

**THIS ABRIDGED PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately. If you have sold or transferred your shares in Digistar Corporation Berhad ("Digistar" or "Company"), you should at once hand this Abridged Prospectus together with the Rights Subscription Form ("RSF") and Notice of Provisional Allotment ("NPA") to the agent/broker through whom you effected the sale or transfer for onward transmission to the purchaser or transferee. All enquiries concerning the Rights Issue (as defined herein), which is the subject of this Abridged Prospectus, should be addressed to the Registrar of Digistar at PFA Registration Services Sdn Bhd, Level 13, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan. The Rights Issue is only for shareholders of Digistar whose names appeared in Digistar's Record of Depositors maintained by Bursa Malaysia Depository Sdn Bhd ("Bursa Depository") at 5.00 p.m. on 22 December 2006 ("Entitled Shareholders").

This Abridged Prospectus, together with the RSF and NPA, are not intended to be issued, circulated or distributed in countries or jurisdictions other than Malaysia and no action has been or will be taken to ensure that the Rights Issue complies with the laws of any countries or jurisdictions other than the laws of Malaysia. Entitled Shareholders or their renouncee(s) (if applicable), who are residents in countries or jurisdictions other than Malaysia should therefore immediately consult his/her legal advisers as to whether the acceptance or renunciation (as the case may be) of the provisional allotment of the Warrants (as defined herein) would result in the contravention of any laws of such countries or jurisdictions. Digistar and Hwang-DBS Securities Berhad ("Hwang-DBS") shall not accept any responsibility or liability whatsoever, in the event that any acceptance or renunciation of provisional allotment of Warrants made by the Entitled Shareholders or their renouncee(s) (if applicable) is/ or shall become illegal, unenforceable, voidable or void in such countries or jurisdictions.

A copy of this Abridged Prospectus has been registered with the Securities Commission ("SC"). A copy of this Abridged Prospectus, together with the accompanying RSF and NPA, has also been lodged with the Registrar of Companies, who takes no responsibility for the contents of these documents. Approval for the Rights Issue has been obtained from the SC, vide its letter dated 16 August 2006, and from the shareholders of Digistar at an Extraordinary General Meeting held on 15 November 2006. Approval-in-principle has been obtained from Bursa Malaysia Securities Berhad ("Bursa Securities") on 8 December 2006 for the admission of the Warrants to the Official List of Bursa Securities and for the listing of and quotation for the Warrants arising from this Rights Issue and the new ordinary shares of RM0.10 each ("Digistar Shares") to be issued upon the exercise of the Warrants on the MESDAQ Market of Bursa Securities. The Warrants will be admitted to the Official List of the MESDAQ Market of Bursa Securities and the listing of and quotation for the Warrants will commence after, amongst others, receipt of confirmation from Bursa Depository that all the Central Depository System ("CDS") accounts of the Entitled Shareholders have been duly credited and notices of allotment have been despatched to the Entitled Shareholders. The official listing of and quotation for the new Digistar Shares to be issued upon the exercise of Warrants are expected to commence after receipt of confirmation from Bursa Depository that all of the CDS accounts of the Warrant holders who exercise their Warrants have been duly credited and notices of allotment have been despatched to them.

**Neither Bursa Securities nor the SC takes any responsibility for the correctness or accuracy of statements made or opinions expressed herein. Admission to the Official List of Bursa Securities and the listing of and quotation for the Warrants and new Digistar Shares to be issued upon exercise of the Warrants are in no way reflective of the merits of this Rights Issue.**

All the documentation in relation to the Rights Issue has been seen and approved by the Directors of Digistar and they, collectively and individually, accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable inquiries, and to the best of their knowledge and belief, there are no false or misleading statements or other facts the omission of which would make any statement in these documents false or misleading.

Investors are advised to note that recourse for false or misleading statements or acts made in connection with this Abridged Prospectus are directly available through Sections 57, 58 and 153 of the SC Act, 1993.

Hwang-DBS, being the Adviser for the Rights Issue, acknowledges that, based on all available information and to the best of its knowledge and belief, this Abridged Prospectus constitutes a full and true disclosure of all material facts concerning this Rights Issue.

**DIGISTAR CORPORATION BERHAD**

(Company No.: 603652-K)

(Incorporated in Malaysia under the Companies Act, 1965)

**RENOUNCEABLE RIGHTS ISSUE OF 90,040,325 WARRANTS, AT AN ISSUE PRICE OF RM0.01 PER WARRANT, TO THE SHAREHOLDERS OF DIGISTAR CORPORATION BERHAD ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.10 EACH IN THE COMPANY HELD AT 5.00 P.M. ON 22 DECEMBER 2006**

*Adviser***HWANG-DBS SECURITIES BERHAD**

(Company No.: 14389-U)

(A Participating Organization of Bursa Malaysia Securities Berhad)

**IMPORTANT RELEVANT DATES AND TIME:**

Entitlement or record date .....	:	22 December 2006 at 5.00 p.m.
Last date and time for sale of provisional allotment .....	:	16 January 2007 at 5.00 p.m.
Last date and time for transfer of provisional allotment .....	:	19 January 2007 at 4.00 p.m.
Last date and time for acceptance and payment .....	:	*29 January 2007 at 5.00 p.m.
Last date and time for excess Warrants application and payment .....	:	*29 January 2007 at 5.00 p.m.

\* or such later date and time as the Directors of Digistar may decide and announce not less than two (2) market days before the original closing date, subject to Bursa Securities' approval

This Abridged Prospectus is dated 29 December 2006

**THE SECURITIES COMMISSION ("SC") HAS APPROVED THE ISSUANCE AND LISTING OF THIS RIGHTS ISSUE OF 90,040,325 WARRANTS AT AN ISSUE PRICE OF RM0.01 PER WARRANT.**

**THE APPROVAL-IN-PRINCIPLE HAS BEEN OBTAINED FROM BURSA MALAYSIA SECURITIES BERHAD ("BURSA SECURITIES") FOR THE ADMISSION OF THE WARRANTS TO THE OFFICIAL LIST OF BURSA SECURITIES AND FOR THE LISTING OF AND QUOTATION FOR THE WARRANTS AND THE NEW ORDINARY SHARES TO BE ISSUED UPON THE EXERCISE OF THE WARRANTS.**

**HOWEVER, THE APPROVALS FROM THE SC AND BURSA SECURITIES SHALL NOT BE TAKEN TO INDICATE THAT THE SC AND BURSA SECURITIES RECOMMEND THIS RIGHTS ISSUE.**

**THE SC AND BURSA SECURITIES SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF DIGISTAR CORPORATION BERHAD AND TAKE NO RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT, MAKE NO REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIM ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS ABRIDGED PROSPECTUS.**

**SHAREHOLDERS / INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IN CONSIDERING THE INVESTMENT, SHAREHOLDERS / INVESTORS WHO ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN SHOULD CONSULT THEIR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.**

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## DEFINITIONS

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Except where the context otherwise requires, the following abbreviations shall apply throughout this Abridged Prospectus, Notice of Provisional Allotment and the Rights Subscription Form:

1st Announcement	: Announcement dated 10 May 2006 in relation to the Rights Issue
5-WAMP	: Five (5)-day weighted average market price
Act	: Companies Act, 1965 (as amended from time to time)
BNM	: Bank Negara Malaysia
Board	: Board of Directors of Digistar
Bursa Depository	: Bursa Malaysia Depository Sdn Bhd
Bursa Securities	: Bursa Malaysia Securities Berhad
CDS	: Central Depository System
Deed Poll	: A deed poll executed by the Company on 5 December 2006 to constitute the Warrants and to govern the rights of holders of the Warrants
Digistar or Company	: Digistar Corporation Berhad
Digistar Group or Group	: Digistar and its subsidiaries, collectively
Digistar Share(s)	: Ordinary share(s) of RM0.10 each in Digistar
EGM	: Extraordinary general meeting
Entitlement Date	: 22 December 2006, being the date which at 5.00 p.m., shareholders whose names must have appeared in Digistar's Record of Depositors in order to participate in the Rights Issue
Entitled Shareholder(s)	: Shareholders of Digistar whose names appeared in the Record of Depositors on the Entitlement Date and have a registered address in Malaysia
EPS	: Earnings per share
ESOS	: Digistar's Employees' Share Option Scheme, which was effective on 6 November 2003. As at the LPD, there are 16,917,200 outstanding ESOS options granted but not exercised. No further ESOS options will be granted on or before the Entitlement Date
FYE	: Financial year ended/ ending
GDP	: Gross domestic product
Hwang-DBS	: Hwang-DBS Securities Berhad
ICT	: Information and communications technology
IT	: Information technology
Kenangan	: Kenangan Lampiran Sdn Bhd
LATMI	: Loss after tax and minority interest
LBT	: Loss before tax
LPD	: 30 November 2006, being the latest practicable date prior to the issuance of this Abridged Prospectus
LPS	: Loss per share

## DEFINITIONS (*Cont'd*)

Market Day(s)	: Any day between Monday and Friday (both inclusive) which is not a market holiday or a public holiday and on which Bursa Securities is open for the trading of securities
MESDAQ Market	: MESDAQ Market of Bursa Securities
MESDAQ Listing Requirements	: Listing Requirements of Bursa Securities for the MESDAQ Market
NPA	: Notice of Provisional Allotment
NTA	: Net tangible assets
PATMI	: Profit after tax and minority interest
PBT	: Profit before tax
Private Placement	: Private Placement exercise of up to 10% of the issued and paid-up share capital of Digistar
Record of Depositors	: A record provided by Bursa Depository to the Company under Chapter 24 of the Rules of Bursa Depository
R&D	: Research and development
Rights Issue	: Rights issue of 90,040,325 Warrants, at an issue price of RM0.01 per Warrant, to the shareholders of Digistar on the basis of one (1) Warrant for every two (2) existing Digistar Shares held on the Entitlement Date
RM	: Ringgit Malaysia
RSF	: Rights Subscription Form
Rules of Bursa Depository	: Shall have the meaning given in Section 2 of the Securities Industry (Central Depositories) Act 1991
SC	: Securities Commission
SC Act	: Securities Commission Act, 1993 (as amended from time to time)
Share Buy-back	: Purchase to be undertaken by Digistar of its own ordinary shares on the MESDAQ Market representing up to ten percent (10%) of the issued and paid-up share capital of the Company
Warrant(s)	: 90,040,325 Warrants to be issued at an issue price of RM0.01 per warrant pursuant to the Rights Issue

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## CORPORATE INFORMATION

**DIGISTAR CORPORATION BERHAD**

(Company No.: 603652-K)

(Incorporated in Malaysia under the Companies Act, 1965)

**BOARD OF DIRECTORS**

<b>Name</b>	<b>Age</b>	<b>Address</b>	<b>Profession</b>	<b>Nationality</b>
Dato' Hasan Bin Malek (Non-Independent Non-Executive Chairman)	60	No. 29 Lorong Seri Meranti Taman Bukit Chedang 70300 Seremban Negeri Sembilan Darul Khusus	Director	Malaysian
Datuk Lee Wah Chong (Managing Director)	48	No. 28 Jalan Satu Taman Tun Abdul Razak 68000 Ampang Selangor Darul Ehsan	Director	Malaysian
Ong Fee Chong (Executive Director)	35	No. 122 Jalan UP3/2 Ukay Perdana 68000 Ampang Selangor Darul Ehsan	Director	Malaysian
Datin Wa Siew Yam (Executive Director)	47	No. 28 Jalan Satu Taman Tun Abdul Razak 68000 Ampang Selangor Darul Ehsan	Director	Malaysian
Lye Siang Long (Executive Director)	36	No. 53 Villa Laman Tasik Bandar Sri Permaisuri Cheras 56000 Kuala Lumpur	Director	Malaysian
Lee Mely (Executive Director)	45	No. 1 Jalan USJ 2/4K 47620 Subang Jaya Selangor Darul Ehsan	Director	Malaysian
Ir. Loh Khoo Hong (Independent Non-Executive Director)	63	No. 12 Lengkok Zaaba Satu Taman Tun Dr. Ismail 60000 Kuala Lumpur	Director	Malaysian
AB Wahab Bin AB Latip (Independent Non-Executive Director)	50	KM 1408 Simpang Pengkalan 78000 Alor Gajah Melaka	Director	Malaysian
Dato' Seri Dr. Haji Arshad Bin Haji Hashim (Independent Non-Executive Director)	58	No. 42 Jalan Pakis Fern Grove Taman Cuepacs 43200 Batu 9 Cheras Selangor Darul Ehsan	Director	Malaysian

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**CORPORATE INFORMATION (Cont'd)**


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**AUDIT COMMITTEE**

<b>Name</b>	<b>Directorship</b>	<b>Designation</b>
AB Wahab Bin AB Latip	Independent Non-Executive Director	Chairman
Ir. Loh Khoon Hong	Independent Non-Executive Director	Member
Lye Siang Long	Executive Director	Member

**COMPANY SECRETARIES**

Mah Li Chen (MAICSA No.: 7022751)  
 No. 33, Jalan BRP 4/6  
 Bukit Rahman Putra  
 Seksyen U20  
 40160 Shah Alam  
 Selangor Darul Ehsan

Tan Fong Shian @ Lim Fong Shian (MAICSA No.: 7023187)  
 No. 16 Jalan Arif  
 Taman Connaught  
 Cheras  
 56000 Kuala Lumpur

**REGISTERED OFFICE**

C15-1, Level 15, Tower C  
 Megan Avenue II  
 No. 12, Jalan Yap Kwan Seng  
 50450 Kuala Lumpur  
 Tel: 03-2166 2000  
 Fax: 03-2166 3000

**CORPORATE OFFICE**

B6/4/4, 3rd Floor  
 One Ampang Business Avenue  
 Jalan Ampang Utama 1/2  
 68000 Ampang  
 Selangor Darul Ehsan  
 Tel: 03-4253 4319  
 Fax: 03-4257 2168  
 Email: digista@digistar.com.my  
 Website: www.digistar.com.my

**AUDITORS**

Horwath (AF 1018)  
 Chartered Accountants  
 Level 16, Tower C  
 Megan Avenue II  
 No. 12, Jalan Yap Kwan Seng  
 50450 Kuala Lumpur  
 Tel: 03-2166 0000  
 Fax: 03-2166 1000

**REPORTING ACCOUNTANTS FOR  
 THE RIGHTS ISSUE**

Moores Rowland (AF 0539)  
 Chartered Accountants  
 Persatuan Un Khuay Building  
 3<sup>rd</sup> Floor, 201 Macalister Road  
 10450 Penang  
 Tel: 04-227 4111  
 Fax: 04-227 4322



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**CORPORATE INFORMATION (Cont'd)**

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**SOLICITORS FOR THE RIGHTS  
ISSUE**

Enolil Loo  
No. 3-3, Jalan 26/70A  
Desa Sri Hartamas  
50480 Kuala Lumpur  
Malaysia  
Tel: 03-6203 2381  
Fax: 03-6203 2359

**REGISTRAR**

PFA Registration Services Sdn Bhd (19234-W)  
Level 13, Uptown 1  
No. 1, Jalan SS21/58  
Damansara Uptown  
47400 Petaling Jaya  
Selangor Darul Ehsan  
Tel: 03-7725 4888  
Fax: 03-7722 2311

**PRINCIPAL BANKERS**

Malayan Banking Berhad (3813-K)  
418-24, Jalan Pudu  
55100 Kuala Lumpur  
Tel: 03-2142 3555  
Fax: 03-2142 1673

OCBC Bank (Malaysia) Berhad (295400-W)  
Ground Floor, Menara Great Eastern  
303 Jalan Ampang  
50450 Kuala Lumpur  
Tel: 1-300-88-7000  
Fax: 03-4813 1868

United Overseas Bank (Malaysia) Berhad (271809-K)  
Menara UOB, Jalan Raja Laut  
P.O. Box 11212, 50738 Kuala Lumpur  
Tel: 03-2692 7722  
Fax: 03-2691 8418

**ADVISER / SPONSOR**

Hwang-DBS Securities Berhad (14389-U)  
Suite 23A-01, 23A Floor  
Menara Keck Seng  
203, Jalan Bukit Bintang  
55100 Kuala Lumpur  
Tel: 03-2143 7888  
Fax: 03-2148 2989

**STOCK EXCHANGE LISTING**

MESDAQ Market of Bursa Securities

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**DIGISTAR CORPORATION BERHAD**

*(Company No.: 603652-K)*

*(Incorporated in Malaysia under the Companies Act, 1965)*

**Registered Office:**

C15-1, Level 15, Tower C  
Megan Avenue II  
No. 12, Jalan Yap Kwan Seng  
50450 Kuala Lumpur

29 December 2006

**Board of Directors:**

Dato' Hasan Bin Malek *(Non-Independent Non-Executive Chairman)*  
Datuk Lee Wah Chong *(Managing Director)*  
Ong Fee Chong *(Executive Director)*  
Datin Wa Siew Yam *(Executive Director)*  
Lye Siang Long *(Executive Director)*  
Lee Mely *(Executive Director)*  
Ir. Loh Khoo Hong *(Independent Non-Executive Director)*  
AB Wahab Bin AB Latip *(Independent Non-Executive Director)*  
Dato' Seri Dr. Haji Arshad Bin Haji Hashim *(Independent Non-Executive Director)*

**To: The Shareholders of Digistar Corporation Berhad**

Dear Sir/Madam,

**RENOUNCEABLE RIGHTS ISSUE OF 90,040,325 WARRANTS, AT AN ISSUE PRICE OF RM0.01 PER WARRANT, TO THE SHAREHOLDERS OF DIGISTAR CORPORATION BERHAD ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.10 EACH IN THE COMPANY HELD AT 5.00 P.M. ON 22 DECEMBER 2006**

**1. INTRODUCTION**

At the EGM held on 15 November 2006, the shareholders of Digistar had approved the rights issue of up to 104,773,817 Warrants, at an issue price of RM0.01 per Warrant, on the basis of one (1) Warrant for every two (2) existing Digistar Shares. As at the Entitlement Date, the issued and paid-up share capital of Digistar was RM18,008,065 comprising 180,080,650 Digistar Shares. Hence, a total of 90,040,325 Warrants will be issued pursuant to the Rights Issue.

A certified true extract of the ordinary resolution approving this Rights Issue passed at the EGM is set out in Appendix I of this Abridged Prospectus.

Approval-in-principle has been obtained from Bursa Securities vide its letter dated 8 December 2006 for the admission of the Warrants to the Official List of Bursa Securities, and the listing of and quotation for the Warrants and all new Digistar Shares to be issued pursuant to the exercise of Warrants. Such Warrants will be admitted to the Official List of Bursa Securities and official quotation will commence two (2) clear Market Days after receipt of confirmation from Bursa Depository that all CDS Accounts of the Entitled Shareholders/renouncees have been duly credited and all notices of allotment have been issued and despatched to the Entitled Shareholders/renouncees.

The listing of and quotation for the new Digistar Shares to be issued upon exercise of the Warrants is expected to commence two (2) clear Market Days immediately after receipt of confirmation from Bursa Depository that all the CDS accounts of the Warrant holders who exercise their Warrants have been duly credited and notices of allotment have been despatched to them.

BNM had, vide its letter dated 4 August 2006, approved this Rights Issue without any conditions attached.

The SC and the Foreign Investment Committee (via the SC) had, vide its letter dated 16 August 2006, approved this Rights Issue with the following conditions:

Details of conditions imposed	Status of compliance
(i) Prior to the issuance of the circular to the shareholders for the Rights Issue:	
(a) the substantial shareholders of Digistar, namely Kenangan and Lee Wah Chong are to submit written irrevocable undertakings to the SC to subscribe for the Warrants that they are entitled to;	Complied
(b) Lee Wah Chong is to submit a written irrevocable undertaking to the SC to subscribe for the Warrants which substantial shareholders will not be giving irrevocable undertakings to subscribe;	Complied
(ii) Substantial shareholders providing irrevocable undertakings to subscribe for the Warrants must observe and comply with the Malaysian Code on Take-overs and Mergers 1998, if applicable;	To be complied
(iii) All provisions for changes in the terms of Warrants must be clearly determined and disclosed upfront in the Warrant Deed Poll and in the circular to shareholders;	Complied
(iv) Details of the utilisation of the proceeds from the Rights Issue and any subsequent exercise of Warrants should be disclosed in the quarterly report and annual report of Digistar until these proceeds have been fully utilised;	To be complied
(v) Hwang-DBS/ Digistar are to:	
(a) fully comply with the relevant listing requirements for the MESDAQ Market pertaining to the implementation of the Rights Issue, and the relevant provisions in Guidance Note 8C and other relevant requirements under the SC's Policies and Guidelines on Issue/ Offer of Securities in implementing the Proposed Private Placement;	To be complied
(b) inform the SC upon completion of the Proposed Private Placement; and	To be complied
(c) that all applicable laws/ rules/ regulations and requirements are complied with.	To be complied

On 30 November 2006, Hwang-DBS on behalf of the Board of Digistar, announced that the exercise price of the Warrants was fixed at RM0.16.

Subsequently, on 5 December 2006, Hwang-DBS on behalf of the Board of Digistar, announced that the Entitlement Date has been fixed at 5.00 p.m. on 22 December 2006.

**If you are in doubt about this Abridged Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.**

## **2. DETAILS OF THE RIGHTS ISSUE**

### **2.1 Details of the Rights Issue**

This Rights Issue involves a renounceable rights issue of 90,040,325 Warrants, at an issue price of RM0.01 per Warrant, to shareholders of Digistar whose names appear in the Record of Depositors on the Entitlement Date, on the basis of one (1) Warrant for every two (2) existing Digistar Shares held.

As you are an Entitled Shareholder to this Rights Issue, you will find enclosed with this Abridged Prospectus the NPA in respect of the number of Warrants for which you are entitled to subscribe for under the terms of this Rights Issue.

In determining the entitlements of the Entitled Shareholders, any fractional entitlements shall be disregarded and the aggregate of such fractions will be dealt with in such manner and on such terms as the Board of Digistar may, at their discretion, deem fit and expedient and in the best interest of the Company so as to minimise the incidence of odd lots.

Any dealings in the Warrants, which are prescribed securities under the CDS, will be subject to the provisions of the Securities Industry (Central Depositories) Act, 1991, Securities Industry (Central Depositories) Amendment Act, 1998 and the Rules of Bursa Depository. Accordingly, the Warrants to be issued will be allotted and credited directly into the respective CDS accounts of the Entitled Shareholders, their renounees and/or the applicants who have successfully subscribed for the Warrants. No physical Warrants certificates will be issued.

As at the date of this Abridged Prospectus, the Warrants have been provisionally allotted to the Entitled Shareholders. Accordingly, Entitled Shareholders can renounce or subscribe for their entitlements to the Warrants in full or in part.

Within fifteen (15) Market Days of the final applications closing date for this Rights Issue, or such other period as may be prescribed by the Bursa Securities, Digistar will:

- (i) allot and issue the Warrants;
- (ii) despatch the notices of allotment to the allottees; and
- (iii) make an application to the Bursa Securities for the admission into the Official List of the Bursa Securities for the Warrants and the listing of and quotation for the Warrants on the MESDAQ Market of the Bursa Securities.

Within ten (10) Market Days of the date of receipt of a subscription form together with the requisite payment or such other period as may be prescribed by Bursa Securities, Digistar will:

- (i) allot and/or issue the Digistar Shares arising from the exercise of the Warrants;
- (ii) despatch a notice of allotment to the holder of the Warrants; and
- (iii) make an application for the listing of and quotation for new Digistar Shares to be issued arising from the exercise of Warrants on the MESDAQ Market of Bursa Securities.

No physical share certificates will be issued to those Warrant holders exercising their respective rights for the new Digistar Shares to be issued upon exercise of the Warrants.

For the Warrants to be listed, there must be at least 100 holders of the Warrants, each holding not less than one (1) board lot of the Warrants.

The terms, conditions and provisions of the Warrants are set out in Appendix VI of this Abridged Prospectus.

The gross proceeds from this Rights Issue Warrants of RM0.9 million will accrue entirely to the Company. Details of utilisation of the gross proceeds from this Rights Issue are set out in Section 5 of this Abridged Prospectus.

The official listing of and quotation for the Warrants will commence two (2) clear Market Days immediately after the receipt of confirmation from Bursa Depository that all CDS accounts of the Entitled Shareholders/renouncees who have subscribed for the Warrants have been duly credited and notices of allotment have been despatched to them.

## **2.2 Issue price of the Warrants**

The issue price of RM0.01 per Warrant was arrived at after taking into consideration the following:

- (i) the closing price of Digistar Shares of RM0.18 on 9 May 2006, being the latest practicable date prior to the announcement made by Hwang-DBS on 10 May 2006 in respect of the Company's intention to undertake this Rights Issue ("Rights Issue Announcement");
- (ii) the one (1) year historical volatility of Digistar Shares' market price up to 9 May 2006, being the latest practicable date prior to the Rights Issue Announcement, ranging from a low of RM0.14 per share to a high of RM0.29 per share; and
- (iii) the 5-WAMP of Digistar Shares up to 9 May 2006, being the latest practicable date prior to the Rights Issue Announcement, of RM0.18.

## **2.3 Exercise of the Warrants**

The exercise price of the Warrants is RM0.16 per Warrant, representing a premium of approximately 7.45% over the 5-WAMP of Digistar Shares of RM0.1489 up to 29 November 2006, being the date immediately preceding the price fixing date of 30 November 2006, subject to adjustments in accordance with the provisions of the Deed Poll.

Each Warrant carries the right to subscribe for one (1) new Digistar Share over an exercise period of ten (10) years from the date of issuance and inclusive of the date of issue, after which the Warrants will lapse and cease to be valid.

## **2.4 Ranking of the new Digistar Shares**

The new Digistar Shares to be issued pursuant to the exercise of Warrants shall, upon issue and allotment, rank *pari passu* in all respects with the existing Digistar Shares except that they shall not be entitled to participate in any rights, allotments, dividends and/or other distributions the entitlement date of which precedes or falls on the relevant exercise date of the Warrants.

## **2.5 Last date and time for acceptance and payment**

The last date and time for acceptance and payment for this Rights Issue is 5.00 p.m. on 29 January 2007 or such extended date and time as the Board of Digistar may decide at their absolute discretion, subject to Bursa Securities' approval and announced not less than two (2) Market Days before the original closing date.

## **2.6 Salient terms of the Warrants**

The terms, conditions and provisions of the Warrants are set out in Appendix VI of this Abridged Prospectus. The following are the salient terms of the Warrants:

Number of Warrants	: 90,040,325 Warrants to be issued pursuant to this Rights Issue
Form	: The Warrants will be issued in registered form
Issue Price	: The Warrants will be issued at an issue price of RM0.01 per Warrant
Tenure	: Ten (10) years from the date of issuance of the Warrants
Exercise Price	: RM0.16

- Exercise Rights** : Each Warrant entitles the holder to subscribe for one (1) new Digistar Share at the Exercise Price at any time during the Exercise Period
- Exercise Period** : The Warrants shall be exercisable at any time within the period commencing from (and including) the date of issue of the Warrants and ending on the date preceding the tenth (10th) anniversary of the date of issue of the Warrants, or if such date is not a Market Day, then it shall be the Market Day immediately preceding the said non Market Day, but excluding those days during that period on which the Record of Depositors and/or the Warrants Register is or are closed. Warrants not exercised during the Exercise Period will thereafter lapse and cease to be valid for any purpose
- Mode of Exercise** : When subscribing for the new Digistar Shares, the registered holder of the Warrants shall make payment of the full amount of subscription monies payable in respect of the number of Warrants exercised to the specified office of the Registrar by way of remittance in Ringgit Malaysia by banker's draft or cashier's order drawn on a bank operating in Malaysia or a money order or postal order issued by a post office in Malaysia in favour of "DIGISTAR CORPORATION BERHAD WARRANT SUBSCRIPTION ACCOUNT", and such remittance shall be accompanied by the delivery to the Registrar of the relevant forms for subscription
- Ranking of new Digistar Shares** : The new Digistar Shares to be issued pursuant to the exercise of the Warrants shall, upon allotment and issue, be fully paid and rank pari passu in all respects with the existing Digistar Shares including any entitlement to any dividends, rights, allotments or other distributions save and except that such new Digistar Shares shall not be entitled to participate in any dividends, rights, allotments, dividends and/or other distributions, the entitlement date of which precedes the relevant exercise dates of the Warrants
- Listing** : The Warrants and the new Digistar Shares arising from the exercise of the Warrants will be listed on the MESDAQ Market. Approval-in-principle from Bursa Securities has been obtained for admission of the Warrants to the Official List as well as the listing of the new Digistar Shares arising from the exercise of the Warrants
- Board Lot** : The Warrants are tradable upon listing on Bursa Securities in board lots of 100 Warrants carrying the right to subscribe for 100 new Digistar Shares
- Transferability** : The Warrants shall be transferable in the manner set out in the Deed Poll dated 5 December 2006 subject always to the provisions of the Securities Industry (Central Depositories) Act, 1991 and the Rules of Bursa Depository
- Deed Poll** : The Warrants are constituted by a Deed Poll dated 5 December 2006 executed by Digistar
- Adjustment in the Exercise Price and / or the number of Warrants in the event of alteration to the share capital** : Subject to the provisions of the Deed Poll, the Exercise Price and/or the number of Warrants held by each Warrant holder shall be adjusted by the Directors in consultation with the approved merchant bank/universal broker, in the event of alteration to the share capital of the Company in accordance with the provisions as set out in the Deed Poll

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**Rights of Warrant holders :** In case of a winding up, compromise or arrangement of the Company (save and except to which the Warrant holders, or some persons designated by them for such purposes by Special Resolution, shall be a party – in which case the terms of such winding up, compromise or arrangement shall be binding on all Warrant holders), every Warrant holder is entitled, within six (6) weeks from the last approval for the winding up, compromise or arrangement (as the case may be) to exercise his rights represented by the Warrants by payment of the Exercise Price within the said six (6) weeks and upon such exercise, shall be deemed and be treated as if he had immediately prior to the commencement of such winding up, compromise or arrangement (as the case may be) been the holder of new Digistar Shares arising from the exercise of the Warrants

**Governing law :** The laws of Malaysia

## **2.7 Other corporate exercises**

Save for this Rights Issue and the following corporate exercise, there is no other corporate exercise proposed by the Company which has been approved by the regulatory authorities / parties but not yet implemented prior to the printing of this Abridged Prospectus:

- (i) On 15 June 2006, Hwang-DBS, on behalf of the Company, had announced Digistar's proposal to undertake a private placement of up to ten percent (10%) of the issued and paid-up share capital of the Company. Digistar has obtained all the necessary approvals from the various regulatory authorities for the Private Placement, and as at the LPD, a total of 6,500,000 Digistar Shares have been issued pursuant to the Private Placement.
- (ii) On 4 October 2006, Hwang-DBS, on behalf of the Company, had announced the Company's intention to purchase its own ordinary shares on the MESDAQ Market of Bursa Securities of up to ten percent (10%) of the issued and paid-up share capital of the Company. Digistar has since obtained the necessary approval for the Share Buy-back from its shareholders at the EGM held on 15 November 2006. However, as at the LPD, no Digistar Shares have been purchased by the Company.

## **3. PROCEDURES FOR APPLICATION AND PAYMENTS**

As you are an Entitled Shareholder, your CDS account will be duly credited with the provisionally allotted Warrants which you are entitled to subscribe for under the terms of this Rights Issue. You will find enclosed with this Abridged Prospectus, a NPA notifying you of the crediting of such provisionally allotted Warrants into your CDS account and a RSF to enable you to subscribe for such provisionally allotted Warrants.

The provisional allotment of the Warrants are prescribed securities pursuant to Section 14(5) of the Securities Industry (Central Depositories) Act, 1991 and therefore, all dealings in the provisional allotment of the Warrants will be by book entry through CDS Accounts and will be governed by the Securities Industry (Central Depositories) Act, 1991, the Securities Industry (Central Depository) Amendment Act, 2003 and the Rules of Bursa Depository.

Full instructions for the acceptance and payment for the Warrants provisionally allotted to you and the procedures to be followed should you wish to dispose of all or part of your rights entitlements are set out in the RSF. You are advised to read this Abridged Prospectus, the RSF and the notes and instructions therein carefully.

### **3.1 Procedures for full acceptance by the Entitled Shareholders**

Acceptance and payment for the Warrants provisionally allotted to the Entitled Shareholders must be made on the RSF and must be completed in accordance with the notes and instructions printed therein. Acceptances which do not strictly conform to the terms of this Abridged Prospectus or RSF or the notes and instructions printed therein or which are illegible may not be accepted at the absolute discretion of the Company.

**FULL INSTRUCTIONS FOR THE ACCEPTANCE OF AND PAYMENT FOR THE WARRANTS PROVISIONALLY ALLOTTED TO THE ENTITLED SHAREHOLDERS AND THE PROCEDURES TO BE FOLLOWED SHOULD THE ENTITLED SHAREHOLDERS WISH TO SELL/TRANSFER ALL OR ANY PART OF THEIR PROVISIONAL ENTITLEMENTS ARE SET OUT IN THE RSF. ENTITLED SHAREHOLDERS ARE ADVISED TO READ THE RSF AND THE NOTES AND INSTRUCTIONS THEREIN CAREFULLY.**

Entitled Shareholders who wish to accept their provisional allotment in full are required to fill and complete Part I of the RSF by specifying the number of Warrants which the Entitled Shareholders are accepting and Part III of the RSF, in accordance with the notes and instructions printed thereon. Each completed RSF, together with the relevant payment, must be despatched by ORDINARY POST or DELIVERED BY HAND in the official envelope provided, to the Registrar at the following address:-

PFA Registration Services Sdn Bhd  
Level 13, Uptown 1  
No. 1, Jalan SS21/58  
Damansara Uptown  
47400 Petaling Jaya  
Selangor Darul Ehsan  
Tel: 03 – 7725 4888  
Fax: 03 – 7722 2311

so as to arrive not later than the last date and time for acceptance and payment as set out in Section 2.5 of this Abridged Prospectus.

Entitled Shareholders who lose, misplace or for any other reasons require another copy of the RSF, may obtain additional copies from their stockbrokers, Bursa Securities' website (<http://www.bursamalaysia.com>), the Registrar, as stated above, or the registered office of the Company at the following address:-

C15-1, Level 15, Tower C  
Megan Avenue II  
No. 12, Jalan Yap Kwan Seng  
50450 Kuala Lumpur  
Tel: 03 – 2166 2000  
Fax: 03 – 2166 3000

One (1) RSF can only be used for acceptance of the provisionally allotted Warrants standing to the credit of one (1) CDS account belonging to an Entitled Shareholder. An Entitled Shareholder is not allowed to instruct new Warrants to be credited into any securities account other than the CDS account as stated in the completed RSF.

The minimum number of Warrants that can be accepted is one (1) Warrant. Fractions of Warrants arising will be dealt with by the Directors of the Company as they may deem fit or expedient and in a fair and equitable manner and in the best interest of the Company, so as to minimise the incidence of odd lots. Applicants should take note that trading board lots will be comprised of 100 Warrants.

The Directors of the Company reserve the right not to accept any application or to accept any application in part only without assigning any reason thereof.

**EACH COMPLETED RSF MUST BE ACCOMPANIED BY REMITTANCE IN RINGGIT MALAYSIA FOR THE FULL AMOUNT IN THE FORM OF BANKER'S DRAFT(S) OR CASHIER'S ORDER(S) OR MONEY ORDER(S) OR POSTAL ORDER(S) DRAWN ON A BANK OR POST OFFICE IN MALAYSIA AND MUST BE MADE PAYABLE TO "DIGISTAR RIGHTS ISSUE ACCOUNT" CROSSED "ACCOUNT PAYEE ONLY" AND ENDORSED ON THE REVERSE SIDE, THE NAME, ADDRESS AND CDS ACCOUNT NUMBER OF THE APPLICANT IN BLOCK LETTERS.**

**NO ACKNOWLEDGEMENT OF THE RECEIPT OF THE RSF OR APPLICATION MONIES IN RESPECT OF THIS RIGHTS ISSUE WILL BE MADE BY THE COMPANY OR THE REGISTRAR. HOWEVER, NOTICES OF ALLOTMENT WILL BE DESPATCHED BY ORDINARY POST TO THE SUCCESSFUL APPLICANTS AT THEIR OWN RISK WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE OF ACCEPTANCE AND PAYMENT FOR THE WARRANTS.**

**ENTITLED SHAREHOLDERS OR THEIR RENOUNCEE(S) SHOULD NOTE THAT THE RSF AND REMITTANCES SO LODGED WITH THE REGISTRAR SHALL BE IRREVOCABLE AND CANNOT BE WITHDRAWN.**

**WHERE AN APPLICATION IS NOT ACCEPTED OR ACCEPTED IN PART ONLY, THE FULL AMOUNT OR THE BALANCE OF THE APPLICATION MONIES, AS THE CASE MAY BE, WILL BE REFUNDED WITHOUT INTEREST AND SHALL BE DESPATCHED TO THE APPLICANT WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE OF ACCEPTANCE AND PAYMENT FOR THE WARRANTS BY ORDINARY POST TO THE ADDRESS SHOWN ON THE RSF AT THE APPLICANT'S OWN RISK. APPLICATIONS SHALL NOT BE DEEMED TO HAVE BEEN ACCEPTED BY REASON OF THE REMITTANCE BEING PRESENTED FOR PAYMENT.**

If acceptance and payment for the Warrants provisionally allotted to any Entitled Shareholder is not received by the Registrar by the last date and time for acceptance and payment as set out in Section 2.5 of this Abridged Prospectus, such provisional allotment of Warrants will be deemed to have been declined and will be cancelled. The Directors of Digistar will then have the right to allot such Warrants, which have not been taken up, to applicants applying for excess Warrants in a fair and equitable manner and in the interest of the Company, so as to minimise the incidence of odd lots.

### **3.2 Procedures for part acceptance by the Entitled Shareholders**

Entitled Shareholders are entitled to accept part of their provisional allotment. The minimum amount of Warrants that can be accepted is one (1) Warrant.

Entitled Shareholders are required to fill and complete Part I of the RSF by specifying the amount of Warrants which the Entitled Shareholders are accepting and Part III of the RSF and deliver the completed RSF together with the relevant payment to the Registrar, in the same manner as set out in Section 3.1 of this Abridged Prospectus.

**ENTITLED SHAREHOLDERS ARE ADVISED TO READ AND ADHERE TO THE RSF AND THE NOTES AND INSTRUCTIONS CONTAINED THEREIN.**

The portion of the provisional allotment of Warrants that has not been accepted will be allotted to any other persons allowed under any law, regulations or rules to accept the transfer of the provisional allotment of Warrants and the balance, if any, will be allotted to applicants applying for the excess Warrants.

### **3.3 Procedures for sale/transfer of provisional allotment of Warrants**

As the provisional allotment of Warrants are prescribed securities, Entitled Shareholders who wish to sell or transfer all or part of their provisional allotment of the Warrants to more than one (1) person, may do so immediately through their stockbrokers without first having to request for a split of the provisional allotment of Warrants standing to the credit of their CDS accounts. To sell all or part of their provisional allotment of Warrants, they may sell such provisional allotment of Warrants on the open market of Bursa Securities or transfer such provisional allotment of Warrants to such persons as may be allowed pursuant to the Rules of Bursa Depository.

In selling all or part of their provisional allotment of Warrants, the Entitled Shareholders and/or their renounee(s) need not deliver any document to their stockbrokers. The Entitled Shareholders and/or their renounee(s) are however advised to ensure that they have sufficient provisional allotment of Warrants standing to the credit of their CDS accounts that are available for settlement of the sale.

If the Entitled Shareholders and/or their renounee(s) have sold or transferred only part of the provisional allotment of Warrants, the Entitled Shareholders and/or their renounee(s) may still accept the balance of the provisional allotment of Warrants by completing Parts I and III of the RSF.

### **3.4 Procedures for acceptance by renouncees**

A renouncee who wishes to accept the provisionally allotted Warrants must obtain a copy of the RSF from his/her stockbroker, the Registrar, Bursa Securities' website (<http://www.bursamalaysia.com>) or the Registered Office of the Company, complete the RSF and submit the same together with the remittance in accordance with the notes and instructions printed therein. The procedure and payment for the acceptance of the provisional allotment of Warrants by the renouncee is the same as that which is applicable to the Entitled Shareholders as described in Section 3.1 of this Abridged Prospectus.

**RENOUNCEES ARE ADVISED TO READ AND ADHERE TO THE RSF AND THE NOTES AND INSTRUCTIONS CONTAINED THEREIN.**

### **3.5 Procedures for excess Warrants application**

Entitled Shareholders and/or their renouncee(s) (if applicable) who accept the provisionally allotted Warrants may apply for excess Warrants by completing Part II of the RSF (in addition to Parts I and III) and forwarding it (together with a separate remittance for the full amount payable in respect of the excess Warrants applied for) to the Registrar at the following address:-

PFA Registration Services Sdn Bhd  
Level 13, Uptown 1  
No. 1, Jalan SS21/58  
Damansara Uptown  
47400 Petaling Jaya  
Selangor Darul Ehsan

so as to arrive not later than the last date and time for acceptance and payment as set out in Section 2.5 of this Abridged Prospectus.

**PAYMENT FOR THE EXCESS WARRANTS APPLIED FOR SHOULD BE MADE IN THE SAME MANNER DESCRIBED IN SECTION 3.1 OF THIS ABRIDGED PROSPECTUS, EXCEPT THAT THE BANKER'S DRAFT(S) OR CASHIER'S ORDER(S) OR MONEY ORDER(S) OR POSTAL ORDER(S) DRAWN ON A BANK OR POST OFFICE IN MALAYSIA SHOULD BE MADE PAYABLE TO "DIGISTAR EXCESS RIGHTS ISSUE ACCOUNT". THE BANKER'S DRAFT(S) OR CASHIER'S ORDER(S) OR MONEY ORDER(S) OR POSTAL ORDER(S) SHOULD BE CROSSED "ACCOUNT PAYEE ONLY" AND ENDORSED ON THE REVERSE SIDE WITH THE NAME, ADDRESS AND CDS ACCOUNT NUMBER OF THE APPLICANT IN BLOCK LETTERS TO BE RECEIVED BY THE REGISTRAR NOT LATER THAN THE LAST DATE AND TIME FOR ACCEPTANCE AND PAYMENT AS SET OUT IN SECTION 2.5 OF THIS ABRIDGED PROSPECTUS.**

The Directors of the Company shall allocate all excess Warrants in a fair and equitable manner and in such manner so as to minimise the incidence of odd lots.

**NO ACKNOWLEDGEMENT OF RECEIPT OF RSF OR APPLICATION MONIES IN RESPECT OF THE EXCESS WARRANTS APPLICATIONS WILL BE MADE BY THE COMPANY OR THE REGISTRAR. NOTICES OF ALLOTMENT WILL BE DESPATCHED BY ORDINARY POST TO THE ADDRESS STATED IN THE RSF WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE AND TIME FOR APPLICATION AND PAYMENT FOR THE EXCESS WARRANTS.**

**APPLICANTS ARE NOT ALLOWED TO WITHDRAW THE RSF AND PAYMENT ONCE THEY HAVE BEEN LODGED WITH THE SHARE REGISTRAR.**

In respect of unsuccessful or partially successful excess Warrants applications, the full amount or the surplus application monies (as the case may be) will be refunded without interest within fifteen (15) Market Days from the last date for application and payment for the excess Warrants by ordinary post to the address shown in the RSF at the applicant's own risk.



### 3.6 Form of issuance

Bursa Securities has prescribed the Digistar Shares listed on the MESDAQ Market of Bursa Securities to be deposited with Bursa Depository. Accordingly, the Warrants to be issued pursuant to this Rights Issue are prescribed securities and as such, the Securities Industry (Central Depositories) Act, 1991, Securities Industry (Central Depositories) Amendment Act, 1998 and the Rules of Bursa Depository shall apply in respect of the dealings in the Warrants. Failure to comply with these specific instructions or inaccuracy in the CDS account number may result in the application being rejected.

The Warrants will be credited into the CDS accounts of the respective shareholders or their renounees (as the case may be) and notices of allotment will be despatched by ordinary post to the respective shareholders at the address shown in the Record of Depositors or their renounees at their own risk within fifteen (15) Market Days from the last date for acceptance and payment in respect of this Rights Issue. No physical Warrant certificates will be issued.

The Warrants, if allotted to the Entitled Shareholders or their renounee(s) (if applicable) who apply for excess Warrants, will be credited directly into their CDS accounts.

### 3.7 Laws of foreign jurisdiction

This Abridged Prospectus, the NPA and the RSF have not been and will not be made to comply with the laws of any foreign jurisdictions, and have not been and will not be lodged, registered or approved pursuant to or under any legislation of or with or by any regulatory authorities or other relevant bodies of any foreign jurisdictions. This Rights Issue will not be made or offered in any foreign jurisdictions.

Entitled Shareholders and/or their renounee(s) (if applicable) may only accept or renounce (as the case may be) all or any part of their entitlement and exercise any other rights in respect of this Rights Issue to the extent that it would be lawful to do so, and Digistar, its Directors and officers, Hwang-DBS and other experts would not, in connection with this Rights Issue, be in breach of the laws of any jurisdictions to which they are or may be subject. Digistar, its Directors and officers, Hwang-DBS and other experts shall not accept any responsibility or liability in the event that any acceptance or renunciation made by any Entitled Shareholders and/or renounee(s) (if applicable) are or shall become unlawful, unenforceable, voidable or void in any such jurisdictions.

By signing the RSF, the Entitled Shareholders and/or their renounee(s) (if applicable) are deemed to have represented, acknowledged and declared in favour of (and which representations, acknowledgements and declarations will be relied upon by) Digistar, its Directors and officers, Hwang-DBS and other experts that:

- (i) the Company would not, by acting on the acceptance or renunciation in connection with this Rights Issue, be in breach of the laws of any jurisdiction to which the Entitled Shareholders and/or their renounees are or may be subject to;
- (ii) the Entitled Shareholders and/or their renounees have complied with the laws to which they are or may be subject to in connection with the acceptance or renunciation;
- (iii) the Entitled Shareholders and/or their renounees are not a nominee or agent of a person in respect of whom the Company would, by acting on the acceptance or renunciation, be in breach of the laws of any jurisdiction to which that person is or may be subject;
- (iv) the Entitled Shareholders and/or their renounees are aware that the Warrants can only be transferred, sold or otherwise disposed of, or charged, hypothecated or pledged in accordance with all applicable laws in Malaysia;
- (v) the Entitled Shareholders and/or their renounees have respectively received a copy of this Abridged Prospectus and have had access to such financial and other information and have been afforded the opportunity to pose such questions to the representatives of the Company and receive answers thereto as they deem necessary in connection with their decision to subscribe for or purchase the Warrants; and

- (vi) the Entitled Shareholders and/or their renounees have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Warrants, and are and will be able, and are prepared to bear the economic and financial risks of investing in and holding the Warrants.

#### 4. RATIONALE AND UTILISATION OF PROCEEDS

##### 4.1 Utilisation of proceeds

The gross proceeds to be raised from this Rights Issue amounting to RM900,403 will be utilised in the following manner:

	RM'000	Expected Time Frame for Utilisation
(i) Working capital requirements for the Digistar Group*	510	Within twelve (12) months from the listing of the Warrants
(ii) Defraying of expenses incidental to this Rights Issue and the Private Placement	390	
	<u>900</u>	

Note:

- \* The funds raised will be used to finance the day-to-day operations of the Digistar Group, such as contract work-in-progress of the Group.

In the event that there are any unutilised funds from the proceeds allocated for the defraying of expenses incidental to this Rights Issue and the Private Placement, the balance will be utilised as working capital.

The proceeds to be raised from the exercise of Warrants, if any, will also be utilised as working capital.

##### 4.2 Rationale

This Rights Issue will enable the Company to raise gross proceeds of RM900,403 from the issuance of the Warrants for the working capital requirements for the Digistar Group and defraying of expenses incidental to this Rights Issue and Private Placement. In addition, if and when the Warrants are exercised, such funds will be used to finance the Group's working capital.

This Rights Issue will also provide the shareholders of Digistar with the opportunity to further increase their equity participation in the Company at a predetermined price over the tenure of the Warrants.

#### 5. RISK FACTORS

Prospective subscribers should carefully consider, in addition to the other information contained herein, the following risk factors (which may not be exhaustive) before subscribing for the Warrants.

##### 5.1 Market risks

The Warrants are a new instrument issued by Digistar and there has been no prior market for the Warrants of Digistar. Therefore, there can be no assurance that an active market for the Warrants will develop once listed on the MESDAQ Market or, if such market develops, that it can be sustained.

In addition, notwithstanding that the Warrants will be traded on the MESDAQ Market in board lots of 100 Warrants each, an Entitled Shareholder may be entitled to odd lots of Warrants, depending on his or her shareholding in Digistar as at the Entitlement Date. There can be no assurance that there will be an active market for the odd lots of Warrants.



The performance of the market price of the Warrants will be influenced by various factors, including market sentiments, volatility of the stock exchange, the future profitability of the Group as well as the performance of the industries in which the Group's business operates or is dependent upon. No assurance can be given that the market price of the Warrants upon or subsequent to listing and quotation will be at a level that meets the specific investment objectives of any holder of the Warrants. Also, there can be no assurance that the Warrants will be "in-the-money" during the period in which the Warrants may be exercised.

## 5.2 Economic condition

IT infrastructure and related industries expenditure budget for many corporations are affected by the overall performance of the company as well as on the general economic condition of the country. In general, where companies are profitable, there would be a larger portion of the expenditure allocated for ICT upgrading and investment. Whilst companies are plagued with financial difficulties and uncertain economic climates, signaling longer timeframes to turnaround, ICT infrastructure and related industries spending/ budget are usually reduced drastically. Similarly, for consumers, in uncertain economic conditions, investing in personal computers would be considered a luxury item for many families, much less subscribing to portal services.

The Group's risk is mitigated to a certain extent by its focus on a selected group of customers, such as organisations and institutions which consider ICT infrastructure and systems essential in their daily operations. This selected group of customers include government institutions, education facilities and healthcare providers. In addition, the Group also has plans to expand its business by diversifying its range of products and services offered to cover a larger scope of ICT infrastructure.

Other strategies to alleviate the Group's sensitivity to any impending economic downturn include:

- Keeping fixed operating overhead expenses low with a lean staff force;
- Flexibility in pricing of products and services offered;
- Providing enhanced and upgraded products and services to educational facilitators and healthcare providers; and
- Diversified revenue base by providing ICT support and maintenance services as well as innovative new products.

Although the management of the Digistar Group strives to mitigate these risks, no assurance can be given that the Group's financial and operating performances will not be affected by any adverse economic conditions of both local and foreign countries.

## 5.3 Competitive risks

The ICT industry is one of the most competitive in the world, with top ICT companies competing for market share, launching of new products or services, introduction of new technologies, R&D and even labour. Within Malaysia, with the existing local market being relatively small compared to that of the United States of America or other developed countries, competition is still intense as the few companies compete for the local market share. As the ICT industry is very wide and contains many sub-sectors, competitive risks are discussed specific to that of Digistar's sub-sector.

Digistar's strategy is to constantly meet and improve on meeting customers' requirements in terms of ICT related infrastructure and systems. Digistar faces competition in three (3) of its business segments, namely broadcast, ICT infrastructure as well as communication and integrated audio visual systems.

However, the Directors are confident that the businesses of the Digistar Group will not be materially affected by the competition given its niche as a comprehensive systems integration solutions provider and long established businesses with over twenty (20) years of experience and reputation.

Whilst the Group seeks to limit the risks of competition by taking every measure to maintain or increase its competitive edge through, *inter alia*, implementing cost reduction and productivity enhancement programmes and venturing into R&D activities, there can be no assurance that any adverse economic factors will not have a material effect on the Group's business.

#### **5.4 Financial risks**

Due to the high investments required for ICT infrastructure, equipment, software and human resources, the industry's growth hinges on the availability of financial resources for companies to flourish. The most recent "dot com" crisis saw the downfall of many Internet start-up companies that were not able to secure further funding from venture capitalists or were unable to attract enough users/ customers to pay for their products/ services.

The Digistar Group does not foresee, in the immediate future, encountering financial-related risks in its business operations. Notwithstanding that, there can be no assurance that the financial performance of the Group would remain favourable in the event there is any termination of existing and future contracts.

In relation to this, credit facility agreements which were entered into by Digistar with banks and/or financiers are bound by certain covenants which may limit Digistar's operating and financial flexibility. Any act by Digistar failing within the ambit or scope of such covenants will give rise to a right by the bank/financier to terminate the relevant credit facility and/or enforce any security granted in relation to that credit facility. The Board is aware of such covenants and shall take reasonable steps not to breach any covenants. However, there can be no assurance that additional credit facilities that may be procured by Digistar in the future would not have restrictive covenants that may limit Digistar's operating and financial flexibilities.

#### **5.5 Shortage of labour and dependence on key personnel**

The ICT industry is dependent on the availability of a broad range of labour. Some of these include hardware specialists, ICT infrastructure specialists, software specialist/ programmers, networking specialists and others. Due to the accelerated growth of the ICT industry and the broad range of skills required, the demand for skilled labour far exceeds the supply. This has caused the industry to experience personnel shortages and high turnover rates, especially for technical skills. The Malaysian government has called for organizations to be more involved in the training and retaining of ICT personnel. Industries are encouraged to link their training programmes with institutions of higher learning and to join forces in R&D to encourage the sharing of expertise and facilities.

Although the future of the Group will depend to a certain extent upon the abilities and continued efforts of the existing Directors and senior management who have been in this field of business since 1982 and the Group's ability to attract and retain skilled personnel, the Group has made continuous efforts to groom the younger members of the senior management to progressively take over from the senior members to ensure a smooth transition in the management of the team. As such, the loss of any key personnel is, therefore, not expected to cause any major disruption of the Group's operations.

#### **5.6 Copyright issue/ use of illegal software**

The infringement of copyright and illegal copying of proprietary software can be deemed as amongst the major constraints impacting the ICT industry. The Group seeks to limit these risks through, *inter alia*, entering into various distributors/ licence agreements/ arrangements with several international reputable hardware and software manufacturers to provide the licensed products and services to its customers. Currently, the Group does not have any trademarks or patents registered.

#### **5.7 Innovation, product and service differentiation**

In a highly competitive environment, only companies that are constantly reinventing their products/ services and keeping their customers satisfied will survive. This is especially true, when the market size is small and many players are vying for the same customers.

To mitigate these risks, the Digistar Group has in place marketing strategies, plans to diversify its products and services and investments in state-of-the-art technology. The Group also has strategic partners who will enable the Group to stay ahead of the competition.

#### **5.8 Reliance on distributor/ licence agreements/ arrangements**

The Group partly relies on various third parties to provide hardware and software products. Hence, the Group's business may be materially and adversely affected if these third party products are no longer provided.

The Group has various exclusive and non-exclusive distributor/ licence agreements/ arrangements with third parties which are subject to annual review. The Group will be unable to continue to develop or provide the hardware or software products should these agreements/ arrangements be terminated. This may adversely affect the Group's ability to deliver to its clients.

However, the Group will be able to mitigate the risk by sourcing for new distributors/ licensors to replace the distributor/ licence agreements/arrangements should they be terminated. That said, there can be no assurance that the new distributor/ licensor will be able to offer terms that the Group is currently having with its existing distributor/ licensor.

## **5.9 Political and economic considerations**

Any adverse development in the political situation and economic uncertainties in Malaysia and other countries in which the Digistar Group has business links, directly or indirectly, could materially and adversely affect the financial performance of the Group. These include risks of war, global economic downturn, expropriation, nationalization, unfavourable changes in government policy and regulations such as foreign exchange rates, methods of taxation, duty, other taxes and currency exchange controls. There can be no assurance that any change to these factors will not have a material and adverse effect on the Group's business.

## **5.10 Foreign exchange fluctuation**

Notwithstanding that the Digistar Group sources its products mainly from overseas, the foreign exchange risk may be transferred in part or in full to its customers as its current revenue is mainly generated from the local market. Since the Digistar Group's existing markets are mainly local, the foreign exchange risk is hence limited only to its overseas purchases. There can be no assurance that any future significant fluctuations in exchange rates and financial crisis will not have an impact on the revenue, cost of sales and earnings of the Group. In the event that the Group is exposed to such risk, the Group will undertake hedging to mitigate the circumstances.

## **5.11 Industry risk**

The Digistar Group is subject to certain risks inherent in the ICT, construction and broadcasting industries. These include increase in operational costs and demand for systems integration, changes in general economic business and credit conditions and changes in the legal and regulatory framework. Although the Group seeks to limit these risks through, *inter alia*, continuous monitoring and adjustments of its corporate strategies and policies, no assurance can be given that any change in these factors will not have a material effect on the Group's business.

## **5.12 Adequacy of insurance coverage**

The Group is aware of the adverse consequences arising from inadequate insurance coverage that could affect its business operations. In ensuring that such risks are minimised, the Group reviews and ensures adequate insurance coverage for its assets on a continuous basis.

At present, the Directors believe that Group is adequately insured against unforeseen events such as fire and lighting, malicious damage, theft and burglary. Although the Group has taken necessary steps to insure its assets, there can be no assurance that the insurance coverage would be adequate for the replacement cost of the assets or any consequential loss arising from the damage or loss of the assets.

## **5.13 Forward looking statements**

Certain statement in this Abridged Prospectus are based on historical data which may not be a reflection of future results and others are forward-looking in nature and are subject to uncertainties and contingencies. All forward-looking statements contained herein are based on estimates and assumptions made by the Company. Although the Board is of the opinion that these forward-looking statements are reasonable, the statements are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results. Performance or achievements expressed or implied in such statements herein should not be regarded as a representation or warranty by the Company, its Directors or advisers that the plans and objective of Digistar will be achieved.



**6. FINANCIAL EFFECTS****6.1 Share capital**

This Rights Issue will not have an immediate effect on the existing issued and paid-up share capital of Digistar. However, the issued and paid-up share capital of Digistar will increase progressively depending on the number of new Digistar Shares issued pursuant to the exercise of Warrants. The proforma effects of this Rights Issue, Private Placement, Share Buy-back and the exercise of the 16,917,200 outstanding ESOS options on the issued and paid-up share capital of the Company are set out below:

	<b>No. of Shares</b>	<b>Share capital RM'000</b>
As at the LPD	180,080,650	18,008
To be issued pursuant to the completion of the Private Placement	10,858,000	1,085
	<hr/> 190,938,650	<hr/> 19,093
Share Buy-back (assuming all the Digistar Shares purchased are fully cancelled)	19,093,800	1,909
	<hr/> 171,844,850	<hr/> 17,184
Assuming full exercise of ESOS options outstanding as at LPD	16,917,200	1,692
	<hr/> 188,762,050	<hr/> 18,876
Assuming full exercise of Warrants	90,040,325	9,004
	<hr/> 278,802,375	<hr/> 27,880

**6.2 Earnings**

This Rights Issue is not expected to have any immediate material effect on the earnings of the Digistar Group for FYE 30 September 2007. The effect on the future earnings would depend on the returns generated by Digistar from the utilisation of proceeds arising from the exercise of the Warrants as working capital.

The earnings per share of Digistar, however, are expected to be diluted as a result of the enlarged issued and paid-up share capital of Digistar to the extent of the exercise of any Warrants.

**6.3 Dividends**

No final dividend was recommended by the Board of Digistar for FYE 30 September 2006. The dividends, if any, which may be declared by the Board for FYE 30 September 2007 will depend on, among others, the cash availability, retained profits, cashflow position and the funding requirements of the Group.

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#### 6.4 NTA and gearing

This Rights Issue will not have an immediate material effect on the NTA of the Group until such time when the Warrants are exercised. The NTA of the Group will increase progressively depending on the number of new Digistar Shares to be issued. The proforma effects of this Rights Issue, Private Placement, Share Buy-back and the exercise of the 16,917,200 outstanding ESOS options based on the latest audited consolidated NTA and gearing of the Group as at 30 September 2005 are set out below:

	(I) Audited as at 30 September 2005 RM '000	(II) After issuance of the 6,500,000 Digistar Shares under the Private Placement <sup>1</sup> RM '000	(III) After (I) and Rights Issue RM '000	(IV) After (II) and the completion of the Private Placement <sup>2</sup> RM '000	(V) After (III) and the Share Buy-back <sup>3</sup> RM '000	(VI) After (IV) and the full exercise of the outstanding ESOS options <sup>4</sup> RM '000	(VII) After (V) and the full exercise of Warrants RM '000
Share capital	17,358	18,008	18,008	19,093	17,184	18,876	27,880
Share premium	1,145	1,275	1,275	1,709	-	2,961	8,873
Capital redemption reserve	-	-	-	-	1,909	1,909	1,909
Negative goodwill	4,031	4,031	4,031	4,031	4,031	4,031	4,031
Warrants reserve	-	-	510*	510	510	510	-
Retained profits	4,970	4,970	4,970	4,970	3,865	3,865	3,865
<b>Shareholders' funds/ NTA</b>	<b>27,504</b>	<b>28,284</b>	<b>28,794</b>	<b>30,313</b>	<b>27,499</b>	<b>32,152</b>	<b>46,558</b>
Number of shares ('000)	173,581	180,081	180,081	190,939	171,845	188,762	278,802
<b>NTA per share (RM)</b>	<b>0.16</b>	<b>0.16</b>	<b>0.16</b>	<b>0.16</b>	<b>0.16</b>	<b>0.17</b>	<b>0.17</b>
Total borrowings	5,433	5,433	5,433	5,433	5,433	5,433	5,433
<b>Gearing</b>	<b>0.20</b>	<b>0.19</b>	<b>0.19</b>	<b>0.18</b>	<b>0.20</b>	<b>0.17</b>	<b>0.12</b>

#### Notes:

1. The 6,500,000 Digistar Shares, being the first tranche of Digistar Shares to be issued under the Private Placement, were issued at an issue price of RM0.12 per share, which is at a discount of approximately 9.8% from the 5-WAMP of Digistar Shares up to 21 September 2006, being the date immediately prior to the price-fixing date, of RM0.1331.
  2. Assuming the issuance of 10,858,000 new Digistar Shares at an issue price of RM0.14 per share, which is at a discount of approximately 5.0% from the 5-WAMP of Digistar Shares up to the LPD of RM0.1474.
  3. Assuming the Share Buy-back is implemented in full at a purchase price of RM0.1474 per share, which is the 5-WAMP of Digistar Shares up to the LPD, and all of the treasury shares are immediately cancelled.
  4. The exercise price of the outstanding ESOS options is RM0.275 per share.
- \* Less estimated expenses for this Rights Issue and the Private Placement of RM390,000.

## 7. GENERAL OVERVIEW OF THE ECONOMY AND INDUSTRY AND PROSPECTS OF THE DIGISTAR GROUP

Due to the nature of Digistar's business, the Company's performance is closely linked to the construction industry, as well as the IT and broadcasting industries (which falls under the ICT sub-sector of the services sector) in Malaysia, the general overview and outlook of which are as follows:

### 7.1 Overview of the economy and industry

The Malaysian economy continues to be resilient amidst persistent high world crude oil prices, rising inflationary pressures and monetary tightening, especially in major advanced economies. The growth momentum in Malaysia remains strong, driven by robust domestic demand and favourable export performance. Growth is supported by favourable financing and stable labour market conditions. The Government's strategic decision to move from a fixed exchange rate regime to a managed float was well-received and contributed to further boosting investor and consumer confidence. Real GDP expanded at a strong pace of 5.9% in the second quarter, following a growth of 5.5% in the first quarter of 2006, while growth in the fourth quarter of 2005 grew by 5.2%. This unabated growth is expected to continue in the coming quarters to average 5.8% for the year as a whole.

Growth in 2006 is expected to be broad-based with positive contribution by all sectors, led by services, manufacturing and agriculture. Strong domestic consumption and continued expansion in trade-related activities are expected to support growth in the services sector, especially in the wholesale and retail trade, hotels and restaurants; transport, storage and communication; and financial services sub-sectors.

Value added of the construction sector contracted by 1.1% during the first six months of 2006 (January-June 2005: -2.2%), mainly due to continued slowdown in the civil engineering sub-sectors. However, this sub-sector is expected to recover in the second half of the year, benefiting from the implementation of the Ninth Malaysian Plan ("9MP") projects scheduled in 2006. Overall, the sector is envisaged to register a positive growth of 0.7% in 2006 (2005: -1.6%). Among the 9MP projects are the 880 new construction projects, totalling RM15 billion announced by the Government in July 2006. Implementation of some of these projects is expected to begin in the fourth quarter of the year.

Given the enormous potential that can be derived from the services sector, the Government has focused on developing this sector as a key driver of growth and source of employment, with special emphasis on higher value-added activities in the ICT, tourism and transport sub-sectors. During the first seven months of 2006, 131 companies were granted Multimedia Super Corridor Malaysia ("MSC Malaysia") status, bringing the total to 1,552. In all, these companies will be able to provide about 48,240 high value jobs in 2006 (2005: 44,170). As a key component of MSC Malaysia, Cyberjaya will continue to be developed as the national ICT hub as well as a multimedia innovation, services and operations centre.

To further boost the local communications and multimedia industry as well as bolster its competitiveness globally, the Government launched the Malaysian Information, Communications and Multimedia Services 886 strategy in December 2005. Spanning five years, the strategy encompasses the provision of eight services, utilizing eight essential infrastructure in six growth areas. The services range from high-speed broadband, digital multimedia broadcasting to universal service provision. The infrastructure includes among others, hard infrastructure such as third generation technology cellular networks and soft infrastructure such as information and network security. Meanwhile, the growth areas include content development, an ICT education hub as well as embedded component and devices.

*(Source: Economic Report 2006/2007 from the Ministry of Finance Malaysia)*

Based on the above, the expected recovery of the construction industry, as well as the strong Government support for the ICT sub-sector in Malaysia bodes well for the future of the Digistar Group.



### **Outlook for 2007**

The challenges confronting the economy in 2006 are expected to persist in 2007. On the external front, concerns over high crude oil prices following strong demand and tight refining capacity as well as heightened geopolitical tensions in the Middle East are expected to remain. This could lead to a sustained rise in global inflation and subsequent hikes in global interest rates, impacting both trade and growth. The current global imbalances can also have a disorderly effect on the financial markets and hamper world trade as well as investment flows. Given these uncertainties, global growth is expected to moderate slightly to 4.7% in 2007 (2006: 4.9%), backed by a sustained world trade and investment flows. However, given Malaysia's endowment of crude oil resources and with prevailing high oil prices, the nation is in a better position to weather the moderation in global growth to achieve a strong growth of 6% in 2007 (2006: 5.8%).

Meanwhile, the construction sector is anticipated to grow at a higher rate of 3.7% in 2007 (2006: 0.7%), spurred by the acceleration in civil-engineering activities, following the implementation of new infrastructure projects under the 9MP. Major projects that are expected to boost growth of the sector include the Pulau Pinang Second Bridge, Pulau Pinang Monorail System as well as the South Johor Economic Region projects. Activities in the residential and non-residential sub-sectors are also envisaged to remain active, supported by sustained demand for housing as well as buoyant business and industrial activities.

Intensive computerization of government agencies, electronic government applications as well as programmes to bridge the digital divide, such as the setting up of Medan InfoDesa in rural areas will further boost IT-related industries. The increasing use of IT in banking and finance, communications, media, manufacturing, education and health will also contribute to further expansion in the IT industry.

*(Source: Economic Report 2006/2007 from the Ministry of Finance Malaysia)*

In view of the above, the outlook for the industries in which Digistar is involved in and/ or dependent upon is believed to be favourable.

## **7.2 Prospects of the Digistar Group**

For the FYE 30 September 2007 and beyond, the Group expects to derive recurring income from service and maintenance of those projects completed by the Group. Besides recurring income from maintenance projects, the Group is also confident of securing maintenance contracts from its existing core businesses.

For the broadcasting industry, as a whole, the Group foresees continued business prospects, particularly in view of the upgrading of facilities by local and national broadcast stations.

As a whole, the Directors anticipate that the coming financial year will be a challenging year as the business opportunities presented by the roll-out of projects under the Ninth Malaysia Plan will only be felt towards the end of year 2007. However, the Malaysian Government had allocated RM14.4 billion for development expenditure under the 2006 National Budget. Therefore, the Company is looking forward to garner some benefit from the 2006 National Budget spending especially in the healthcare and education sectors.

Digistar's immediate business plan is to further intensify its marketing efforts in the area of information, communication and technology as well as to widen and strengthen its customer base. The Company will continue to look into related areas to expand its business and has identified a few potential avenues to do so.

As a measure to mitigate the slow market condition, the Company is focusing on boosting its recurring service and maintenance income. The Directors anticipate that the Group will be profitable for the FYE 30 September 2007.

## 8. WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS

### 8.1 Working capital

The Board of Digistar is of the opinion that, and after taking into account the amount to be raised from this Rights Issue, the banking facilities available to the Group and current funds available, the Group will have sufficient working capital for a period of twelve (12) months from the date of this Abridged Prospectus.

### 8.2 Borrowings

As at 30 September 2006, being the latest available unaudited quarterly results of the Digistar Group, Digistar has total borrowings of approximately RM7.388 million. All the borrowings, which are domestic borrowings, are interest bearing and comprise the following:

	<b>RM'000</b>
Short term borrowings (payable within twelve (12) months)	7,005
Long term borrowings (payable after twelve (12) months)	383
	<u>7,388</u>

Neither Digistar nor any of its subsidiaries have defaulted on payments of either interest or principal sum in respect of any bank borrowings throughout the past one (1) financial year and the subsequent financial period ended 30 November 2006.

### 8.3 Contingent liabilities

Save as disclosed in Section 4 of Appendix VIII in this Abridged Prospectus, the Directors of Digistar confirm that they are not aware of any contingent liabilities incurred or known to be incurred by the Digistar Group as at 30 September 2006, being the latest available unaudited quarterly results of the Digistar Group, which, in the opinion of the Board, will or may substantially affect the ability of the Group to meet its obligations as and when they fall due.

### 8.4 Material commitments

There are no material commitments for capital expenditure incurred or known to be incurred by the Group which, in the opinion of the Board, will have a material impact on the financial position of Digistar Group as at the LPD.

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**9. SUBSTANTIAL SHAREHOLDERS' UNDERTAKING AND UNDERWRITING ARRANGEMENTS**

Irrevocable written undertakings have been given by the following substantial shareholders, namely:

- (i) Kenangan, vide its letter dated 2 October 2006, to fully subscribe for its rights entitlement under the Rights Issue as at the Entitlement Date;
- (ii) Datuk Lee Wah Chong, vide his letter dated 2 October 2006, to fully subscribe for:
  - (a) his rights entitlement under the Rights Issue as at the Entitlement Date; and
  - (b) the remaining "open-portion" of Warrants (the portion for which no irrevocable undertaking for subscription has been given) which are not subscribed for by the other shareholders of Digistar.

As at the LPD, the number of Digistar Shares held by Kenangan and Datuk Lee Wah Chong were 43,158,794 Digistar Shares and 3,048,802 Digistar Shares respectively, representing 23.97% and 1.69% equity interest in Digistar. Accordingly, as at the LPD, Kenangan and Datuk Lee Wah Chong are entitled to 21,579,397 Warrants and 1,524,401 Warrants respectively, representing 23.97% and 1.69% of the total number of Warrants which may be issued, assuming that there is no change to the current issued and paid-up share capital of Digistar prior to the Entitlement Date.

As such, no underwriting arrangement has been entered into by the Company.

**10. TERMS AND CONDITIONS**

The issue of the Warrants pursuant to this Rights Issue is governed by the terms and conditions set out in this Abridged Prospectus and the accompanying RSF and NPA.

**11. QUOTATION**


Approval-in-principle has been obtained from Bursa Securities on 8 December 2006 for the listing of and quotation for all the Warrants. Such Warrants will be admitted to the Official List of Bursa Securities and official quotation will commence immediately two (2) clear Market Days after receipt of confirmation from Bursa Depository that all CDS Accounts of the successful applicants have been duly credited and all notices of allotment have been issued and despatched to the successful applicants.

The listing of and quotation for the new Digistar Shares to be issued upon the exercise of Warrants is expected to commence after receipt of confirmation from Bursa Depository that the CDS Accounts of the Warrant holders who exercise their Warrants have been duly credited and notices of allotment have been despatched to them.

**12. FURTHER INFORMATION**

Shareholders are requested to refer to the attached Appendices for further information.

Yours faithfully,  
for and on behalf of the Board  
**DIGISTAR CORPORATION BERHAD**

  
**DATUK LEE WAH CHONG**  
Managing Director

**CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION IN  
RESPECT OF THE RIGHTS ISSUE PASSED AT THE EGM OF DIGISTAR ON  
15 NOVEMBER 2006**

**DIGISTAR CORPORATION BERHAD  
(603652-K)**

**CERTIFIED TRUE EXTRACT OF THE MINUTES OF THE  
EXTRAORDINARY GENERAL MEETING HELD ON 15 NOVEMBER 2006**

**ORDINARY RESOLUTION 2**

**PROPOSED RIGHTS ISSUE OF UP TO 104,773,817 10-YEAR WARRANTS ("WARRANTS") ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) ORDINARY SHARES OF RM0.10 EACH IN DIGISTAR ("DIGISTAR SHARES") HELD AT AN ISSUE PRICE OF RM0.01 PER WARRANT ("PROPOSED RIGHTS ISSUE")**

It was unanimously RESOLVED:


"THAT subject to the passing of Ordinary Resolution 1 above and all approvals being obtained from the relevant authorities, including, but without limiting, the approval-in-principle of Bursa Malaysia Securities Berhad for the Warrants to be admitted to the Official List of Bursa Malaysia Securities Berhad and for the listing of and quotation for the Warrants and new Digistar Shares to be issued upon exercise of the said Warrants, approval be and is hereby given to the Directors of the Company:

- (i) to issue by way of a rights issue of up to 104,773,817 Warrants at an issue price of RM0.01 per Warrant on the basis of one (1) Warrant for every two (2) existing Digistar Shares held, by way of provisional allotment to shareholders whose names appear on the Record of Depositors at the close of business on a date to be determined by the Directors;
- (ii) wherein each of the Warrants will carry the right to subscribe, subject to any adjustment in accordance with a deed poll ("Deed Poll") to be executed, at any time during the period commencing from and inclusive of the date of issue of the Warrants and ending at 5:00 p.m. on the day preceding the tenth (10th) anniversary of the date of the issue of the Warrants, for one (1) new Digistar Share at an exercise price to be determined at a later date by the Directors in the following manner:
  - (a) at a premium to be determined by the Directors based on the five (5)-day weighted average market price of Digistar Shares immediately preceding the price fixing date; or
  - (b) the par value of the Company's shares of RM0.10 each;

whichever is higher;
- (iii) to deal with any fractional Warrants in such manner as the Directors may in their discretion deem fit and expedient;
- (iv) to allot and issue such appropriate number of additional Warrants ("Additional Warrants") if any, as a consequence of the adjustment of the exercise price or the number of Warrants in accordance to the provisions of the Deed Poll and/or any amendments thereof or as may be imposed by the relevant authorities and such appropriate number of new Digistar Shares in connection with and arising from the exercise of the Warrants and/or Additional Warrants ("Additional New Shares"). The Additional New Shares shall, upon allotment and issue, rank pari passu in all respects with the existing Digistar Shares except that they shall not be entitled to any dividends, rights, allotment and/or other distributions, the entitlement date of which precedes the date of issue of the Additional New Shares; and
- (v) to do all acts and things as they may consider necessary or expedient in the best interests of the Company to give effect to the Proposed Rights Issue with full power to assent to any modifications, variations and/or amendments in any manner as may be required by the relevant authorities and to enter into all agreements and arrangements as they may deem necessary or expedient in order to implement, finalise and give full effect to the Proposed Rights Issue."

CERTIFIED TRUE COPY

  
\_\_\_\_\_  
DIRECTOR  
LYE SIANG LONG

  
\_\_\_\_\_  
SECRETARY  
TAN FONG SHIAN @ LIM FONG SHIAN  
(MAICSA 7023187)

Dated This 13th December 2006

**INFORMATION ON DIGISTAR****1. HISTORY AND BUSINESS**

Digistar was incorporated in Malaysia under the Act as a public limited company on 15 January 2003 to be the investment holding company of the Digistar Group.

The Digistar Group began making its presence in the local market in February 1982 under the name of Digi Enterprise. Digi Enterprise was established as a system house specialising only in design and installation of integrated audio and visual system. In 1984, D&G Holdings Sdn Bhd was incorporated to continue the business of Digi Enterprise. Subsequently, in 1995, D&G Holdings Sdn Bhd assumed its present name of Digistar Holdings Sdn Bhd, which has since been, and still is, the core business subsidiary of the Digistar Group, which was listed on the MESDAQ Market on 7 November 2003.

Digistar is principally engaged in the business of investment holding while the principal activities of its subsidiaries are set out in Section 6 of this Appendix.

**2. SHARE CAPITAL**

The details of the authorised share capital and the issued and paid-up share capital of Digistar as at the LPD are as follows:

	<b>No. of Digistar Shares</b>	<b>Par value RM</b>	<b>Amount RM</b>
Authorised	500,000,000	0.10	50,000,000
Issued and fully paid-up	180,080,650	0.10	18,008,065

**3. CHANGES IN THE ISSUED AND PAID-UP SHARE CAPITAL**

The details of the changes in the issued and paid-up share capital of Digistar since its incorporation are as follows:

<b>Date of allotment</b>	<b>No. of Digistar Shares allotted</b>	<b>Par Value RM</b>	<b>Consideration</b>	<b>Resultant issued and paid-up capital RM</b>
15.01.2003	200	0.10	Cash (Subscriber shares)	20.00
14.08.2003	50,060,060	0.10	Issued pursuant to the acquisition of Digistar Holdings Sdn Bhd at par	5,006,026.00
26.09.2003	12,515,065	0.10	Rights issue on a basis of 1:4 at par	6,257,532.50
29.10.2003	20,860,000	0.10	Public issue pursuant to IPO	8,343,532.50
01.06.2004	102,800	0.10	Exercise of ESOS options at RM0.55 per share	8,353,812.50
30.06.2004	28,200	0.10	Exercise of ESOS options at RM0.55 per share	8,356,632.50
29.07.2004	30,000	0.10	Exercise of ESOS options at RM0.55 per share	8,359,632.50
02.11.2004	15,000	0.10	Exercise of ESOS options at RM0.55 per share	8,361,132.50
29.11.2004	3,179,000	0.10	Exercise of ESOS options at RM0.55 per share	8,679,032.50
26.05.2005	86,790,325	0.10	Bonus issue on a basis of 1:1 at par	17,358,065.00
02.10.2006	6,500,000	0.10	Digistar Shares issued under a private placement exercise at RM0.12 per share	18,008,065.00

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## INFORMATION ON DIGISTAR (Cont'd)

## 4. SUBSTANTIAL SHAREHOLDERS

The proforma effects of the Rights Issue, Private Placement, Share Buy-back and the exercise of the 16,917,200 outstanding ESOS options on the shareholdings of the substantial shareholders of Digistar (according to the Register of Substantial Shareholders) as at the LPD are as follows:

	As at the LPD			(I) After the Rights Issue			
	Number of shares		Percentage %	Number of shares		Percentage %	
	Direct	Indirect		Direct	Indirect	Direct	Indirect
Kenangan	43,158,794	-	23.97	43,158,794	-	23.97	-
Datuk Lee Wah Chong	3,048,802	43,158,794 <sup>1</sup>	1.69	3,048,802	43,158,794 <sup>1</sup>	1.69	23.97
Ong Fee Chong	2,400,110	43,158,794 <sup>1</sup>	1.33	2,400,110	43,158,794 <sup>1</sup>	1.33	23.97
	(II) After (I) and the completion of the Private Placement <sup>2</sup>			(III) After (II) and the Share Buy-back <sup>3</sup>			
	Number of shares		Percentage %	Number of shares		Percentage %	
	Direct	Indirect		Direct	Indirect	Direct	Indirect
Kenangan	43,158,794	-	22.60	43,158,794	-	25.11	-
Datuk Lee Wah Chong	3,048,802	43,158,794 <sup>1</sup>	1.60	3,048,802	43,158,794 <sup>1</sup>	1.77	25.11
Ong Fee Chong	2,400,110	43,158,794 <sup>1</sup>	1.26	2,400,110	43,158,794 <sup>1</sup>	1.40	25.11
	(IV) After (III) and the full exercise of the 16,917,200 outstanding ESOS options			After (IV) and full exercise of Warrants			
	Number of shares			Number of shares		Number of shares	
	Direct	Indirect		Direct	Indirect	Direct	Indirect
Kenangan	43,158,794	-	22.86	64,738,191	-	23.22	-
Datuk Lee Wah Chong	7,624,802	43,158,794 <sup>1</sup>	4.04	9,149,203	64,738,191 <sup>1</sup>	3.28	23.22
Ong Fee Chong	4,536,110	43,158,794 <sup>1</sup>	2.40	5,736,165	64,738,191 <sup>1</sup>	2.06	23.22

## INFORMATION ON DIGISTAR (Cont'd)

## Notes:

1. Deemed interest by virtue of his interest in Kenangan pursuant to Section 6A of the Act.
2. Assuming the completion of the Private Placement via the issuance of 10,858,000 new Digistar Shares.
3. Assuming the Share Buy-back is implemented in full and all of the treasury shares are immediately cancelled.

## 5. BOARD OF DIRECTORS

The particulars of the Directors of Digistar are set out in the Corporate Information section on page (v) of this Abridged Prospectus. As at the LPD, based on the Register of Directors' Shareholdings, only Datuk Lee Wah Chong, Ong Fee Chong and Datin Wa Siew Yam ("Shareholding Directors") are shareholders of the Company. In addition, only the Shareholding Directors and Lye Siang Long have been granted ESOS options as at the LPD. The proforma effects of the Rights Issue, Private Placement, Share Buy-back and the exercise of the 16,917,200 outstanding ESOS options on the shareholdings of the Shareholding Directors and Lye Siang Long based on the Register of Directors' Shareholding of the Company as at the LPD are as follows:

	As at the LPD				(I) After the Rights Issue			
	Number of shares		Percentage %		Number of shares		Percentage %	
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect
Datuk Lee Wah Chong	3,048,802	43,158,794 <sup>1</sup>	1.69	23.97	3,048,802	43,158,794 <sup>1</sup>	1.69	23.97
Ong Fee Chong	2,400,110	43,158,794 <sup>1</sup>	1.33	23.97	2,400,110	43,158,794 <sup>1</sup>	1.33	23.97
Datin Wa Siew Yam	2,413,230	-	1.34	-	2,413,230	-	1.34	-
Lye Siang Long	-	-	-	-	-	-	-	-
	(II) After (I) and the completion of the Private Placement <sup>2</sup>				(III) After (II) and the Share Buy-back <sup>3</sup>			
	Number of shares		Percentage %		Number of shares		Percentage %	
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect
Datuk Lee Wah Chong	3,048,802	43,158,794 <sup>1</sup>	1.60	22.60	3,048,802	43,158,794 <sup>1</sup>	1.77	25.11
Ong Fee Chong	2,400,110	43,158,794 <sup>1</sup>	1.26	22.60	2,400,110	43,158,794 <sup>1</sup>	1.40	25.11
Datin Wa Siew Yam	2,413,230	-	1.26	-	2,413,230	-	1.40	-
Lye Siang Long	-	-	-	-	-	-	-	-

## INFORMATION ON DIGISTAR (Cont'd)

	(IV) After (III) and the full exercise of the 16,917,200 outstanding ESOS options				After (IV) and full exercise of Warrants			
	Number of shares		Number of shares		Number of shares		Number of shares	
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect
Datuk Lee Wah Chong	7,624,802	43,158,794 <sup>1</sup>	4.04	22.86	9,149,203	64,738,191 <sup>1</sup>	3.28	23.22
Ong Fee Chong	4,536,110	43,158,794 <sup>1</sup>	2.40	22.86	5,736,165	64,738,191 <sup>1</sup>	2.06	23.22
Datin Wa Siew Yam	3,781,230	-	2.00	-	4,987,845	-	1.79	-
Lye Siang Long	600,000	-	0.32	-	600,000	-	0.22	-

## Notes:

1. Deemed interest by virtue of his interest in Kenangan pursuant to Section 6A of the Act.
2. Assuming the completion of the Private Placement via the issuance of 10,858,000 new Digistar Shares.
3. Assuming the Share Buy-back is implemented in full and all of the treasury shares are immediately cancelled.

## 6. SUBSIDIARY AND ASSOCIATED COMPANIES

The subsidiaries of Digistar as at the LPD are as follows:

Name	Date and place of incorporation	Issued and paid-up share capital/ (Effective interest) RM/ (%)	Principal activities
Digistar Holdings Sdn Bhd	08.09.1984/ Malaysia	2,037,000/ 100.0	Design, supply, installation and integration of information technology infrastructure, teleconferencing, local area network, interactive media management systems, radio and television news automation, telecommunication systems, integrated audio and visual systems and other related electronic systems
Digistar Properties Sdn Bhd	18.09.1996/ Malaysia	100,000/ 100.0	Provision, maintenance and upkeep of premises

## INFORMATION ON DIGISTAR (Cont'd)

Name	Date and place of incorporation	Issued and paid-up share capital/ (Effective interest) RM/ (%)	Principal activities
Digistar Rauland MSC Sdn Bhd	26.06.2003/ Malaysia	10,000/ 51.0	Research and development of software and hardware to be deployed in the area relating to communication, tele-communication and information communication technology and health television operator
Rauland Asia Sdn Bhd	11.06.2004/ Malaysia	100/ 70.0	Dormant
Nielsen Ward Sdn Bhd ( <i>Formerly known as Nielsen Ward &amp; Associates Sdn Bhd</i> )	08.06.2004/ Malaysia	100/ 61.0	Design, supply, installation and integration of information technology infrastructure, tele-conferencing, local area network, interactive media management systems, radio and television news automation, telecommunication systems, integrated audio and visual systems and other related electronic systems
Digistar Vision Sdn Bhd	23.03.2005/ Malaysia	100/ 60.0	Health television operator
Digistar Engineering Sdn Bhd	02.03.2005/ Malaysia	100/ 60.0	Dormant
Digistar Media Sdn Bhd	13.04.2005/ Malaysia	100/ 51.0	Dormant

Digistar does not have any associated company as at the LPD.

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## INFORMATION ON DIGISTAR (Cont'd)

## 7. PROFIT AND DIVIDEND RECORD

A summary of the audited consolidated financial results of the Digistar Group for the financial period from 15 January 2003 to 30 September 2003 and the two (2) FYE 30 September 2004 and 2005 and the unaudited consolidated financial results for the FYE 30 September 2006 are as follows:

	Audited financial period from 15 January 2003 to 30 September 2003 RM '000	Audited FYE 30 September		Unaudited FYE 30 September 2006 RM '000
		2004 RM '000	2005 RM '000	
Revenue	41,101	51,197	31,416	28,391
Gross profit ("GP")	10,740	14,125	9,620	6,253
Results of operating activities, including finance costs, research and development expense, depreciation, preliminary expenses etc	6,513	7,845	4,123	(469)
Earnings before interest, depreciation, tax and amortisation	6,574	8,399	4,853	606
Add/(less):				
Depreciation	(54)	(694)	(721)	(898)
Interest expense	(20)	(194)	(307)	(406)
Interest income	13	334	298	229
Amortisation/ impairment of goodwill	-	-	-	-
Share in results of associated companies	-	-	-	-
PBT/ LBT	6,513	7,845	4,123	(469)
Income tax expense	(1,926)	(2,396)	(1,458)	(264)
Profit after tax	4,587	5,449	2,665	(733)
Minority interests	-	-	-	5
PATMI/ (LATMI)	4,587	5,449	2,665	(728)
Less pre-acquisition profits	(4,031)			
Profit attributable to shareholders	556			
GP margin	26.1%	27.6%	30.6%	22.0%
PATMI margin	11.2%	10.6%	8.5%	N/A
No. of shares in issue ('000)	62,575	83,596	173,581	173,581
Weighted average number of shares				
- Basic ('000)	12,858*	144,461*	173,065	173,581
- Diluted ('000)	Not applicable	147,432*	179,540	173,581
Basic net EPS/ (LPS) (sen)	4.3*	3.8*	1.5	(0.4)
Diluted net EPS/ (LPS) (sen)	Not applicable	3.7*	1.5	(0.4)



## INFORMATION ON DIGISTAR (Cont'd)

*Notes:*

- \* *Adjusted retrospectively for the bonus issue exercise of one (1) new Digistar Share for every Digistar Share held which was completed in 2005.*
- 1. *There were no exceptional or extraordinary items for the financial years/ period under review.*

**Financial period from 15 January 2003 to 30 September 2003 (Audited)**

Digistar was incorporated on 15 January 2003 to be the listing vehicle for the Digistar Group. As part of the scheme for flotation, the Company completed the acquisition of the subsidiaries and business of the Group on 14 August 2003.

For the financial period under review, the Group's consolidated revenue increased by 89% from previous year's proforma revenue of RM21.7 million to RM41.1 million. This is mainly due to larger contracts secured and executed in this financial year. As a result of the significant increase in revenue and tight cost-control measures implemented, PBT increased to approximately RM6.5 million.

**FYE 30 September 2004 (Audited)**

Revenue for the FYE 30 September 2004 increased by 25% to RM51.2 million due to higher revenue from the core system integration business. During the FYE, the Group had completed, or were at the advance stages of completing, some sizable hospital and broadcasting projects. The PBT for the FYE 30 September 2004 increased to RM7.8 million in tandem with the increased in revenue.

**FYE 30 September 2005 (Audited)**

The decrease in revenue for the FYE 30 September 2005 by 39% to RM31.4 million is mainly due to the slow down in the construction industry in Malaysia. The decreased in revenue of the FYE 30 September 2005 is also attributable to the completion of some sizeable projects which were at the advanced stages in the previous financial year and the timing differences in the execution of projects in hand as a result of the Malaysian Government's delay in the implementation of certain projects. In tandem with the reduction in revenue, the PBT for the FYE 30 September 2005 decreased to RM4.1 million.

**FYE 30 September 2006 (Unaudited)**

For the FYE 30 September 2006, the Group recorded revenue of approximately RM28.4 million, a decrease of 10% as compared to the revenue of RM31.4 million registered in the previous financial year, mainly as a result of the contraction of the overall construction industry. The LBT registered for the FYE 30 September 2006, as compared to the profits in the previous financial year, is due to the current year's significantly lower gross profit margin than the previous financial year, the provision for doubtful debts and the revision of depreciation rates for certain fixed assets during the financial year.

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## INFORMATION ON DIGISTAR (Cont'd)

## 8. HISTORICAL SHARE PRICES

The monthly highest and lowest prices of Digistar Shares traded on Bursa Securities for the past twelve (12) months ended November 2006 are as follows:

		High RM	Low RM
2005	December	0.17	0.14
2006	January	0.23	0.15
	February	0.21	0.15
	March	0.19	0.14
	April	0.23	0.16
	May	0.19	0.14
	June	0.15	0.13
	July	0.16	0.13
	August	0.15	0.13
	September	0.14	0.13
	October	0.16	0.13
	November	0.16	0.14

The last transacted market price on 9 May 2006 (*being the date immediately prior to the announcement of the Rights Issue*) RM0.18

The last transacted market price on 19 December 2006 (*being the date immediately prior to the ex-date of this Rights Issue on 20 December 2006*) RM0.17

The last transacted market price on 22 December 2006 (*being the latest practicable date prior to the printing of this Abridged Prospectus*) RM0.14

(Source: Bloomberg)

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**PROFORMA CONSOLIDATED BALANCE SHEETS OF DIGISTAR AS AT 30  
SEPTEMBER 2005 TOGETHER WITH THE REPORTING ACCOUNTANTS'  
LETTER THEREON**



Partners/Directors

Dato' Koay Soon Eng  
Ong Eng Loo  
David Wong Siew Chow  
Tang Kin Kheong  
Jean Gan Morn Ghuat  
Tang Chin Fook  
Francis Hii Joon Teck  
Tan Yen Yeow

Date: **13 DEC 2006**

The Board of Directors  
Digistar Corporation Berhad  
C15-1, Level 15, Tower C  
Megan Avenue II  
No. 12 Jalan Yap Kwan Seng  
50450 KUALA LUMPUR

Dear Sirs

**DIGISTAR CORPORATION BERHAD  
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30TH SEPTEMBER 2005**

We have reviewed the Proforma Consolidated Balance Sheets of Digistar Corporation Berhad and its subsidiaries, (collectively referred to as the "Digistar Group") as at 30th September 2005 together with the accompanying notes thereon, for which the Directors are solely responsible, as set out in the accompanying statements, which we have stamped for the purpose of identification.

The Proforma Consolidated Balance Sheets have been prepared for inclusion in the Abridged Prospectus in connection with the renounceable rights issue of 90,040,325 warrants, at an issue price of RM0.01 per warrant, to the shareholders of Digistar Corporation Berhad ("Digistar") on the basis of one (1) warrant for every two (2) existing ordinary shares of RM0.10 each held in Digistar at 5.00 p.m. on 22nd December 2006 ("Rights Issue").

Based on the results of our review, we are of the opinion that:-

- (i) the Proforma Consolidated Balance Sheets of Digistar Group as at 30th September 2005 which are provided for illustrative purposes only, have been properly compiled on the bases set out in the notes to the Proforma Consolidated Balance Sheets;
- (ii) such bases are consistent with the accounting policies adopted in the preparation of the audited financial statements of Digistar Group for the financial year ended 30th September 2005 other than the adoption of a new accounting policy on warrants reserve set out in Paragraph 1.2 of the accompanying notes; and
- (iii) the adjustments are appropriate for the purpose of the preparation of the Proforma Consolidated Balance Sheets of Digistar Group as at 30th September 2005.

Yours faithfully

**Moore's Rowland**

oks/ajk

Chartered Accountants  
A member of  
Moore's Rowland International  
an association of independent  
accounting firms throughout  
the world

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**PROFORMA CONSOLIDATED BALANCE SHEETS OF DIGISTAR AS AT 30 SEPTEMBER 2005 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 SEPTEMBER 2005**

	Proforma I	Proforma II	Proforma III	Proforma IV	Proforma V	Proforma VI
	After issuance of the 6,500,000 Digistar Shares under the Private Placement RM'000	After Proforma I and Rights Issue RM'000	After Proforma II and the completion of the Private Placement RM'000	After Proforma III and the Share Buy-back RM'000	After Proforma IV and the full exercise of the 16,917,200 outstanding ESOS options RM'000	After Proforma V and the full exercise of Warrants RM'000
<b>NON-CURRENT ASSETS</b>						
Property, plant and equipment	7,593	7,593	7,593	7,593	7,593	7,593
Other investment	1,000	1,000	1,000	1,000	1,000	1,000
	8,593	8,593	8,593	8,593	8,593	8,593
<b>CURRENT ASSETS</b>						
Properties held for sale	418	418	418	418	418	418
Inventories held for resale	2,358	2,358	2,358	2,358	2,358	2,358
Trade receivables	10,935	10,935	10,935	10,935	10,935	10,935
Amount owing by contract customers	5,941	5,941	5,941	5,941	5,941	5,941
Other receivables, deposits and prepayments	338	338	338	338	338	338
Tax refundable	12	12	12	12	12	12
Fixed deposits with licensed banks	6,566	6,566	6,566	6,566	6,566	6,566
Cash and bank balances	104	1,394	2,913	99	4,752	19,158
	26,672	27,962	29,481	26,667	31,320	45,726
<b>CURRENT LIABILITIES</b>						
Trade payables	1,680	1,680	1,680	1,680	1,680	1,680
Other payables and accruals	558	558	558	558	558	558
Provision for taxation	20	20	20	20	20	20
Hire purchase payables	355	355	355	355	355	355
Short term borrowings	655	655	655	655	655	655
Bank overdrafts	3,747	3,747	3,747	3,747	3,747	3,747
	7,015	7,015	7,015	7,015	7,015	7,015
<b>NET CURRENT ASSETS</b>	19,657	20,947	22,466	19,652	24,305	38,711
	28,250	29,030	29,540	28,245	32,898	47,304



**PROFORMA CONSOLIDATED BALANCE SHEETS OF DIGISTAR AS AT 30 SEPTEMBER 2005 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

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**PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 SEPTEMBER 2005 (continued)**

	Proforma I	Proforma II	Proforma III	Proforma IV	Proforma V	Proforma VI
	After issuance of the 6,500,000 Digistar Shares under the Private Placement RM'000	After Proforma I and Rights Issue RM'000	After Proforma II and the completion of the Private Placement RM'000	After Proforma III and the Share Buy-back RM'000	After Proforma IV and the full exercise of the 16,917,200 outstanding ESOS options RM'000	After Proforma V and the full exercise of Warrants RM'000
<b>FINANCED BY:-</b>						
Share capital	17,358	18,008	19,093	17,184	18,876	27,880
Share premium	1,145	1,275	1,709	-	2,961	8,873
Capital redemption reserve	-	-	-	1,909	1,909	1,909
Negative goodwill	4,031	4,031	4,031	4,031	4,031	4,031
Warrants reserve	-	510	510	510	510	-
Retained profits	4,970	4,970	4,970	3,865	3,865	3,865
<b>SHAREHOLDERS' EQUITY</b>	<b>27,504</b>	<b>28,794</b>	<b>30,313</b>	<b>27,499</b>	<b>32,152</b>	<b>46,558</b>
<b>NON-CURRENT LIABILITIES</b>						
Hire purchase payables	675	675	675	675	675	675
Deferred taxation	71	71	71	71	71	71
	<b>28,250</b>	<b>29,030</b>	<b>31,059</b>	<b>28,245</b>	<b>32,898</b>	<b>47,304</b>
<b>Number of ordinary shares of RM0.10 each ('000)</b>	<b>173,581</b>	<b>180,081</b>	<b>190,939</b>	<b>171,845</b>	<b>188,762</b>	<b>278,802</b>
<b>Net assets (RM'000)</b>	<b>27,504</b>	<b>28,794</b>	<b>30,313</b>	<b>27,499</b>	<b>32,152</b>	<b>46,558</b>
<b>Net assets per ordinary share (sen)</b>	<b>15.85</b>	<b>15.71</b>	<b>15.88</b>	<b>16.00</b>	<b>17.03</b>	<b>16.70</b>
<b>Gearing ratio (%) *</b>	<b>19.75</b>	<b>19.21</b>	<b>17.92</b>	<b>19.75</b>	<b>16.89</b>	<b>11.67</b>

Notes:

All terms used in the Proforma Consolidated Balance Sheets above are as defined hereunder in the Notes to the Proforma Consolidated Balance Sheets.

\* Interest bearing debts divided by shareholders' equity





**PROFORMA CONSOLIDATED BALANCE SHEETS OF DIGISTAR AS AT 30 SEPTEMBER 2005 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

3

**NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 SEPTEMBER 2005**

**1. Basis of Preparation**

- 1.1 The Proforma Consolidated Balance Sheets of Digistar Corporation Berhad ("Digistar" or "Company") together with its subsidiaries ("Digistar Group") are prepared based on the audited consolidated balance sheets of Digistar Group as at 30 September 2005 (being the latest available audited consolidated financial statements of Digistar Group).
- 1.2 The Proforma Consolidated Balance Sheets of Digistar Group have been prepared based on the accounting policies and bases consistent with those normally adopted by Digistar Group in the preparation of its audited financial statements for the financial year ended 30 September 2005 other than the adoption of a new accounting policy on warrants reserve as set out below:-

Accounting Policy for Warrants Reserve

Proceeds from the issuance of warrants, net of issue costs, are credited to a warrants reserve account which is non-distributable. Warrants reserve will be transferred to the share premium account upon the exercise of warrants and the warrants reserve in relation to the unexercised warrants on expiry of the warrants period will be transferred to retained profits.

- 1.3 The audited financial statements of Digistar Group for the financial year ended 30 September 2005 were not subject to any audit qualification.

**2. Rights Issue**

The Rights Issue (as defined below) undertaken by Digistar comprise the following:-

Renounceable rights issue of 90,040,325 new Warrants at an issue price of RM0.01 per Warrant and exercise price of RM0.16 per Warrant on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.10 each held in Digistar at 5.00 p.m. on 22 December 2006 ("Rights Issue").

**3. Utilisation of Proceeds**

The Rights Issue will raise funds for the working capital requirements of Digistar after a portion of the funds raised has been used to defray expenses in relation to the Rights Issue and the Private Placement (as defined in Note 4). The proceeds to be received from the exercise of the Warrants will be utilised for the working capital requirements of Digistar Group.

**4. Completed Transaction**

On 15 June 2006, Hwang-DBS Securities Berhad, on behalf of the Company, had announced Digistar's proposal to undertake a private placement of up to ten percent (10%) of the issued and paid-up share capital of the Company ("Private Placement").

On 2 October 2006, 6,500,000 new ordinary shares of RM0.10 each in Digistar ("Digistar Shares") were allotted to identified investors through the first tranche of the Private Placement at an issue price of RM0.12 per share. There was an increase of RM650,000 in the paid-up share capital of Digistar and an increase of RM130,000 in the share premium account.



**PROFORMA CONSOLIDATED BALANCE SHEETS OF DIGISTAR AS AT 30 SEPTEMBER 2005 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

4

**NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 SEPTEMBER 2005 (CONT'D)**

**5. The Proforma Consolidated Balance Sheets**

**5.1 The Proforma Consolidated Balance Sheets assume that:-**

- (i) Renounceable Rights Issue of 90,040,325 Warrants are issued at an issue price of RM0.01 per Warrant on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.10 held in Digistar and will be fully exercised. The issued and paid-up capital of Digistar as at 30 September 2005 comprises of 173,580,650 ordinary shares of RM0.10 each.
- (ii) None of the outstanding 16,917,200 unexercised options granted under the Digistar's Employees' Share Option Scheme ("ESOS") are exercised prior to the entitlement date of the Rights Issue.
- (iii) Digistar will not grant any new ESOS option prior to the entitlement date of the Rights Issue.
- (iv) Digistar will not issue any further Digistar Shares under the Private Placement prior to the entitlement date of the Rights Issue.

**5.2 Proforma I**

Proforma I incorporates the effects of the completed transaction as set out in Paragraph 4 above.

**5.3 Proforma II**

Proforma II incorporates the cumulative effects of Proforma I and the Rights Issue.

The estimated expenses of the Rights Issue and the Private Placement of RM390,000 are charged against the warrants reserve of Digistar.

The utilisation of proceeds from the issuance of 90,040,325 Warrants are as follows:-

	RM'000
(i) Working capital requirements for Digistar Group	510
(ii) Defraying of expenses incidental to this Rights Issue and the Private Placement	390
	900

**5.4 Proforma III**

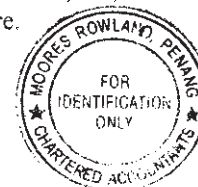
Proforma III incorporates the cumulative effects of Proforma II and the assumed issuance of further Digistar Shares under the Private Placement comprising 10,858,000 Digistar Shares at an issue price of RM0.14 per share, which is at a discount of approximately 5.0% from the five (5)-day weighted average market price ("5-WAMP") of Digistar Shares up to 30 November 2006 of RM0.1474.

**5.5 Proforma IV**

Proforma IV incorporates the cumulative effects of Proforma III and the assumed share buy-back of 10% of the issued and paid-up share capital of the Company ("Share Buy-back") comprising 19,093,800 Digistar Shares at the purchase price of RM0.1474 per share, which is the 5-WAMP of Digistar Shares up to 30 November 2006. This Proforma also assumes that Digistar has sufficient retained profits and share premium on its company level accounts to implement the above Share Buy-back.

**5.6 Proforma V**

Proforma V incorporates the cumulative effects of Proforma IV and the assumed full exercise of 16,917,200 outstanding ESOS options as at 30 November 2006 at the exercise price of RM0.275 per share.



**PROFORMA CONSOLIDATED BALANCE SHEETS OF DIGISTAR AS AT 30 SEPTEMBER 2005 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

5

**NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 SEPTEMBER 2005 (CONT'D)**

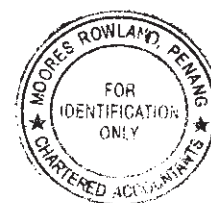
**5. The Proforma Consolidated Balance Sheets (Cont'd)**

**5.7 Proforma VI**

Proforma VI incorporates the cumulative effects of Proforma V and the assumed full exercise of 90,040,325 Warrants at an exercise price of RM0.16 per Warrant into 90,040,325 ordinary shares of RM0.10 each.

**6. Movements in the Share Capital, Share Premium, Capital Redemption Reserve, Warrants Reserve and Retained Profits**

	Share capital RM'000	Share premium RM'000	Capital redemption reserve RM'000	Warrants reserve RM'000	Retained profits
Audited as at 30 September 2005	17,358	1,145	-	-	4,970
Issuance of the 6,500,000 Digistar Shares under the Private Placement	650	130	-	-	-
Per Proforma I	18,008	1,275	-	-	4,970
Rights Issue	-	-	-	900	-
Estimated expenses	-	-	-	(390)	-
Per Proforma II	18,008	1,275	-	510	4,970
The completion of the Private Placement	1,085	434	-	-	-
Per Proforma III	19,093	1,709	-	510	4,970
The Share Buy-back	(1,909)	(1,709)	1,909	-	(1,105)
Per Proforma IV	17,184	-	1,909	510	3,865
The full exercise of the 16,917,200 outstanding ESOS options	1,692	2,961	-	-	-
Per Proforma V	18,876	2,961	1,909	510	3,865
The full exercise of Warrants	9,004	5,912	-	(510)	-
Per Proforma VI	27,880	8,873	1,909	-	3,865



**PROFORMA CONSOLIDATED BALANCE SHEETS OF DIGISTAR AS AT 30 SEPTEMBER 2005 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

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**NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 SEPTEMBER 2005 (CONT'D)**

**7. Movements in the Cash and Bank Balances**

	Cash and bank balances RM'000
Audited as at 30 September 2005	104
Issuance of the 6,500,000 Digistar Shares under the Private Placement	780
Per Proforma I	884
Rights Issue	900
Estimated expenses	(390)
Per Proforma II	1,394
The completion of the Private Placement	1,519
Per Proforma III	2,913
The Share Buy-back	(2,814)
Per Proforma IV	99
The full exercise of the 16,917,200 outstanding ESOS options	4,653
Per Proforma V	4,752
The full exercise of Warrants	14,406
Per Proforma VI	19,158

