
11. ACCOUNTANTS' REPORT



2 October 2003

The Board of Directors
Digistar Corporation Berhad
B5/5/5, 4th Floor, One Ampang Business Avenue,
Jalan Ampang Utama 1/2
68000 Ampang
Selangor Darul Ehsan.

Dear Sirs/Madam

DIGISTAR CORPORATION BERHAD ("DIGISTAR" OR "THE COMPANY") ACCOUNTANTS' REPORT

1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in the Prospectus of Digistar to be dated 10 October 2003 in connection with the Public Issue of 20,860,000 new ordinary shares of RM0.10 each in Digistar at an issue price of RM0.55 per share and the listing of and quotation for the entire enlarged issued and paid-up share capital of Digistar comprising 83,435,325 ordinary shares of RM0.10 each on the MESDAQ Market of the Kuala Lumpur Stock Exchange ("KLSE").

2. DETAILS OF DIGISTAR AND ITS SUBSIDIARIES

2.1 THE COMPANY

The Company was incorporated on 15 January 2003 in Malaysia as a public company under the Malaysian Companies Act, 1965 under the name of Digistar Corporation Berhad. Its principal activity is that of investment holding.

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2.2 RESTRUCTURING AND LISTING SCHEME

In conjunction with and as an integral part of the proposed listing of Digistar on the MESDAQ Market of the KLSE, the Company undertook the following transactions which have been approved by the relevant authorities:-

- (a) the acquisition by Digistar Holdings Sdn. Bhd. ("DHSB") of 49,000 ordinary shares of RM1.00 each in Digistar Properties Sdn. Bhd. ("DPSB") comprising 49.0% of the equity interest in DPSB from Lee Wah Chong and Wa Siew Yam for a total purchase consideration of RM37,264 to be fully satisfied by the issuance of 37,264 new ordinary shares of RM1.00 each in DHSB (the ordinary shares in DHSB are referred to as "DHSB Shares" hereinafter) at an issue price of RM1 per share ("DPSB Acquisition"). The DPSB Acquisition was completed on 13 August 2003;
- (b) the acquisition by Digistar of 2,037,264 DHSB Shares comprising the entire enlarged equity interest in DHSB for a purchase consideration of RM5,006,006 to be fully satisfied by the issuance of 50,060,060 new ordinary shares of RM0.10 each in Digistar (the ordinary shares in Digistar are referred to as "Digistar Shares" hereinafter) at an issue price of RM0.10 per share ("DHSB Acquisition"). The DHSB Acquisition was completed on 14 August 2003;
- (c) the Rights Issue of 12,515,065 new Digistar Shares at an issue price of RM0.10 per share, to be payable in full upon acceptance, on the basis of one (1) rights share for every four (4) existing Digistar Shares held after the DHSB Acquisition ("Rights Issue"). The Rights Issue was completed on 26 September 2003;
- (d) the Public Issue of 20,860,000 new Digistar Shares at an issue price of RM0.55 per share which will be allocated in the following manner ("Public Issue"):-
 - (i) 1,500,000 new Digistar Shares made available for application by the eligible employees;
 - (ii) 3,500,000 new Digistar Shares made available for application by the general public; and
 - (iii) 15,860,000 new Digistar Shares by way of private placement to institutional and individual investors.
- (e) the listing of and quotation for the entire enlarged issued and paid-up share capital of Digistar comprising 83,435,325 Digistar Shares and the new Digistar Shares arising from the exercise of options granted under the Employees' Share Option Scheme ("ESOS") on the MESDAQ Market of the KLSE; and
- (f) the ESOS for eligible employees and executive directors of Digistar and its subsidiaries of up to 30% of the issued and paid-up share capital of Digistar upon listing of Digistar Shares on the MESDAQ Market of the KLSE.

11. ACCOUNTANTS' REPORT *(Cont'd)*



2.3 DETAILS OF THE SUBSIDIARIES

A summary of the details of the subsidiaries of Digistar, all of which are incorporated in Malaysia, as at the date of this report is as follows:-

Name	Date of incorporation	Issued and paid-up share capital	Effective equity interest %	Principal activities
DHSB	8 September 1984	RM2,037,264	100	Design, supply, installation and integration of IT infrastructure, tele-conferencing, local area networks, interactive media management systems, radio and television news automation, telecommunication systems, integrated audio and visual systems and other related electronic system
DPSB*	18 September 1996	RM100,000	100	Provision, maintenance and upkeep of premises
DRMSB#	26 June 2003	RM100	51	R & D of software and hardware to be deployed in the area relating to communication, tele-communication and ICT

Notes:-

- * - *interest held by DHSB.*
- # - *Digistar Rauland MSC Sdn. Bhd. ("DRMSB") became a subsidiary on 26 June 2003.*

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11. ACCOUNTANTS' REPORT (Cont'd)



3. SHARE CAPITAL

As at the date of this report, the authorised share capital of Digistar is RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each.

The issued and paid-up share capital of Digistar as of the date of this report is RM6,257,533 comprising 62,575,325 ordinary shares of RM0.10 each.

The changes in the issued and paid-up share capital of the Company since the date of incorporation are as follows:-

Date of allotment	Number of ordinary shares issued	Resultant number of ordinary shares in issue	Par value	Consideration/ Type of issue	Cumulative issued and paid-up ordinary share capital
			RM		RM
15 January 2003	200	200	0.10	Subscriber shares	20
14 August 2003	50,060,060	50,060,260	0.10	Shares issued pursuant to the DHSB Acquisition	5,006,026
26 September 2003	12,515,065	62,575,325	0.10	Rights Issue on the basis of 1:4	6,257,533

Upon completion of the Public Issue as detailed in paragraph 2.2, the issued and fully paid-up share capital of Digistar will be enlarged to RM8,343,533 comprising 83,435,325 ordinary shares of RM0.10 each.

4. RELEVANT FINANCIAL PERIOD

The relevant financial period for the purpose of this report ("Relevant Financial Period") is as follows:-

Company	Relevant Financial Period
Digistar	Financial period from 15 January 2003 (date of incorporation) to 31 May 2003.
DHSB	Financial years ended 30 September 1998, 1999, 2000, 2001 and 2002, and 8-month period ended 31 May 2003.
DPSB	Financial years ended 30 September 1998, 1999, 2000, 2001 and 2002, and 8-month period ended 31 May 2003.
DRMSB	Not applicable as DRMSB was incorporated on 26 June 2003.

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5. ACCOUNTING STANDARDS AND POLICIES

5.1 BASIS OF PREPARATION

The financial statements of Digistar and its subsidiaries ("Digistar Group" or "the Group") are prepared under the historical cost convention and modified to include other bases of valuation as disclosed under significant accounting policies below. The financial statements comply with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

5.2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group in the preparation of this report are as follows:-

(a) Basis of Consolidation

The proforma consolidated financial statements include the financial statements of the Company and all its subsidiaries.

A subsidiary is defined as a company in which the parent company holds directly or indirectly more than 50% of the equity share capital and has control over the financial and operating policies. All subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

Minority interests are measured at the minorities' share of post acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interests.

(b) Goodwill or Negative Goodwill on Consolidation

Goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the separable net assets of the subsidiaries at the date of acquisition. Negative goodwill represents the excess of the Group's share of the fair values of the separable net assets of the subsidiaries at the date of acquisition over the fair value of the purchase consideration.

Goodwill is stated net of negative goodwill and is retained in the consolidated balance sheet. The carrying value of the goodwill is reviewed annually and is written down for impairment where it is considered necessary. The impairment value of goodwill is taken to the consolidated income statement.

11. ACCOUNTANTS' REPORT *(Cont'd)*



5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

Leasehold land	over remaining lease period of 87 years to 99 years
Leasehold office units	2%
Office lot	2%
Shophouse	2%
Site office cabins	10%
Furniture and fittings	10%
Office equipment	10%
Motor vehicles	20%
Plant and machinery	10%
Renovation	10%

11. ACCOUNTANTS' REPORT *(Cont'd)*



5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Impairment of Assets

The carrying values of assets, other than those to which MASB Standard 23 Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on a same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(f) Assets under Hire Purchase

Plant and equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in Note 5.2(d) above. Each hire purchase payment is allocated between the liability and finance charges as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the period of the respective hire purchase agreements.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition.

In arriving at net realisable value, due allowance is made for all damaged, obsolete and slow-moving items.

11. ACCOUNTANTS' REPORT *(Cont'd)*



5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

(i) Amount Owing By/To Contract Customers

The amount owing by/to contract customers is stated at cost plus profits attributable to contracts in progress less progress billings and provision for foreseeable losses, if any. Cost includes direct materials, labour and applicable overheads.

(j) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(k) Taxation

Taxation for the year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

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**5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(l) Equity Instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(m) Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are converted at the approximate rates ruling as of that date. All exchange differences are taken to the income statement.

(n) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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11. ACCOUNTANTS' REPORT *(Cont'd)*



5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Revenue Recognition

(i) *Contract Revenue*

Revenue on contracts is recognised on the percentage of completion method unless the outcome of the contract cannot be reliably determined, in which case revenue on contracts is only recognised to the extent of contract costs incurred that are recoverable. Foreseeable losses, if any, are provided for in full as and when it can be reasonably ascertained that the contract will result in a loss.

The stage of completion is determined based on surveys of work performed.

Prior to 1 October 2001, revenue on contracts was recognised on a receipt basis. During the financial year ended 30 September 2002, the Group changed its accounting policy with regards to the revenue recognition of contracts to conform with the requirements of MASB 7 – Accounting for Construction Contracts. The change in the accounting policy was made retrospectively and the financial effects of the change on previous financial years had been accounted for as prior year adjustments.

(ii) *Sales of Goods and Services*

Sales are recognised upon delivery of goods and customers' acceptance or performance of services.

(iii) *Rental Income*

Rental income is recognised on an accrual basis.

(iv) *Interest Income*

Interest income is recognised on an accrual basis, based on the effective yield on the investment.

5.3 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES

There were no changes in the significant accounting policies adopted by the Group during the Relevant Financial Period other than as disclosed in paragraph 5.2(o)(i).

11. ACCOUNTANTS' REPORT (*Cont'd*)



6. AUDITORS AND AUDIT REPORTS

6.1 AUDITORS

We have acted as the auditors for Digistar, DHSB and DPSB for the Relevant Financial Period except for DHSB and DPSB for the financial years ended 30 September 1998 to 30 September 2001. The financial statements of DHSB and DPSB for the financial years ended 30 September 1998 to 30 September 2001 were audited by other firms of accountants.

6.2 AUDIT REPORTS

The financial statements of Digistar and DPSB for the Relevant Financial Period were reported upon without any qualification. The financial statements of DHSB for the Relevant Financial Period were reported upon without any qualification, except for the financial years ended 30 September 1998 and 1999. The audit qualifications for those financial years are as follows:-

(a) 30 September 1998

The auditor highlighted that the system of internal control was dependent on the close involvement of the directors who were also the major shareholders. Where independent confirmation of the completeness of the accounting records was not available, the auditor had accepted assurances from the directors that all the DHSB's transactions had been reflected in the financial statements.

The inventories were based on management's count and valuation.

(b) 30 September 1999

The auditor highlighted that the system of internal control was dependent on the close involvement of the directors who were also the major shareholders. Where independent confirmation of the completeness of the accounting records was not available, the auditor had accepted assurances from the directors that all the DHSB's transactions had been reflected in the financial statements.

In addition, the auditor qualified the following :-

(i) *the auditor did not observe the physical inventories count at the balance sheet date, and indicated that they were unable to satisfy themselves as to the quantities and valuation of the inventories by other means of auditing procedures; and*

(ii) *the auditor did not receive any confirmation from trade payables, and were unable to verify to supporting documents as to the accuracy and correctness of the amounts as stated. Accordingly, the auditors were unable to ascertain the accuracy and correctness of the sales and purchases of DHSB.*

No audit report has been prepared for DRMSB as no audited financial statements have been prepared since the date of its incorporation.

11. ACCOUNTANTS' REPORT (Cont'd)



7. SUMMARISED INCOME STATEMENTS

7.1 PROFORMA CONSOLIDATED INCOME STATEMENTS OF DIGISTAR GROUP

The summarised proforma consolidated results of the Digistar Group for the Relevant Financial Period have been prepared on the assumption that Digistar Group had been in existence throughout the Relevant Financial Period. The proforma consolidated income statements are prepared for illustration purposes only and should be read in conjunction with the notes hereto:-

	Year ended 30 September					Period from
	1998	1999	2000	2001	2002	1.10.2002 to
	RM'000	RM'000	RM'000	RM'000	RM'000	31.5.2003
						RM'000
Turnover	12,093	9,949	11,964	20,589	21,712	30,482
Cost of sales	(9,419)	(7,782)	(9,295)	(16,259)	(15,986)	(22,523)
Gross profit	2,674	2,167	2,669	4,330	5,726	7,959
Other operating income	18	20	10	83	32	269
Administrative and other operating expenses	(2,142)	(1,704)	(2,147)	(3,087)	(3,997)	(2,768)
Finance costs	(167)	(132)	(152)	(215)	(253)	(243)
Operating profit	383	351	380	1,111	1,508	5,217
Depreciation	188	184	293	363	310	292
Interest expense	132	106	128	171	166	127
Earnings before interest, depreciation, taxation and amortisation ("EBIDTA")	703	641	801	1,645	1,984	5,636
Less : Depreciation	(188)	(184)	(293)	(363)	(310)	(292)
Interest expense	(132)	(106)	(128)	(171)	(166)	(127)
Add : Interest income	58	82	41	13	119	61
Profit before taxation ("PBT")	441	433	421	1,124	1,627	5,278
Taxation	(167)	(41)	(161)	(464)	(597)	(1,567)
Profit after taxation ("PAT")	274	392	260	660	1,030	3,711
Assumed number of ordinary shares of RM0.10 each in issue* ('000)	62,575	62,575	62,575	62,575	62,575	62,575
Gross earnings per share ("EPS") (sen)	0.7	0.7	0.7	1.8	2.6	12.7 #
Net EPS (sen)	0.4	0.6	0.4	1.1	1.6	8.9 #

* - Based on the number of Digistar Shares in issue before the Public Issue.

- Annualised.

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7.1 PROFORMA CONSOLIDATED INCOME STATEMENTS OF DIGISTAR GROUP (CONT'D)

Notes to the proforma consolidated income statements of Digistar Group:-

- (a) *The proforma consolidated income statements for the Relevant Financial Period have been prepared based on accounting policies consistent with those adopted in the preparation of the audited financial statements of Digistar Group.*
- (b) *The difference between the effective tax rate and the statutory tax rate is explained in the notes to the income statements of each individual company.*
- (c) *There were no extraordinary or exceptional items during the Relevant Financial Period under review.*
- (d) *The proforma gross EPS is computed by dividing the profit before taxation by the assumed number of ordinary shares in issue, based on the existing paid-up share capital before the Public Issue.*
- (e) *The proforma net EPS is computed by dividing the profit after taxation by the assumed number of ordinary shares in issue, based on the existing paid-up share capital before the Public Issue.*
- (f) *All significant intra-group transactions are eliminated on consolidation and the consolidated results reflect external transactions only.*
- (g) *The proforma figures for the financial years ended 30 September 1998 to 30 September 2001 have been restated to reflect the prior year adjustments, details of which are set out in Paragraph 7.3(k).*

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7.2 INCOME STATEMENT OF DIGISTAR

The summarised results of Digistar based on its audited financial statements for the Relevant Financial Period are set out below:-

	Period from 15.1.2003 to 31.5.2003 RM'000
Turnover	-
Administrative and other operating expenses	-
EBIDTA/PBT	<hr/> -
Taxation	-
PAT	<hr/> - <hr/>
Number of ordinary shares of RM0.10 each in issue	<hr/> 200 <hr/>
Gross EPS (sen)	<hr/> - <hr/>
Net EPS (sen)	<hr/> - <hr/>

Note:

All incorporation costs and pre-operating expenses of Digistar have been absorbed by DHSB.

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11. ACCOUNTANTS' REPORT (Cont'd)



7.3 INCOME STATEMENTS OF DHSB

The summarised results of DHSB based on its audited financial statements for the Relevant Financial Period after incorporating the adjustments as stated in Note 7.3(k), are set out below:-

	Year ended 30 September					Period from
	1998	1999	2000	2001	2002	1.10.2002 to 31.5.2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	12,093	9,949	11,964	20,589	21,708	30,455
Cost of sales	(9,419)	(7,782)	(9,295)	(16,258)	(15,985)	(22,523)
Gross profit	2,674	2,167	2,669	4,331	5,723	7,932
Other operating income	18	20	10	83	32	269
Administrative and other operating expenses	(2,186)	(1,754)	(2,224)	(2,981)	(4,114)	(2,813)
Finance costs	(132)	(132)	(152)	(215)	(253)	(243)
Operating profit	374	301	303	1,218	1,388	5,145
Depreciation	177	167	277	338	250	253
Interest expense	132	113	126	171	167	127
EBIDTA	683	581	706	1,727	1,805	5,525
Less : Depreciation	(177)	(167)	(277)	(338)	(250)	(253)
Interest expense	(132)	(113)	(126)	(171)	(167)	(127)
Add : Interest income	58	83	41	13	202	61
PBT	432	384	344	1,231	1,590	5,206
Taxation	(159)	(42)	(134)	(440)	(568)	(1,536)
PAT	273	342	210	791	1,022	3,670
Weighted average number of ordinary shares of RM1 each in issue ('000)	1,000	1,000	1,000	1,000	1,625	2,000
Gross EPS (sen)	43.2	38.4	34.4	123.1	97.8	390.5 #
Net EPS (sen)	27.3	34.2	21.0	79.1	62.9	275.3 #

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7.3 INCOME STATEMENTS OF DHSB (CONT'D)

Notes to the income statements of DHSB:-

- (a) Turnover for the financial year ("FY") 1998 increased by 4% to RM12.09 million due to several new projects secured in this financial year. Despite the increase in turnover, profit before taxation decreased by RM31,000 to RM432,000 mainly due to higher operating expenses and depreciation charges.
- (b) Turnover decreased to RM9.95 million for FY1999 as a result of the lower contract value of the new contracts secured and executed during the financial year and contracts brought forward from the previous years were substantially completed in the FY 1998. DHSB recorded a profit before taxation of RM384,000 for the FY1999, a fall of 11% as compared to that for the FY1998, in line with the lower turnover.
- (c) Turnover for the FY2000 increased by 20% to RM11.96 million mainly due to the larger contracts secured during the financial year including the Hospital Pandan project in Johor Bahru. Despite the significant increase in turnover, profit before taxation decreased by RM40,000 to RM344,000 mainly due to higher operating overheads arising from the anticipated increase in the level of activities and higher staff costs incurred.
- (d) Turnover for the FY2001 increased by 72% to RM20.59 million largely due to the new bigger projects from the healthcare sector and relating to telecommunication, audio and visual and other related electronic systems of convention and training centres undertaken during the FY2001. These projects with higher contract values included projects such as the MTC Intan Bukit Kiara, Istana Budaya and Hospital Lahad Datu. As a result of the significant increase in turnover, profit before taxation increased substantially to approximately RM1.23 million as operating overheads increased less than proportionately.
- (e) Turnover for the FY2002 increased by 5% to RM21.71 million largely due to more hospital projects secured and executed during the financial year such as Hospital Serdang, Hospital Keningau, Hospital Ampang, Hospital Alor Star and Hospital Kepala Batas. Profit before taxation increased by 29% to approximately RM1.59 million due to better gross profit margin as a result of improved efficiency on project management by DHSB.
- (f) Turnover for the financial period ended 31 May 2003 increased by more than 100% on an annualised basis compared with the previous financial year. The increase is mainly due to the execution of projects with larger contract values during the financial period such as Putrajaya Convention Centre, University Malaysia Sabah, Hospital Serdang, Hospital Temerloh and Hospital Sungei Buloh. As a result of the significant increase in turnover and cost-control measures implemented, profit before taxation increased substantially to approximately RM5.2 million.
- (g) No provision for tax was made for the profit for the FY1999 as the amount of tax payable was waived, in accordance with the provisions of the Income Tax (Amendment) Act, 1999. The effective tax rates of DHSB for the FY1998, 2000, 2001, 2002 and the financial period ended 31 May 2003 were higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes.
- (h) There was no exceptional or extraordinary item in the Relevant Financial Period under review.

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7.3 INCOME STATEMENTS OF DHSB (CONT'D)

- (i) The gross EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.
- (j) The net EPS is computed by dividing the profit after taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.
- (k) The figures for the financial years ended 30 September 1998 to 30 September 2001 have been restated to conform with the change in accounting policy as explained in Paragraph 5.2(o)(i). Details of the financial effects are as follows:-

	{-----Year ended 30 September -----}			
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
<u>Turnover</u>				
As reported in the audited financial statements	11,120	10,089	13,173	18,869
Effects of change in policy	973	(140)	(1,209)	1,720
As restated	<u>12,093</u>	<u>9,949</u>	<u>11,964</u>	<u>20,589</u>
<u>Gross Profit</u>				
As reported in the audited financial statements	2,424	2,065	2,862	3,928
Effects of change in policy	250	102	(193)	403
As restated	<u>2,674</u>	<u>2,167</u>	<u>2,669</u>	<u>4,331</u>
<u>PBT</u>				
As reported in the audited financial statements	182	282	537	828
Effects of change in policy	250	102	(193)	403
As restated	<u>432</u>	<u>384</u>	<u>344</u>	<u>1,231</u>
<u>PAT</u>				
As reported in the audited financial statements	104	273	340	518
Effects of change in policy	169	69	(130)	273
As restated	<u>273</u>	<u>342</u>	<u>210</u>	<u>791</u>

11. ACCOUNTANTS' REPORT (Cont'd)



7.4 INCOME STATEMENTS OF DPSB

The summarised results of DPSB based on its audited financial statements for the Relevant Financial Period are set out below:-

	Year ended 30 September					Period from
	1998	1999	2000	2001	2002	1.10.2002 to
	RM'000	RM'000	RM'000	RM'000	RM'000	31.5.2003
						RM'000
Turnover	46	84	108	108	181	146
Administrative and other operating expenses	(37)	(34)	(31)	(215)	(61)	(74)
Finance costs	-	-	-	-	(83)	-
Operating profit/(loss)	9	50	77	(107)	37	72
Depreciation	12	16	16	25	59	40
Interest expense	-	-	-	-	83	-
EBIDTA	21	66	93	(82)	179	112
Less : Depreciation	(12)	(16)	(16)	(25)	(59)	(40)
Interest expense	-	-	-	-	(83)	-
PBT/(Loss) before taxation ("LBT")	9	50	77	(107)	37	72
Taxation	(8)	-	(25)	(24)	(30)	(31)
PAT/(Loss) after taxation ("LAT")	1	50	52	(131)	7	41
Number of ordinary shares of RM1 each in issue ('000)	100	100	100	100	100	100
Gross EPS/(Loss) per share ("LPS") (sen)	9.0	50.0	77.0	(107.0)	37.0	108.0#
Net EPS/(LPS) (sen)	1.0	50.0	52.0	(131.0)	7.0	61.5#

- Annualised.

11. ACCOUNTANTS' REPORT *(Cont'd)*



7.4 INCOME STATEMENTS OF DPSB (CONT'D)

Notes to the income statements of DPSB:-

- (a) *The loss for the FY2001 was due to the write-off of the deposit paid by DPSB for the purchase of a piece of property under development which was subsequently abandoned by the developer.*
- (b) *No provision for tax was made for the profit for the FY1999 as the amount of tax payable was waived, in accordance with the provisions of the Income Tax (Amendment) Act, 1999. The effective tax rates of DPSB for the FY1998, 2000, 2002 and financial period ended 31 May 2003 were higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes. There was a tax charge despite the loss incurred for the FY2001 due to certain expenses being disallowed for taxation purposes.*
- (c) *There was no exceptional or extraordinary item in the Relevant Financial Period under review.*
- (d) *The gross EPS/LPS is computed by dividing the profit/(loss) before taxation by the number of ordinary shares in issue, for the respective Relevant Financial Period under review.*
- (e) *The net EPS/LPS is computed by dividing the profit/(loss) after taxation by the number of ordinary shares in issue, for the respective Relevant Financial Period under review.*

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11. ACCOUNTANTS' REPORT (Cont'd)


8. SUMMARISED BALANCE SHEETS
8.1 DIGISTAR

The summarised balance sheet of Digistar based on its audited financial statements as at the end of the Relevant Financial Period is as follows:-

	At 31 May 2003 RM'000
Property, plant and equipment	-
Current assets	#
Current liabilities	-
Net current assets	#
	#
Financed by:-	
Share capital	#
Retained profits	-
Shareholders' equity	#
Net tangible assets ("NTA") per ordinary share (RM)	0.10
# - RM20	

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11. ACCOUNTANTS' REPORT (Cont'd)



8.2 DHSB

The summarised balance sheets of DHSB based on its audited financial statements as at the end of the Relevant Financial Period, after incorporating the adjustments as stated in Note 7.3(k), are as follows:-

	-----At 30 September-----					At 31 May
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Property, plant and equipment	693	691	881	1,131	1,663	1,582
Investment in a subsidiary	51	51	51	51	51	51
	<u>744</u>	<u>742</u>	<u>932</u>	<u>1,182</u>	<u>1,714</u>	<u>1,633</u>
Current assets	4,088	4,410	5,261	7,229	11,166	14,673
Current liabilities	(2,817)	(2,832)	(3,640)	(5,157)	(7,214)	(6,469)
Net current assets	<u>1,271</u>	<u>1,578</u>	<u>1,621</u>	<u>2,072</u>	<u>3,952</u>	<u>8,204</u>
	<u>2,015</u>	<u>2,320</u>	<u>2,553</u>	<u>3,254</u>	<u>5,666</u>	<u>9,837</u>
Financed by:-						
Share capital	1,000	1,000	1,000	1,000	2,000	2,000
Retained profits	616	958	1,168	1,959	2,981	6,651
Shareholders' equity	<u>1,616</u>	<u>1,958</u>	<u>2,168</u>	<u>2,959</u>	<u>4,981</u>	<u>8,651</u>
Non current liabilities	399	362	385	295	685	1,186
	<u>2,015</u>	<u>2,320</u>	<u>2,553</u>	<u>3,254</u>	<u>5,666</u>	<u>9,837</u>
NTA per ordinary share (RM)	<u>1.62</u>	<u>1.96</u>	<u>2.17</u>	<u>2.96</u>	<u>2.49</u>	<u>4.33</u>

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11. ACCOUNTANTS' REPORT (Cont'd)



8.3 DPSB

The summarised balance sheets of DPSB based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	At 30 September					At 31 May
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Property, plant and equipment	1,246	1,638	1,622	2,223	2,941	3,356
Current assets	2	3	3	4	4	32
Current liabilities	(1,150)	(1,493)	(1,425)	(2,158)	(2,869)	(3,271)
Net current liabilities	(1,148)	(1,490)	(1,422)	(2,154)	(2,865)	(3,239)
	<u>98</u>	<u>148</u>	<u>200</u>	<u>69</u>	<u>76</u>	<u>117</u>
Financed by:-						
Share capital	100	100	100	100	100	100
(Accumulated losses)/ Retained profits	(2)	48	100	(31)	(24)	17
Shareholders' equity	<u>98</u>	<u>148</u>	<u>200</u>	<u>69</u>	<u>76</u>	<u>117</u>
NTA per ordinary share (RM)	<u>0.98</u>	<u>1.48</u>	<u>2.00</u>	<u>0.69</u>	<u>0.76</u>	<u>1.17</u>

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11. ACCOUNTANTS' REPORT (Cont'd)

**9. DIVIDENDS FOR THE RELEVANT FINANCIAL PERIOD**

Digistar, DHSB and DPSB have not paid or declared any dividend during the Relevant Financial Period.

10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES

The proforma statements of assets and liabilities of Digistar Group at 31 May 2003 are prepared based on the audited financial statements of Digistar, DHSB and DPSB as at 31 May 2003.

The Proforma Group's statements of assets and liabilities are provided for illustrative purposes only to show the effects of the following transactions as if they had been completed as at 31 May 2003:-

Proforma I - the DPSB Acquisition by DHSB, the DHSB Acquisition by Digistar and the Rights Issue; and

Proforma II - after incorporating the effects of Proforma I and the Public Issue of 20,860,000 new ordinary shares of RM0.10 each in Digistar at an issue price of RM0.55 per share.

The Proforma Group's statements of assets and liabilities should be read in conjunction with the accompanying notes thereon.

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11. ACCOUNTANTS' REPORT (Cont'd)



10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

	Notes	(Audited) As At 31 May 2003 RM'000	Group Proforma I RM'000	Group Proforma II RM'000
Property, plant and equipment	10.1	-	4,938	4,938
Current assets				
Inventories for resale	10.2	-	1,657	1,657
Trade receivables	10.3	-	3,562	3,562
Amount owing by contract customers	10.4	-	1,078	1,078
Other receivables, deposits and prepayments	10.5	-	2,241	2,241
Fixed deposits with licensed banks	10.6	-	2,802	2,802
Cash and bank balances		#	1,362	11,635
Total current assets		#	12,702	22,975
Current liabilities				
Trade payables	10.7	-	3,420	3,420
Other payables and accruals		-	336	336
Amount owing to directors	10.8	-	184	184
Hire purchase payables	10.9	-	294	294
Short term borrowings	10.10	-	388	388
Bank overdrafts	10.11	-	799	799
Provision for taxation		-	1,064	1,064
Total current liabilities		-	6,485	6,485
Net current assets		#	6,217	16,490
		#	11,155	21,428
Financed by:				
Share capital	10.12	#	6,258	8,344
Share premium	10.13	-	-	8,187
Negative goodwill	10.14	-	3,711	3,711
Shareholders' equity		#	9,969	20,242
Non-current liabilities				
Long term borrowings	10.15	-	1,101	1,101
Deferred taxation	10.16	-	85	85
		#	11,155	21,428
Number of ordinary shares in issue ('000)		0.2	62,575	83,435
NTA per ordinary share (RM)		0.10	0.16	0.24

- RM20

11. ACCOUNTANTS' REPORT (Cont'd)



10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

Notes to the Proforma Statements of Assets and Liabilities:-

10.1 PROPERTY, PLANT AND EQUIPMENT

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Leasehold land	232	(4)	228
Office lot, shophouse and leasehold office units	3,376	(181)	3,195
Site office cabins, plant, machinery, furniture and fittings	205	(81)	124
Office equipment and renovation	888	(325)	563
Motor vehicles	2,028	(1,200)	828
	<u>6,729</u>	<u>(1,791)</u>	<u>4,938</u>

The motor vehicles of the Group acquired under hire purchase terms at the balance sheet were carried at a total net book value of RM728,931.

The carrying value of assets pledged as security for credit facilities granted to the Group are as follows:-

	RM'000
Leasehold office units	2,971
Office lot	68
	<u>3,039</u>

10.2 INVENTORIES FOR RESALE

Inventories are stated at cost. There are no inventories carried at net realisable value.

10.3 TRADE RECEIVABLES

	RM'000
Gross trade receivables	3,929
Allowance for doubtful debts	(367)
	<u>3,562</u>

The Group's normal credit terms of trade receivables range from 30 days to 60 days.

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11. ACCOUNTANTS' REPORT *(Cont'd)*



10.4 AMOUNT OWING BY CONTRACT CUSTOMERS

	RM'000
Contract costs incurred to date	2,399
Attributable profits	516
	<u>2,915</u>
Progress billings	<u>(1,837)</u>
	<u><u>1,078</u></u>

10.5 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in other receivables, deposits and prepayments is an amount owing by a related party of RM1,893,907. The amount owing is unsecured, interest-free, not subject to fixed terms of repayment.

As at the date of this report, the amount owing has been fully repaid.

10.6 FIXED DEPOSITS WITH LICENSED BANKS

The fixed deposits amounting to RM2,142,169 have been pledged as security for banking facilities granted to a subsidiary.

The fixed deposits bore interest at an effective rate of 3.15% per annum and had an average maturity period of 365 days.

10.7 TRADE PAYABLES

The Group's normal credit terms of trade payables range from cash terms to 60 days credit.

The foreign currency exposure profile of trade payables of the Group is as follows:

	RM'000
RM equivalent of trade payables denominated in United States Dollar	<u><u>873</u></u>

10.8 AMOUNT OWING TO DIRECTORS

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

11. ACCOUNTANTS' REPORT (Cont'd)



10.9 HIRE PURCHASE PAYABLES

	RM'000
Future minimum hire purchase payables:-	
- Not later than one year	349
- Later than one year and not later than five years	526
	<u>875</u>
Future finance charges	<u>(163)</u>
Present value of hire purchase liabilities	<u><u>712</u></u>

The net hire purchase payables are repayable as follows:-

Current:	
- not later than one year	294
Non-current:	
- later than one year but not later than five years (Note 10.15)	<u>418</u>
	<u><u>712</u></u>

10.10 SHORT TERM BORROWINGS

	Weighted average effective interest rate %	RM'000
Current portion of term loan (Note 10.15)	4.88	104
Bankers' acceptances	8.00	<u>284</u>
		<u><u>388</u></u>

The bankers' acceptances are secured as follows:-

- (i) by legal charges over certain properties belonging to the subsidiaries;
- (ii) by a pledge of fixed deposits belonging to one of the subsidiaries; and
- (iii) by the joint and several guarantee of certain directors of a subsidiary.

11. ACCOUNTANTS' REPORT (Cont'd)



10.11 BANK OVERDRAFTS

The bank overdrafts bear effective interest at rates ranging from 8.0% to 8.15% per annum and are secured in the same manner as the bankers' acceptances as disclosed in Note 10.10 above.

10.12 SHARE CAPITAL

	Number of Ordinary Shares	RM'000
Ordinary shares of RM0.10 each		
At 15 January 2003 (Date of incorporation)	2,500,000	250
Creation during the financial period	247,500,000	24,750
At 31 May 2003	<u>250,000,000</u>	<u>25,000</u>

The movements in the issued and paid-up share capital of Digistar are as follows:-

	Number of Ordinary Shares	RM'000
As 15 January 2003/31 May 2003	200	*
Ordinary shares issued pursuant to:		
- DHSB Acquisition	50,060,060	5,006
- Rights Issue	12,515,065	1,252
Per Proforma I	<u>62,575,325</u>	<u>6,258</u>
Public Issue	20,860,000	2,086
Per Proforma II	<u>83,435,325</u>	<u>8,344</u>

* - RM20

10.13 SHARE PREMIUM

	RM'000
At 15 January 2003 (Date of incorporation)	-
Arising from Public Issue	9,387
Estimated listing expenses written off	(1,200)
Per Proforma II	<u>8,187</u>

10.14 NEGATIVE GOODWILL

	RM'000
At 15 January 2003 (Date of incorporation)	-
Negative goodwill arising from consolidation	3,711
Per Proforma I/II	<u>3,711</u>

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11. ACCOUNTANTS' REPORT (Cont'd)


10.15 LONG TERM BORROWINGS

	RM'000
Term loan (Secured)	787
Portion repayable within twelve months (Note 10.10)	<u>(104)</u>
	683
Hire purchase payables (Note 10.9)	<u>418</u>
	<u><u>1,101</u></u>

The term loan bears interest at 4.88% per annum and is secured in the same manner as the bankers' acceptances as disclosed in Note 10.10 above.

The term loan is repayable by 96 equal monthly instalments of RM11,695 each with effect from December 2002.

10.16 DEFERRED TAXATION

The deferred taxation is in respect of timing differences between depreciation charges and capital allowances claimed on qualifying assets.

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11. ACCOUNTANTS' REPORT (Cont'd)



11. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The proforma consolidated cash flow statement of Digistar Group set out below is based on the audited financial statements of Digistar, DHSB and DPSB for the financial period from 1 October 2002 to 31 May 2003, and is presented on the basis that the Digistar Group had been in existence throughout the Relevant Financial Period.

	Period from 1.10.2002 to 31.5.2003 RM'000
Cash Flows From Operating Activities	
Profit before taxation	5,278
Adjustments for:-	
Depreciation of property, plant and equipment	292
Interest expense	127
Interest income	(61)
Writeback of allowance for doubtful debts	(185)
Operating profit before working capital changes	<u>5,451</u>
Increase in inventories	(223)
Increase in trade and other receivables	(4,028)
Increase in trade and other payables	54
Decrease in amount owing by contract customers	<u>1,610</u>
Cash From Operations	2,864
Interest paid	(127)
Income tax paid	<u>(1,099)</u>
Net Cash From Operating Activities	1,638
Cash Flows For Investing Activities	
Purchase of property, plant and equipment	(583)
Interest received	61
Net Cash For Investing Activities	(522)
Cash Flows For Financing Activities	
Decrease in bills payable	(107)
Drawdown of term loan	838
Net advances to a director	(689)
Repayment of hire purchase obligations	(157)
Repayment of term loan	<u>(50)</u>
Net Cash For Financing Activities	<u>(165)</u>
Net Increase In Cash And Cash Equivalents	951
Cash And Cash Equivalents At Beginning Of The Financial Period	<u>1,163</u>
Cash And Cash Equivalents At End Of The Financial Period	<u><u>2,114</u></u>

11. ACCOUNTANTS' REPORT (Cont'd)



11. PROFORMA CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

ANALYSIS OF CASH AND CASH EQUIVALENTS

	RM'000
Fixed deposits with licensed banks	2,802
Cash and bank balances	111
Bank overdrafts	(799)
	2,114
	2,114

12. NET TANGIBLE ASSETS PER ORDINARY SHARE

The net tangible assets cover of Digistar based on the Proforma Group's statements of assets and liabilities as at 31 May 2003 as set out in Paragraph 10 above is illustrated below:-

	RM'000
Net tangible assets of Digistar Group before the Public Issue	9,969
Increase in net tangible assets arising from the Public Issue	11,473
Less: Estimated listing expenses	(1,200)
	20,242
Proforma net tangible assets	20,242

Number of ordinary shares of RM0.10 each in Digistar that are in issue:-

	Number of ordinary shares
Existing ordinary shares in issue	62,575,325
Ordinary shares to be issued pursuant to the Public Issue	20,860,000
Enlarged share capital after the Public Issue	83,435,325

On the basis of the enlarged issued and paid-up share capital of 83,435,325 ordinary shares of RM0.10 each in Digistar, the Group net tangible assets cover per ordinary share of Digistar is approximately RM0.24.

13. SUBSEQUENT EVENTS

There were no significant subsequent events between the date of the last financial statements used in the preparation of this report and the date of this report which will affect materially the content of this report.

11. ACCOUNTANTS' REPORT *(Cont'd)*



14. AUDITED FINANCIAL STATEMENTS

As of the date of this report, no audited financial statements have been prepared in respect of any period subsequent to 31 May 2003 for Digistar Group.

Yours faithfully

A handwritten signature in black ink, appearing to be "J. Lee".

Horwath
Firm No : AF 1018
Chartered Accountants

A handwritten signature in black ink, appearing to be "Onn Kien Hoe".

Onn Kien Hoe
Approval No : 1772/11/04 (J/PH)
Partner

12. DIRECTORS' REPORT



DIGISTAR CORPORATION BERHAD

(Co. No. 603652-K)

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TEL: 603-4253 4319 (Hunting Line) FAX: 603-4257 2168

E-mail: digista@digistar.com.my Website: www.digistar.com.my

Registered Office:

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

22 OCT 2003

The Shareholders

Digistar Corporation Berhad ("DCB" or Company")

Dear Sir / Madam,

On behalf of the Board of DCB, I wish to report after due inquiry that during the period from 31 May 2003, being a date to which the last audited financial statements of the Company and its subsidiaries have been made up, to the date hereof, being a date not earlier than fourteen (14) days before the issue of this Prospectus, that:

- (i) the business of the Company and its subsidiaries have, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of the Board of Directors, no circumstances have arisen, since the last audited financial statements of the Company and its subsidiaries, which have adversely affected the trading or the value of the assets of the Company or any of its subsidiaries within the Group;
- (iii) the current assets of the Company and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) there are no contingent liabilities by reason of any guarantees or indemnities given by the Company or its subsidiaries;
- (v) there have not been, since the last audited financial statements of the Company and its subsidiaries, any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which they are aware of; and
- (vi) save as disclosed in the Accountants' Report and the Proforma Consolidated Balance Sheets in this Prospectus, there have been no changes in published reserves nor any unusual factor affecting the profits of the Company or its subsidiaries since the last audited financial statements of the Company and its subsidiaries.

Yours faithfully

For and on behalf of the Board of Directors

DIGISTAR CORPORATION BERHAD


LEE WAH CHONG
Managing Director