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## 2. PARTICULARS OF THE PUBLIC ISSUE

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### 2.1 INTRODUCTION

This Prospectus is dated 10 October 2003.

A copy of this Prospectus has been registered by the SC and lodged with the Registrar of Companies, and neither the SC nor the Registrar of Companies takes any responsibility for its contents.

**Approval has been obtained from the SC for the proposed listing of Digistar on 3 July 2003. Approval has also been obtained from the KLSE on 4 July 2003 for the proposed listing of Digistar and for admission to the Official List of MESDAQ Market and for permission to deal in and for quotation of the entire issued and paid-up share capital of Digistar including the Public Issue Shares which are the subject of this Prospectus.**

The Digistar Shares will be admitted to the Official List of the MESDAQ Market of the KLSE and official quotation will commence after the receipt of confirmation from the MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991 and Section 39(1)(j) of the Companies Act, 1965, the KLSE has prescribed Digistar Shares as a CDS security. In consequence thereof, the Public Issue Shares will be deposited directly with the MCD and any dealings in these shares will be carried out in accordance with the aforesaid Acts and the Rules of the MCD.

An applicant who presently has a CDS Account should state his CDS Account number in the Application Form. Where an applicant does not presently have a CDS account, he should state in the Application Form or Electronic Share Application his preferred ADA Code.

The acceptance of applications will be conditional upon permission being granted to deal in and quotation for all the issued shares of the Company. In the event the said permission is not granted, the full amount of the application monies, without interest, will be returned to the applicant by ordinary post at the address shown on the Application Form at the applicant's own risk.

No person is authorised to give any information or to make any representation not contained herein in connection with the Public Issue, and, if given or made, such information or representation must not be relied upon as having been authorised by Digistar. Neither the delivery of this Prospectus nor any sale made in connection with this Prospectus shall, in any circumstance, and at any time constitute a representation or create any implication that there has been no change in the affairs of Digistar or the Group since the date hereof.






The distribution of this Prospectus and the making of the Public Issue in certain other jurisdictions outside Malaysia may be restricted by law. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe all such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Public Issue Shares in any jurisdiction in which such invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

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

## 2. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

### 2.2 INDICATIVE TIMETABLE

The indicative timing of events leading up to the listing of and quotation for the Company's entire enlarged issued and paid-up share capital of RM8,343,533 comprising 83,435,325 Digistar Shares on the MESDAQ Market of the KLSE is set out below:

Date		Event
10 October 2003		Opening date of Application
22 October 2003*		Closing date of Application
28 October 2003		Target date for balloting of applications
3 November 2003		Target date of allotment of shares
7 November 2003		Target date for listing of the Company's entire enlarged issued and paid-up share capital on the MESDAQ Market of the KLSE

**Note:**

- \* *The directors and the Underwriter may in their absolute discretion mutually decide to extend the closing date of the application to a further date or dates. Should the closing date of the application be extended, the dates for the allotment of the Public Issue Shares and the listing of and quotation for the entire enlarged issued and paid-up share capital of Digistar on the MESDAQ Market of the KLSE would be extended accordingly. Digistar will notify the public via an advertisement in a widely circulated English newspaper in the event there is an extension of time on the closing date of the application.*

### 2.3 PURPOSE OF THE PUBLIC ISSUE

The purposes of the Public Issue are as follows:

- (i) To raise funds for the Group's continued operation and expansion, details of which are elaborated in the Section on "Utilisation of Proceeds" below;
- (ii) To enable the Digistar Group to gain access to the capital market to raise funds for future expansion and continued growth of the Digistar Group;
- (iii) To provide an opportunity for the eligible employees of the Digistar Group as well as the Malaysian public to participate in the continuing growth of the Group by way of equity participation; and
- (iv) To obtain the listing of and quotation for the entire enlarged issued and paid-up ordinary share capital of 83,435,325 Digistar Shares on the MESDAQ Market of KLSE, which is expected to enhance the business, profile and future prospects of the Group.

## 2. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

### 2.4 CLASSES OF SHARES AND RIGHTS

There is only one (1) class of shares in Digistar namely ordinary shares of RM0.10 each. The Public Issue Shares will rank *pari passu* in all respects with the existing Digistar Shares in issue except that they shall not rank for any dividends, rights, allotments and/or distributions declared or paid prior to the allotment thereof.

At any general meeting of the Company, each shareholder shall be entitled to vote at any general meeting of the Company, in person or by proxy or by attorney, and, on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held. A proxy may but need not be a member. If the proxy is not a member, he need not be an advocate, an approved company auditor or a person approved by the Registrar of Companies.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of shares in the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of the liquidation of the Company in accordance with the Articles of Association of the Company.

### 2.5 DETAILS OF THE PUBLIC ISSUE

The Public Issue of 20,860,000 Digistar Shares is an invitation by the Company to eligible employees of the Digistar Group as well as the Malaysian public to apply for the Public Issue Shares at an issue price of RM0.55 per share, payable in full on application upon the terms and conditions of this Prospectus.

The Public Issue Shares totalling 20,860,000 Digistar Shares at an issue price of RM0.55 each are allocated in the following manner:

#### (i) **Eligible employees**

1,500,000 new Digistar Shares representing 1.8% of the enlarged issued and paid-up share capital are reserved for application by eligible employees of the Digistar Group.

The criteria for the allocation of the securities to the eligible employees of the Digistar Group as approved by the Board of Directors are as follows:

- (a) Length of service;
- (b) Position in the Group; and
- (c) Contribution to the success of the Group.

As at 22 September 2003, a total of 78 employees are eligible for the allocation of 1,500,000 new Digistar Shares. The eligible employees of the Digistar Group who are entitled for the allocation of 1,500,000 new Digistar Shares exclude the Directors of the Digistar Group.

#### (ii) **Private placement**

15,860,000 new Digistar Shares representing 19.0% of the enlarged issued and paid-up share capital will be placed with Malaysian investors by placement agents.

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## 2. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

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### (iii) Malaysian public

3,500,000 new Digistar Shares representing 4.2% of the enlarged issued and paid-up share capital are available for application by Malaysian public, to be allocated via ballot.

The Public Issue Shares under paragraphs (i) and (ii) above are not required to be underwritten and therefore are not underwritten. Any Public Issue Shares in respect of paragraph (i) above which are not subscribed for by eligible employees of the Digistar Group ("Unsubscribed Shares") will be offered to other eligible employees. However, if the Unsubscribed Shares are not fully taken up under the subsequent offer, the Unsubscribed Shares will be made available for application by members of the Malaysian public, of which such Unsubscribed Shares are fully underwritten by the Underwriter.

The Public Issue Shares made available to the Malaysian public listed under paragraph (iii) above have been fully underwritten via the underwriting agreement referred to in Section 2.9 of this Prospectus by the Underwriter as set out under the Corporate Directory of this Prospectus.

## 2.6 PRICING OF THE PUBLIC ISSUE SHARES

The issue price of RM0.55 per share was determined and agreed upon by the Company and Alliance as the Adviser and Underwriter, after taking into consideration the following factors:

- (i) the Group's financial and operating history and conditions as described in Section 4 of this Prospectus;
- (ii) the industry review, future plans and strategies and outlook of the Group as described in Section 4 of this Prospectus;
- (iii) the forecast net PE multiple of 8.7 times derived from the forecast net EPS of 6.3 for the financial year ending 30 September 2004 based on the enlarged issued and paid-up share capital of 83,435,325 Digistar Shares;
- (iv) the proforma consolidated NTA per share of RM0.24 after the DHSB Acquisition by Digistar, the Rights Issue and the Public Issue as at 31 May 2003; and
- (v) the forecast net dividend yield of 5.2% for the financial year ending 30 September 2004.

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## 2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

### 2.7 PROCEEDS FROM THE RIGHTS ISSUE AND THE PUBLIC ISSUE AND UTILISATION OF PROCEEDS

The gross proceeds of approximately RM12.72 million from the Rights Issue and the Public Issue accruing to the Company will be utilised in the following manner:

	Note	RM'000	To be utilised by the financial year ending 30 September
Investment in DRMSB	(i)	1,000	2005
Capital expenditure for office expansion	(ii)	3,100	2005
Future business expansion	(iii)	1,000	2005
Renovation and upgrading of showroom	(iv)	200	2005
Purchase of fixed assets	(v)	1,000	2005
Repayment of term loan	(vi)	753	2004
Working capital	(vii)	4,472	2004
Estimated listing expenses	(viii)	1,200	2004
		12,725	

**Notes:**

(i) **Investment in DRMSB**

*Digistar intends to invest RM1.0 million in DRMSB, a joint venture company with Rauland-Borg Corporation of the United States of America and an individual. The joint venture company will undertake R&D on new systems for application in teaching and learning institutions based on the existing Rauland-Borg's range of communication product technologies and customising the new products in accordance to the needs and requirements of local and Asian countries, taking into consideration of various aspects such as ethnicity and weather. DRMSB had in July 2003 successfully obtained the MSC status from Multimedia Development Corporation Sdn Bhd.*

(ii) **Capital expenditure for office expansion**

*It is proposed that RM3.1 million be allocated for capital expenditure for acquiring and setting up of office units, including two (2) office units identified as A6/4/4 and A6/2/2, Block A6, One Ampang Business Avenue, Mukim Ampang, Selangor with a total area of approximately 11,184 square feet, as project management division, stores and workshop. Further information on the two (2) office units namely A6/4/4 and A6/2/2, Block A6, One Ampang Business Avenue, Mukim Ampang, Selangor is set out in Section 9.2 of this Prospectus.*

(iii) **Future business expansion**

*The Digistar Group plans to form a smart partnership arrangement with its identified entrepreneurs as the Group expands into the downstream retailing market. In addition, the Digistar Group also plans to set up a dedicated maintenance division to provide after sales service as well as servicing maintenance contracts.*

(iv) **Renovation and upgrading of showroom**

*The Digistar Group plans to renovate and upgrade its existing showroom. The upgrading of showroom involves addition of demonstration products while the renovation is for displaying the new demonstration products to be acquired.*

## 2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

(v) **Purchase of fixed assets**

*In line with the Digistar Group's expansion and diversification of business, part of the proceeds will be utilised to purchase vans for maintenance and project teams, computer hardware, software and related peripherals, office equipment as well as furniture and fittings.*

(vi) **Repayment of term loan**

*The Digistar Group will utilise approximately RM0.7 million of the proceeds to repay term loan which amounts to approximately RM0.75 million as at 22 September 2003. The repayment of borrowings is expected to contribute to total interest savings of approximately RM42,000 per annum based on interest rate of 6.0% per annum.*

(vii) **Working capital**

*An amount of RM4.5 million from the proceeds raised will be allocated for the working capital requirement of the Digistar Group.*

(viii) **Estimated listing expenses**

*The estimated listing expenses incidental to the listing of and quotation for the entire enlarged issued and paid-up share capital of Digistar on the MESDAQ Market of the KLSE, to be borne by the Company, are as follows:*

	<b>RM</b>
<i>Professional advisory fees</i>	<i>530,000</i>
<i>Fees to authorities</i>	<i>103,000</i>
<i>Underwriting commission, placement fees and brokerage fees</i>	<i>312,900</i>
<i>Advertisement and printing</i>	<i>180,000</i>
<i>Contingencies</i>	<i>74,100</i>
<i>Total estimated listing expenses</i>	<u><u>1,200,000</u></u>

## 2.8 BROKERAGE AND UNDERWRITING COMMISSION

### 2.8.1 Brokerage

Brokerage relating to the Public Issue Shares will be paid by the Company at the rate of 1.0% of the issue price of RM0.55 per Public Issue Share in respect of successful applications bearing the stamp of Alliance, a member company of the KLSE, a member of the Association of Banks in Malaysia, a member of the Association of Merchant Banks in Malaysia or MIDFCCS.

### 2.8.2 Underwriting commission

The Underwriter has entered into an underwriting agreement on 22 September 2003 for the underwriting of 3,500,000 Public Issue Shares to be made available to the Malaysian public. Any Unsubscribed Shares referred to in Section 2.5 of this Prospectus shall be underwritten by the Underwriter. Underwriting commission is payable by the Company at the rate of 2.0% of the issue price of RM0.55 per Public Issue Share.

## 2. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

### 2.9 DETAILS OF THE UNDERWRITING AGREEMENT

Pursuant to the underwriting agreement dated 22 September 2003 ("Underwriting Agreement"), the 3,500,000 Public Issue Shares available for application by the Malaysian public are underwritten by the Underwriter. Underwriting commission payable by Digistar for the 3,500,000 Public Issue Shares shall be at the rate of 2.0% of the Issue Price of RM0.55 per Public Issue Share and amounts to RM38,500.

The salient terms of the Underwriting Agreement are summarised as follows:

#### **CLAUSE 5 RIGHTS AND REMEDIES**

- 5.1 The rights and remedies conferred upon the Underwriter by the aforesaid representations, warranties, agreements and indemnities shall continue in full force and effect notwithstanding completion of the Proposals and or subscription of the Underwritten Shares and notwithstanding any investigations by or on behalf of the Underwriter.
- 5.2 If any breach of the aforesaid warranties or representations or any failure to perform any obligations under this Agreement herein contained or any change rendering any of the said warranties, representations or agreements inaccurate in any respect or any material information shall have been withheld and coming to the notice of the Underwriter prior to the Closing Date, the Underwriter shall be entitled (but not bound) by notice to the Company to elect to treat such breach, failure or change as releasing or discharging it from its obligations hereunder PROVIDED THAT the Company shall remain liable for the payment of the costs and expenses referred to in Clause 18 below which are incurred prior to or in connection with such release and discharge and any failure to make such election as aforesaid shall be without prejudice to the right of the Underwriter in respect of any further or other breach.

#### **CLAUSE 6 AGREEMENT CONDITIONAL**

- 6.1 The obligations of the Underwriter under this Agreement shall further be conditional upon:-
- (i) the SC and the KLSE having approved the Prospectus and approved on or prior to the Closing Date the listing and quotation of the entire enlarged issued and paid up capital of the Company pursuant to the Floatation Scheme and such approvals shall not have been withdrawn (and if such approvals shall be conditional all conditions thereto being in terms acceptable to the Underwriter);
  - (ii) the non-occurrence, on or prior to the Closing Date, of any adverse change or any development likely to involve a prospective adverse change in the condition (financial or otherwise) of the Company from that set forth in the Prospectus which is material in the context of the Proposals or any part hereof;
  - (iii) the non-occurrence of any event rendering untrue or incorrect to an extent which is material as aforesaid any representations or warranties contained herein as though they had been given or made on such date;
  - (iv) the delivery to the Underwriter on or before the Closing Date of a certificate by an Executive Director of the Company on behalf of all of its Directors stating that to the best of his knowledge and belief, having made all reasonable inquiries, there has been no adverse change, development or event as is referred to in paragraph (ii) of this Clause and that as at such date the Company has not committed a breach of any of its covenants herein;

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## 2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

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- (v) the due submission of the Prospectus to the SC for registration together with copies of all documents as required by and in accordance with the requirements of the Securities Commission Act and the due registration of the Prospectus by the SC; and
  - (vi) the lodgement of a copy of the Prospectus together with copies of all documents as required by and in accordance with the requirements of the Securities Commission Act and the Companies Act, 1965 with the Companies Commission of Malaysia.
- 6.2 If any of the foregoing conditions is not satisfied on or before the Closing Date, the Underwriter shall be entitled to terminate this Agreement by notice in writing delivered to the Company and in that event (except for the liability of the Company for the payment of costs and expenses as provided in Clause 18 hereof incurred prior to or in connection with such termination) the Company and the Underwriter shall be released and discharged from their obligations hereunder and none of the parties shall have a claim against each other save that all monies paid by the Underwriter to the Company, if any, shall be refunded to that Underwriter without interest within a period of forty eight (48) hours from the date of the termination notice by the Underwriter to the Company PROVIDED THAT the Underwriter may at its discretion and subject to such conditions as the Underwriter may waive compliance with any of the provisions of this Clause.

### **CLAUSE 12 TERMINATION**

- 12.1 Notwithstanding anything herein contained, the Underwriter may at any time before the Closing Date by notice in writing to the Company terminate its obligations under this Agreement if the implementation of the Floatation Scheme is in the reasonable opinion of the Underwriter seriously jeopardised by:-
- (i) a change in the monetary, political, financial or economic conditions or national or international monetary or exchange control which affects or will affect the Proposals or the business of the Company; or
  - (ii) any breach of the representations and undertakings contained herein or withholding of information of a material nature from the Underwriter by the Company provided that any termination by the Underwriter hereunder shall not affect the liability of the Company in respect of payment of expenses referred to in Clause 18 hereof; or
  - (iii) any Government requisition or other occurrence of any nature whatsoever which in the opinion of the Underwriter seriously affects or will seriously affect the business of the Company and its subsidiaries; or
  - (iv) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, which in the opinion of the Underwriter has or is likely to have a material adverse effect on the condition, financial or otherwise, or the earnings, business affairs or business prospects (whether or not arising in the ordinary course of business) of the Company and its subsidiaries (taken as a whole); or
  - (v) any event or series of events beyond the reasonable control of the Underwriter (including without limitation acts of government, strikes, lockouts, fire, explosions, flooding, civil commotion, acts of war, sabotage, acts of God or accidents) which has or is likely to have the effect of making any material part of this Agreement incapable of performance in accordance with its terms or which prevents the processing of application, crediting of accounts and/or payments pursuant to the Proposals or pursuant to the underwriting hereof; or



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**2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

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(vi) the imposition of any moratorium, suspension or material restriction on trading in securities generally in the MESDAQ due to exceptional financial circumstances or otherwise.

12.2 On delivery of such notice by the Underwriter to the Company, this Agreement shall be terminated and the obligations of the Underwriter under this Agreement shall be discharged accordingly. In the event of such termination under this Clause 12, the Company shall bear all the costs (including legal costs on a solicitor and client basis) and expenses incurred under this Agreement and no party shall have any claim against any other party hereto for compensation, costs, damages, or otherwise, save that the Company shall pay to the Underwriter, the costs and expenses referred to in Clause 18 which are incurred prior to or in connection with such rescission.

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### 3. RISK FACTORS

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There are a number of risk factors, both specific to the Digistar Group and relating to the general business environment, which may impact on the operating performance and financial position of the Digistar Group. Investors should carefully consider the following factors (which may not be exhaustive) which may have a significant impact on the future performance of the Digistar Group before applying for the Public Issue Shares.

#### 3.1 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, signalling longer timeframes required to turnaround, ICT infrastructure and related industries spending/budget are usually reduced drastically. Similarly, for consumers, in uncertain economic conditions, investing in PCs would be considered a luxury item for many families, much less subscribing to portal services.

The Digistar Group's risk is mitigated to a certain extent by its focus on the selected group of customers, such as organisations and institutions which consider ICT infrastructure and systems as essential in the daily operation. 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 innovating 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.

#### 3.2 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 US or other developed nations, 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. As far as the Directors are aware, in the broadcast as well as communication and integrated audio visual systems segments, there are less than ten (10) perceived local competitors while, in the ICT infrastructure segment, there are numerous local competitors.

### 3. RISK FACTORS (Cont'd)

Although this sub-sector of the ICT industry is relatively small, the Directors of Digistar 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 these risks 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, no assurance can be given that any adverse economic factors will not have a material effect on the Group's business.

#### 3.3 FINANCIAL AND INVESTMENT 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. In Malaysia, apart from support from the various local Government agencies, Internet start-up companies are also able to partner with special venture capital ("VC") companies. These VC companies' sole purpose is to identify promising Internet/ICT based business for investment, hoping for high returns at a later stage when companies have become profitable or have been listed. These VC companies along with other local Government-based funding agencies help mitigate some of the financial risk experienced by companies in the ICT industry. Funding is made available for the purchase of ICT equipment and even working capital for the business.

As the availability of ICT technologies in the marketplace has outnumbered the demand for these technologies, only companies with solid business models will be able to last the distance. 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 has credit facilities with local financial institutions totalling RM11.4 million as at 22 September 2003. The Group, barring any unforeseen circumstances, is not expected to encounter and does not foresee, in the immediate future, encountering financial-related risks in its business operations. In addition, the Group has been profitable for the past several years and funded previous capital expenditure through internally generated funds. Hence, the Group, with its myriad of contracts and potential projects in the pipeline, barring any unforeseen circumstances, will be able to generate sufficient cash from its operating activities to meet its immediate cash outflows and commitments. 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.

#### 3.4 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 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 organisations 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 their 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 team. As such, the loss of any key personnel is, therefore, not expected to cause any major disruption to the Group's operations.

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### 3. RISK FACTORS *(Cont'd)*

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The Group has in place a human resource department for its ninety-three (93) staff members as of 22 September 2003.

#### 3.5 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 with the local authorities. Notwithstanding that, the Company intends to venture into software development for the smart-home application as part of its future business development plan. This may enable the Group to register the potential software application under its trademark or patents with the local authorities.

#### 3.6 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.

#### 3.7 ELASTICITY OF DEMAND

The demand for ICT products and services is relatively elastic, with an increase in ICT investments by institutions, corporations and individuals increasing as prices of ICT products and services decreasing. Depending on the type of industry, some consider the use of technology a necessity, whilst others do not see the urgency of adopting ICT. For example, the financial institutions, hi-tech manufacturing companies, media companies, services-based industries and large multinationals with dispersed geographical operations need ICT to remain competitive and relevant to their customers. Increasingly, so do government agencies and institutions as well as public and private institutions that cater to the public such as healthcare and education providers.

The Group's products/services are considered elastic, as their customers respond to innovation and pricing of ICT related products and services through time. Notwithstanding that the Group has selected group of customers and adopts aggressive marketing strategies to ensure continuous sales of its products and services, no assurance can be given that the Group's performance will not be adversely affected by a change in trend or other factors that may impact the overall demand of ICT products and services.

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### **3. RISK FACTORS (Cont'd)**

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#### **3.8 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 such as Rauland Borg Corporation, Danish Interpretation Systems A/S and Extron Electronics, 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 the 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. The Group will require time to negotiate with the new distributor/licensor the terms of the agreements/arrangements. There can be no assurance that the new distributor/licensor will be able to offer the terms that the Group is currently having with its existing distributor/licensor.

#### **3.9 NO PRIOR MARKET FOR THE DIGISTAR SHARES**

Prior to this listing of Digistar on the KLSE, there has been no public market for the Digistar Shares. There can be no assurance that an active market for Digistar's shares will develop upon its listing on the MESDAQ Market of the KLSE or, if developed, that such market will sustain. The issue price of RM0.55 per share has been determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and conditions, the prospects of the industry in which the Group operates, the management of the Group, the market prices for shares of companies involved in businesses similar to that of the Group and the prevailing market conditions. There can be no assurance that the Issue Price will correspond to the price at which Digistar's share will trade on the MESDAQ Market of the KLSE upon or subsequent to its listing or that an active market for Digistar's shares will develop and continue upon or subsequent to its listing. The price at which the Digistar Shares will be traded may be higher or lower than the Issue Price.

#### **3.10 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, nationalisation, unfavourable changes in government policy and regulations such as foreign exchange rates and methods of taxation and currency exchange controls. There can be no assurance that any change to these factors will not have a material adverse effect on the Group's business.

#### **3.11 FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements, which are statements other than statements of historical facts that are based on assumptions that are subject to uncertainties and contingencies. The word "anticipates", "believes", "intends", "plans", "expects", "forecast", "predicts" and similar expressions as they relate to the Digistar Group or its business are intended to identify such forward-looking statements. The Digistar Group believes that, barring any unforeseen circumstances, the expectations reflected in such forward-looking statements are reasonable at this point of time. There can be no assurance that such expectations will prove to have been correct. Any deviation from the expectations may have an adverse effect on the Digistar Group's financial and business performance.

### **3. RISK FACTORS (Cont'd)**

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#### **3.12 FAILURE/DELAY IN THE LISTING**

The success of the listing exercise is also exposed to the risk that it may fail or be delayed should any of the following events occur:

- (i) the underwriters of the Public Issue fail to honour their obligations under the underwriting agreement;
- (ii) the placees under the private placement fail to acquire the Public Issue Shares allocated to them; and
- (iii) Digistar is unable to meet the public spread requirements, that is, at least 25% of the issued and paid-up share capital of Digistar must be held by a minimum number of 200 public shareholders.

#### **3.13 FOREIGN CURRENCY EXCHANGE RISK**

Notwithstanding that the Digistar Group sources its products mainly from overseas, as its current revenue is mainly generated from the local market, the foreign currency exchange risk may be transferred in part or in full to its customers. However, as the Digistar Group's existing market are mainly local, the foreign currency exchange risk is hence limited. Nevertheless, 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 the Company is exposed to such risk and the current USD currency peg of RM3.80 in exchange for USD1.00 is not altered or withdrawn, the Company will undertake hedging to mitigate such risk.

#### **3.14 UNCERTAINTY IN THE PROPOSED FIVE (5)-YEAR BUSINESS DEVELOPMENT PLAN**

The Group's proposed future plan and prospects will be dependent upon, amongst others, the Group's ability to: enter into strategic marketing or other arrangements on a timely basis and on favourable terms; hire, retain skilled management as well as financial, technical, marketing and other personnel; successfully manage growth (including monitoring operations, controlling costs and maintaining effective quality and service controls); and obtain adequate financing as and when required. Nonetheless, the Digistar Group has been in existence for more than twenty (20) years and has a management team that is experienced in the industry and has an order book approximate to RM49 million as of 22 September 2003.

However, there can be no assurance that the Group will be able to successfully implement its business plan or that unanticipated expenses or problems or technical difficulties will not occur which would result in material delays in its implementation or even deviation from its original plans. In addition, the actual results may deviate from the business plan due to rapid technological changes, as well as competitive pressures.

#### **3.15 PROFIT ESTIMATE AND PROFIT FORECAST**

This Prospectus contains a profit estimate and a profit forecast of the Group that are based on assumptions which the Directors believe to be reasonable, but which nevertheless are subject to uncertainties and are contingent in nature. Due to the subjective judgements included and inherent uncertainties of the profit estimate and the profit forecast, and because events and circumstances frequently do not occur as expected, there can be no assurance that the profit estimate and the profit forecast contained herein will be realised and actual results may be materially different from those shown. Investors will be deemed to have read and understood the assumptions underlying the profit estimate and profit forecast that is contained herein.

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### 3. RISK FACTORS *(Cont'd)*

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#### 3.16 INDUSTRY RISKS

The Group is subject to certain risks inherent in the ICT industry. These include increases 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 Digistar Group's businesses.

#### 3.17 INSURANCE RISKS

At present, the Directors believe that the Group is adequately insured against unforeseen events such as fire and lightning, malicious damage, theft and burglary. Although the Group has taken the necessary measures to ensure that its assets are adequately covered by insurance, there can be no assurance that the insurance would be adequate for replacement cost of all assets of the Digistar Group.

#### 3.18 CONTROLLING SHAREHOLDERS

Upon listing of Digistar on the MESDAQ Market of the KLSE, YB Haji AB Karim Bin Sulaiman, Lee Wah Chong, Wa Siew Yam, Ong Fee Chong and KLSB will collectively hold 61,371,037 Digistar Shares representing 73.56% of the equity interest in Digistar. These shareholders will be able to influence the outcome of certain transactions/matters, including the election of Directors by exercising the voting rights attached to their shares in respect of transactions matters requiring shareholders' approval. Depending on how they choose to vote and because of the size of their shareholdings, these shareholders may be in a position to determine the outcome of transaction matters requiring shareholders' approval unless they are required to abstain from voting by law and/or the relevant authorities.

However, the Company has appointed two (2) Independent Non-Executive Directors as a step towards good corporate governance to, amongst others, ensure that any future transactions involving related parties are entered into on arm's length terms.

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