



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED 31 DECEMBER 2006 (The figures have not been audited)

CONDENSED CONSOLIDATED INCOME STATEMENT

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31/12/2006 RM'000	Preceding Year Corresponding Quarter 31/12/2005 RM'000	Current Year To Date 31/12/2006 RM'000	Preceding Year Corresponding Period 31/12/2005 RM'000
Revenue	10,048	7,182	10,048	7,182
Cost of sales	(9,224)	(5,610)	(9,224)	(5,610)
Gross profit	824	1,572	824	1,572
Other income	100	60	100	60
Administrative expenses	(1,164)	(1,194)	(1,164)	(1,194)
Other expenses	(198)	(195)	(198)	(195)
Finance costs	(154)	(102)	(154)	(102)
(Loss)/Profit before taxation	(592)	141	(592)	141
Income tax expense	(17)	(70)	(17)	(70)
(Loss)/Profit for the period	(609)	71	(609)	71
Attributable to:				
Equity holders of the parent	(609)	71	(609)	71
Minority interest	-	-	-	-
	(609)	71	(609)	71
(Loss)/Earnings per share attributable to equity holders of the parent:				
- basic (sen)	(0.34)	0.04	(0.34)	0.04
- fully diluted (sen)	N/A	N/A	N/A	N/A

The Condensed Consolidated Income Statement should be read in conjunction with the Group's annual financial report for the financial year ended 30 September 2006.



QUARTERLY REPORT ON CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006 (The figures have not been audited)

CONDENSED CONSOLIDATED BALANCE SHEET

	As At End of Current Quarter 31/12/2006 RM'000	As At Preceding Financial Year Ended (As Restated) 30/09/2006 RM'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	6,487	6,679
Prepaid lease payments	608	609
Long term investment	1,000	1,000
	8,095	8,288
CURRENT ASSETS		
Inventories held for resale	2,372	2,418
Trade receivables	12,177	10,598
Other receivables, deposit and prepayment	450	435
Amount owing by contract customers	5,644	7,433
Fixed deposits with licensed banks	6,767	6,703
Tax refundable	275	214
Cash and bank balances	61	568
Properties held for resale	366	366
	28,112	28,735
TOTAL ASSETS	36,207	37,023
EQUITY AND LIABILITIES		
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		
Share capital	18,008	17,358
Share premium	1,276	1,146
Retained profits	7,600	4,178
Reserve on consolidation	-	4,031
TOTAL EQUITY	26,884	26,713
NON-CURRENT LIABILITIES		
Hire purchase payables	321	383
Deferred taxation	42	42
TOTAL NON-CURRENT LIABILITIES	363	425
CURRENT LIABILITIES		
Trade payables	2,261	1,961
Other payables and accruals	340	918
Bank overdraft	1,821	4,612
Short term borrowings	4,538	2,394
TOTAL CURRENT LIABILITIES	8,960	9,885
TOTAL LIABILITIES	9,323	10,310
TOTAL EQUITY AND LIABILITIES	36,207	37,023
NET ASSETS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (sen)		
	14.93	15.39

The Condensed Consolidated Balance Sheet should be read in conjunction with the Group's annual financial report for the financial year ended 30 September 2006.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FIRST QUARTER ENDED 31 DECEMBER 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 2006	17,358	1,146	4,178	4,031	26,713
Current year adjustment - effects of adopting FRS 3	-	-	4,031	(4,031)	-
At 1 October 2006 (as restated)	17,358	1,146	8,209	-	26,713
Private placement of 6,500,000 shares	650	130	-	-	780
Net loss for the period	-	-	(609)	-	(609)
At 31 December 2006	18,008	1,276	7,600	-	26,884
At 1 October 2005	17,358	1,146	4,970	4,031	27,505
Net profit for the period	-	-	71	-	71
At 31 December 2005	17,358	1,146	5,041	4,031	27,576

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 2006.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE CUMULATIVE QUARTER ENDED 31 DECEMBER 2006 (The figures have not been audited)

	Quarter Ended 31/12/2006 RM'000	Quarter Ended 31/12/2005 RM'000
CASH FLOWS (FOR)/FROM OPERATING ACTIVITIES		
(Loss)/Profit before taxation	(592)	141
Adjustments for:-		
Non cash items	166	195
Non operating items	68	27
Operating profit before working capital changes	(358)	363
Net changes in current assets	240	1,512
Net changes in current liabilities	(278)	661
Cash (for)/from operations	(396)	2,536
Interest paid	(135)	(87)
Income tax paid	(78)	(281)
Net cash (for)/from operating activities	(609)	2,168
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	67	60
Purchase of property, plant and equipment	(5)	(12)
Proceeds from disposal of equipment	32	-
Net cash from investing activities	94	48
CASH FLOWS FROM/(FOR) FINANCING ACTIVITIES		
Increase/(Decrease) in bills payable	2,166	(345)
Repayment of hire purchase obligations	(83)	(94)
Proceeds from issuance of shares	780	-
Net cash from/(for) financing activities	2,863	(439)
Net decrease in cash and cash equivalents	2,348	1,777
Cash and cash equivalents at beginning of the year	2,659	2,924
Cash and cash equivalents at end of the period	5,007	4,701
Note:		
Cash and cash equivalents comprise of:		
Fixed deposits with licensed bank		
- available	1,441	4,184
- restricted	5,326	2,432
Cash and bank balances	61	42
Bank overdraft	(1,821)	(1,957)
	5,007	4,701

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 2006.



UNAUDITED QUARTERLY REPORT FOR THE FIRST QUARTER ENDED 31 DECEMBER 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 2006.

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 2006.

A2. Changes in Accounting Policies

The Company has adopted the following new and revised FRS issued by MASB that are relevant to its operations effective from accounting periods beginning on 1 October 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 117	Leases
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of all of the above FRS does not have any significant financial impact on the Group except for FRS 3, Business Combinations and FRS 117, Leases.

The adoption of FRS 3 resulted in a change in accounting policy for negative goodwill. Under FRS 3, any excess of the Group’s interest in the net fair value of acquirees’ identifiable assets, liabilities and contingent liabilities over cost of acquisitions (previously referred to as “negative goodwill arising from acquisition”), after reassessment, is now recognised immediately in profit or loss.



A2. Changes in Accounting Policies (Cont'd)

In accordance with the provisions of FRS 3, the negative goodwill arising from acquisition has been transferred to the retained earnings as follows:-

	Reserve on Consolidation RM'000	Retained Profits RM'000
Balance as at 1 October 2006	4,031	4,178
Current year adjustment - effects of adopting FRS 3	(4,031)	4,031
Balance as at 1 October 2006 (as restated)	<u>-</u>	<u>8,209</u>

The adoption of FRS 117 has affected the presentation of leasehold land which is now required to be presented as prepaid lease payments as a separate line item under non-current assets and are amortised on a straight-line basis over the lease terms.

The Condensed Consolidated Balance Sheet as at 30 September 2006 has been restated in accordance with the adoption of FRS 117 as follows:

	As Previously Reported RM'000	Effects of Adoption of FRS 117 RM'000	As Restated RM'000
Property, plant and equipment	7,288	(609)	6,679
Prepaid lease payments	-	609	609

A3. Qualification of Financial Statements

The audit report of the preceding financial statements for the financial year ended 30 September 2006 was not subject to any audit qualification.

A4. 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.

A5. 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.



A6. 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.

A7. Debts and Equity Securities

Save as disclosed in Note B8, 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.

A8. Dividend Paid

No dividend was paid during the quarter under review.

A9. Segmental Information

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31/12/2006 RM'000	Preceding Year Corresponding Quarter 31/12/2005 RM'000	Current Year To Date 31/12/2006 RM'000	Preceding Year Corresponding Period 31/12/2005 RM'000
REVENUE BY ACTIVITIES				
System integration	8,076	5,492	8,076	5,492
Maintenance income	376	804	376	804
Sales of goods	1,472	847	1,472	847
Rental income	124	39	124	39
Total	10,048	7,182	10,048	7,182

A10. 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.

A11. 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.



A12. 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.

A13. 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 31 December 2006, the said hire purchase balance stood at RM170,934.
- 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 31 December 2006, the total outstanding balances of the bank facilities are disclosed in Note B9 below.
- c) The Company has also provided a corporate guarantee on 12 October 2006 to a supplier to secure the payments for good purchase by a wholly owned subsidiary up to an amount of RM300,000.
- d) A legal proceeding was initiated by the Company against a third party, claiming the sum of RM1,300,697.34 for the outstanding amount owing for more than two (2) years. The third party is counter-claiming a sum of RM7,483,580 for liquidated and ascertained damages in respect of the purported delay in the completion of contracted works.

Save as disclosed in the above, there were no material contingent liabilities as at 27 February 2007, being the date not earlier than 7 days from the date of this announcement.

A14. Capital Commitments

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

A15. Significant Related Party Transactions

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

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES' LISTING REQUIREMENTS

B1. Review of the Performance

The Group registered a revenue and loss before taxation of RM10.0 million and RM592 thousand respectively for the first quarter ended 31 December 2006 as compared to a revenue and profit before tax of RM7.2 million and RM71 thousand in the preceding year corresponding quarter. 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 during the current quarter.

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 31/12/2006 RM'000	Preceding Quarter Ended 30/09/2006 RM'000	Difference	
			RM'000	%
Revenue	10,048	7,456	2,592	34.8
Loss before taxation	(592)	(681)	89	(13.1)

The turnover for the current quarter increased by 34.8% while the Group experienced a loss before taxation of RM592 thousand as compared to a loss before taxation of RM681 thousand in the preceding quarter due to further contraction in construction activities which is related to projects in hand of the Group.

B3. Prospects for the Financial Year Ending 30 September 2007

In the Ninth Malaysia Plan 2006 – 2010 ("9MP"), Malaysian Government had made significant allocation for development expenditure. Since the launch of the 9MP, construction industry had experience some recovery in business activities. The Company is striving to garner some benefit from the 9MP especially in the healthcare and education sectors. For broadcasting, as most of the television networks and production facilities in the Asia-Pacific region are still on analogue systems, this give ample opportunity for the Company to offer it broadcast system integration services to broadcasters in this region. The Directors anticipate that maintaining the profitability of the Group will be a challenging task in the financial year ending 30 September 2007.

B4. Variance of Profit Forecast

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



B5. Taxation

	Current Year Quarter 31/12/2006 RM'000	Current Year To Date 31/12/2006 RM'000
Current provision	17	17

The effective tax rate of the Group for the financial year-to-date and the current quarter is higher than the statutory tax rate of 28% due to 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 September 2006.

B8. Status of Corporate Proposals

a) Rights Issue of Warrants

Since the date of last quarterly report, on behalf of the Board of Directors ("Board"), Hwang-DBS Investment Bank Berhad (*formerly known as Hwang-DBS Securities Berhad*) ("Hwang-DBS") announced that Board has fixed the exercise price of the Warrants at RM0.16, after taking into consideration the five (5)-day weighted average market price of Digistar Shares up to 29 November 2006 of RM0.1489.

On behalf of the Board, Hwang-DBS announced on 15 February 2007 in regards to the completion of the Rights Issue exercise with the listing of the 90,040,325 Warrants on 14 February 2007 on the MESDAQ Market of Bursa Malaysia Securities Berhad ("MESDAQ Market")

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B8. Status of Corporate Proposals (Cont'd)

b) Proposed Share Buy-back

On behalf of the Board, Hwang-DBS announced on 4 October 2006 that the Board proposed that the Company purchase its own ordinary shares on the MESDAQ Market of Bursa Malaysia Securities Berhad of up to ten percent (10%) of the issued and paid-up capital of the Company, and in an EGM duly held on 15 November 2006, the shareholders of the Company had approved the proposed share buy-back.

Save as disclosed above, there are no other corporate proposals announced but not completed as at 27 February 2007.

B9. Group Borrowings and Debt Securities

The Group's borrowings (which are all denominated in Ringgit Malaysia) as at 31 December 2006 consist of the following:-

	Short Term RM'000	Long Term RM'000	Total RM'000
Secured:-			
Bank overdraft	1,821	-	1,821
Trust receipts and bankers acceptance	4,270	-	4,270
Hire purchase liabilities	82	88	170
Unsecured:-			
Hire purchase	186	233	419
Total	<u>6,359</u>	<u>321</u>	<u>6,680</u>

B10. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risks as at 27 February 2007, being the date not earlier than 7 days from the date of this announcement.

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B11. Material Litigation

- a) Kuala Lumpur High Court Suit No: D6-22-300-2005
Maju Holdings Sdn. Bhd. vs 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 terms in respect of such application was obtained on 28 June 2006. The matter came up for case management on 12 October 2006 and the next hearing date has been fixed for 12 December 2006. On 12 December 2006, the Court has fixed the hearing of the case management on 14 February 2007 and was further postponed to 2 July 2007.

DHSB had also filed an application for summary judgment on 15 August 2006, which came up for hearing on 7 September 2006. Pursuant to Maju’s request, the matter has been adjourned to 16 November 2006 to enable Maju to reply to DHSB’s affidavit in support. The court had further adjourned the hearing date to 8 February 2007. However, the Registrar had instructed both parties to file written submissions and fixed the next mention date for the aforesaid matter on 29 March 2007.

On 17 January 2007, the Court has allowed Maju’s application to amend their Writ of Summons and Statement of Claim with cost to be borne by Maju.

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.

- 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 (“LAD”) 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.



B11. Material Litigation (Cont'd)

On 8 December 2006, the Court agreed that this suit was filed unnecessarily by Maju as they had already filed another case, which was based on similar facts with this case. The Court has fixed a mention date for this appeal on 12 February 2007 for Maju to file their application to amend their Statement of Claim to ensure that their claim for LAD would not be prejudiced. On 12 February 2007, Maju had requested from the Court to withdraw this matter with no order as to cost as they had amended their Claim at the Commercial Division. The Court agreed with Maju and struck out the matter with no order as to cost.

- 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.

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B13. (Loss)/Earnings Per Share

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31/12/2006	Preceding Year Corresponding Quarter 31/12/2005	Current Year To Date 31/12/2006	Preceding Year Corresponding Period 31/12/2005
Basic (Loss)/Earnings Per Share				
Net (loss)/profit attributable to members of the Company (RM'000)	(609)	71	(609)	71
Weighted average number of ordinary shares in issue	180,009,998	173,580,650	180,009,998	173,580,650
Basic (loss)/earnings per share (sen)	<u>(0.34)</u>	<u>0.04</u>	<u>(0.34)</u>	<u>0.04</u>

The fully diluted (loss)/earnings per share for the Group is not presented as the assumed conversion from the exercise of the share options under the ESOS would be anti-dilutive.

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 27 February 2007.

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