

**QUESTE COMMUNICATIONS LTD**

*Annual Report 2000*

A.C.N 081 688 164

**QUESTE**

A decorative graphic consisting of a thick, yellow, wavy line that curves across the page. Along this line, there are four blue spheres of varying sizes, each with a white highlight on its top surface, giving them a three-dimensional appearance. The background is a light blue color.





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## **CORPORATE DIRECTORY**

### **Directors**

Mr Farooq Khan	Mr Russell Grewe
Mr Azhar Chaudhri	Mr Bradley McGougan
Mr Brett Murray McKeon	Mr Yaqoob Khan
Mr Michael J van Rens	Mr Malcolm Stephen Watkins

### **Company Secretary**

Mr Victor Ho

### **Share Registry**

Advanced Share Registry Services  
 Level 7, 200 Adelaide Terrace  
 Perth WA 6000  
 Telephone: +618 9221 7288  
 Facsimile: +618 9221 7869

### **Registered and Principal Office**

Level 14, The Forrest Centre  
 221 St Georges Terrace  
 Perth WA 6000  
 Telephone: +618 9214 9777  
 Facsimile: +618 9322 1515

### **Auditors**

Deloitte Touche Tohmatsu  
 Level 16, Central Park  
 152-158 St Georges Terrace  
 Perth WA 6000

### **Solicitors**

Solomon Brothers  
 Level 40, Exchange Plaza  
 2 The Esplanade  
 Perth WA 6000

### **Stock Exchange**

Australian Stock Exchange Ltd  
 Exchange Plaza  
 2 The Esplanade  
 Perth WA 6000

### **Bankers**

National Australia Bank  
 1232 Hay Street  
 West Perth WA 6005



# Chairman's Report

Dear Shareholder,

The Directors would like to thank existing shareholders and new shareholders for their support of the Company during the course of this year.

The recent downturn in market sentiment towards Internet related stocks has unfortunately had a consequent effect on the share price of the Company, at the date of this report which has seen it fall back to the levels existing at the time of the float of the Company on the 6th November 1998.

However notwithstanding the share price of the Company, the Directors are pleased with the current financial position of the Company at the date of this report, which sees the Company having cash reserves of over \$4.10 million dollars, property and listed share investments worth approximately \$1.10 million dollars, such assets being coupled with the Company's relatively minimal level of debt.

In addition the Company earned gross revenues of approximately \$2.99 million dollars during the course of the year and continues to earn \$83,333.00 per month through the provision of technical assistance to Central Exchange Ltd ("Central Exchange"), a related company of which Queste holds approximately a 16 percent share interest.

During the course of the year, development work was effectively completed on the Company's H.323 Protocol compliant Voice Net Series 240 System. The H.323 Protocol compliant system provides significant benefits in that it supports the worldwide H.323 industry standard, which allows for interoperability between systems. Other benefits achieved as a consequence of such development works include a significant reduction in the capital cost of a VoiceNet System and the ability of the VoiceNet System to be used in a carrier grade network environment.

During the course of the year development work was also completed to allow the current Voice Net Series 240 system to support a multiscard solution (whereby multiple voice cards are supportable within a single Voice Net Series 240 system, resulting in a multi line per system capacity) and a multi box solution (whereby two or more Voice Net

Series 240 systems may be linked together to provide for a large scale network call capacity).

These development works should provide significant flexibility, efficiency and cost savings in the deployment of the VoiceNet System in national and international telecommunication networks.

As a result of the conclusion of the development works outlined above, the Company is currently completing system testing and evaluation of the H.323 compliant Voice Net Series 240 system incorporating the multi card and multi box solution to obtain independent verification of the functionality and operability of such systems.

In conjunction with the development work of the VoiceNet System, the Company is continuing to work with Central Exchange to assist Central Exchange in the deployment of a national Voice-over-Internet Protocol ("VoIP") telecommunications network utilising the Company's VoiceNet System. The Company is committed to ensure Central Exchange succeeds with the establishment of its national VoIP telecommunications network as the Company is a significant share holder in Central Exchange and as a roll out of such a VoIP network will be the first commercial application of the VoiceNet System. The roll out of such network will accordingly serve as a show case and model for the roll out of further VoIP networks utilising the VoiceNet System technology in international markets.

Central Exchange has advised the Company that the rollout of its national VoIP telecommunications network is continuing with Points of Present ("PoP's") having been established in Sydney, Melbourne, Perth, Adelaide and Ballarat.

Central Exchange has advised that it is now proceeding to extend the beta testing of this network to include a live, real world test by a large number of users. Central Exchange advises that this live testing will be used to examine network loads at various times of the day and night to ensure its network can handle sufficient quantities of voice traffic with acceptable levels of voice quality during peak periods, prior to a commercial launch of such a network.



The Company also currently holds 11,500,000 options in Central Exchange, with each such option being exercisable into an ordinary fully paid share of Central Exchange at an exercise price of 20 cents per option.

The Company has notified Central Exchange that it is unlikely to increase its equity investment in Central Exchange by exercising these options as the current levels at which Central Exchanges share price trades is at a significant discount to the exercise price of 20 cents per share.

Accordingly, the Board has proposed to Central Exchange to cancel the 11,500,000 options issued in consideration for the grant to Queste of 11,500,000 options, each option entitling Queste to acquire one fully paid ordinary share in Central Exchange at an exercise price of 20 cents per share and with an exercise period of one year from the issue date of such options.

The Company believes that this is a fair and reasonable proposition for Central Exchange with the exercise price representing a 100 per cent premium to the current share price of Central Exchange.

The effective difference between the old options proposed to be cancelled and the new options proposed to be issued is to extend the exercise term for such options for another 12 months.

The proposal made by Queste to Central Exchange will of course be subject to compliance with the Corporations Law and the Australian Stock Exchange listing rules and approval by Central Exchange shareholders. If the 11,500,000 options are granted and subsequently exercised, the Company will become an even more significant shareholder of Central Exchange.

In addition to its relationship with Central Exchange and the rollout of its VoiceNet System network the Company is also pursuing various options with respect to the roll-out of its own international network utilising the VoiceNet System. This proposed Queste Communications international network will involve the deployment of VoiceNet Systems in various countries throughout the world to establish the

carriage of international telephony traffic between various countries via inter-connect relationships such that each international PoP is capable of originating and terminating telephone calls through the Queste Communications international network. Australian users of the Central Exchange national network will also be able to place overseas telephone calls over the Queste Communications international network to selected overseas destinations with considerable cost savings for such users.

The Company continues to seek overseas opportunities for its VoiceNet System VoIP technology to generate revenues by way of the sale of the VoiceNet Series 240 Systems (and supporting technical service fees therein) or the grant of licences or other rights in relation to any commercial application of the VoiceNet Series 240 System and to establish relationships with appropriate strategic partners to create a Queste Communications international VoIP telecommunication network comprising models of the Australian Central Exchange network or limited PoP's as is appropriate for selected countries .

**Farooq Khan**  
**Chairman**

Perth, Western Australia

24 October 2000



## Directors' Report

Your Directors submit their report made in accordance with a resolution of the Directors, together with the Financial Report for the financial year ended 30 June 2000 and the Auditors Report thereon.

### DIRECTORS

The names and the details of the Directors of the Company in office during or since the end of the financial year are:

#### FAROOQ KHAN (39)

*Chairman and Managing Director*

Mr Khan holds a Bachelor of Jurisprudence and Bachelor of Law degree from the University of Western Australia and is currently admitted to practice in the Supreme Court of Western Australia and the High Court of Australia. After practicing for a number of years, principally in the area of corporate law, Mr Khan left the law to form the Company.

Mr Khan is the Chairman and Managing Director of Fast Scout Ltd, an ASX listed Internet portal technology company and Central Exchange Ltd, an ASX listed mineral exploration and telecommunications company. Mr Khan brings considerable experience both in commercial law and in the management and administration of an operating company.

#### RUSSELL GREWE (39)

*Non Executive Director*

Mr Grewe holds Bachelor and Master of Science degrees in Computer Engineering and has over 15 years experience in the data-communications and networking industries specialising in software architecture design and programming. He has held positions ranging from project development engineering to senior corporate management. Over the course of his career, Mr Grewe has become adept at bringing together a number of computing disciplines in order to deliver timely products to new markets. Mr Grewe has completed assignments as the Group Manager of a subsidiary company of Dynatech Corporation of the United States and as Vice President of Engineering of Digital Technology Inc a network analysis and communications company. Mr Grewe is currently a Director and Shareholder of Queste America Inc, the original developer of the Company's VoiceNet System.

Mr Grewe is an Executive Director of Fast Scout Ltd.

#### AZHAR CHAUDHRI (39)

*Non Executive Director*

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 an Executive Director of Fast Scout Ltd.

#### BRETT MCKEON (37)

*Non Executive Director*

Mr McKeon has practiced for the last 13 years in the financial services industry and is currently the Managing Director of a national group of companies involved in Mortgage Origination that have operations throughout Australia and in New Zealand. Mr McKeon brings considerable experience in company management and administration to the Company.

Mr McKeon is a Non-Executive Director of Central Exchange Ltd.

#### YAQOOB KHAN (36)

*Executive Director*

Mr Khan holds a Bachelor of Commerce Degree from the University of Western Australia and a Masters Degree in Industrial Administration from Carnegie Mellon University, Pittsburgh. 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 the areas of product marketing, costing systems and production management. Mr Khan brings considerable international experience in key aspects of corporate finance, production and marketing.

Mr Khan is an Executive Director of Fast Scout Ltd and a Non-Executive Director of Central Exchange Ltd.



**MALCOLM WATKINS (37)**

*Non Executive Director*

Mr Watkins is a Director and shareholder in one of Australia's largest independent finance broking houses, the Australian Finance Group. Mr Watkins is responsible for the group's technology development programs, electronic delivery systems and national marketing operations. He has held senior management positions within industries ranging from horticulture through to computer equipment. Mr Watkins currently sits on 8 company boards and brings some 18 years experience in company product/quality control, consumer delivery systems and strategic marketing.

**MICHAEL J VAN RENS (46)**

*Non Executive Director*

Mr van Rens has worked in the financial services industry for the last 15 years and has considerable experience in financial planning and investment advice. He is the Company Secretary of the Western Australian leasing operation, Financial Resources Ltd and a Director of European Goldfields Ltd, a company listed on the Canadian Stock Exchange.

**BRADLEY MCGOUGAN (45)**

*Non Executive Director*

Mr McGougan has been involved in the Life and General Insurance industry for over twenty years having worked with the AMP Society and AGC (Insurances) Ltd. Mr McGougan was the founding Director of Western Australian Insurance Services Pty Ltd, which has expanded into a large financial services group comprising 15 companies with offices throughout Australia.

**VICTOR HO (30)**

*Alternate Director for Mr Y Khan between 9 March 2000 and 12 May 2000*

Mr Ho holds Bachelor of Commerce and Bachelor of Law degrees from the University of Western Australia and is the Company Secretary of the Company. Mr Ho has 8 years experience with the Australian Taxation Office and one year in a specialist taxation law firm.

Mr Ho is currently the Company Secretary of Central Exchange Ltd and Fast Scout Ltd and has also been an alternate Director of these 2 ASX listed companies.

**PRINCIPAL ACTIVITIES**

The principal activities during the period of the Company were the development and sale of VoiceNet Systems, the creation of telecommunication networks based on VoiceNet Systems and the provision of technical services and grant of licensing rights related thereto.

**CHANGES IN STATE OF AFFAIRS**

During the financial year there was no significant change in the state of affairs of the Company other than that referred to in the Financial Statements or notes thereto.

**FINANCIAL RESULT**

The Company recorded gross revenues of \$2,990,882 for the financial year (1999: \$62,640) and an operating loss of \$79,243 after abnormal items and before income tax (1999: \$754,706 loss).

The Company recorded a net operating loss of \$453,439 for the financial year (1999: \$754,706 loss) after providing for income tax of \$374,196.

The Company's gross revenues of \$2,990,882 include a licence fee of \$2,300,000 received from Central Exchange Ltd. This licence fee has been regarded as an abnormal item due to its size in comparison with the Company's other revenue transactions during the financial year. It is not an abnormal item by reason of its nature as the grant of licensing rights over the Company's VoiceNet System is part of the principal activities of the Company.

**REVIEW OF OPERATIONS**

1. On 29 September 1999 the shareholders of Central Exchange Ltd (formerly known as Central Bore NL) approved various transactions relating to the Company including:
  - (a) The issue of 4,000,000 fully paid ordinary shares at an issue price of 20 cents per share to the Company.
  - (b) The issue of 11,500,000 options to the Company at an issue price of one cent each. Each option entitles the Company to acquire a fully paid ordinary share for 20 cents in Central Exchange Ltd on or before 31 December 2000.
  - (c) The ratification of the execution by Central Exchange Ltd of a Licence Agreement (involving a non exclusive licence



## Directors' Report continued

being granted by the Company to Central Exchange Ltd for the VoiceNet System technology) and a Technical Service Agreement which gave rise to the Company earning an up front licence fee of \$2,300,000, and \$1,000,000 technical services fees per annum (for 3 years) under each of these Agreements respectively.

2. On 5 October 1999, the Company received a licence fee of \$2,300,000 from Central Exchange Ltd pursuant to the Licence Agreement.
3. On 5 October 1999, the Company received technical services fees of \$83,333.33 from Central Exchange Ltd being the first monthly instalment pursuant to the Technical Service Agreement.
4. On 5 October 1999, pursuant to a Sale Agreement dated 29 July 1999, the Company acquired:
  - (a) 1,000,000 partly paid ordinary shares in Central Exchange Ltd from Kemia Pty Ltd for consideration of \$91,000;
  - (b) 100,000 partly paid ordinary shares in Central Exchange Ltd from Kingswave Pty Ltd for consideration of \$9,000;

The shares are partly paid to 0.1 cents per share on the issue price of 20 cents per share.
5. On 5 October 1999, the Company paid \$218,900 to Central Exchange Ltd to convert the 1,100,000 partly paid ordinary shares acquired from Kemia Pty Ltd and Kingswave Pty Ltd to fully paid ordinary shares in the capital of Central Exchange Ltd.
6. On 5 October 1999, pursuant to a Share Sale and Put Option Agreement dated 4 June 1999 with PS Holdings Pty Ltd, the Company acquired 4,000,000 fully paid ordinary shares in Central Exchange Ltd for \$1,200,000.
7. On 5 October 1999, the Company paid \$800,000 to Central Exchange Ltd for 4,000,000 fully paid ordinary shares in Central Exchange Ltd, which were allotted on 12 October 1999.
8. On 16 November 1999, Central Exchange Ltd allotted 11,500,000 options to the Company each to acquire a fully paid ordinary share for 20 cents in Central Exchange Ltd on or before 31 December 2000 at an issue price of one cent each totalling \$115,000.
9. At the balance date, the Company's equity holdings in Central Exchange Ltd were:
  - (a) 9,100,000 fully paid ordinary shares representing approximately 16% of the issued capital of Central Exchange Ltd; and
  - (b) 11,500,000 options entitling the Company to pay 20 cents per option to acquire one fully paid ordinary share in Central Exchange Ltd on or before 31 December 2000.
10. Subsequent to a grant of a Carrier Licence by the Australian Communications Authority on 2 May 2000, Central Exchange Ltd commenced a roll-out of a national telecommunications network. This network will be the first commercial application of the Company's proprietary VoiceNet System Voice-over-Internet Protocol ("VoIP") technology and the launch of this network represents a significant step in the development of VoIP technology in Australia. The Company continues to receive technical service fees for the provision of services and hardware to Central Exchange Ltd in relation to the establishment of the Central Exchange Ltd telecommunications network.
11. During the financial year, the Company progressed further in the development of its VoiceNet Series 240 System (24 Line VoiceNet System):
  - (a) Queste America, Inc. advised that:
    - (i) The H323 compliant VoiceNet Series 240 System was completed;
    - (ii) A multi-card solution (whereby multiple voice cards are supportable within a single VoiceNet Series 240 System resulting in a multi-line per System capacity) and a multi-box solution (whereby 2 or more VoiceNet Series 240 Systems may be linked) were achieved.
  - (b) The Company is currently completing system testing and evaluation of the H323 compliant VoiceNet Series 240 System incorporating the multi-card and multi-box solutions.
  - (c) Queste America, Inc. provided further software development services to the Company in relation to the implementation of the VoiceNet System in a VoIP telecommunications network environment. These software development works are peripheral to the development of the core VoiceNet System and relate to matters including network administration, network security, database management and client management and billing.



12. Pursuant to an options issue on 11 March 1999 of 17,094,094 options, at the close of the exercise date on 1 August 2000:

- (a) 4,448,933 were exercised at 25 cents per option in the financial year to 30 June 1999 raising \$1,112,233;
- (b) 954,544 were exercised at 25 cents per option in the financial year to 30 June 2000 raising \$238,636;
- (c) 10,000 were exercised at 35 cents per option in the financial year to 30 June 2000 raising \$3,500;
- (d) 1,641,786 were exercised at 35 cents per option after 1 July 2000 and prior to the exercise date of 1 August 2000 raising \$574,625;
- (e) 10,038,831 options were unexercised by the expiry date;
- (f) The Company raised a total of \$1,928,994 by way of the exercise of 7,055,263 of the 1 August 2000 Options.

#### FUTURE DEVELOPMENTS

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

#### DIVIDENDS

The Directors do not recommend the payment of a dividend and no dividends have been paid during the period.

#### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Other than as detailed in Note 26 to the Financial Statements, since the end of the financial year the Directors are not aware of any matter or circumstances not otherwise dealt with in the financial report that has significantly or may significantly affect the operations of the Company, the results of those operations or state of affairs of the Company in subsequent financial years.

#### DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the Company, as notified by the Directors to the securities exchange in accordance with Section 235 (1) (a) of the Corporations Law at the date of this report is as follows:

Name of Director	Direct Holdings in Fully Paid Ordinary Shares	Direct Holdings in 31 August 2000 Options	Direct Holdings in 21 July 2003 Options	Relevant Interest in Fully Paid Ordinary Shares	Relevant Interest in Partly Paid Shares
F Khan	15,020	-	3,240,000	6,518,020	16,000,000
A Chaudhri	10,000	-	-	4,778,000	16,000,000
B McKeon	-	-	300,000	3,025,540	4,000,000
B McGougan	-	-	300,000	3,025,540	4,000,000
M Watkins	-	-	300,000	3,025,540	4,000,000
Y Khan	15,020	-	360,000	2,426,020	-
M J van Rens	20,000	139,000	500,000	410,932	-
R Grewe	-	-	-	-	-
V Ho	17,500	12,250	-	-	-

The 21 July 2003 options are exercisable at \$0.20 per option.

The partly paid shares are paid to one cent each with 19 cents per share outstanding.



## Directors' Report continued

### DIRECTORS' MEETINGS

During the financial year 6 Directors' meetings (inclusive of Circulatory Resolutions of the Directors) were held and the following table sets out the number of meetings attended by each Director in person, by telephone conference or by circulatory resolution:

	Appointed	Attended	Meetings Held (whilst a Director)
Farooq Khan	10 Mar '98	6	6
Malcolm S Watkins	10 Mar '98	6	6
Brett M McKeon	10 Mar '98	5	6
Yaqoob Khan	10 Mar '98	5	6
Russell Grewe	4 Aug '98	3	6
Michael J van Rens	4 Aug '98	6	6
Azhar Chaudhri	4 Aug '98	3	6
Bradley McGougan	4 Aug '98	6	6
Victor Ho (alternate for Y Khan)	9 Mar 2000 to 12 May 2000	1	1

At the balance date, Messrs Farooq Khan, Yaqoob Khan, Malcolm Watkins, Brett McKeon, Michael van Rens and Brad McGougan were all resident in Western Australia and Messrs Azhar Chaudhri and Russell Grewe were resident overseas. Mr Yaqoob Khan became resident overseas on 24 August 2000.

### DIRECTOR AND EXECUTIVE OFFICER REMUNERATION

The Board reviews the remuneration packages of all Directors and Executive Officers on an annual basis. Remuneration packages are reviewed with due regard to performance and other relevant factors.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, where considered necessary, the Board has sought the advice of external advisers in connection with the structure of remuneration packages.

Details of the nature and amount of salaries, director fees, superannuation benefits and consulting fees received or receivable by each Director, Director-related entity and Executive Officer are as follows:

Name	Office	Salary \$	Directors Fees \$	Superannuation Benefits \$	Consulting Fees \$	Total \$
F Khan	Chairman and Managing Director	125,000	-	9,087	-	134,087
Y Khan	Executive Director	50,000	-	3,635	-	53,635
B McKeon	Non-Executive Director	-	15,000	1,050	-	16,050
M Watkins	Non-Executive Director	-	15,000	1,050	8,333	24,383
B McGougan	Non-Executive Director	-	15,000	1,050	8,333	24,383
M van Rens	Non-Executive Director	-	12,500	875	-	13,375
R Grewe	Non-Executive Director	-	20,500	-	-	20,500
A Chaudhri	Non-Executive Director	-	12,500	-	-	12,500
V Ho	Alternate Director for Mr Y Khan	8,654	-	606	-	9,260

The Executive Officers of the Company during the financial year were the Executive Directors, being Mr F Khan, Mr Y Khan and Mr V Ho (alternate for Mr Y Khan).

On 24 August 2000, Mr Y Khan altered his status from an Executive Director to a Non-Executive Director.



Mr V Ho was not remunerated as an alternate Director for Mr Y Khan during the period of his appointment from 9 March 2000 to 12 May 2000. The above remuneration attributed to Mr V Ho relate to his employment remuneration during the period of appointment as an alternate Director.

**INDEMNIFYING DIRECTORS AND OFFICERS**

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (as named above), the previous Company Secretary, Mr Y Khan and current Company Secretary, Mr V Ho, and of any related body corporate against a liability incurred as such a Director, Secretary or Executive Officer to the extent permitted by the Corporations Law.

**CORPORATE GOVERNANCE**

The Directors are responsible for the corporate governance practices of the Company. This statement sets out the main corporate governance practices that were in operation throughout the financial year, except where otherwise indicated.

**The Board of Directors**

The Board carries out its responsibilities according to the following mandate:

- The Board should comprise at least three Directors and a maximum of 10 Directors;
- The Directors should possess a broad range of skills, qualifications and experience;
- The Board should meet on a regular basis; and
- All available information in connection with items to be discussed at a meeting of the Board is provided to each Director prior to that meeting.

On the day on which the Directors’ Report is made out, the Board consisted of seven Non-Executive Directors and one Executive Director. Details of the Directors are set out in the Directors’ Report.

The primary responsibilities of the Board include:

- The approval of the annual and half-year Financial Statements;
- The establishment of the long term goals of the Company and strategic plans to achieve those goals;
- The review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a quarterly basis; and
- Ensuring that the Company has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities in accordance with the Company’s constitution and the Corporations Law.

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

**Independent Professional Advice**

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.

**Risk Management**

The Board is responsible for the Company’s system of internal controls. The Board constantly monitors the operational and financial aspects of the Company’s activities and, the Board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the Company.

The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties; and the employment and training of suitably qualified and experienced personnel.

**Committees**

In view of the size of the Company, the Directors have considered that establishing committees for board nominations and remuneration levels would contribute little to its effective management and accordingly 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, then approved by resolution of the Board. Where Directors consider that particular expertise or information is required, which is not available from within their number, then appropriate external advice may be taken and reviewed prior to a final decision being made.

Signed in accordance with a resolution of the Directors made pursuant to s298(2) of the Corporations Law.

On behalf of the Directors,

**Farooq Khan**  
**Executive Chairman**  
**Director**

**Brett McKeon**  
**Non-Executive**

9 October 2000  
Perth, Western Australia



# Profit and Loss Statement

for the year ended 30 June 2000

	Note	2000 \$	1999 \$
Operating profit/(loss) before income tax	2	(79,243)	(754,706)
Income tax attributable to operating profit/(loss)	3	374,196	-
<b>Operating (loss) after income tax</b>		<b>(453,439)</b>	<b>(754,706)</b>
Accumulated losses at the beginning of the financial year		(754,706)	-
<b>Accumulated losses at the end of the financial year</b>		<b>(1,208,145)</b>	<b>(754,706)</b>

The Profit and Loss Statement is to be read in conjunction with the notes to and forming part of the Financial Statements.



# Balance Sheet

as at 30 June 2000

	Note	2000 \$	1999 \$
<b>CURRENT ASSETS</b>			
Cash		3,625,027	4,288,489
Receivables	4	99,910	2,302
Inventory	5	60,047	-
Other	6	3,056	-
<b>Total Current Assets</b>		<b>3,788,040</b>	<b>4,290,791</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	628,373	525,922
VoiceNet Technology	8	1,700,000	2,000,000
Investments	9	910,000	-
Other	6	4,710	-
<b>Total Non-Current Assets</b>		<b>3,243,083</b>	<b>2,525,922</b>
<b>Total Assets</b>		<b>7,031,123</b>	<b>6,816,713</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable	10	180,805	143,768
Provisions	11	392,758	4,082
<b>Total Current Liabilities</b>		<b>573,563</b>	<b>147,850</b>
<b>Total Liabilities</b>		<b>573,563</b>	<b>147,850</b>
<b>Net Assets</b>		<b>6,457,560</b>	<b>6,668,863</b>
<b>EQUITY</b>			
Issued capital	12	7,665,705	7,423,569
Accumulated losses		(1,208,145)	(754,706)
<b>Total Equity</b>		<b>6,457,560</b>	<b>6,668,863</b>

The Balance Sheet is to be read in conjunction with the notes to and forming part of the Financial Statements.



# Statement of Cash Flows

for the year ended 30 June 2000

	Note	2000 \$	1999 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		2,884,147	-
Payments to suppliers and employees		(1,340,841)	(669,476)
Interest received		151,578	60,338
Interest paid		(2,595)	-
<b>Net cash provided by/(used in) operating activities</b>	14(b)	<b>1,692,289</b>	<b>(609,138)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for property, plant and equipment		(163,987)	(525,922)
Payment for investment securities		(2,433,900)	-
<b>Net cash (used in) investing activities</b>		<b>(2,597,887)</b>	<b>(525,922)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from the issue of securities		242,136	5,423,549
<b>Net cash provided by financing activities</b>		<b>242,136</b>	<b>5,423,549</b>
<b>Net increase/(decrease) in cash held</b>		<b>(663,462)</b>	<b>4,288,489</b>
Cash at the beginning of the financial year		4,288,489	-
<b>Cash at the end of the financial year</b>	14(a)	<b>3,625,027</b>	<b>4,288,489</b>

The Statement of Cash Flow is to be read in conjunction with the notes to and forming part of the Financial Statements.



# Notes to the Financial Statements

for the year ended 30 June 2000

## 1. Statement of Significant Accounting Policies

The significant policies which have been adopted in the preparation of these Financial Statements are:

### (A) BASIS OF PREPARATION

The Financial Statements are a general-purpose financial report and have been drawn up in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views, the Corporations Law and complies with other requirements of the law. They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. The Company has consistently applied the applicable Accounting Standards.

### (B) TAXATION

The Company adopts the liability method of tax effect accounting. Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the balance sheet as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

### (C) NON-CURRENT ASSETS

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

### (D) RESEARCH AND DEVELOPMENT COSTS

Research development costs are charged against income as 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.

### (E) INTELLECTUAL PROPERTY

The intellectual property is being amortised over five years being the period in which the corresponding benefits are expected to arise, commencing with the commercial application of the technology. The unamortised balance is reviewed regularly and at each reporting date, to ensure carrying value is appropriate. Where the asset is no longer considered recoverable, it is charged to the Profit and Loss Statement for the financial year.

### (F) PLANT AND EQUIPMENT

Items of plant and equipment are recorded at cost and depreciated from the date of acquisition on a reducing balance method over their estimated useful lives. The following estimated useful lives are used in the calculation of depreciation:

Buildings	25 years
Plant and equipment	3-10 years

### (G) SUPERANNUATION FUND

The Company contributes to compulsory superannuation funds in accordance with statutory obligations on behalf of the Directors' in respect of directors' fees paid and employees in respect of salaries and wages paid. Contributions are charged against income as they are made.

### (H) FOREIGN CURRENCY

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



# Notes to the Financial Statements

for the year ended 30 June 2000

**(I) COMPARATIVE FIGURES**

The Company was incorporated on 10 March 1998 and accordingly the comparative figures cover the period from incorporation to 30 June 1999. The comparative figures are, where appropriate, reclassified so as to be comparable with the figures presented for the current financial year.

**(J) RECEIVABLES**

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

**(K) ACCOUNTS PAYABLE**

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

**(L) DEBT AND EQUITY INSTRUMENTS ISSUED BY THE COMPANY**

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

**(M) REVENUE RECOGNITION**

**Sales of Goods and Disposal of Assets**

Revenue from the sale of goods and disposal of other assets is recognised when the Company has passed control of the goods or other assets to the buyer.

**Rendering of Services**

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

**Royalties**

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement.

**(N) LEASED ASSETS**

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.

**2. Operating Profit/(Loss)**

<b>2000</b>	<b>1999</b>
<b>\$</b>	<b>\$</b>

Operating profit/(loss) has been arrived at after including:

**OPERATING REVENUE**

Sales revenue:

Sales of goods	84,147	-
Grant of Licence (abnormal item <sup>1</sup> – tax effect \$828,000)	2,300,000	-
Rendering of services	416,667	-

Interest received or due and receivable from:

Other persons	190,068	62,640
	<b>2,990,882</b>	<b>62,640</b>

**OPERATING EXPENSES**

Interest paid:

Other persons	2,595	387
---------------	-------	-----

Foreign exchange loss	-	807
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Depreciation – property, plant and equipment	61,536	9,778
--	--------	-------

Amortisation of VoiceNet Technology	300,000	-
-------------------------------------	---------	---

Writedown of investments (abnormal item – tax effect nil)	1,523,900	-
---	-----------	---

Operating lease	-	22,963
-----------------	---	--------

Research and development written off	246,311	305,849
--------------------------------------	---------	---------

Provisions – employee entitlements	11,670	4,082
------------------------------------	--------	-------

1. The licence fee of \$2,300,000 received by the Company is not an abnormal item by reason of its nature as the grant of licensing rights over the Company's VoiceNet System is part of the principal activities of the Company. The amount has been regarded as an abnormal item due to its size in comparison with the Company's other revenue transactions during the financial year.

# Notes to the Financial Statements

for the year ended 30 June 2000

## 3. Taxation

The prima facie income tax expense/(benefit) on Operating profit/(loss) reconciles to the income tax expense in the Financial Statements as follows:

	2000 \$	1999 \$
Prima facie income tax expense/(benefit) calculated at 36% of operating profit/(loss)	(28,528)	(271,694)
Tax effect of permanent differences:		
Amortisation of VoiceNet Technology	108,000	-
Write-down of investments	548,604	-
Future income tax benefit not previously recognised now brought to account	(259,786)	-
Effect on future income tax benefit and provision for deferred income tax due to change in tax rates	216	-
Non deductible expenditure	5,690	11,908
Tax benefit of losses not brought to account	-	259,786
Total income tax expense	<u>374,196</u>	<u>-</u>

## 4. Receivables

### CURRENT

Sundry	41,671	2,302
Amounts due from Directors and Director related entities	44,473	-
Other	13,766	-
	<u>99,910</u>	<u>2,302</u>

## 5. Inventory

### CURRENT

Work in progress – at cost	<u>60,047</u>	<u>-</u>
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## 6. Other Assets

### CURRENT

Prepayments	<u>3,056</u>	<u>-</u>
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### NON CURRENT

Future income tax benefit:		
Timing differences	<u>4,710</u>	<u>-</u>

## 7. Property, Plant and Equipment

Buildings – at cost	443,416	443,416
Less: Accumulated depreciation	(17,463)	(6,378)
	<u>425,953</u>	<u>437,038</u>
Leasehold improvements – at cost	21,787	-
Less: Accumulated depreciation	(1,061)	-
	<u>20,726</u>	<u>-</u>
Plant and equipment – at cost	234,485	92,285
Less: Accumulated depreciation	(52,791)	(3,401)
	<u>181,694</u>	<u>88,884</u>
	<u><b>628,373</b></u>	<u><b>525,922</b></u>



# Notes to the Financial Statements

for the year ended 30 June 2000

All depreciation incurred for the financial year has been charged directly to the Profit and Loss Statement – refer Note 2

	2000 \$	1999 \$
<b>8. VoiceNet Technology</b>		
Internet telephony software system – at cost	2,000,000	2,000,000
Less: Accumulated amortisation	300,000	-
	<b>1,700,000</b>	<b>2,000,000</b>
<b>9. Investments</b>		
Shares and options – at cost	2,433,900	-
Less: Writedown to recoverable amount	1,523,900	-
Shares and options at recoverable amount	<b>910,000</b>	<b>-</b>
<b>10. Accounts Payable</b>		
<b>CURRENT</b>		
Trade creditors	56,215	91,773
Other creditors and accruals	23,500	51,918
Other creditors – related parties	101,090	77
	<b>180,805</b>	<b>143,768</b>
<b>11. Provisions</b>		
<b>CURRENT</b>		
Employee entitlements	13,852	4,082
Provision for income tax	377,867	-
Provision for deferred income tax	1,039	-
	<b>392,758</b>	<b>4,082</b>
<b>12. Issued Capital</b>		
<b>ISSUED CAPITAL</b>		
27,205,577 (1999: 26,241,033) ordinary fully paid shares	5,328,943	5,086,807
20,000,000 ordinary partly paid shares *	200,000	200,000
Option premium	2,136,762	2,136,762
	<b>7,665,705</b>	<b>7,423,569</b>

\* The partly paid shares are issued at 20 cents and partly paid to 1 cent each. They can be called up in the event of winding up of the Company

(a) The movement in issued capital is reconciled as follows:

Date	Description	\$
1 July 1999 – 30 June 2000	Exercise of 964,544 1 August 2000 options to ordinary shares	242,136
		<b>242,136</b>



# Notes to the Financial Statements

for the year ended 30 June 2000

(b) Options

Details of options on issue are as follows:

Number	Terms & Conditions
11,680,617 *	Expiring on 1 August 2000 with an exercise price of \$0.35 per share
5,000,000	Expiring on 21 July 2003 with an exercise price of \$0.20 per share

\* 17,094,094 Options were originally issued, however, 5,403,477 options were exercised at 25 cents and 10,000 options were exercised at 35 cents prior to 30 June 2000. Refer to Note 26 (Subsequent Events) for final exercise details.

## 13. Contingent Liabilities

To the extent that the 17,094,094 options issued at 12.5 cents were not exercised on or before 1 August 2000 by option holders, the Company will be deemed to derive an assessable capital gain pursuant to section 104-30 of the Income Tax Assessment Act 1997. The capital gains tax liability will be assessed on the option premium received by the Company for all options that remain unexercised as at 1 August 2000. Details of the exercise of these options are contained in Note 26 (Subsequent Events). The estimated assessable capital gain on the option premium that relates to unexercised options by the expiry date is \$1,254,853 (excluding any expenditure incurred in granting the option which may qualify as cost base items). The tax liability and expense arising of \$426,650 has not been brought to account as at 30 June 2000

## 14. Notes to the Statement of Cash Flows

	2000 \$	1999 \$
<b>(a) RECONCILIATION OF CASH</b>		
For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and deposits. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related item in the balance sheets as follows:		
Cash	3,625,027	4,288,489
<b>(b) RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>		
Operating profit/(loss) after income tax	(453,439)	(754,706)
Add/(less) non-cash items:		
Amortisation of VoiceNet Technology	300,000	-
Amounts written off investments	1,523,900	-
Increase in income tax payable	377,867	-
Increase in tax balances	(3,671)	-
Provisions	9,770	4,082
Depreciation	61,536	9,778
Foreign exchange rate (gain)/loss	-	807
Net cash provided by/ (used in) operating activities before changes in assets and liabilities	1,815,963	(740,039)



# Notes to the Financial Statements

for the year ended 30 June 2000

	2000 \$	1999 \$
Changes in assets and liabilities during the year:		
(Increase)/decrease in assets:		
Current receivable	(97,608)	(2,302)
Current inventories	(60,047)	-
Other current assets	(3,056)	-
Increase/(decrease) in liabilities:		
Current accounts payable	37,037	133,203
Net cash provided by/(used in) operating activities	1,692,289	(609,138)

## 15. Related Parties

The names of each person holding the position of Director of Queste Communications Ltd during the financial year are Messrs F Khan, Y Khan, B McKeon, M Watkins, R Grewe, M J van Rens, B McGougan, A Chaudhri and V Ho (alternate for Y Khan for the period 9 March 2000 to 12 May 2000 inclusive).

### DIRECTORS

#### (i) Remuneration

Details of Directors' remuneration are set out in Note 17 (Directors Remuneration).

During the financial year there was an overpayment of \$3,750 in Directors fees to A Chaudhri. This amount remains outstanding at the balance date. Interest is not charged on this outstanding amount.

At the balance date, Directors fees of \$2,865 to R Grewe remain outstanding. Interest is not payable on this outstanding amount.

#### (ii) Equity Holdings

Directors' equity holdings in the Company:

	Held at 1 July 1999	Purchased or Issued	Sold or Exercised	Held at 30 June 2000
Fully Paid Ordinary Shares	77,540	-	-	77,540
Options Expiring 21 July 2003	5,000,000	-	-	5,000,000
Options Expiring 1 August 2000	139,000	12,250	-	151,250

#### (iii) Transactions

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company involving the provision of services to the Company or other transactions with the Company.

#### (a) Other Debtors

During the financial year, the Company overpaid reimbursements to Directors for operating expenses incurred on behalf of the Company by the Directors. The following amounts remain outstanding at the balance date. Interest is not charged on these outstanding amounts.



# Notes to the Financial Statements

for the year ended 30 June 2000

	Amount Outstanding \$
<b>Director</b>	
F Khan	1,232
Y Khan	40
	<u>          </u>

(b) Other Creditors

During the financial year, the following Directors incurred operating expenses on behalf of the Company. The Company has not reimbursed the following amounts to the Directors at the balance date. Interest is not charged on these outstanding amounts.

	Amount Outstanding \$
<b>Director</b>	
F Khan	2,832
Y Khan	6,316
	<u>          </u>

## DIRECTOR RELATED ENTITIES

### (i) Equity Holdings

Director-Related Entities' equity holdings in the Company:

	Held at 1 July 1999	Purchased or Issued	Sold or Exercised	Held at 30 June 2000
Fully Paid Ordinary Shares	10,923,186	212,500	358,806	10,640,492
Partly Paid Ordinary Shares*	20,000,000	-	-	20,000,000
Options Expiring 1 August 2000	45,000	-	2,025	42,975

\* Partly paid to 1 cent each and upon which there is an outstanding amount payable of 19 cents per share.

### (ii) Transactions

Apart from the details disclosed in this note, no Director-related entity has entered into a material contract with the Company involving the provision of services to the Company or other transactions with the Company.

#### (a) Services

During the financial year, the following Director-related entities provided corporate consulting services to the Company.

Director Related Entity	Services Provided \$	Amounts Outstanding \$
MSW Investments Pty Ltd (M Watkins)	8,333	-
Banyard Holdings Pty Ltd (B McGougan)	8,333	-
	<u>          </u>	<u>          </u>



# Notes to the Financial Statements

for the year ended 30 June 2000

**(b) Contractual Obligations**

During the financial year, the following contractual obligations were incurred in favour of Director-related entities:

	<b>Obligations</b>	<b>Amounts Outstanding</b>
	<b>\$</b>	<b>\$</b>
<b>Director Related Entity</b>		
Queste America, Inc.		
(R Grewe)	246,311	5,121

**(c) Contractual Payments**

During the financial year, the following contractual benefits were derived from Director-related entities. Interest is not charged on outstanding amounts.

	<b>Amounts Received</b>	<b>Amounts Outstanding</b>
	<b>\$</b>	<b>\$</b>
<b>Director Related Entity</b>		
Central Exchange Ltd	2,800,814	-

The Company also received a contractual technical services fee of \$83,333 for services to be undertaken by the Company after the balance date.

**(d) Other Debtors**

The Company shares an office premise and various administration and other office expenses with Director-related entities being Central Exchange Ltd and Fast Scout Ltd.

During the financial year, the Company incurred operating expenses on behalf of Director-related entities. The following amounts remain outstanding at the balance date by the Director-related entities. Interest is not charged on these outstanding amounts.

	<b>Amounts Outstanding</b>
	<b>\$</b>
<b>Director Related Entity</b>	
Fast Scout Ltd	20,182
Central Exchange Ltd	19,270

**(e) Other Creditors**

The Company shares an office premise and various administration and other office expenses with Director-related entities being Central Exchange Ltd and Fast Scout Ltd.

During the financial year, the following Director-related entities incurred operating expenses on behalf of the Company. The Company has not reimbursed the following amounts to the Director-related entities at the balance date. Interest is not charged on these outstanding amounts.

	<b>Amounts Outstanding</b>
	<b>\$</b>
<b>Director Related Entity</b>	
Central Exchange Ltd	624



# Notes to the Financial Statements

for the year ended 30 June 2000

	2000 \$	1999 \$
<b>16. Auditors' Remuneration</b>		
Amounts received or due and receivable by auditors of the Company for:		
Audit services	19,500	8,500
Other services	5,115	41,323
	24,615	49,823
	24,615	49,823

## 17. Directors' Remuneration

Aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all Directors of the Company, directly or indirectly, by the Company or by any related party.

291,507	108,941
291,507	108,941

The number of Directors of the Company whose total income falls within each successive \$10,000 band of income (commencing at \$0) is as follows:

	2000	1999
\$ 0 - \$ 9,999	1	6
\$ 10,000 - \$19,999	5	-
\$ 20,000 - \$29,999	1	-
\$ 30,000 - \$39,999	-	1
\$ 40,000 - \$49,999	-	-
\$ 50,000 - \$59,999	1	1
\$130,000 - \$139,999	1	-

## 18. Superannuation

The Company contributes to compulsory superannuation funds in accordance with statutory obligations on behalf of the Directors' in respect of directors' fees paid and employees in respect of salaries and wages paid. Contributions are charged against income as they are made.

## 19. Earnings Per Share

	2000	1999
Basic earnings per share	(\$0.016)	(\$0.046)
Weighted average number of ordinary shares used in the calculation of the basic earnings per share	28,170,749	16,419,922
	28,170,749	16,419,922

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.

Diluted earnings per share is not materially different from basic earnings per share and therefore is not disclosed in the Financial Statements.

# Notes to the Financial Statements

for the year ended 30 June 2000

## 20. Financial Instruments

### Interest Rate Risk

The following tables details the Company's exposure to interest rate risk:

2000	Ave Int Rate %	Variable Interest Rate \$	Fixed Interest Rate \$	Non Interest Bearing \$	Total \$
<b>FINANCIAL ASSETS</b>					
Cash	5.85	24,827	3,600,000	200	3,625,027
Receivables		-	-	99,910	99,910
		24,827	3,600,000	100,110	3,724,937
<b>FINANCIAL LIABILITIES</b>					
Accounts payables		-	-	180,805	180,805
		-	-	180,805	180,805
<b>1999</b>					
1999	Ave Int Rate %	Variable Interest Rate \$	Fixed Interest Rate \$	Non Interest Bearing \$	Total \$
<b>FINANCIAL ASSETS</b>					
Cash	4.38	1,088,489	2,000,000	1,200,000	4,288,489
Receivables		-	-	2,032	2,032
		1,088,489	2,000,000	1,202,032	4,290,791
<b>FINANCIAL LIABILITIES</b>					
Accounts payables		-	-	143,768	143,768
		-	-	143,768	143,768

### Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with credit-worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair value basis.

The Company does not have any significant credit risk exposure to any single counterparty or any group counterparties having similar characteristics.

The carrying amount of financial assets recorded in the Financial Statements represents the Company's maximum exposure to credit risk without taking account of the value of collateral or other security obtained.

### Net Fair Value

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 to the Financial Statements.

### Currency Risk

The Company's only foreign currency exposure as at balance date relates to the Software Development Agreement referred to in Note 24, which requires payment in US dollars. The Directors are of the view that this exposure is not material. The Directors will continue to monitor the Company's foreign exchange exposure to endeavour to minimise the effects of exchange rate fluctuations.

## 21. Segment Reporting

The Company operates in the geographical region of Australia within the telecommunications industry.



# Notes to the Financial Statements

for the year ended 30 June 2000

## 22. Research and Development Expenditure

	2000	1999
	\$	\$
Total R&D expenditure incurred during the financial year	246,311	305,849
Total R&D grants	-	-
Total R&D expenditure written off to the profit and loss statement (Note 2)	(246,311)	(305,849)
R&D expenditure carried forward	-	-

## 23. Executive's Remuneration

There was only one Executive Officer employed by the Company at the balance date whose aggregate remuneration exceeded \$100,000, being Chairman and Managing Director, F Khan whose remuneration was \$134,087.

The number of Executive Officers of the Company whose total income falls within each successive \$10,000 band of income (commencing at \$0) is as follows:

	2000	1999
	\$	\$
\$ 0 - \$ 9,999		
\$ 30,000 - \$39,999	1	-
\$ 50,000 - \$59,999	-	1
\$ 130,000 - \$139,999	1	1
	1	-

## 24. Expenditure Commitments

	2000	1999
	\$	\$
Contractual Commitments		
Not longer than one year	115,064	566,000
	<b>115,064</b>	<b>566,000</b>

The above contractual commitments relate to a Software Development Agreement entered into with Queste America Inc. (a Director-related entity associated with Mr R Grewe) on 3 August 1998. The total contract price of US\$567,000 was increased by US\$24,000 pursuant to an amendment to the agreement on 31 December 1998 to take into account an extension to the scope of works to be conducted.

The Software Development Agreement is a cost price contract and actual costs incurred with respect to a number of milestones under the agreement have been less than those contemplated in the original agreement. With respect to the balance of the contract amounts payable, these amounts also represent cost price amounts and may be subject to variation below the stated expenditure commitments upon completion of works by Queste America Inc.

Payments made under the Software Development Agreement to date are detailed in Note 22 (R & D Expenditure).

An exchange rate of one US dollar to approximately 0.598 Australian dollars has been used in the above calculations.

## 25. Lease Commitments

	2000	1999
	\$	\$
Non-Cancellable Operating Lease Commitments		
Not longer than one year	70,116	-
	<b>70,116</b>	<b>Nil</b>

The operating lease is for the rental of office premises for the Company.



# Notes to the Financial Statements

for the year ended 30 June 2000

## 26. Subsequent Events

- (i) 1,651,786 of the Company's listed 1 August 2000 Options ("Options") were exercised at the 35 cent level after 1 July 2000 and prior to the expiry date.

10,038,831 Options were unexercised by the expiry date.

These Options were issued pursuant to the Company's prospectus of March 1999 at a price of 12.5 cents per option. In summary, of the total of 17,094,094 Options issued:

- 4,448,933 were exercised at 25 cents per Option in the financial year to 30 June 1999 raising \$1,112,233;
- 954,544 were exercised at 25 cents per Option in the financial year to 30 June 2000 raising \$238,636;
- 10,000 were exercised at 35 cents per Option in the financial year to 30 June 2000 raising \$3,500;
- 1,641,786 were exercised at 35 cents per option after 1 July 2000 and prior to the exercise date of 1 August 2000 raising \$574,625;
- 10,038,831 Options were unexercised by the expiry date.

- (ii) The Company issued a market announcement on 8 September, 2000 detailing a proposal to make an issue of new options exercisable at 35 cents and expiring at 5:00pm WST on Friday, 30 March 2001 ("New Options") upon the following terms:

- (a) At an issue price of 0.5 cent per New Option - to all persons who exercised the Options at the 35 cent level, on the basis of one New Option for every Option exercised at the 35 cent level.
- (b) At an issue price of 2.5 cents per New Option - to all persons who exercised the Options at the 25 cent level, on the basis of one New Option for every Option exercised at the 25 cent level.
- (c) At an issue price of 2.5 cents per New Option - to all persons who did not exercise the Options, on the basis of one New Option for every Option previously held and unexercised by the expiry date.
- (d) The above entitlements will be non-renounceable (ie. the right to subscribe for New Options cannot be sold, transferred or otherwise disposed of).

Any funds raised from the New Options issue will be used for the Company's general working capital purposes.

The New Options issue will be subject to shareholder approval (including approval under ASX Listing Rules 7.1 and 10.11). Directors who held Options will participate in the New Options issue on the same basis as all other persons who held Options.

The Company will be issuing a prospectus for the New Options issue and convening an extraordinary general meeting for shareholder approval in due course.

Assuming that a sufficient number of New Options are issued to comply with ASX spread requirements, the Company will apply for quotation of the New Options on the ASX.



## Directors' Declaration

The Directors declare that:

- a) The attached Financial Statements and notes thereto comply with accounting standards;
- b) The attached Financial Statements and notes thereto give a true and fair view of the financial position and performance of the Company;
- c) In the Directors' opinion, the attached Financial Statements and notes thereto are in accordance with the Corporation Law; and
- d) 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 s. 295(5) of the Corporations Law.

On behalf of the Directors

**Farooq Khan**  
Executive Chairman

**Brett McKeon**  
Non-Executive Director

9 October 2000  
Perth, Western Australia



*Independent Auditor's Report to the members of Queste Communications Ltd*

**Deloitte  
Touche  
Tohmatsu**

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**Scope**

We have audited the financial report of Queste Communications Ltd for the financial year ended 30 June 2000 as set out on pages 10 to 25. 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 issued in Australia and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its 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 Law, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2000 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

**Deloitte Touche Tohmatsu**

**KF Jones**  
Partner  
Chartered Accountants  
Perth, 9 October 2000



# Stock Exchange Information

as at 18 September 2000

The following additional information is required by the Australian Stock Exchange Listing Rules.

## DISTRIBUTION OF ORDINARY FULLY PAID SHARES

as at 18 September 2000.

Spread of Holdings	Number of Holders	Number of Units	% of Total Issue Capital
1 - 1,000	54	38,372	0.133 %
1,001 - 5,000	290	943,094	3.269 %
5,001 - 10,000	273	2,343,917	8.125 %
10,001 - 100,000	383	10,794,527	37.419 %
100,001 - and over	28	14,727,453	51.054 %
<b>Total</b>	<b>1,028</b>	<b>28,847,363</b>	<b>100%</b>

Of the 28,847,363 Ordinary Fully Paid Shares 9,000,000 were issued to promoters of the Company. These shares are subject to the Australian Stock Exchange escrow provisions. They will be released from escrow on 6 November 2000.

## LESS THAN MARKETABLE PARCEL

Spread of Holdings	Number of Holders	Number of Units	% of Total Issue Capital	
1 - 1,923	98	105,013	0.364 %	
1,924 - over	930	28,742,350	99.636 %	
<b>Total</b>	<b>1,028</b>	<b>28,847,363</b>		<b>100%</b>

## OPTIONS EXERCISABLE AT 20 CENTS EXPIRING 21 JULY 2003 (UNQUOTED)

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
<b>Total</b>	<b>5,000,000</b>

All of these 5,000,000 21 July 2003 Options are subject to the Australian Stock Exchange escrow provisions.

They will be released from escrow on 6 November 2000.

## PARTLY PAID SHARES (UNQUOTED)

Name	No of Partly Paid Shares
Chi Tung Investments Ltd	16,000,000
Grandstar Investments Pty Ltd	4,000,000
<b>Total</b>	<b>20,000,000</b>

These 20,000,000 ordinary shares are issued at a price of 20 cents per share have been partly paid to one cent each and have an outstanding amount payable of 19 cents per share.

These partly paid shares are subject to the Australian Stock Exchange escrow provisions. They will be released from escrow on 6 November 2000.



# Stock Exchange Information

as at 18 September 2000

## TOP TWENTY ORDINARY FULLY PAID SHAREHOLDERS AS AT 18 SEPTEMBER 2000

Rank	Shareholder	Total Units	% Issued Capital Units
1	RENMUIR HOLDINGS LTD	3,528,000	12.229
2	MAWSON GROUP WA PTY LTD	2,986,000	10.351
3	ISLAND AUSTRALIA PTY LTD	1,700,020	5.893
4	CHI TUNG INVESTMENTS LTD	1,250,000	4.333
5	FASTSCOUT LTD	826,950	2.866
6	KYA CORPORATION PTY LTD	686,000	2.378
7	MICHAEL VAN RENS FINANCIAL SERVICES PTY LTD <SUPER FUND ACCOUNT>	306,806	1.063
8	MANAR NOMINEES PTY LTD	224,000	0.776
9	MR PAUL LYNTON BAGSHAW	218,750	0.758
10	MRS CHERRYL DAWN BAGSHAW	218,750	0.758
11	MRS AFIA KHAN	215,000	0.745
12	MR AYUB KHAN	215,000	0.745
13	MRS AMBREEN CHAUDHRI	215,000	0.745
14	WATEREND PTY LTD	196,000	0.679
15	M/S LINDA CHRISTINE SILVERLOCK	184,544	0.639
16	MR RICHARD NOEL MAYO	175,000	0.606
17	MR KEITH FRANCIS OATES & MRS LINDA ANN OATES	175,000	0.606
18	HENRY JOHN DE BURGH <E C DE BURGH FAMILY A/C>	175,000	0.606
19	MR NORMAN DOUGLAS BRUCE	146,750	0.508
20	MR SYDNEY GRAEME BARDSLEY & MRS ROSELYN RUBY BARDSLEY <BARDSLEY SUPER FUND A/C>	137,712	0.477
	<b>Total</b>	<b>13,780,282</b>	<b>47.761 %</b>



# *Stock Exchange Information*

*as at 18 September 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 to the amount paid up for that share.

No voting rights are attached to partly paid shares on which calls are outstanding.

## **SUBSTANTIAL SHAREHOLDERS AS AT 18 SEPTEMBER 2000**

The register of substantial shareholders at 18 September 2000 indicates that the following companies were holders of 5% or more of the Company's issued capital.

<b>Shareholder</b>	<b>Total Units</b>	<b>% Issued Capital</b>
Renmiur Holdings Ltd	3,528,000	12.229
Mawson Group WA Pty Ltd	2,986,000	10.351
Island Australia Pty Ltd	1,700,020	5.893

