



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 JUNE 2006 (The figures have not been audited)

CONDENSED CONSOLIDATED INCOME STATEMENT

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|---|---|---|---|--|
| | Current Year Quarter 30/06/2006 RM'000 | Preceding Year Corresponding Quarter 30/06/2005 RM'000 | Current Year To Date 30/06/2006 RM'000 | Preceding Year Corresponding Period 30/06/2005 RM'000 |
| Revenue | 6,842 | 4,691 | 20,934 | 25,386 |
| Cost of sales | (5,377) | (2,820) | (16,329) | (17,614) |
| Gross profit | 1,465 | 1,871 | 4,605 | 7,772 |
| Operating expenses | (1,242) | (1,027) | (3,688) | (3,438) |
| Profit before finance costs and depreciation | 223 | 844 | 917 | 4,334 |
| Finance costs | (110) | (100) | (315) | (262) |
| Depreciation | (191) | (165) | (576) | (520) |
| Other income | 41 | 141 | 185 | 296 |
| (Loss)/Profit before taxation | (37) | 720 | 211 | 3,848 |
| Taxation | (30) | (236) | (165) | (1,197) |
| (Loss)/Profit after taxation | (67) | 484 | 46 | 2,651 |
| Minority interest | 5 | - | 5 | - |
| Net (loss)/profit attributable to members of the Company | (62) | 484 | 51 | 2,651 |
| Earnings per share (sen) | | | | |
| - basic | (0.04) | 0.28 | 0.03 | 1.54 |
| - fully diluted | (0.04) | 0.27 | 0.03 | 1.47 |

The Condensed Consolidated Income Statement should be read in conjunction with the Group's annual financial report for the financial year ended 30 September 2005.



DIGISTAR CORPORATION BERHAD

(Co. No. 603652-K)

QUARTERLY REPORT ON CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2006 (The figures have not been audited)

CONDENSED CONSOLIDATED BALANCE SHEET

| | As At End of Current Quarter 30/06/2006 RM'000 | As At Preceding Financial Year Ended 30/09/2005 RM'000 |
|---|---|--|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 7,580 | 7,593 |
| Long term investment | 1,000 | 1,000 |
| | <u>8,580</u> | <u>8,593</u> |
| CURRENT ASSETS | | |
| Inventories held for resale | 2,866 | 2,358 |
| Trade receivables | 10,007 | 10,935 |
| Other receivables, deposit and prepayment | 289 | 338 |
| Amount owing by contract customers | 6,978 | 5,942 |
| Fixed deposits with licensed banks | 6,679 | 6,566 |
| Tax refundable | 330 | 12 |
| Cash and bank balances | 24 | 104 |
| Properties held for resale | 418 | 418 |
| | <u>27,591</u> | <u>26,673</u> |
| CURRENT LIABILITIES | | |
| Trade payables | 2,436 | 1,680 |
| Other payables and accruals | 351 | 558 |
| Bank overdraft | 3,936 | 3,747 |
| Short term borrowings | 1,367 | 1,010 |
| Provision for taxation | 12 | 20 |
| | <u>8,102</u> | <u>7,015</u> |
| NET CURRENT ASSETS | <u>19,489</u> | <u>19,658</u> |
| | <u>28,069</u> | <u>28,251</u> |
| FINANCED BY:- | | |
| Share capital | 17,358 | 17,358 |
| Share premium | 1,146 | 1,146 |
| Retained profits | 5,021 | 4,970 |
| Reserve on consolidation | 4,031 | 4,031 |
| SHAREHOLDERS' EQUITY | <u>27,556</u> | <u>27,505</u> |
| Hire purchase payables | 442 | 675 |
| Deferred taxation | 71 | 71 |
| | <u>28,069</u> | <u>28,251</u> |
| NET ASSETS PER SHARE (sen) | <u>15.88</u> | <u>15.85</u> |

The Condensed Consolidated Balance Sheet should be read in conjunction with the Group's annual financial report for the financial year ended 30 September 2005.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THIRD QUARTER ENDED 30 JUNE 2006 (The figures have not been audited)

| | Share Capital RM'000 | Share Premium RM'000 | Retained Profits RM'000 | Reserve on Consolidation RM'000 | Total RM'000 |
|---------------------------|-------------------------------------|-------------------------------------|--|--|-------------------------|
| At 1 October 2005 | 17,358 | 1,146 | 4,970 | 4,031 | 27,505 |
| Net profit for the period | - | - | 51 | - | 51 |
| At 30 June 2006 | <u>17,358</u> | <u>1,146</u> | <u>5,021</u> | <u>4,031</u> | <u>27,556</u> |
| At 1 October 2004 | 8,360 | 8,467 | 4,804 | 4,031 | 25,662 |
| Issued during the period | 319 | 1,437 | - | - | 1,756 |
| Bonus issue of 1:1 | 8,679 | (8,679) | - | - | - |
| Bonus issue expenses | - | (80) | - | - | (80) |
| Net profit for the period | - | - | 2,651 | - | 2,651 |
| Dividend paid | - | - | (2,500) | - | (2,500) |
| At 30 June 2005 | <u>17,358</u> | <u>1,145</u> | <u>4,955</u> | <u>4,031</u> | <u>27,489</u> |

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Group's annual financial report for the financial year ended 30 September 2005.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE CUMULATIVE QUARTER ENDED 30 JUNE 2006 (The figures have not been audited)

| | Quarter Ended 30/06/2006 RM'000 | Quarter Ended 30/06/2005 RM'000 |
|--|---------------------------------------|---------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before taxation | 211 | 3,848 |
| Adjustments for:- | | |
| Non cash items | 576 | 552 |
| Non operating items | 101 | (152) |
| Operating profit before working capital changes | 888 | 4,248 |
| Net changes in current assets | (568) | 1,144 |
| Net changes in current liabilities | 548 | (3,083) |
| Cash from operations | 868 | 2,309 |
| Interest paid | (278) | (158) |
| Income tax paid | (484) | (1,762) |
| Net cash from operating activities | 106 | 389 |
| CASH FLOWS FOR INVESTING ACTIVITIES | | |
| Interest received | 177 | 231 |
| Purchase of property, plant and equipment | (563) | (1,351) |
| Proceeds from disposal of equipment | - | 101 |
| Long term investment | - | (1,000) |
| Net cash for investing activities | (386) | (2,019) |
| CASH FLOWS FROM/(FOR) FINANCING ACTIVITIES | | |
| Increase in bills payable | 393 | (378) |
| Repayment of hire purchase obligations | (269) | (279) |
| Proceeds from issuance of shares | - | 1,756 |
| Dividend paid | - | (2,500) |
| Net cash from/(for) financing activities | 124 | (1,401) |
| Net decrease in cash and cash equivalents | (156) | (3,031) |
| Cash and cash equivalents at beginning of the year | 2,923 | 8,062 |
| Cash and cash equivalents at end of the period | 2,767 | 5,031 |
| Note: | | |
| Cash and cash equivalents comprise of: | | |
| Fixed deposits with licensed bank | | |
| - available | 2,434 | 3,694 |
| - restricted | 4,245 | 5,128 |
| Cash and bank balances | 24 | 110 |
| Bank overdraft | (3,936) | (3,901) |
| | 2,767 | 5,031 |

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Group's annual financial report for the financial year ended 30 September 2005.



UNAUDITED QUARTERLY REPORT FOR THE THIRD QUARTER ENDED 30 JUNE 2006

A. EXPLANATORY NOTES AS PER FRS 134₂₀₀₄

A1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with the Financial Reporting Standard (FRS) 134₂₀₀₄: Interim Financial Reporting and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) for the MESDAQ market, and should be read in conjunction with the Group’s annual financial report for the financial year ended 30 September 2005.

The accounting policies adopted by Digistar Corporation Berhad (“Digistar”) and its subsidiary companies (“Group”) in the interim financial report are consistent with those adopted for the financial statements for the financial year ended 30 September 2005.

A2. Qualification of Financial Statements

The audit report of the preceding financial statements for the financial year ended 30 September 2005 was not subject to any audit qualification.

A3. Seasonal or Cyclical Factors

Save as disclosed in Note B1 and B2, the results of the Group were not materially affected by any significant seasonal or cyclical factors during the quarter under review.

A4. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flow during the quarter under review.

A5. Material Changes in Estimates

There were no changes in estimates of amounts reported in prior financial period, which have a material effect in the current quarter under review.

A6. Debts and Equity Securities

There was no issuance and repayment of debt and equity securities, share buy-backs, share cancellation, share held as treasury shares and resale of treasury shares for the current period and financial year-to-date.



A7. Dividend Paid

No dividend was paid during the quarter under review.

A8. Segmental Information

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|-----------------------|---|---|---|--|
| | Current Year Quarter 30/06/2006 RM'000 | Preceding Year Corresponding Quarter 30/06/2005 RM'000 | Current Year To Date 30/06/2006 RM'000 | Preceding Year Corresponding Period 30/06/2005 RM'000 |
| REVENUE BY ACTIVITIES | | | | |
| System integration | 5,378 | 3,939 | 16,637 | 23,282 |
| Maintenance income | 426 | 362 | 2,023 | 617 |
| Sales of goods | 979 | 379 | 2,082 | 1,454 |
| Rental income | 59 | 11 | 192 | 33 |
| Total | <u>6,842</u> | <u>4,691</u> | <u>20,934</u> | <u>25,386</u> |

A9. Valuation of Property, Plant and Equipment

There were no changes in the valuation of the property, plant and equipment reported in the previous audited financial statements that will have effect in the current quarter under review.

A10. Material Events Subsequent to the End of the Quarter

There were no material events subsequent to the current quarter under review up to the date of this report which is likely to substantially affect the results of the operations of the Company.

A11. Changes in the Composition of the Group

There were no changes in the composition of the Group during the quarter under review that have not been reflected in the financial statements.



A12. Contingent Liabilities

- a) The Company has provided corporate guarantee for a hire purchase facility granted to a wholly-owned subsidiary for a total amount of RM390,000. As at 30 June 2006, the said hire purchase balance stood at RM210,562.
- b) The Company has also provided corporate guarantees for bank facilities granted to a wholly-owned subsidiary for a total amount of RM28.5 million. As at 30 June 2006, the total outstanding balances of the bank facilities are disclosed in Note B9 below.

Save as disclosed in the above, there were no material contingent liabilities as at 28 August 2006, being the date not earlier than 7 days from the date of this announcement.

A13. Capital Commitments

There were no capital commitments as at the date of this announcement.

A14. Significant Related Party Transactions

There were no significant related party transactions during the quarter under review.



B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES' LISTING REQUIREMENTS

B1. Review of the Performance

The Group registered a revenue and loss before taxation of RM6.8 million and RM37 thousand respectively for the third quarter ended 30 June 2006. Despite higher turnover, the Group experienced loss before taxation as compared to the preceding year corresponding quarter. This is mainly due to tougher operating environment and lower profit margin.

Save as disclosed above, there are no material factors which have affected the earnings and revenue of the Group for the current quarter and financial year to date.

B2. Comparison with Preceding Quarter's Results

| | Current Quarter Ended 30/06/2006 RM'000 | Preceding Quarter Ended 31/03/2006 RM'000 | Difference | |
|-------------------------------|--|--|------------|---------|
| | | | RM'000 | % |
| Revenue | 6,842 | 6,910 | (68) | (1.0) |
| (Loss)/Profit before taxation | (37) | 109 | (146) | (133.9) |

The turnover for the current quarter decreased by 1.0% while the Group experienced a loss before taxation of RM37 thousand as compared to a profit before taxation of RM109 thousand in the preceding quarter due to further contraction in construction activities which is related to projects in hand of the Group. The loss before taxation was in tandem with the decrease in turnover.

B3. Prospects for the Financial Year Ending 30 September 2006

Going forward, the Directors anticipate that maintaining the profitability of the Group for the remaining quarters of financial year will be a challenging task given the slow recovery in the construction industry. As disclosed in the Economic Report 2005/2006 from Ministry of Finance, Malaysian Government had made a higher allocation for development expenditure totalling RM22.0 billion under the 2006 National Budget. Therefore, the Company is looking forward to garner some benefit from the 2006 National Budget spending especially in the healthcare and education sectors. As a measure to mitigate the slow market condition, the Company has emphasized to boost its recurring service and maintenance income. Barring any unforeseen circumstances, the Directors anticipate that the Group will remain profitable in the financial year ending 30 September 2006.

B4. Variance of Profit Forecast

Not applicable as the Company did not publish any profit forecast.



B5. Taxation

| | Current Year Quarter 30/06/2006 RM'000 | Current Year To Date 30/06/2006 RM'000 |
|--------------------------------------|---|---|
| Current provision | 30 | 163 |
| Underprovision of tax in prior years | - | 2 |
| | <u>30</u> | <u>165</u> |

The effective tax rate of the Group for the financial year-to-date is higher than the statutory tax rate of 28% due to certain expenses being disallowed for taxation purposes. The effective tax rate for the current quarter is higher than the statutory tax rate of 28% due to the adjustment for the under provision of taxation for the previous quarters during the year and certain expenses being disallowed for taxation purposes.

B6. Profit/(Loss) on Sale of Unquoted Investments and/or Properties

There was no disposal of unquoted investments and/or properties for the current quarter and financial year-to-date.

B7. Purchase or Disposal of Quoted Securities

There were no purchases or disposals of quoted securities for the current quarter. The Company/Group does not hold any quoted securities as at 30 June 2006.

B8. Status of Corporate Proposals

a) Proposed Private Placement and Rights Issue of Warrants (“Proposals”)

On 10 May 2006, Hwang-DBS Securities Berhad (“Hwang-DBS”), on behalf of the Board, had announced that Digistar proposed to implement a rights issue of up to 95,316,925 Warrants to the existing shareholders of Digistar on the basis of one (1) Warrant for every two (2) existing Digistar Shares held on an entitlement date to be determined.

On 15 June 2006, Hwang-DBS, on behalf of the Board, had announced that the Company proposed to undertake a proposed private placement of up to ten percent (10%) of the Company’s issued and paid-up share capital and revised the maximum number of Warrants which may be issued pursuant to the Proposed Rights Issue (as defined in the announcement dated 10 May 2006) to 104,804,617 Warrants in order to accommodate any increase in the issued and paid-up share capital of Digistar in the event that the Proposed Private Placement is implemented before the entitlement date of the Proposed Rights Issue.

Bank Negara Malaysia had vide its letter dated 4 August 2006 (which was received on 10 August 2006), approved the Proposed Rights Issue of Warrants without any conditions attached.



B8. Status of Corporate Proposals (Cont'd)

a) Proposed Private Placement and Rights Issue of Warrants (“Proposals”) (Cont'd)

The Securities Commission (“SC”) had, vide its letter dated 16 August 2006 (which was received on 18 August 2006), approved the Proposals, subject to the following conditions:-

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



B9. Group Borrowings and Debt Securities

The Group's borrowings (which are all denominated in Ringgit Malaysia) as at 30 June 2006 consist of the following:-

| | Short Term RM'000 | Long Term RM'000 | Total RM'000 |
|---------------------------------------|----------------------|---------------------|-----------------|
| Secured:- | | | |
| Bank overdraft | 3,936 | - | 3,936 |
| Trust receipts and bankers acceptance | 1,048 | - | 1,048 |
| Hire purchase liabilities | 80 | 130 | 210 |
| Unsecured:- | | | |
| Hire purchase | 239 | 312 | 551 |
| Total | <u>5,303</u> | <u>442</u> | <u>5,745</u> |

B10. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risks as at 28 August 2006, being the date not earlier than 7 days from the date of this announcement.

B11. Material Litigation

- a) Kuala Lumpur High Court Suit No: D6-22-300-2005
Maju Holdings Sdn. Bhd. vs Digistar Holdings Sdn. Bhd.

Digistar Holdings Sdn. Bhd. ("DHSB") had on 2 February 2005, issued a notice to Maju Holdings Sdn Bhd ("Maju") under section 218(2) Companies Act, 1965 for a sum of RM1,400,697.34 towards outstanding payments due from Maju. On 3 February 2005, Maju had paid a sum of RM100,000 to DHSB, thus reducing the amount being claimed by DHSB to RM1,300,697.34. Maju subsequently filed a suit against DHSB for unliquidated damages for issuing the Section 218 notice, and to prevent DHSB from filing a winding up petition, Maju had applied for an injunction, which was obtained on 12 July 2005. DHSB subsequently filed an application to include in their defence, a counterclaim for the sum of RM1,317,279.97 against Maju, and an order in term in respect of such application was obtained on 28 June 2006. An application for summary judgment had been filed by DHSB on 15 August 2006 and the Court has fixed 7 September 2006 for hearing.

The directors have been advised by their legal counsel that to succeed in its claim, Maju will need to prove the damages suffered and that such claim would be difficult to prove. On the other hand, the legal counsel are of the opinion that DHSB has a good counterclaim against Maju, as it is based on Maju's approved certificates.



B11. Material Litigation (Cont'd)

- b) Kuala Lumpur High Court Suit No: S7-22-334-2005
Maju Holdings Sdn. Bhd. vs Digistar Holdings Sdn. Bhd.

On 31 March 2005, Maju had also instituted legal proceedings in the Kuala Lumpur High Court claiming a sum of RM7,483,580 (together with interest on the said sum at the rate of 8% per annum calculated from 1 March 2003 until the date of full realisation) as liquidated damages for alleged delay on DHSB's part to complete certain contracted works. This claim is connected to the first suit mentioned above.

A striking out application was filed by DHSB on the ground that this suit is a duplicity of Maju's first suit. However, on 8 February 2006, the application was disallowed with cost by the Deputy Registrar. DHSB subsequently filed an appeal against the decision, and the same has been fixed for hearing, together with case management, on 8 December 2006.

The directors have been advised by their legal counsel that DHSB has a good defence against Maju's claim as from the facts of the case, DHSB was only appointed by Maju to install electrical equipment at Maju's buildings. The alleged delay in the completion of the contracted works was inevitably caused by the delay in the actual construction of the buildings (for which DHSB was not appointed and is outside of DHSB's control).

- c) Klang Sessions Court Summons No: 1-52-1105-2004
Digistar Holdings Sdn. Bhd. vs Koh Jui Lian

In 2004, DHSB commenced legal proceedings against a former employee, Koh Jui Lan, whereby DHSB is claiming for the return of a sum of RM31,000.00 (together with interest on the said sum at the rate of 8% per annum calculated from 10 June 2004 until the date of full realisation), which was erroneously paid as advance sales commission to the said Koh Jui Lan. In turn, Koh Jui Lan is counter-claiming for a sum of RM450,129.00 towards outstanding sales commission allegedly due to him between 1995 and 1999.

The matter, which was fixed for trial on 6 July 2006, has been adjourned to 27 February 2007.

The directors have been advised by their legal counsel that a part of each party's claims against the other is barred by the prescribed limitation period under the Limitation Act. Further, to succeed in his claim, Koh Jui Lan will be required to prove all his commission claims at the upcoming trial.

B12. Dividends

There was no dividend proposed by the Board of Directors for the current financial period under review.



B13. Earnings Per Share

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|---|---------------------------------------|--|---------------------------------------|---|
| | Current Year Quarter 30/06/2006 | Preceding Year Corresponding Quarter 30/06/2005 | Current Year To Date 30/06/2006 | Preceding Year Corresponding Period 30/06/2005 |
| (a) Basic Earnings Per Share | | | | |
| Net profit attributable to members of the Company (RM'000) | (62) | 484 | 51 | 2,651 |
| Weighted average number of ordinary shares in issue | 173,580,650 | 173,580,650 | 173,580,650 | 172,203,060 |
| Basic earnings per share (sen) | <u>(0.04)</u> | <u>0.28</u> | <u>0.03</u> | <u>1.54</u> |
| (b) Diluted Earnings Per Share | | | | |
| Net profit attributable to members of the Company (RM'000) | (62) | 484 | 51 | 2,651 |
| Weighted average number of ordinary shares in issue | 173,580,650 | 173,580,650 | 173,580,650 | 172,203,060 |
| Adjustment for assumed exercise of ESOS | - | 3,041,867 | - | 8,257,457 |
| Adjusted weighted average number of ordinary shares in issue and issuable | <u>173,580,650</u> | <u>176,622,517</u> | <u>173,580,650</u> | <u>180,460,517</u> |
| Diluted earnings per share (sen) | <u>(0.04)</u> | <u>0.27</u> | <u>0.03</u> | <u>1.47</u> |

B14. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 August 2006.