



Queste Communications Ltd
A.C.N 081 688 164

**HALF-YEARLY
FINANCIAL REPORT**

for the half-year to 31 December 2000

QUESTE COMMUNICATIONS LTD

CORPORATE DIRECTORY

Directors

Mr Farooq Khan

Mr Azhar Chaudhri

Mr Brett Murray McKeon

Mr Michael J van Rens

Mr Russell Grewe

Mr Bradley McGougan

Mr Yaqoob Khan

Mr Malcolm Stephen Watkins

Company Secretary

Mr Victor Ho

Registered and Principal Office

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Auditors

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

Solicitors

Solomon Brothers
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2 The Esplanade
Perth WA 6000

Share Registry

Advanced Share Registry Services
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Perth WA 6000
Telephone: +618 9221 7288
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Bankers

National Australia Bank
1232 Hay Street
West Perth WA 6005

Stock Exchange

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

QUESTE COMMUNICATIONS LTD

DIRECTORS' REPORT

The Board submit their Directors' Report, the Consolidated Entity's Financial Statements for the half-year to 31 December 2000 and the Auditors Report on such Financial Statements.

DIRECTORS

The following persons were Directors of the Company during the whole of the half year and up to the date of this report:

Farooq Khan

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

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

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.

DIRECTORS' REPORT

Brett McKeon

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

Non 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

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

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

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.

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DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the half-year period 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.

FINANCIAL RESULT

The Consolidated Entity recorded a net operating loss (before income tax) of \$1,320,503 (31 December 1999: \$1,087,534 profit) for the half-year to 31 December 2000 on gross operating revenues of \$688,216 (31 December 1999: \$2,453,685).

The net operating loss after abnormal items and income tax was \$1,792,087 (31 December 1999: \$939,091 profit).

REVIEW OF OPERATIONS

Queste Communications' VoIP Technology

The Company has established itself as a supplier of Internet Telephony software solutions and services, initially to Central Exchange Ltd ("Central Exchange") and eventually to a wide overseas market.

Voice over Internet Protocol ("VoIP") has developed to the stage where inter-working across the Public Switched Telephone Network ("PSTN") and the Internet is being rapidly deployed throughout the world as a means by which new entrants can offer low cost telecommunication services. The VoiceNet System VoIP technology is a telephone-to-telephone solution. Both ends of the call use a standard telephone. The calling party connects (via a local call, a PABX or a dedicated tie line) to a gateway, which compresses the voice and sends it as Internet Protocol ("IP") packets via the Internet or a Virtual Private Network ("VPN") to another gateway, which decompresses the voice signal and sends it (via a local call, a PABX or a dedicated tie line) to the called party.

The Company's award winning VoiceNet System VoIP Architecture provides for an integrated suite of carrier grade Internet telephony solutions delivering a real alternative to long distance calls routed over the PSTN with high reliability, interoperability, rapid deployment, remote access, open architecture and toll quality performance over fixed data lines

Highly scaleable and high voice quality voice over the native Internet, the Company's range of Internet telephony products provide a competitive edge for carriers, corporations and other parties seeking a VoIP solution.

All Queste Communications systems are designed to meet International Telecommunications Union ("ITU") standards for interoperability with other IP packet systems and with interconnection to the PSTN.

The VoiceNet System consists of rack mountable PC-based servers and Digital Signal Processing ("DSP") cards running the Microsoft NT Operating System and Queste Communication's VoiceNet source code plus remote viewing software to enable remote configuration and administration of the system. The voice connectivity itself is enabled via (H.323 compliant) voice compression technology that requires digital telephone lines for connection to the PSTN.

The current technology support a minimum of 30 lines with multiple capacity of 256 lines per VoiceNet server and with multiple VoiceNet servers capable of interconnection using Queste Communication's multi-box capability for high demand locations.

Queste Communications' Internet Telephony Products

VoiceNet ITS 3600 Gatekeeper

The VoiceNet ITS 3600 Gatekeeper forms the intelligent network hub for telephony networks based on the Company's VoiceNet System VoIP Architecture.

Designed to act as a central controller, validator and administrator of all telephony networks created using the Company's family of VoiceNet Internet telephony products, the VoiceNet ITS 3600 Gatekeeper serves as a sophisticated and advanced platform for the creation of robust and secure carrier replacement networks.

VoiceNet VN3000 Gateway

The VoiceNet VN3000 Gateway forms part of the Company's family of VoiceNet System telephony servers that link IP networks with the PSTN.

The VN3000 Gateway acts as the telephony interface between the PSTN and IP networks to facilitate the origination and termination of VoIP calls.

The highly flexible VN3000 Gateway operates seamlessly with the ITS 3600 Gatekeeper over myriad IP-based networks such as the Internet, or over VPN's based on ADSL or Frame Relay delivering toll quality voice over a VPN and near toll quality over the native Internet.

The VN3000 Gateway provides an E1/PRI network interface and is fully compatible with the industry standard H.323 protocol stack.

The VN3000 Gateway is fully meshed with the VN3000 Multistack Module allowing up to 256 full duplex channels per Gateway and with the Company's VoiceNet Open Scalability System ("VNOSS ") allowing for infinitely scaleable multi-line distributed VoIP Gateways from a 256 channel base.

VoiceNet VN3000 MultiStack Module

The VN3000 MultiStack Module is a fully meshed platform extension module allowing a VN3000 Gateway to support up to 256 full duplex channels or voice ports per Gateway from the standard base of 30 channels or voice ports of a VN3000 Gateway.

The module is fully scaleable from 30-256 channels/ports allowing individual Gateway customisation to suit network loads and telephony traffic for each discrete point of presence ("POP") originating or terminating VoIP traffic.

VoiceNet VN Open Scalability System (VNOSS)

The Company's VoiceNet System VoIP Architecture has been designed to allow a seamless expansion of any global VoiceNet network established by a carrier, wholesaler, calling card vendor or Internet service provider.

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A key element in the creation of any such network is the ability to handle significant telephony traffic without compromising the network or related administrative and support systems connected to such network.

The Company's VNOSS allows for the creation of a seamless and modular increase in telephony capacity required of global carrier size networks.

Central Exchange Ltd

Central Exchange has acquired, pursuant to a Licence Agreement, the Australian rights to the Queste Communications VoiceNet System VoIP technology. Pursuant to a Technical Services Agreement, Queste Communications has been assisting Central Exchange in establishing and operating within Australia an Internet telephony network utilising the VoiceNet System VoIP technology.

Status of Central Exchange VoIP Telecommunications Network

Central Exchange has advised the Company that it has continued its progress towards establishing a national telecommunications network using the "VoIP" technology licenced from Queste Communications.

Central Exchange's VoIP telecommunications network utilises Queste Communications' current H.323 Protocol compliant series of VoiceNet System VoIP technology to replace traditional switched carrier based networks. 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 are a significant reduction in capital costs of a VoiceNet System and the suitability of the VoiceNet System to be used as a carrier replacement network.

The Central Exchange beta test VoIP telecommunications network now consist of points of presence ("POP's") established in Perth, Adelaide, Ballarat, Melbourne, Sydney and Brisbane. This will be the precursor to the launch of a national commercial network across the major capital cities of Australia and eventually to selected major regional centers of Australia.

Based upon the Central Exchange's satisfaction with the internal operational performance of its VoIP telephony network, a decision was made by the Board of Central Exchange to extend the testing of the network to an external live test of the network by a large number of users.

Central Exchange accordingly invited its shareholders and Queste Communications shareholders to test the network and provide feedback on the ease of use, functionality and voice quality of network.

The live testing by shareholders was also used to examine network loads at various times of the day and night to ensure that the network was able to handle sufficient quantities of voice traffic with acceptable levels of voice quality during peak periods.

Results of Shareholder Trial of Central Exchange VoIP Network

The shareholder trial was conducted over Central Exchange's beta test VoIP telephony network comprising POP's in Perth, Adelaide, Ballarat, Melbourne and Sydney between 20 November and 27 December 2000.

A total of 1,703 Central Exchange and 904 Queste Communications shareholders were invited to participate in the trial.

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A total of 227 of shareholders participated in the trial. Of these 227 shareholders, feedback forms were received from 93 participating shareholders. The results from such shareholders are summarised below:

	Rating 1 Extremely bad quality and can hardly hear	Rating 2 Bad quality and can hear with a lot of effort	Rating 3 Fair quality and can hear with little effort (eg. average mobile quality)	Rating 4 Good quality and can hear with no effort (eg. good mobile quality)	Rating 5 Excellent quality (eg. Normal telephone quality)
Quality Of voice	2%	13%	25%	19%	40%

	Unacceptable	Poor	Fair	Good	Excellent
Ease of use	1%	2%	11%	43%	42%
Relevance of interactive voice prompts	2%	0%	5%	41%	52%

	Unsuccessful	Successful
Call Connection	6%	94%

Central Exchange has advised the Company that it is currently undertaking network and systems modifications in light of the results and findings of the shareholder trial and plans to commercially launch its national VoIP telephony network work later in the financial year after the completion of final network and network support systems development and testing and the finalisation of strategic relationships with suppliers of telecommunication and IP services relevant to the network.

Payment of Technical Service Fees by Issue of Shares in Central Exchange Ltd

Pursuant to the Technical Services Agreement, Central Exchange is required to pay to Queste Communications \$1,000,000.00 per annum (indexed for inflation after the first 12 months) for the provision by Queste Communications of 3,000 hours per annum of technical services. The fee is payable by calendar monthly instalments in advance ("the Monthly Fee") and commenced in November 1999.

The Monthly Fee may, at Central Exchange's election, be paid in any month by the issue of fully paid ordinary shares in Central Exchange, the price of such securities to be calculated at 80% of the weighted average price for the fully paid ordinary shares in Central Exchange for the 4 week trading period on the Australian Stock Exchange ("ASX") immediately preceding the due date for payment of the Monthly Fee to which the issue of securities relates.

At the Central Exchange Annual General Meeting held on 13 December 2000, shareholders of Central Exchange passed relevant resolutions permitting the Board of Central Exchange to exercise the election pursuant to the Technical Services Agreement to issue shares to Queste Communications, in lieu of the Monthly Fee otherwise payable by cash, notwithstanding breaches of relevant takeover provisions of the Corporations Law and the ASX Listing Rules.

The Board of Central Exchange exercised the election under the Technical Services Agreement to issue 4,880,754 ordinary shares in Central Exchange to Queste Communications in satisfaction of approximately 4 instalments of technical service Monthly Fees totalling \$341,666.66 owing to Queste Communications.

The Board of Queste Communications appreciates the need for Central Exchange to preserve its cash reserves, particularly in light of the expected infrastructure and servicing costs associated with the rollout of its Australian Internet telephony network utilising the Queste Communications VoiceNet System VoIP technology. The Board of Central Exchange has advised Queste Communications that their decision to exercise the election to issue shares in lieu of cash technical service Monthly Fees to Queste Communications will be based, inter alia, on the current and projected cash reserves of Central Exchange, Central Exchange's expected capital commitments and the price of Central Exchange shares on a month to month basis.

Cancellation and Grant of Options in Central Exchange Ltd

Under the Licence Agreement between Central Exchange and Queste Communications, Central Exchange, inter alia, issued 11,500,000 options (at one cent per option) to Queste Communications. Each option entitles Queste Communications to acquire a fully paid ordinary share for 20 cents in Central Exchange on or before 31 December 2000.

As the share price of Central Exchange at the relevant time was considerably less than the exercise price of 20 cents, Queste Communications advised Central Exchange that it was unlikely to exercise the options by the exercise date of 31 December 2000.

In these circumstances, Queste Communications proposed to the Board of Central Exchange that it issue Queste Communications with a further 11,500,000 new options, at an exercise price of 20 cents on or before one year from the issue date for a total consideration of \$9,000 and the cancellation of the 31 December 2000 options, in order to secure an avenue for future funds to be invested in Central Exchange by Queste Communications.

At the Central Exchange Annual General Meeting held on 13 December 2000, shareholders of Central Exchange passed relevant resolutions permitting the Board of Central Exchange to carry out the proposed new option issue transaction, which was effected in late December 2000, resulting in Queste Communications now owning 11,500,000 options in Central Exchange, exercisable at 20 cents each on or before 20 December 2001.

Queste Communications now owns 13,980,754 ordinary shares in Central Exchange representing approximately 22.61% of the issued capital.

International Operations

Beyond its investment in Central Exchange, the Company is currently engaged in or pursuing the following activities:

- (i) Ongoing development and refinement of the VoiceNet System VoIP Architecture and Internet telephony products and solutions, particularly in association with the technical services being rendered to Central Exchange in establishing and operating the Central Exchange VoIP telecommunications network. This development is peripheral to the core VoIP technology of the VoiceNet System and relates more to matters of network and database administration and management, security, client management and billing and other systems-related improvements to the Company's suite of Internet telephony products.
- (ii) The marketing of the VoiceNet System to generate revenues by way of the sale of VoiceNet System Internet telephony products and solutions (and supporting technical service fees) or the grant of licences or other rights in relation to any commercial application of the VoiceNet System VoIP Architecture and Internet telephony products and solutions;

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- (iii) The creation of an international VoIP telecommunication network based on the VoiceNet System VoIP Architecture and Internet telephony products and solutions, either directly or by joint venture or other strategic alliances. Based on an analysis of the applicable regulatory telecommunications regime and relevant costs of establishment, this may involve the deployment of a stand-alone POP in a country or the creation of a national network in a country along a similar basis to the Central Exchange model in Australia.

Queste Communications will also act as a telecommunications clearing house for all traffic between the VoiceNet System VoIP Architecture based POP's and networks and derive revenues based on a percentage of the traffic revenues settled between such POP's and networks.

- (iv) Further commercial opportunities within the telecommunications and Internet industries both in Australia and overseas.

SUBSEQUENT EVENTS

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 Consolidated Entity, the results of those operations or state of affairs of the Consolidated Entity in subsequent financial years.

Signed in accordance with a resolution of the Directors.

On behalf of the Board

Farooq Khan
Executive Chairman

Brett McKeon
Director

16 March 2001
Perth, Western Australia

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PROFIT AND LOSS STATEMENT
for the half-year to 31 December 2000

	Note	Consolidated Half-Year Ended 31.12.2000 \$	Half-Year Ended 31.12.1999 \$
OPERATING (LOSS)/PROFIT BEFORE INCOME TAX	2	(1,320,503)	1,087,534
Income tax attributable to operating (loss)/profit	3	(471,584)	(148,443)
OPERATING (LOSS)/PROFIT AFTER INCOME TAX		(1,792,087)	939,091
Accumulated profit/(losses) at the beginning of the half year		(1,208,145)	(754,706)
ACCUMULATED (LOSS)/PROFIT AT THE END OF THE HALF YEAR		(3,000,232)	184,385

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

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BALANCE SHEET as at 31 December 2000

	Note	Consolidated 31.12.2000	30.6.2000	31.12.1999
		\$	\$	\$
CURRENT ASSETS				
Cash		3,986,387	3,625,027	4,052,445
Receivables		74,387	99,910	42,530
Inventory		42,866	60,047	-
Others		27,270	3,056	12,016
Total current assets		<u>4,130,910</u>	<u>3,788,040</u>	<u>4,106,991</u>
NON-CURRENT ASSETS				
Property, plant and equipment		581,726	628,373	530,962
Investments	4	50,017	910,000	1,661,900
VoIP Technology	7	1,500,000	1,700,000	2,244,796
Other		4,710	4,710	-
Total non-current assets		<u>2,136,453</u>	<u>3,243,083</u>	<u>4,437,658</u>
Total assets		<u>6,267,363</u>	<u>7,031,123</u>	<u>8,544,649</u>
CURRENT LIABILITIES				
Borrowings		29,146	-	11
Account payables		129,176	180,805	196,957
Provisions		868,943	392,758	501,091
Total current liabilities		<u>1,027,265</u>	<u>573,563</u>	<u>698,059</u>
Net assets		<u>5,240,098</u>	<u>6,457,560</u>	<u>7,846,590</u>
EQUITY				
Issued Capital		8,240,330	7,665,705	7,662,205
Accumulated losses		(3,000,232)	(1,208,145)	184,385
Total equity		<u>5,240,098</u>	<u>6,457,560</u>	<u>7,846,590</u>

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

QUESTE COMMUNICATIONS LTD**STATEMENT OF CASH FLOWS**
for the half-year to 31 December 2000

	Consolidated	Half-Year	Half-Year
	Half-Year	Ended	Ended
Note	31.12.2000	31.12.1999	31.12.1999
	\$		\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	237,478		2,383,333
Payments to suppliers and employees	(510,712)		(585,777)
Interest received	84,900		72,654
Interest paid	(117)		(798)
	<u>(188,451)</u>		<u>1,869,412</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for plant and equipment	(3,944)		(23,971)
Payment for share options in associate company	(9,000)		-
Payment for investment securities	(41,016)		(2,318,900)
Loan to other companies	-		(1,232)
	<u>(53,960)</u>		<u>(2,344,103)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	574,625		238,636
	<u>574,625</u>		<u>238,636</u>
Net increase (decrease) in cash held	332,214		(236,055)
Cash at the beginning of the half-year	3,625,027		4,288,489
	<u>5</u> <u>3,957,241</u>		<u>4,052,434</u>

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

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NOTES TO THE FINANCIAL STATEMENTS for the half-year to 31 December 2000

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Law and AASB1029 "Half-Year Accounts and Consolidated Accounts". The half-year financial report should be read in conjunction with the 2000 Annual Financial Report together with any announcements made by the company and its controlled entities during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Law.

(ii) Investment in subsidiary

On 10 August 2000, Queste Communications Limited acquired 100% of the shares in Queste Operations Pty Ltd. The half-year figures therefore only reflect the consolidated position as at 31 December 2000 whilst the comparative figures reflect the operations of the parent entity only.

(iii) Investments

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 are recorded at cost.

(iv) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight line basis over a period of 10 years.

	Consolidated	
	Half-Year Ended <u>31.12.2000</u>	Half-Year Ended <u>30.12.1999</u>
	\$	\$
2. OPERATING LOSS		
Operating loss has been arrived at after including:		
Operating Revenues		
Sales revenue		
Sales of goods	56,532	-
Grant of licence (abnormal item)	-	2,300,000
Rendering of services	508,333	83,333
Interest received or due and receivable from:		
Others	123,351	70,352
	<u><u>688,216</u></u>	<u><u>2,453,685</u></u>

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NOTES TO THE FINANCIAL STATEMENTS for the half-year to 31 December 2000

	Consolidated	
	Half-Year	Half-Year
	Ended	Ended
	<u>31.12.2000</u>	<u>30.12.1999</u>
	\$	\$
2. OPERATING LOSS (cont.)		
Operating Expenses		
Interest paid	117	798
Depreciation - property, plant and equipment	48,542	18,931
Amortisation of VoIP Technology	200,000	100,000
Personnel expenses	222,958	131,847
Provisions - employee entitlements	8,716	7,852
Consultancy costs	34,298	21,139
Administration expenses	242,422	313,584
Abnormal expense		
- Writedown of investments	538,649	772,000
- Equity share of associate company losses	713,017	-
	<u>2,008,719</u>	<u>1,366,151</u>

3. TAXATION

The Company adopts the liability method of tax-effect accounting. Provision for income tax has been recorded for the half-year to 31 December 2000 even though income tax is based on the full financial year's taxable income. Therefore, the circumstances in calculating the tax liability for the half-year may change for the full financial year to 30 June 2001.

The provision for income tax includes capital gains tax arising on the Company's 1 August 2000 options (17,094,094 options were issued at 12.5 cents each) which were not exercised on or before the expiry date of 1 August 2000 by option holders. The Company is deemed to have derived 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. The estimated assessable capital gain on the option premium that relates to 10,038,831 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). A provision for the estimated tax expense of \$426,650 has been made for the half-year to 31 December 2000.

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NOTES TO THE FINANCIAL STATEMENTS for the half-year to 31 December 2000

4. INVESTMENTS	Consolidated		
	31.12.2000	30.6.2000	31.12.1999
At cost:	\$	\$	\$
Shares in listed companies:			
Central Exchange Limited	2,660,566	2,318,900	2,318,900
Others	41,017	-	-
Options in listed company	9,000	115,000	115,000
Provision for diminution	<u>(1,947,549)</u>	<u>(1,523,900)</u>	<u>(772,000)</u>
	763,034	910,000	1,661,900
Equity Accounted Investment in Associate Company			
Equity share of associate company losses	<u>(713,017)</u>	-	-
	<u>50,017</u>	<u>910,000</u>	<u>1,661,900</u>

During the half-year period, the Company was granted 4,880,754 fully paid ordinary shares in Central Exchange Ltd, increasing its voting power to approximately 22.6%. Pursuant to AASB1016 "Accounting for Investments in Associates", the Company is required to account for its investment in Central Exchange Ltd on an equity accounting basis as an Associate Company.

The Company's share of Central Exchange Ltd's losses reduced the balance of the investment in the Associate Company to zero, thereby suspending the equity basis of accounting. The equity basis of accounting and amortisation of goodwill on acquisition will resume if and when Central Exchange Ltd begins to be profitable.

5. NOTES TO THE STATEMENT OF CASH FLOWS

(i) Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and deposits. Cash as at the end of the half-year financial period as shown in the Statement of Cash Flows is reconciled to the related item in the balance sheets as follows:

	Consolidated	
	31.12.2000	31.12.1999
	\$	\$
Cash	3,986,387	4,052,445
Bank overdraft	<u>(29,146)</u>	<u>(11)</u>
	<u>3,957,241</u>	<u>4,052,434</u>

(ii) Non-cash financing and investing activities

During the half-year period, Central Exchange Ltd issued 4,880,754 fully paid ordinary shares to the Company in satisfaction of technical fees owing to the Company of \$341,667.

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NOTES TO THE FINANCIAL STATEMENTS for the half-year to 31 December 2000

	Consolidated	
	31.12.2000	31.12.1999
	\$	\$
6. EARNINGS PER SHARE		
Basic Earnings/ (Loss) per Share (cents)	<u>(0.062)</u>	<u>0.033</u>
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	<u>28,891,479</u>	<u>28,122,127</u>

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.

7. VoIP Technology

The Board is currently reviewing the carrying value of its VoIP Technology, which was acquired at a cost of \$2,000,000 (paid by the issue of 9,000,000 fully paid ordinary shares in the Company at a price of 20 cents each and 20,000,000 ordinary shares in the Company issued at a price of 20 cents per share which have been partly paid to one cent each) pursuant to a Deed of Sale of Software dated 3 August 1998 (prior to the initial public offering of shares in the Company by prospectus dated 6 August 1998) in light of the development of the VoiceNet System VoIP technology from the initial single line capacity to the current multi-30 line, multi-box and multi-stack capable model. The Board is seeking further information and advice on this matter and may adopt a new amortisation policy in relation to this asset if appropriate under the circumstances after this review.

QUESTE COMMUNICATIONS LTD

DIRECTORS' DECLARATION

The Directors declare that:

- (i) The attached Financial Statements and notes thereto comply with accounting standards;
- (ii) The attached Financial Statements and notes thereto give a true and fair view of the financial position and performance of the Consolidated Entity;
- (iii) In the Directors' opinion, the attached Financial Statements and notes thereto are in accordance with the Corporations Law; and
- (iv) 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 303(5) of the Corporations Law.

On behalf of the Board

Farooq Khan
Executive Chairman

Brett McKeon
Director

16 March 2001
Perth, Western Australia