not been disclosed in this report.

DIVIDENDS

No dividends have been paid or declared during the financial year. The Directors do not recommend the payment of a dividend in respect of the financial year.

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DIRECTORS' REPORT

DIRECTORS

The current Directors of the Company are:

1. **Farooq Khan**
Chairman and Managing Director
Age 40

Mr Khan has successfully founded a number of private companies and a number of successful initial public offers in Australia in the technology sector. Mr Khan holds a Bachelor of Jurisprudence and Bachelor of Law degree from the University of Western Australia. After practicing for a number of years, principally in the field of corporate law, Mr Khan left the legal profession to form the Company, and later, Fast Scout Ltd, an ASX listed Internet portal technology company. Mr Khan is the Chairman and Managing Director of Fast Scout Ltd and ASX listed companies Central Exchange Ltd and Bigshop.com.au Ltd and is an Executive Director of ASX listed company Software Communication Group Ltd. Mr Khan brings considerable experience in commercial law and in corporate management and administration.

2. **Michael J. van Rens**
Non Executive Director
Age 48

Mr van Rens is a founding Director of the Integrated Financial Group in Western Australia, a leading financial services company and part owners of the national financial services dealer group, Australian Financial Securities Pty Ltd. Mr van Rens also holds board positions with Financial Resources Ltd, a leasing finance company, Pneumatic Systems Australia Pty Ltd, a group providing innovative technology for hose, tube and pipe maintenance industries, and European Goldfields Ltd, a Canadian listed gold exploration company. Mr van Rens brings an extensive marketing, sales and investment background to the Company, developed over the last 16 years in the financial services industry.

3. **Azhar Chaudhri**
Non Executive Director
Age 40

Mr Chaudhri holds a Bachelor of Science degree in Maths and Physics and a Masters degree in Economics. He has also undertaken postgraduate computer studies in the United Kingdom. Mr Chaudhri has considerable expertise in computer systems, analysis and design and advanced programming experience, particularly with respect to business and information technology systems and data base computing. In particular Mr Chaudhri has formed and led software development teams creating integrated database and management information systems for utilities, local government land tax departments, hospitals, libraries and oil terminals. Mr Chaudhri is also an Executive Director of Fast Scout Ltd.

4. **Yaqoob Khan**
Executive Director
Age 37

Mr Khan holds a Bachelor of Commerce degree from the University of Western Australia and a Master of Industrial Administration degree from Carnegie Mellon University, Pittsburgh, Pennsylvania, USA. After working for several years in the Australian Taxation Office, Mr Khan completed his postgraduate Masters degree and commenced work with an overseas company as a senior executive responsible for product marketing, costing systems and production management. Mr Khan is also a Director of ASX listed Central Exchange Ltd and Fast Scout Ltd. Mr Khan brings considerable international experience in key aspects of corporate finance, production and marketing.

At the Balance Date, Azhar Chaudhri and Yaqoob Khan were resident overseas.

The following Directors also held office during the financial year:

- Russell Grewe - ceased to be an Executive Director on 31 December 2001;
- Brett M. McKeon - ceased to be an Executive Director on 30 June 2002;

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- Malcolm S. Watkins - ceased to be a Non-Executive Director on 30 June 2002;
- Bradley I. McGougan - ceased to be a Non-Executive Director on 30 June 2002.

The Directors take this opportunity to thank Messrs B McKeon, B McGougan, M Watkins and R Grewe for their positive contributions on the Board since the formation of the Company.

DIRECTORS' MEETINGS

During the year, the Company held 15 meetings of Directors (including Directors' Circulatory Resolutions). The attendance of the Directors at such meetings were:

| Name of Director | Meetings Attended | Maximum Possible Meetings |
|-------------------------|--------------------------|----------------------------------|
| F Khan | 15 | 15 |
| R Grewe | 3 | 9 |
| Y Khan | 9 | 15 |
| B McKeon | 13 | 15 |
| M Watkins | 11 | 15 |
| B McGougan | 13 | 15 |
| M van Rens | 15 | 15 |
| A Chaudhri | 7 | 15 |

There were no meetings of committees of the Board.

DIRECTORS' RELEVANT INTEREST

The relevant interest of each Director in the issued securities of the Company at the date of this report is as follows:

| Name of Director | Fully Paid Ordinary Shares | Partly Paid Ordinary Shares | 21 July 2003 Options |
|-------------------------|-----------------------------------|------------------------------------|-----------------------------|
| F Khan | 3,487,060 | - | 3,240,000 |
| M van Rens | 259,799 | - | 500,000 |
| A Chaudhri | 3,693,500 | 20,000,000 | - |
| Y Khan | 569,520 | - | 360,000 |

DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

The Board reviews the remuneration packages of all Directors and Executive Officers on a regular basis. The Board does not have any formal remuneration policy but any decision on remuneration increases or bonuses is made having due regard to the Consolidated Entity's performance and other relevant factors.

Details of the nature and amount of each element of remuneration of each Director and each of the 5 most highly paid Executive Officers of the Consolidated Entity paid or payable by the Consolidated Entity during the financial year are as follows:

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Remuneration of Directors of the Consolidated Entity

| Name of Director | Office Held | Salary | Fees | Superannuation | Other Benefits | Total |
|-------------------------|--------------------------------|-----------------------|-------------|-----------------------|-----------------------|-----------------------|
| | | \$ | \$ | \$ | \$ | \$ |
| F Khan | Chairman and Managing Director | 125,000 | - | 10,000 | - | 135,000 |
| R Grewe | Chief Technology Officer | 13,259 (US\$6,667) | - | - | - | 13,259 (US\$6,667) |
| B McKeon | Executive Director | 15,000 | - | 1,200 | - | 16,200 |
| Y Khan | Non-Executive Director | - | 15,000 | - | - | 15,000 |
| M Watkins | Non-Executive Director | - | 15,000 | 1,200 | - | 16,200 |
| B McGougan | Non-Executive Director | - | 15,000 | 1,200 | - | 16,200 |
| M van Rens | Non-Executive Director | - | 15,000 | 1,200 | - | 16,200 |
| A Chaudhri | Non-Executive Director | - | 15,000 | - | - | 15,000 |

Remuneration of 5 Most Highly Paid Executive Officers (Other Than Directors) of the Consolidated Entity

| Name of Executive Officer | Position Held | Salary | Bonus | Superannuation | Other Benefits | Total |
|----------------------------------|----------------------|---------------|--------------|-----------------------|-----------------------|--------------|
| | | \$ | \$ | \$ | \$ | \$ |
| W Johnson | General Manager | 44,872 | - | 3,590 | - | 48,462 |
| V Ho | Company Secretary | 31,000 | - | 2,480 | - | 33,480 |

There were no securities issued or granted to Directors or Executive Officers of the Company, during or since the financial year, pursuant to any executive or employee share or option plan or otherwise.

INDEMNITIES

The Company's constitution provides that, subject to and so far as permitted by the Corporations Act 2001:

- (a) the Company must, to the extent the person is not otherwise indemnified, indemnify every officer of the Company and its wholly owned subsidiaries and may indemnify its auditor against a liability incurred as such as an officer or auditor to a person (other than the Company or a related body corporate), unless the liability arises out of conduct involving a lack of good faith; and
- (b) the Company may make a payment (whether by way of advance, loan or otherwise) in respect of legal costs incurred by an officer or employee or auditor in defending an action for a liability incurred as such as an officer, employee or auditor or in resisting or responding to actions taken by a government agency or a liquidator.

The indemnity in favour of officers is a continuing indemnity. It applies in respect of all acts done by a person while an officer of the Company or one of its wholly owned subsidiaries even though the person is not an officer at the time the claim is made.

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Without limiting a person's rights under the indemnity described above, the Company may enter into an agreement with a person who is or has been an officer of the Company or any of the Company's subsidiaries, to give effect to the rights of the person under the indemnity on any terms and conditions that the Board thinks fit. The Company has not, during or since the financial year, indemnified or agreed to indemnify a Director, officer or auditor of the Company or of any related body corporate against a liability incurred as such a Director, officer or auditor.

However, the Company has paid premiums in respect of a directors' and officers' liability insurance policy which covers all Directors and officers of the Company and its wholly-owned subsidiaries. The policy conditions preclude the Company from any detailed disclosures concerning such policy.

EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matters or circumstances at the date of the report, other than those referred to in this report or the financial statements or notes thereto, that have significantly affected or may significantly affect the operations, the results of operations or the state of affairs of the Consolidated Entity in subsequent financial years.

Signed for and on behalf of the Directors in accordance with a resolution of the Board made pursuant to section 298(2) of the Corporations Act 2001.



Farooq Khan
Executive Chairman



Michael van Rens
Non-Executive Director

Perth, Western Australia

16 October 2002

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CORPORATE GOVERNANCE

The Board is responsible for the overall corporate governance of the Company, and it recognises the need for the highest standards of behaviour and accountability.

The primary responsibilities of the Board include:

- *formulation and approval of the strategic direction, objectives and goals of the Company;*
- *monitoring the financial performance of the Company, including approval of the Company's financial statements;*
- *ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;*
- *the identification of significant business risks and ensuring that such risks are adequately managed;*
- *the review of performance and remuneration of executive Directors; and*
- *the establishment and maintenance of appropriate ethical standards.*

The Board also recognises its duty to ensure that its shareholders are informed of all major developments affecting the Company's state of affairs.

The Board delegates to the *Managing Director and the executive team all responsibility for the operation and administration of the Company.*

Independent Professional Advice

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

Share Trading

The prior approval of the Chairman is required with respect to any dealings in the Company's securities by Directors, Executive Officers and employees.

Dealings are not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act 2001 prohibits the purchase or sale of securities whilst a person is in possession of inside information.

Committees

In view of the size of the Company and the nature of its activities, the Board has considered that establishing formally constituted committees for audit, board nominations and remuneration would contribute little to its effective management. Accordingly audit matters, the nomination of new Directors and the setting, or review, of remuneration levels of Directors and senior executives are reviewed by the Board as a whole and approved by resolution of the Board. Where the Board considers that particular expertise or information is required, which is not available from within their number, appropriate external advice may be taken and reviewed prior to a final decision being made by the Board.

Code Of Conduct

In view of the size of the Company and the nature of its activities, the Board has considered that an informal code of conduct is appropriate to guide executives, management and employees in carrying out their duties and responsibilities.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

STATEMENT OF FINANCIAL PERFORMANCE for the financial year ended 30 June 2002

| | Note | Consolidated Entity | | Company | |
|---|------|---------------------|--------------------|--------------------|--------------------|
| | | 2002 | 2001 | 2002 | 2001 |
| | | \$ | \$ | \$ | \$ |
| Sale of VoIP servers | 2 | 4,500 | 56,532 | 4,500 | 56,532 |
| Rendering of services | 2 | 550,000 | 727,083 | 550,000 | 727,083 |
| Cost of sales | 2 | (13,705) | (53,840) | (13,705) | (53,840) |
| Gross Profit | | 540,795 | 729,775 | 540,795 | 729,775 |
| Other revenue from ordinary activities | 2 | 308,286 | 232,444 | 308,286 | 232,444 |
| Non-operating revenue | 2 | 52,153 | 65,613 | 52,153 | 65,613 |
| Occupancy expenses | 2 | (51,551) | (66,531) | (51,551) | (66,531) |
| Finance expenses | 2 | (3,230) | (9,587) | (3,131) | (8,618) |
| Borrowing costs | 2 | (470) | (527) | (470) | (527) |
| Administration expenses | | | | | |
| - writedown of intangibles | 2 | (831,000) | - | (831,000) | - |
| - others | 2 | (497,424) | (615,016) | (497,424) | (615,016) |
| Corporate expenses | | | | | |
| - write down of investments | 2 | (245,683) | (9,000) | (358,703) | (554,424) |
| - others | 2 | (644,560) | (1,251,582) | (644,361) | (1,251,562) |
| Share of net losses of associates accounted for using the equity method | 12 | (426,859) | (338,960) | - | - |
| Loss from ordinary activities before income tax expense | | (1,799,543) | (1,263,371) | (1,485,406) | (1,468,846) |
| Income tax expense relating to ordinary activities | 4 | (2,233) | 350,643 | (2,322) | 350,307 |
| Net loss attributable to members of the company | 21 | (1,801,776) | (912,728) | (1,487,728) | (1,118,539) |
| Total changes in equity other than those resulting from transactions with owners as owners | | (1,801,776) | (912,728) | (1,487,728) | (1,118,539) |
| Earnings per share | | | | | |
| Basic (cents per share) | 22 | (6.04) | (3.07) | | |
| Diluted (cents per share) | 22 | (3.69) | (1.87) | | |

The statement of financial performance should be read in conjunction with the accompanying notes.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

STATEMENT OF FINANCIAL POSITION
as at 30 June 2002

| | Note | Consolidated Entity | | Company | |
|---|------|---------------------|------------------|------------------|------------------|
| | | 2002 | 2001 | 2002 | 2001 |
| | | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | |
| Cash | | 2,845,351 | 3,632,351 | 2,844,688 | 3,626,389 |
| Receivables | 7 | 483,758 | 89,681 | 483,758 | 89,681 |
| Inventory | 8 | 18,273 | 31,977 | 18,273 | 31,977 |
| Other | 9 | 26,445 | 4,942 | 26,445 | 4,942 |
| TOTAL CURRENT ASSETS | | 3,373,827 | 3,758,951 | 3,373,164 | 3,752,989 |
| NON CURRENT ASSETS | | | | | |
| Receivables | 10 | 13,766 | 13,766 | 15,617 | 20,617 |
| Other financial assets | 11 | 307,275 | 120,388 | 639,606 | 426,556 |
| Investments accounted for using equity method | 12 | 224,857 | 512,532 | - | - |
| Property, plant and equipment | 13 | 454,869 | 526,761 | 454,869 | 526,761 |
| Intangibles | 14 | 69,000 | 1,300,000 | 69,000 | 1,300,000 |
| Deferred tax assets | 15 | 4,968 | 5,304 | 4,968 | 4,968 |
| Other | 16 | - | 14,673 | - | 14,673 |
| TOTAL NON CURRENT ASSETS | | 1,074,735 | 2,493,424 | 1,184,060 | 2,293,575 |
| TOTAL ASSETS | | 4,448,562 | 6,252,375 | 4,557,224 | 6,046,564 |
| CURRENT LIABILITIES | | | | | |
| Payables | 17 | 106,051 | 86,252 | 106,051 | 86,252 |
| NON CURRENT LIABILITIES | | | | | |
| Provisions | 18 | 8,468 | 16,559 | 8,468 | 16,559 |
| Deferred tax liabilities | 19 | 30,754 | 28,857 | 31,179 | 28,857 |
| TOTAL LIABILITIES | | 145,273 | 131,668 | 145,698 | 131,668 |
| NET ASSETS | | 4,303,289 | 6,120,707 | 4,411,526 | 5,914,896 |
| EQUITY | | | | | |
| Contributed equity | 20 | 8,225,938 | 8,241,580 | 8,225,938 | 8,241,580 |
| Accumulated losses | 21 | (3,922,649) | (2,120,873) | (3,814,412) | (2,326,684) |
| TOTAL EQUITY | | 4,303,289 | 6,120,707 | 4,411,526 | 5,914,896 |

The statement of financial position should be read in conjunction with the accompanying notes.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

STATEMENT OF CASH FLOWS for the financial year ended 30 June 2002

| | Note | Consolidated Entity | | Company | |
|--|-------|---------------------|-----------|-----------|-----------|
| | | 2002 | 2001 | 2002 | 2001 |
| | | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | | 85,786 | 339,180 | 85,786 | 339,180 |
| Payments to suppliers and employees | | (659,853) | (939,459) | (659,554) | (938,570) |
| Income tax paid | | - | (50,000) | - | (50,000) |
| Income tax refunded | | 50,000 | - | 50,000 | - |
| Interest received | | 169,663 | 194,692 | 169,663 | 194,692 |
| Interest paid | | (470) | (527) | (470) | (527) |
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | | | | | |
| | 26(a) | (354,874) | (456,114) | (354,575) | (455,225) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Payments for property, plant and equipment | | (2,175) | (13,158) | (2,175) | (13,158) |
| Payments for other non-current assets | | (704) | (14,673) | (704) | (14,673) |
| Payments for investment securities | | (465,913) | (150,219) | (465,913) | (150,219) |
| Payments from sale of fixed assets | | - | 2,049 | - | 2,049 |
| Proceeds from sale of investment securities | | 52,153 | 63,564 | 52,153 | 63,564 |
| Loan to subsidiary | | - | - | - | (6,851) |
| Loan repaid by subsidiary | | - | - | 5,000 | - |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | | | | | |
| | | (416,639) | (112,437) | (411,639) | (119,288) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Payment for share buy back | | (15,487) | | (15,487) | |
| Proceeds from issue of shares | | - | 574,625 | - | 574,625 |
| Proceeds from issue of options | | - | 1,250 | - | 1,250 |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | | | | | |
| | | (15,487) | 575,875 | (15,487) | 575,875 |
| NET INCREASE/(DECREASE) IN CASH ASSETS HELD | | | | | |
| Add opening cash assets brought forward | | (787,000) | 7,324 | (781,701) | 1,362 |
| | | 3,632,351 | 3,625,027 | 3,626,389 | 3,625,027 |
| CLOSING CASH ASSETS AT END OF YEAR | | | | | |
| | 26(b) | 2,845,351 | 3,632,351 | 2,844,688 | 3,626,389 |

The statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

1. SUMMARY OF ACCOUNTING POLICIES

Financial reporting framework

The Financial Report is a general purpose Financial Report, which has been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The Financial Report has been prepared on the basis of historical costs and except where stated does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the Financial Report:

1.1 Accounts payable

Trade payables and other accounts payable are recognised when the economic entity becomes obliged to make future payments resulting from the purchase of goods and services.

1.2 Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

1.3 Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land and investment properties. The depreciable amount of all fixed assets is depreciated over their expected useful lives 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 such improvements. The depreciation rate and depreciation method adopted for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate | Depreciation |
|-------------------------------|-------------------|-------------------|
| Building | 2.50% | Straight Line |
| Plant and Equipment | | |
| - Acquired before 1 July 1999 | 13-27% | Straight Line |
| - Acquired after 30 June 1999 | 15-50% | Diminishing Value |
| Leasehold Improvements | 15% | Diminishing Value |

1.4 Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing the operating result after income tax by the weighted average number of ordinary shares on issue during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

1.5 Employee entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave ("employee entitlements") when it is probable that settlement will be required and they are capable of being measured reliably. Employee entitlements are expected to be settled within one year have been measured at their nominal amount. Superannuation contributions are made by the Consolidated Entity in accordance with statutory obligations and are charged as expenses when incurred.

1.6 Financial instruments issued by the Company

(i) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

1.7 Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are recognised in the profit and loss in the period in which they arise.

1.8 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) Where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO), it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross GST basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1.9 Income tax

Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable. Future income tax benefits in relation to timing differences are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

1.10 Inventories

Inventories are valued at lower of cost and net realisable value, which excludes any portion of fixed and variable overhead expenses, and are assigned directly to each item of inventory on hand and attributed directly to each item of inventory which are sold. This direct assignment and attribution is possible as there are low number of inventory items on hand and which were sold.

1.11 Investments

Investments in controlled entities are recorded at cost. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Other investments in listed companies are recorded at cost with appropriate provision made to reflect market value at the Balance Date.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES**NOTES TO THE FINANCIAL STATEMENTS**
for the financial year ended 30 June 2002

1.12 Intellectual property

Intellectual property is amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial application of such intellectual property. The unamortised amount is reviewed annually to determine whether it is in excess of the recoverable amount. If the carrying value of intellectual property exceeds its recoverable amount, the asset is written down to the lower value. The VoiceNet System VoIP technology is being amortised over 5 years on this basis.

1.13 Leased assets

Leased assets classified as finance leases are capitalised as fixed assets and amortised over the estimated useful life of the asset. A lease asset and liability are established at the present value of the minimum lease payments. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

1.14 Receivables

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

1.15 Recoverable amount of non-current assets

The carrying amount of non-current assets are reviewed annually to determine whether they are in excess of the recoverable amount. If the carrying value of a non-current asset exceeds its recoverable amount, the asset is written down to the lower value. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

1.16 Research and development costs

Research and development costs are recognised as an expense when incurred, except to the extent that such costs, together with unamortised deferred costs in relation to that project, are expected, beyond any reasonable doubt, to be recoverable.

1.17 Principles of consolidation

The consolidated Financial Statements are prepared by combining the Financial Statements of all the entities that comprise the Consolidated Entity, being the Company and its controlled entities. Control exists where the Company has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with the Company to achieve the objectives of the Company. A list of controlled entities is contained in Note 11 to the Financial Statements.

All inter-company balances and transactions between entities in the Consolidated Entity, including any unrealised profits or losses, have been eliminated on consolidation.

1.18 Revenue recognition**(i) Sale of goods and disposal of assets**

Revenue is recognised when the Consolidated Entity has passed control of the goods or other assets to the buyer.

(ii) Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

(iii) Interest revenue

Revenue is recognised on an accrual basis.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

2. LOSS FROM ORDINARY ACTIVITIES

The operating loss from ordinary activities before income tax includes the following items of revenue and expense:

| | Consolidated Entity | | Company | |
|--|---------------------|------------------|------------------|------------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| (a) Operating revenue | | | | |
| Sales revenue | | | | |
| Sale of VoIP servers | 4,500 | 56,532 | 4,500 | 56,532 |
| Rendering of services | 550,000 | 727,083 | 550,000 | 727,083 |
| Other revenue | | | | |
| Corporate advisory fee | 81,818 | - | 81,818 | - |
| Underwriting fee | 14,000 | - | 14,000 | - |
| Rental income | 59,487 | 8,345 | 59,487 | 8,345 |
| Interest received - other | 152,981 | 224,099 | 152,981 | 224,099 |
| | <u>862,786</u> | <u>1,016,059</u> | <u>862,786</u> | <u>1,016,059</u> |
| (b) Non-operating revenue | | | | |
| Proceeds from sale of assets | | | | |
| Fixed assets | - | 2,049 | - | 2,049 |
| Non-current investments | 52,153 | 63,564 | 52,153 | 63,564 |
| Total revenue | <u>914,939</u> | <u>1,081,672</u> | <u>914,939</u> | <u>1,081,672</u> |
| (c) Expenses | | | | |
| Cost of sales - VoIP servers | 13,705 | 53,840 | 13,705 | 53,840 |
| Operating expenses | | | | |
| Occupancy expenses | 51,551 | 66,531 | 51,551 | 66,531 |
| Finance expenses | 3,230 | 9,587 | 3,131 | 8,618 |
| Borrowing costs - interest paid | 470 | 527 | 470 | 527 |
| Administration expenses | | | | |
| Software development costs | 7,907 | 118,363 | 7,907 | 118,363 |
| Write down of VoIP technology | 831,000 | - | 831,000 | - |
| Amortisation of VoIP technology | 400,000 | 400,000 | 400,000 | 400,000 |
| Other development costs | 89,517 | 96,653 | 89,517 | 96,653 |
| Corporate expenses | | | | |
| Depreciation | | | | |
| - Property, Plant and Equipment | 47,353 | 84,551 | 47,353 | 84,551 |
| Amortisation of website | 15,377 | - | 15,377 | - |
| Personnel expenses | 323,746 | 452,663 | 323,746 | 452,663 |
| Other provisions - Employee entitlements | (8,090) | 4,820 | (8,090) | 4,820 |
| Write off of assets | 24,390 | 28,170 | 24,390 | 28,170 |
| Diminution of investments | 245,683 | 9,000 | 358,703 | 554,424 |
| Other corporate administrative expenses | 159,966 | 127,173 | 159,767 | 127,153 |
| Cost of investment sold | 81,818 | 552,156 | 81,818 | 552,156 |
| Cost of equipment sold | - | 2,049 | - | 2,049 |
| Equity share of associate's losses | 426,859 | 338,960 | - | - |
| | <u>2,714,482</u> | <u>2,345,043</u> | <u>2,400,345</u> | <u>2,550,518</u> |

3. SALE OF ASSETS

Sale of assets in the ordinary course of business have given rise to the following losses:

| | | | | | |
|------------------------|-------------|-----------------|------------------|-----------------|------------------|
| (a) Net Losses: | Investments | <u>(29,665)</u> | <u>(488,592)</u> | <u>(29,665)</u> | <u>(488,592)</u> |
|------------------------|-------------|-----------------|------------------|-----------------|------------------|

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

4. INCOME TAX EXPENSE

| | Consolidated Entity | | Company | |
|---|---------------------|-------------|-------------|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| (a) The prima facie income tax on operating loss is reconciled to the income tax provided in the accounts as follows: | | | | |
| Loss from ordinary activities | (1,799,543) | (1,263,371) | (1,485,406) | (1,468,846) |
| Income tax expense calculated at 30% (2001:34%) of operating losses. | (539,863) | (429,546) | (445,622) | (499,408) |
| Permanent differences | | | | |
| Write down of VoIP technology | 249,300 | - | 249,300 | - |
| Amortisation of VoIP technology | 120,000 | 136,000 | 120,000 | 136,000 |
| Amortisation of website | 4,613 | - | 4,613 | - |
| Diminution of investments | 73,705 | 3,060 | 107,611 | 188,504 |
| Software development tax depreciation | (44,048) | (240,183) | (44,048) | (240,183) |
| Software development costs | 2,372 | 41,977 | 2,372 | 41,977 |
| Non deductible expenditure | 8,096 | 280 | 8,096 | 280 |
| Capital gain on unexercised expired 1 August 2000 options in the Company | - | 426,650 | - | 426,650 |
| Capital loss on cancelled 31 December 2000 options in Central Exchange Ltd | - | (39,100) | - | (39,100) |
| Equity share of associate's losses | 128,058 | 115,246 | - | - |
| Timing differences: | | | | |
| Effect on future income tax benefit and provision for deferred income tax due to change in tax rates | - | 464 | - | 464 |
| | 2,233 | 14,848 | 2,322 | 15,184 |
| Overprovision of income tax in previous years | - | (365,491) | - | (365,491) |
| Income tax expense/ (benefit) | 2,233 | (350,643) | 2,322 | (350,307) |
| Aggregate income tax expense comprises: | | | | |
| Current income tax provision | 2,233 | 18,333 | 2,322 | 18,669 |
| Deferred income tax provision | - | 1,483 | - | 1,483 |
| Future income tax benefit | - | (4,968) | - | (4,968) |
| Under/(over) provision in previous years | - | (365,491) | - | (365,491) |
| | 2,233 | (350,643) | 2,322 | (350,307) |

- (b) Future income tax benefit have not been brought to accounts as realisation of the benefit cannot be regarded as virtually certain. These tax benefits will only be obtained if:
- (i) assessable income is derived of a nature and of amount sufficient to enable the benefit from deductions to be realised;
 - (ii) conditions for deductibility imposed by the law are complied with; and
 - (iii) no changes in taxation legislation adversely affect the realisation of the benefit from deductions.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

5. REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

(a) Directors Remuneration

| | Consolidated Entity | | Company | |
|---|---------------------|---------|---------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| (i) Total remuneration paid or payable, or otherwise made available to Directors by the Consolidated Entity | \$ | \$ | \$ | \$ |
| | 243,059 | 272,748 | 243,059 | 272,748 |

The Directors of the Company during the financial year are disclosed in Note 25 of the Financial Statements.

The number of Directors whose remuneration falls within the following bands:

| | 2002 | 2001 |
|--------------------------|--------|--------|
| | Number | Number |
| \$ 10,000 to \$ 19,999 | 7 | 5 |
| \$ 20,000 to \$ 29,999 | - | 1 |
| \$ 30,000 to \$ 39,999 | - | 1 |
| \$ 130,000 to \$ 139,999 | 1 | 1 |

- (ii) Messrs Messrs F Khan, Y Khan and B McKeon also received remuneration from Central Exchange Ltd (being a related party within the meaning of Accounting Standard AASB 1017 "Related Party Disclosures"). Such remuneration is not disclosed because it was not in connection with the management of the affairs of the Consolidated Entity.

(b) Executive Officers Remuneration

| | Consolidated Entity | | Company | |
|--|---------------------|------|---------|------|
| | 2002 | 2001 | 2002 | 2001 |
| Total remuneration paid or payable, or otherwise made available to Executive Officers (excluding Executive Directors) by the Consolidated Entity and related parties (within the meaning of Accounting Standard AASB 1017 "Related Party Disclosures") of the Consolidated Entity whose income is more than \$100,000 or more. | \$ | \$ | \$ | \$ |
| | 136,201 | - | 136,201 | - |

The number of Executive Officer whose remuneration falls within the following bands:

| | 2002 | 2001 |
|--------------------------|--------|--------|
| | Number | Number |
| \$ 130,000 to \$ 139,999 | 1 | - |

6. AUDITORS REMUNERATION

| | Consolidated Entity | | Company | |
|---|---------------------|--------|---------|--------|
| | 2002 | 2001 | 2002 | 2001 |
| Amounts received or due and receivable by the Consolidated Entity's auditors for: | \$ | \$ | \$ | \$ |
| Audit and review of financial reports | 27,980 | 14,500 | 27,980 | 14,500 |

7. CURRENT RECEIVABLES

Amounts receivable from:

| | | | | |
|---------------------------|----------------|---------------|----------------|---------------|
| Sundry debtors | 30,085 | 79,410 | 30,085 | 79,410 |
| Associates | 450,081 | - | 450,081 | - |
| Director related entities | 3,177 | 9,871 | 3,177 | 9,871 |
| Others | 415 | 400 | 415 | 400 |
| | <u>483,758</u> | <u>89,681</u> | <u>483,758</u> | <u>89,681</u> |

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

| 8. INVENTORY | Consolidated Entity | | Company | |
|--|---------------------|---------|-------------|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| Work in progress - at cost | 18,273 | 31,977 | 18,273 | 31,977 |
| 9. OTHER CURRENT ASSETS | | | | |
| Prepayments | 26,445 | 4,942 | 26,445 | 4,942 |
| 10. NON - CURRENT RECEIVABLES | | | | |
| Amounts receivable from wholly-owned entity | - | - | 1,851 | 6,851 |
| Bonds and guarantees | 13,766 | 13,766 | 13,766 | 13,766 |
| | 13,766 | 13,766 | 15,617 | 20,617 |
| 11. OTHER NON-CURRENT FINANCIAL ASSETS | | | | |
| Shares and options in listed companies - at cost | 552,957 | 129,388 | 552,957 | 129,388 |
| Shares in controlled entities - at cost | - | - | 100 | 100 |
| Shares in associates - at cost | - | - | 2,399,575 | 2,260,392 |
| Less: provision For recoverable writedown | (245,682) | (9,000) | (2,313,026) | (1,963,324) |
| | 307,275 | 120,388 | 639,606 | 426,556 |
| Market value of investments at 30 June 2002: | | | | |
| Shares in listed companies | 307,275 | 133,279 | 639,506 | 439,346 |

| (a) Investment in Controlled Entities | Ownership Interest | |
|--|--------------------|------|
| | 2002 | 2001 |
| Queste Operations Pty Ltd (A.C.N. 094 097 097) Incorporated in Australia on 10 August 2000. | 100% | 100% |
| Queste Communications (USA) Inc. Incorporated in Delaware, USA on 15 February 2000 | 100% | 100% |

Both companies are not currently engaged in any activities.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| Name of Entity | Principal Activity | Ownership Interest | | Consolidated Carrying Amount | |
|----------------------|--------------------|--------------------|--------|------------------------------|---------|
| | | 2002 | 2001 | 2002 | 2001 |
| | | | | \$ | \$ |
| Central Exchange Ltd | Telecommunications | 33.74% | 23.58% | 224,857 | 512,532 |

- (i) On 28 August 2001, Central Exchange Ltd issued 5,528,055 ordinary shares to the Company in satisfaction of \$100,000 fees owed to the Company for technical services rendered pursuant to a Technical Services Agreement between the two companies;
- (ii) At the Balance Date, the Company's voting power in Central Exchange Ltd increased to approximately 33.74% (from 23.58% at the beginning of the reporting period). The Company currently holds 4,149,112 shares in Central Exchange Ltd (48.817% of its issued capital). Refer to note 28 (1) for post-balance date movements.
- (iii) Pursuant to AASB 1016 "Accounting for Investment in Associates", the Company is required to account for its investment in Central Exchange Ltd on an equity accounting basis as an Associate entity.
- (iv) The net assets of the Consolidated Entity is lower than at Company level, mainly because of the share of associate losses recognised through the equity accounting basis. The market value of the shares held in the Associate at balance date is higher than the carrying value of the investment in Associate once the share of its net losses were recognised.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

| | Consolidated | |
|--|---------------------|----------------|
| | 2002 | 2001 |
| | \$ | \$ |
| Movement in Investments in Associates | | |
| Equity accounted amount of investment at the beginning of the financial year | 512,532 | 910,000 |
| Share of losses from ordinary activities before income tax expense | (426,859) | (338,960) |
| Share of income tax expense related to ordinary expense | - | - |
| Acquisition of additional interests in associates | 139,184 | 472,916 |
| Disposal of interest in associates | - | (531,424) |
| | <u>224,857</u> | <u>512,532</u> |

Summarised Financial Position of Associates

Current assets

| | | |
|-------------|-----------|-----------|
| Cash | 1,169,446 | 1,702,199 |
| Receivables | 121,658 | 23,388 |
| Others | 20,560 | 796 |

Non-current assets

| | | |
|-------------------------------|---------|---------|
| Investments | 118,661 | 49,202 |
| Property, plant and equipment | 45,214 | 156,792 |
| Intangibles | - | 298,080 |
| Other | 14,106 | 14,106 |

Current liabilities

| | | |
|----------|-----------|----------|
| Payables | (676,188) | (61,961) |
|----------|-----------|----------|

Non-current liabilities

| | | |
|------------|---------|---------|
| Provisions | (4,636) | (9,010) |
|------------|---------|---------|

Net assets

| | | |
|--|----------------|------------------|
| | <u>808,821</u> | <u>2,173,592</u> |
|--|----------------|------------------|

Net losses

| | | |
|--|--------------------|--------------------|
| | <u>(1,368,497)</u> | <u>(3,239,091)</u> |
|--|--------------------|--------------------|

Share of Reserves Attributable to Associates

Retained losses

| | | |
|--|-------------|-------------|
| at the beginning of the financial year | (1,747,860) | (1,408,900) |
| at the end of the financial year | (2,174,719) | (1,747,860) |

Contingent Liabilities and Capital Commitments

The Consolidated Entity's share of contingent liabilities and other expenditure commitments of its Associates are as follows:

| | Consolidated | |
|--|---------------------|----------------|
| | 2002 | 2001 |
| | \$ | \$ |
| Contingent Liabilities | | |
| Guarantees provided by Associates | - | 2,358 |
| Commitments for Expenditure | | |
| Not longer than 1 year | - | 215,246 |
| Longer than 1 year and not longer than 2 years | - | 82,530 |
| | <u>-</u> | <u>297,776</u> |

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

13. PROPERTY, PLANT AND EQUIPMENT

| CONSOLIDATED ENTITY | Building | Plant and Equipment | Leasehold Improve- ments | Total |
|---------------------------------|-----------------|------------------------|--------------------------------|-----------------|
| | \$ | \$ | \$ | \$ |
| Gross Carrying Amount | | | | |
| Balance at 30 June 2001 | 443,416 | 178,885 | 21,787 | 644,088 |
| Additions | - | 2,175 | - | 2,175 |
| Write offs | - | (98,881) | - | (98,881) |
| Disposals | - | (2,800) | - | (2,800) |
| Balance at 30 June 2002 | <u>443,416</u> | <u>79,379</u> | <u>21,787</u> | <u>544,582</u> |
| Accumulated Depreciation | | | | |
| Balance at 30 June 2001 | (28,549) | (84,609) | (4,169) | (117,327) |
| Depreciation expense | (11,085) | (33,625) | (2,643) | (47,353) |
| Write offs | - | 74,491 | - | 74,491 |
| Disposals | - | 476 | - | 476 |
| Balance at 30 June 2002 | <u>(39,634)</u> | <u>(43,267)</u> | <u>(6,812)</u> | <u>(89,713)</u> |
| Net Book Value | | | | |
| As at 30 June 2001 | <u>414,867</u> | <u>94,276</u> | <u>17,618</u> | <u>526,761</u> |
| As at 30 June 2002 | <u>403,782</u> | <u>36,112</u> | <u>14,975</u> | <u>454,869</u> |

COMPANY:

Gross Carrying Amount

| | | | | |
|-------------------------|----------------|---------------|---------------|----------------|
| Balance at 30 June 2001 | 443,416 | 178,885 | 21,787 | 644,088 |
| Additions | - | 2,175 | - | 2,175 |
| Write offs | - | (98,881) | - | (98,881) |
| Disposals | - | (2,800) | - | (2,800) |
| Balance at 30 June 2002 | <u>443,416</u> | <u>79,379</u> | <u>21,787</u> | <u>544,582</u> |

Accumulated Depreciation

| | | | | |
|-------------------------|----------|----------|---------|-----------|
| Balance at 30 June 2001 | (28,549) | (84,609) | (4,169) | (117,327) |
|-------------------------|----------|----------|---------|-----------|

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

| 14. INTANGIBLES | Consolidated Entity | | Company | |
|---|---------------------|------------------|---------------|------------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| VoiceNet System VoIP Technology - at cost | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| Less: Accumulated amortisation | (1,100,000) | (700,000) | (1,100,000) | (700,000) |
| Less: Write-down of VoiceNet Technology | (831,000) | - | (831,000) | - |
| | <u>69,000</u> | <u>1,300,000</u> | <u>69,000</u> | <u>1,300,000</u> |

Aggregate amortisation allocated during the financial year of \$400,000 (2001: \$400,000) was recognised as an expense (refer Note 2 of the Financial Statements).

A further write-down of \$831,000 was also recognised as an expense (refer Note 2 of the Financial Statements). This decision was made by the Board in light of the current continuing efforts of the Company to commercially exploit the asset in Australia and overseas and an independent assessment of the carrying value of such asset commissioned by the Directors.

| 15. DEFERRED TAX ASSETS | Consolidated Entity | | Company | |
|--|---------------------|-------|---------|-------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| Future income tax benefit: Timing differences | 4,968 | 5,304 | 4,968 | 4,968 |

16. OTHER NON-CURRENT ASSETS

| | | | | |
|------------------|---|--------|---|--------|
| Internet website | - | 14,673 | - | 14,673 |
|------------------|---|--------|---|--------|

17. CURRENT PAYABLES

| | | | | |
|--|----------------|---------------|----------------|---------------|
| Trade creditors | 25,155 | 18,117 | 25,155 | 18,117 |
| Other creditors and accruals | 80,896 | 50,744 | 80,896 | 50,744 |
| Amounts payable to: Directors and Director related entities | - | 17,391 | - | 17,391 |
| | <u>106,051</u> | <u>86,252</u> | <u>106,051</u> | <u>86,252</u> |

18. NON-CURRENT PROVISIONS

| | | | | |
|-------------------------------------|-------|--------|-------|--------|
| Provision for employee entitlements | 8,468 | 16,559 | 8,468 | 16,559 |
|-------------------------------------|-------|--------|-------|--------|

19. DEFERRED TAX LIABILITIES

| | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|
| Provision for income tax | 29,271 | 27,374 | 29,696 | 27,374 |
| Provision for deferred income tax | 1,483 | 1,483 | 1,483 | 1,483 |
| | <u>30,754</u> | <u>28,857</u> | <u>31,179</u> | <u>28,857</u> |

Number of employees (including Executive Directors and Executive Officers) at Balance Date

| | | | | |
|--|---|---|---|---|
| | 5 | 6 | 5 | 6 |
|--|---|---|---|---|

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

20. CONTRIBUTED EQUITY

| | Consolidated Entity | | Company | |
|---|---------------------|------------------|------------------|------------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| Issued and Paid-Up Capital | | | | |
| 28,404,879 (2001: 28,847 363) fully paid ordinary shares | 5,887,926 | 5,903,568 | 5,887,926 | 5,903,568 |
| 20,000,000 (2001: 20,000,000) partly paid ordinary shares | 200,000 | 200,000 | 200,000 | 200,000 |
| Option premium | 2,138,012 | 2,138,012 | 2,138,012 | 2,138,012 |
| | <u>8,225,938</u> | <u>8,241,580</u> | <u>8,225,938</u> | <u>8,241,580</u> |

(a) Movement in Issued Ordinary Share Capital

(i) Fully paid ordinary shares

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Balance at beginning of financial year | 5,903,568 | 5,903,568 | 5,903,568 | 5,903,568 |
| Share buy-back | (15,642) | - | (15,642) | - |
| Conversion of options to ordinary shares | - | 576,625 | - | 576,625 |
| Balance at end of financial year | <u>5,887,926</u> | <u>5,903,568</u> | <u>5,887,926</u> | <u>5,903,568</u> |

Each fully paid ordinary share carries one vote per share and the right to participate in dividends.

Shares Bought Back During Financial Year

442,484 (7.5%) fully paid ordinary shares were bought-back on 28 June 2002 in accordance with an on-market within "10/12 limit" share buy-back pursuant to Part 2J.1 Division 2 of the Corporations Act 2001. Such shares were cancelled on 4 July 2002. The costs of the share buy-back included:

| | |
|-------------------|---------------|
| | \$ |
| Consideration | 15,487 |
| Transaction costs | 155 |
| | <u>15,642</u> |

In accordance with the terms of the share buy-back, the equity of the Company decreased as follows:

| | |
|--------------------|---------------|
| | \$ |
| Contributed equity | 15,487 |
| Retained profits | 155 |
| | <u>15,642</u> |

(ii) Partly paid ordinary shares

There were no movements during the year for partly paid ordinary shares.

The Company's 20,000,000 unlisted partly paid ordinary shares are each paid to one cent with 19 cents per share outstanding.

Each partly paid ordinary share carries a fraction of a vote and the right to participate in dividends in the same proportion that the amount paid on the share bears to the total issue price of the share.

(b) Details of options on issue are as follows:

| Number | Terms and Conditions |
|-----------|---|
| 5,000,000 | Expiring on 21 July 2003 with an exercise price of \$0.20 per share |

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

21. ACCUMULATED LOSSES

| | Consolidated Entity | | Company | |
|----------------------------------|---------------------|--------------------|--------------------|--------------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| Balance at beginning of the year | (2,120,873) | (1,208,145) | (2,326,684) | (1,208,145) |
| Net loss | (1,801,776) | (912,728) | (1,487,728) | (1,118,539) |
| Balance at end of financial year | <u>(3,922,649)</u> | <u>(2,120,873)</u> | <u>(3,814,412)</u> | <u>(2,326,684)</u> |

22. EARNINGS PER SHARE

| | Consolidated Entity | |
|------------------------|---------------------|---------------|
| | 2002 | 2001 |
| | cents per share | |
| Basic loss per share | <u>(6.04)</u> | <u>(3.07)</u> |
| Diluted loss per share | <u>(3.69)</u> | <u>(1.87)</u> |

(a) Basic loss per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | 2002 | 2001 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Net Loss | (1,801,776) | (912,728) |
| | 2002 | 2001 |
| | No. | No. |
| Weighted average number of ordinary shares | <u>29,843,726</u> | <u>29,710,584</u> |

- (i) The Company's partly paid shares, to the extent that they have been paid (one cent per share), have been included in the determination of the basic earnings per share.

The Company's options and partly paid shares, to the extent of the balance of the call (19 cents per share), have not been included in the determination of basic earnings per share. These securities are included in the determination of diluted earnings per share on the basis that each option will convert to one ordinary share and each partly paid share will become fully paid.

(b) Diluted loss per share

The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

| | 2002 | 2001 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Net Loss | (1,801,776) | (912,728) |
| | 2002 | 2001 |
| | No. | No. |
| Weighted average number of ordinary shares (i), (ii) | <u>48,843,726</u> | <u>48,710,584</u> |

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

- (i) The weighted average number of ordinary shares and potential ordinary shares used in calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

| | 2002 No. | 2001 No. |
|---|-------------------|-------------------|
| Weighted average number of ordinary shares used in the calculation of basic EPS | 29,843,726 | 29,710,584 |
| Portion of partly-paid ordinary shares that remain unpaid | 19,000,000 | 19,000,000 |
| Weighted average number of ordinary shares used in the calculation of diluted EPS | <u>48,843,726</u> | <u>48,710,584</u> |

- (ii) The following potential ordinary shares are not dilutive because the options are out of the money and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

| | 2002 No. | 2001 No. |
|---|------------------|------------------|
| Options exercisable at 20 cents on or before 21 July 2003 | <u>5,000,000</u> | <u>5,000,000</u> |

23. LEASE COMMITMENTS

| | Consolidated Entity | | Company | |
|--|---------------------|---------|---------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Non-cancellable operating lease commitments: | \$ | \$ | \$ | \$ |
| Not longer than one year | 116,647 | 105,643 | 116,647 | 105,643 |

The lease is in relation to the office premises of the Company and includes all outgoings. Such expenditure is shared equally with other companies, including Central Exchange Ltd (a Director Related Entity within the meaning of Accounting Standard AASB 1017 "Related Party Disclosures") pursuant to shared office and administration expense arrangements.

24. SEGMENT REPORTING

The Consolidated Entity operates predominantly within Australia and in one industry segment, being telecommunications technology.

| Segment Revenues & Results | Revenue | | Operating results | |
|--|----------------|------------------|--------------------|------------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| Telecommunications | 554,500 | 783,615 | (829,696) | 48,505 |
| Investments | 147,971 | 63,564 | (179,530) | (836,552) |
| | <u>702,471</u> | <u>847,179</u> | <u>(1,009,226)</u> | <u>(788,047)</u> |
| Unallocated | 212,468 | 234,493 | (790,317) | (475,324) |
| | <u>914,939</u> | <u>1,081,672</u> | | |
| Profit from ordinary activities before income tax | | | (1,799,543) | (1,263,371) |
| Income tax expense relating to ordinary activities | | | (2,233) | 350,643 |
| Profit from ordinary activities after income tax | | | <u>(1,801,776)</u> | <u>(912,728)</u> |

| Segment Assets & Liabilities | Assets | | Liabilities | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| Telecommunications | 539,158 | 1,379,579 | - | - |
| Investments | 532,132 | 632,920 | - | - |
| | <u>1,071,290</u> | <u>2,012,499</u> | - | - |
| Unallocated | 3,377,272 | 4,239,876 | (145,273) | (131,668) |
| | <u>4,448,562</u> | <u>6,252,375</u> | <u>(145,273)</u> | <u>(131,668)</u> |

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

| Other Segment Information | Telecommunications | | Investments | |
|--|--------------------|---------|-------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| Carrying value of investments accounted for using the equity method | - | - | 224,857 | 512,532 |
| Share of net losses of associate company accounted for under the equity method | - | - | 426,859 | 338,960 |
| Acquisition of segment assets | - | - | 647,731 | 281,469 |
| Depreciation and amortisation of segment assets | 433,054 | 436,035 | - | - |
| Other non-cash expenses | | | | |
| Write off of segment assets | 24,390 | 28,170 | - | - |
| Write down of segment assets | 831,000 | - | - | - |
| Diminution of segment assets | - | - | 245,683 | 9,000 |

25. RELATED PARTY TRANSACTIONS

The names of each person holding the position of Director of the Company during the financial year were:

| | | |
|----------------------|----------------------|-----------------------------|
| - Farooq Khan | - Brett M McKeon | (resigned 30 June 2002) |
| - Michael J van Rens | - Bradley I McGougan | (resigned 30 June 2002) |
| - Azhar Chaudhri | - Malcolm S Watkins | (resigned 30 June 2002) |
| - Yaqoob Khan | - Russell Grewe | (resigned 31 December 2001) |

(a) Equity Interests in Controlled Entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 11 of the Financial Statements.

(b) Directors' Remuneration

Information on the remuneration of Directors is disclosed in Note 5 of the Financial Statements.

(c) Directors' Equity Holdings

(i) Ordinary Shares

| | Fully Paid | | Partly Paid | |
|--|------------|------------|-------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| Issued during the financial year to Directors and their Director Related Entities by the Company | - | - | - | - |
| Redeemed, exercised or bought back during the financial year from Directors and their Director Related Entities by the Company | - | - | - | - |
| Held as at Balance Date by Directors and their Director Related Entities in the Company | 11,369,629 | 11,495,282 | 20,000,000 | 20,000,000 |

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

| (ii) Options | Expiring 21 July 2003 | |
|--|-----------------------|------------------|
| | 2002 | 2001 |
| Issued during the financial year to Directors and their Director Related Entities by the Company | <u>-</u> | <u>-</u> |
| Redeemed, exercised or bought back during the financial year from Directors and their Director Related Entities by the Company | <u>-</u> | <u>-</u> |
| Held as at Balance Date by Directors and their Director Related Entities in the Company | <u>4,100,000</u> | <u>5,000,000</u> |

(d) Transactions with Controlled Entities

During the financial year, the Company provided a loan to and incurred operating expenses on behalf of Queste Operations Pty Ltd, a wholly owned subsidiary of the Company. The following amount remains outstanding at the Balance Date. Interest is not charged on such outstanding amount.

| Entity | Amount Outstanding |
|---------------------------|--------------------|
| | \$ |
| Queste Operations Pty Ltd | <u>1,851</u> |

(e) Transactions with Associates

(i) Contractual Expenditure

During the financial year, the Company derived technical service fee revenues from its Associate, Central Exchange Ltd, pursuant to a Technical Services Agreement dated 4 June 1999. An amount remains outstanding at the Balance Date by Central Exchange Ltd pending each company's shareholder approval of the settlement and termination of the Technical Services Agreement. Interest is not charged on such outstanding amount.

| Entity | Revenue | Amount Outstanding |
|----------------------|----------------|--------------------|
| | \$ | \$ |
| Central Exchange Ltd | <u>550,000</u> | <u>450,000</u> |

The following matters are noted with respect to such revenues:

- (a) The Company reached agreement with Central Exchange Ltd to receive a fixed \$100,000 fee for technical services rendered in July, August and September 2001. The Board of Central Exchange Ltd exercised their election under the Technical Services Agreement to issue 5,528,055 ordinary shares to the Company in satisfaction of such liability. The shares were issued on 28 August 2001.
- (b) The balance of \$450,000 earned to 30 June 2002 is based on the terms of the settlement and termination of the Technical Services Agreement, which was approved by shareholders of Central Exchange Ltd at a General Meeting on 30 July 2002 and by the Company's shareholders at a General meeting on 8 August 2002.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

- (c) Pursuant to shareholder approval of the terms of such settlement and termination:
- (1) on 12 August 2002 Central Exchange Ltd issued 1,934,236 shares to the Company at a deemed consideration of \$300,000; and
 - (2) on 5 September 2002 Central Exchange Ltd paid \$150,000 cash to the Company.
- (d) Accordingly, \$300,000 of the technical service fee revenues earned to 30 June 2002 has been satisfied by the issue of shares in Central Exchange Ltd.

The Company currently holds 4,149,112 shares in Central Exchange Ltd (being 48.817% of its issued ordinary share capital).

The Company notes that Central Exchange has entered into a conditional agreement to acquire a mining company and lodged a Prospectus. Upon the successful completion of such acquisition and capital raising, the Company's interest in Central Exchange will reduce significantly as its pro-forma issued ordinary share capital may increase to 38,499,236 shares (excluding acceptance of oversubscriptions pursuant to the Prospectus) from a current base of 8,499,263 shares. That is, the Company's interest in Central Exchange may reduce to 10.77% of its issued ordinary share capital.

(ii) Debtors

During the financial year, the Consolidated Entity incurred operating expenses on behalf of Central Exchange Ltd and Central Exchange Operations Pty Ltd (a wholly owned subsidiary of Central Exchange Ltd), pursuant to shared office and administration expense arrangements. The following amounts remain outstanding at the Balance Date by such entities. Interest is not charged on such outstanding amounts.

| Entity | Amount Outstanding |
|-------------------------------------|--------------------|
| | \$ |
| Central Exchange Ltd | 81 |
| Central Exchange Operations Pty Ltd | 2,324 |
| | <u>2,405</u> |

(f) Transactions with Directors or Director Related Entities

The following details relevant transactions between the Company and Directors and Director Related Entities (within the meaning of Accounting Standard AASB 1017 "Related Party Disclosures"):

(i) Contractual Services

During the financial year, Queste America Inc. (an entity associated with former Director, R Grewe) provided software development services to the Company, pursuant to a software development agreement dated 3 August 1998.

| Entity | Expenditure | Amount Outstanding |
|---------------------|--------------|--------------------|
| | \$ | \$ |
| Questa America Inc. | <u>7,907</u> | <u>-</u> |

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

26. STATEMENT TO CASH FLOWS

(a) Reconciliation of Loss from Ordinary Activities after Tax to Net Cash Flows from Operations

| | Consolidated Entity | | Company | |
|---|---------------------|------------------|------------------|------------------|
| | 2002 | 2001 | 2002 | 2001 |
| | \$ | \$ | \$ | \$ |
| Operating loss after tax | (1,801,776) | (912,728) | (1,487,728) | (1,118,539) |
| Share of Associate's losses | 426,859 | 338,960 | - | - |
| Depreciation – plant & equipment | 47,353 | 84,551 | 47,353 | 84,551 |
| Write down of VoiceNet Technology | 831,000 | - | 831,000 | - |
| Amortisation of VoiceNet Technology | 400,000 | 400,000 | 400,000 | 400,000 |
| Amortisation of website | 15,377 | - | 15,377 | - |
| Amounts written off investments | 245,683 | 9,000 | 358,703 | 554,424 |
| Amounts written off assets | 24,390 | 28,171 | 24,390 | 28,171 |
| Loss on sale of investment | 29,665 | 488,592 | 29,665 | 488,592 |
| Decrease in income tax payable | - | (351,088) | - | (350,752) |
| Decrease in tax balances | - | 444 | - | 444 |
| Investment in subsidiary | - | 100 | - | - |
| Shares received in lieu of technical service fees | (100,000) | (472,917) | (100,000) | (472,917) |
| Shares received as contribution towards legal costs | (5,840) | - | (5,840) | - |
| Shares received in lieu of corporate advisory fees | (81,818) | - | (81,818) | - |
| (Increase)/decrease in assets: | | | | |
| Current receivables | (374,393) | (3,537) | (374,394) | (3,537) |
| Inventories | 13,704 | 28,070 | 13,704 | 28,070 |
| Other current assets | (21,503) | (1,886) | (21,503) | (1,886) |
| Increase/(decrease) in liabilities: | | | | |
| Current trade payables | 2,330 | (94,553) | 2,330 | (94,553) |
| Provision for annual leave | (5,905) | 2,707 | (5,814) | 2,707 |
| Net cash flows from operating activities | <u>(354,874)</u> | <u>(456,114)</u> | <u>(354,575)</u> | <u>(455,225)</u> |

(b) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

| | | | | |
|--------------|------------------|------------------|------------------|------------------|
| Cash at bank | 155,140 | 213,199 | 154,477 | 207,237 |
| Term deposit | 655,271 | 1,826,352 | 655,271 | 1,826,352 |
| Bank bills | 2,034,940 | 1,592,800 | 2,034,940 | 1,592,800 |
| | <u>2,845,351</u> | <u>3,632,351</u> | <u>2,844,688</u> | <u>3,626,389</u> |

(c) Non-Cash Financing and Investing Activities

The Consolidated Entity was to receive from Central Exchange Ltd a fixed \$100,000 fee for technical services rendered in July, August and September 2001. The Board of Central Exchange Ltd exercised their election under the Technical Services Agreement to issue 5,528,055 ordinary shares to the Company in satisfaction of such liability. The shares were issued on 28 August 2001.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

27. FINANCIAL INSTRUMENTS

| (a) Interest Rate Risk Exposure | Average Interest Rate % | Variable Interest Rate \$ | Fixed Interest Rate \$ | Non- Interest Bearing \$ | Total \$ |
|---------------------------------|----------------------------------|------------------------------------|---------------------------------|-----------------------------------|------------------|
| 2002 | | | | | |
| Financial assets | | | | | |
| Cash | 4.73% | 154,948 | 2,690,211 | 192 | 2,845,351 |
| Receivables | | - | - | 483,758 | 483,758 |
| Shares in listed companies | | - | - | 639,606 | 639,606 |
| | | <u>154,948</u> | <u>2,690,211</u> | <u>1,123,556</u> | <u>3,968,715</u> |
| Financial liabilities | | | | | |
| Payables | | - | - | (106,051) | (106,051) |
| Employee entitlements | | - | - | (8,468) | (8,468) |
| | | - | - | <u>(114,519)</u> | <u>(114,519)</u> |
| Net financial assets | | <u>154,948</u> | <u>2,690,211</u> | <u>1,009,037</u> | <u>3,854,196</u> |
| Financial assets | | | | | |
| Cash | 5.51% | 213,081 | 3,419,152 | 118 | 3,632,351 |
| Receivables | | - | - | 89,681 | 89,681 |
| Shares in listed companies | | - | - | 426,556 | 426,556 |
| | | <u>213,081</u> | <u>3,419,152</u> | <u>516,355</u> | <u>4,148,588</u> |
| Financial liabilities | | | | | |
| Payables | | - | - | (86,252) | (86,252) |
| Employee entitlements | | - | - | (16,559) | (16,559) |
| | | - | - | <u>(102,811)</u> | <u>(102,811)</u> |
| Net financial assets | | <u>213,081</u> | <u>3,419,152</u> | <u>413,544</u> | <u>4,045,777</u> |

Reconciliation of net financial assets to net assets

| | 2002 \$ | 2001 \$ |
|--------------------------------------|------------------|------------------|
| Net financial assets as above | 3,854,196 | 4,045,777 |
| Non-financial assets and liabilities | | |
| Inventory | 18,273 | 31,977 |
| Non-current receivables | 13,766 | 13,766 |
| Investment in Associates | (107,474) | 206,364 |
| Property, plant and equipment | 454,869 | 526,761 |
| Intangibles | 69,000 | 1,300,000 |
| Other assets | 31,413 | 10,246 |
| Deferred tax assets | - | 14,673 |
| Deferred tax liabilities | (30,754) | (28,857) |
| | <u>4,303,289</u> | <u>6,120,707</u> |

(b) Credit Risk Exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the Financial Statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 30 June 2002

(c) Net Fair Value of Financial Assets and Liabilities

Except as detailed below, the carrying amount of financial assets and financial liabilities recorded in the Financial Statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 of the Financial Statements.

The net fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

| | Carrying Amount | | Net Fair Value | |
|-------------------------------------|-----------------|---------|----------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| Financial Assets | \$ | \$ | \$ | \$ |
| Traded on Organised Markets | | | | |
| Shares in listed companies | 307,275 | 120,388 | 307,275 | 133,279 |
| Shares in listed Associated company | 224,857 | 512,532 | 332,231 | 306,067 |

28. SUBSEQUENT EVENTS

- (1) Pursuant to shareholder approval of the terms of settlement and termination of the Technical Services Agreement with Central Exchange Ltd:
- (i) on 12 August 2002 Central Exchange Ltd issued 1,934,236 shares to the Company at a deemed consideration of \$300,000; and
 - (ii) on 5 September 2002 Central Exchange Ltd paid \$150,000 cash to the Company.

The Company has recorded and disclosed the \$450,000 settlement amount as technical service fee revenues derived for the financial year and as amounts receivable as at the Balance Date.

Accordingly, \$300,000 of the technical service fee revenues earned for the financial year which remained outstanding at the Balance Date have been satisfied by the issue of shares in Central Exchange Ltd.

The Company currently holds 4,149,112 shares in Central Exchange Ltd (being 48.817% of its issued ordinary share capital).

The Company notes that Central Exchange Ltd has lodged a Prospectus dated 1 August 2002 seeking to raise a total of 15,000,000 shares at an issue price of 20 cents per share to raise \$3,000,000 (with a minimum subscription of \$1,500,000 and oversubscriptions of an additional \$3,000,000) and options. Upon the successful completion of such capital raising, the Company's interest in Central Exchange Ltd will reduce significantly.

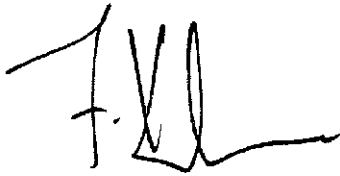
QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The Directors declare that:

- (1) The attached financial statements and notes thereto comply with accounting standards;
- (2) The attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and Consolidated Entity;
- (3) In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporation Act 2001; and
- (4) 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.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.



Farooq Khan
Executive Chairman



Michael van Rens
Non-Executive Director

Perth, Western Australia

16 October 2002

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INDEPENDENT AUDIT REPORT TO THE MEMBERS
OF QUESTE COMMUNICATIONS LTD

Scope

We have audited the financial report of Queste Communications Ltd for the financial year ended 30 June 2002 as set out on pages 14 to 36. The financial report includes the consolidated financial statements 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. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Queste Communications Ltd is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2002 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter J McIver

Peter J McIver
Partner
Chartered Accountants

Perth, 16 October 2002

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

STOCK EXCHANGE INFORMATION as at 30 September 2002

DISTRIBUTION OF LISTED ORDINARY FULLY PAID SHARES

| Spread | of | Holdings | Number of Holders | Number of Units | % of Total Issue Capital |
|--------------|----|----------|-------------------|-------------------|--------------------------|
| 1 | - | 1,000 | 10 | 7,801 | 0.027 |
| 1,001 | - | 5,000 | 115 | 380,227 | 1.338 |
| 5,001 | - | 10,000 | 174 | 1,566,802 | 5.515 |
| 10,001 | - | 100,000 | 322 | 9,622,479 | 33.876 |
| 100,001 | - | and over | 33 | 16,827,570 | 59.241 |
| Total | | | 654 | 28,404,879 | 100 |

Marketable Parcel

| Spread | of | Holdings | Number of Holders | Number of Units | % of Total Issue Capital |
|--------------|----|----------|-------------------|-------------------|--------------------------|
| 1 | - | 10,000 | 299 | 1,954,830 | 6.882 |
| 10,001 | - | over | 355 | 26,450,049 | 93.117 |
| Total | | | 654 | 28,404,879 | 100 |

An unmarketable parcel is considered, for the purposes of the above table, to be a shareholding valued at \$500 or less in total, based upon the Company's closing share price on 30 September 2002 of \$0.05 per share.

DISTRIBUTION OF UNLISTED OPTIONS EXERCISABLE AT 20 CENTS AND EXPIRING 21 JULY 2003

| Name | No. of Options |
|-----------------|------------------|
| Mr F Khan | 3,240,000 |
| Mr B McKeon | 300,000 |
| Mr M J van Rens | 500,000 |
| Mr M Watkins | 300,000 |
| Mr B McGougan | 300,000 |
| Mr Y Khan | 360,000 |
| Total | 5,000,000 |

DISTRIBUTION OF UNLISTED PARTLY PAID ORDINARY SHARES

| Name | No. of Partly Paid Shares |
|--------------------------|---------------------------|
| Chi Tung Investments Ltd | 20,000,000 |

These 20,000,000 ordinary shares were issued at a price of 20 cents per share and have been partly paid to one cent each and have an outstanding amount payable of 19 cents per share. These partly paid shares were released from escrow on 6 November 2000.

VOTING RIGHTS

- Ordinary fully paid shares have one vote per share.
- No voting rights are attached to the Company's options.
- The Company's partly paid shares have a proportional voting entitlement in accordance with the amount paid up for that share.

QUESTE COMMUNICATIONS LIMITED (A.B.N. 58 081 688 164)
& CONTROLLED ENTITIES

**STOCK EXCHANGE INFORMATION
as at 30 September 2002**

TOP TWENTY ORDINARY FULLY PAID SHAREHOLDERS

| Rank | Shareholder | Total Units | % Issued Capital |
|--------------|---|-------------------|------------------|
| 1 | RENMUIR HOLDINGS LTD | 2,633,500 | 9.271 |
| 2 | QUESTE AMERICA INC. | 2,500,000 | 8.801 |
| 3 | FAROOQ KHAN | 2,172,040 | 7.647 |
| 4 | ISLAND AUSTRALIA PTY LTD | 1,275,020 | 4.488 |
| 5 | CHI TUNG INVESTMENTS LTD | 1,050,000 | 3.696 |
| 6 | MANAR NOMINEES PTY LTD | 989,259 | 3.482 |
| 7 | FASTSCOUT LTD | 826,950 | 2.911 |
| 8 | DR ABRAHAM LEON ZELWER <ZELWER SUPERFUND ACCOUNT> > | 679,366 | 2.391 |
| 9 | TASCOAST PTY LTD <THE GULABOVSKI FAMILY A/C> | 573,000 | 2.017 |
| 10 | ALICE ELIZABETH ANN RICHES | 570,119 | 2.007 |
| 11 | KYA CORPORATION PTY LTD | 514,500 | 1.811 |
| 12 | MR TERENCE HOFFMAN & MRS DORIS MARIE HOFFMAN | 396,570 | 1.396 |
| 13 | YOBAXS PTY LTD & YOBAXS PTY LTD <SQUIRRELL SUPER FUND A/C> | 251,875 | 0.886 |
| 14 | MRS CHERYL DAWN BAGSHAW | 218,750 | 0.770 |
| 15 | MRS AFIA KHAN | 215,000 | 0.756 |
| 16 | MR AYUB KHAN | 215,000 | 0.756 |
| 17 | MRS AMBREEN CHAUDHRI | 215,000 | 0.756 |
| 18 | MR GRANT RONALD ALLEN | 213,363 | 0.751 |
| 19 | HUNT CORPORATION'S PTY LTD <HUNT INVESTMENT FUND A/C> | 179,785 | 0.632 |
| 20 | MR KEITH FRANCIS OATES & MRS LINDA ANN OATES | 175,000 | 0.616 |
| Total | | 15,864,097 | 55.841 |

SUBSTANTIAL SHAREHOLDERS

| Substantial Shareholder | Registered Shareholder | Fully Paid Ordinary Shares | Partly Paid Ordinary Shares | % Voting Power |
|---|--------------------------------|----------------------------|-----------------------------|----------------|
| Azhar Chaudhri; Renmuir Holdings Ltd; and Chi Tung Investments Ltd | Azhar Chaudhri | 10,000 | - | 18.77 |
| | Renmuir Holdings Ltd | 2,633,500 | - | |
| | Chi Tung Investments Ltd | 1,050,000 | 20,000,000 | |
| | Fast Scout Ltd | 826,950 | - | |
| Farooq Khan; Island Australia Pty Ltd; Skin-Plex Laboratories Pty Ltd; and The Essential Earth Pty Ltd | Farooq Khan | 2,172,040 | - | 11.86 |
| | Island Australia Pty Ltd | 1,275,020 | - | |
| | Skin-Plex Laboratories Pty Ltd | 20,000 | - | |
| | The Essential Earth Pty Ltd | 20,000 | - | |
| Queste America Inc. | Queste America Inc | 2,500,000 | - | 8.502 |