



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 JUNE 2014

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year 30/6/2014 RM'000	Preceding Year Corresponding Quarter 30/6/2013 RM'000	Current Year To Date 30/6/2014 RM'000	Preceding Year Corresponding Period 30/6/2013 RM'000
Revenue	17,320	11,222	44,930	48,056
Cost of sales	(11,050)	(6,919)	(28,710)	(32,413)
Gross profit	6,270	4,303	16,220	15,643
Other income	558	(281)	827	1,743
Administrative expenses	(3,822)	(2,506)	(9,985)	(8,332)
Other expenses	(1,183)	(956)	(2,909)	(2,704)
Finance costs	(161)	(62)	(288)	57
Profit before taxation	1,662	498	3,865	6,407
Income tax expense	(370)	(375)	(1,411)	(1,138)
Profit for the period	1,292	123	2,454	5,269
Attributable to:				
Equity holders of the parent	1,334	152	2,499	5,298
Minority interest	(42)	(29)	(45)	(29)
	1,292	123	2,454	5,269
Other Comprehensive income:				
Changes in fair value of available-for-sale investments	-	-	-	-
Effects of foreign exchange differences	-	-	-	-
Total for the quarter / cumulative quarter	1,292	123	2,454	5,269
Total comprehensive income attributable to:				
Equity holders of the parent	1,334	152	2,499	5,298
Minority interest	(42)	(29)	(45)	(29)
	1,292	123	2,454	5,269
Earnings per share attributable to equity holders of the parent:				
- basic (sen)	0.66	0.05	0.66	1.92
- fully diluted (sen)	0.28	0.04	0.58	1.55

The Condensed Consolidated Income Statement should be read in conjunction with the Group's annual financial report for the financial year ended 30 September 2013.



DIGISTAR CORPORATION BERHAD

(Co. No. 603652-K)

QUARTERLY REPORT ON CONSOLIDATED FINANCIAL POSITION AS AT 30 JUNE 2014

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL POSITION

	As At End of Current Quarter 30/6/2014 (Unaudited) RM'000	As At Preceding Financial Year Ended 30/9/2013 (Audited) RM'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	7,638	6,610
Investment Property	7,971	8,130
Goodwill	1,514	1,514
	17,123	16,254
CURRENT ASSETS		
Inventories held for resale	13,702	1,819
Trade receivables	36,345	13,501
Property development costs	15,446	2,718
Accrued billings	-	2,543
Other receivables, deposits and prepayments	8,741	4,891
Tax refundable	3,721	3,715
Amounts owing by contract customers	16,288	17,849
Fixed deposits with licensed banks	218,649	268,911
Cash and bank balances	26,016	8,177
	338,908	324,124
TOTAL ASSETS	356,031	340,378
EQUITY AND LIABILITIES		
EQUITY		
Share capital	42,191	35,282
Share premium	24,355	16,633
Warrant reserve	6,507	6,507
Treasury shares, at cost	(3,249)	(3,249)
Retained profits	13,014	10,515
SHAREHOLDERS' EQUITY	82,818	65,688
Non-controlling interest	2,368	2,414
TOTAL EQUITY	85,186	68,102
NON-CURRENT LIABILITIES		
Hire purchase payables	1,115	795
Bridging Loan	7,115	-
Bonds	212,599	255,745
TOTAL NON-CURRENT LIABILITIES	220,829	256,540
CURRENT LIABILITIES		
Trade payables	3,526	2,879
Amounts owing to contract customers	36,194	5,802
Other payables, deposit received and accruals	5,268	4,860
Amount owing to a related party	11	13
Provision for taxation	-	11
Bank overdraft	1,112	1,146
Short term borrowings	3,905	1,025
TOTAL CURRENT LIABILITIES	50,016	15,736
TOTAL LIABILITIES	270,845	272,276
TOTAL EQUITY AND LIABILITIES	356,031	340,378
NET ASSETS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (sen)		
	19.63	23.00

The Condensed Consolidated Balance Sheet should be read in conjunction with the Group's annual financial report for the financial year ended 30 September 2013.



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THIRD QUARTER ENDED 30 JUNE 2014

	Non-Distributable Reserve				Translation Reserve	Distributable Reserve		Non-Controlling Interest	Total Equity
	Share Capital	Share Premium	Warrant Reserve	Treasury Shares		Retained Profits	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2013	35,282	16,633	6,507	(3,249)	-	10,515	65,688	2,414	68,102
Issuance of Shares	6,909	7,722	-	-	-	-	14,631	-	14,631
Acquisition of non-controlling interest	-	-	-	-	-	-	-	(46)	(46)
Total comprehensive income for the financial year	-	-	-	-	-	2,499	2,499	-	2,499
At 30 June 2014	<u>42,191</u>	<u>24,355</u>	<u>6,507</u>	<u>(3,249)</u>	<u>-</u>	<u>13,014</u>	<u>82,818</u>	<u>2,368</u>	<u>85,186</u>
At 1 October 2012 (as restated)	25,412	13,355	-	503	(3,249)	-	21,341	57,362	29
Share Repurchased	9,870	9,299	-	-	-	-	19,169	-	19,169
Total comprehensive income for the financial year	-	-	-	-	-	5,298	5,298	(29)	5,269
At 30 June 2013	<u>35,282</u>	<u>22,654</u>	<u>503</u>	<u>(3,249)</u>	<u>-</u>	<u>26,639</u>	<u>81,829</u>	<u>-</u>	<u>81,829</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 2013.



UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE CUMULATIVE QUARTER ENDED 30 JUNE 2014

	30/6/2014 RM'000	30/9/2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	3,865	(11,868)
Adjustments for:-		
Non cash items	1,194	6,322
Non operating items	(150)	(1,926)
Operating profit before working capital changes	4,909	(7,472)
Net changes in current assets	(50,385)	(1,268)
Net changes in current liabilities	32,166	870
Cash from operations	(13,310)	(7,870)
Interest paid	(5,722)	(164)
Income tax paid	(1,406)	(5,420)
Net cash for operating activities	(20,438)	(13,454)
CASH FLOWS FOR INVESTING ACTIVITIES		
Interest received	5,872	560
Purchase of property, plant and equipment	(2,462)	(2,994)
Net proceed of disposal of fixed asset	-	100
Net cash outflow from acquisition of a subsidiary company	-	(1,500)
Proceeds from issuance of shares to non-controlling interest	-	3,000
Proceed from disposal of other investment	-	1,283
Net cash from investing activities	3,410	449
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceed from issuance of ordinary shares	14,631	19,153
Bond (utilisation) / proceed from issuance of serial bonds	(39,590)	255,745
Proceed from bridging loan financing	7,115	-
Repayment of hire purchase obligations	(373)	(742)
Net drawdown / (repayment) of bills payable	2,856	(468)
Net cash (for) / from financing activities	(15,361)	273,688
Net (decrease) / increase in cash and cash equivalents	(32,389)	260,683
Cash and cash equivalents at beginning of the period	275,942	15,259
Cash and cash equivalents at end of the period	243,553	275,942
Note:		
Cash and cash equivalents comprise of:		
Fixed deposits with licensed bank		
- available	216,811	267,073
- restricted	1,838	1,838
Cash and bank balances	26,016	8,177
Bank overdraft	(1,112)	(1,146)
	243,553	275,942

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 2013.



UNAUDITED QUARTERLY REPORT FOR THE THIRD QUARTER ENDED 30 JUNE 2014

A. EXPLANATORY NOTES AS PER FRS 134

A1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with the Financial Reporting Standard (FRS) 134 Interim Financial Reporting and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities), and should be read in conjunction with the Group's annual financial report for the financial year ended 30 September 2013.

A2. Changes in Accounting Policies

The significant accounting policies, methods of computations, new accounting standards and interpretation (including the consequential amendments) 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 2013. The following are the new accounting standards and interpretations (including the consequential amendments) has been adopted by the Group :-

- ✓ FRS 124 (Revised) Related Part Disclosures
- ✓ Amendments to FRS 7 Disclosures Transfer of Financial Instruments / Assets
- ✓ Amendments to FRS 101 (Revised) Presentation of Items of Other Comprehensive Income
- ✓ Amendments to FRS 112 Recovery of Underlying Assets

The adoption of the above FRSs, Amendments to FRS, Interpretations and Technical Releases upon their effective dates which have been adopted since the last audited financial statement as at 30 September 2013, are not expected to have any significant impact on the financial statements of the Group.

On 19 November 2011, MASB issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRSs) that are equivalent to International Financial Reporting Standards.

The MFRSs are to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 (Agriculture) and IC Interpretation 15 (Agreements for Construction of Real Estate), including its parent, significant investor and venturer (herein called Transitioning Entities).

The Group and the Company fall within the definition of Transitioning Entities and have elected to present their first MFRSs financial statements when the MFRS framework become mandatory. Currently, the MASB has not announced as to when the Transitioning Entities are mandated to comply with the MFRS framework. This is because of the revision in the project timeline on the issuance of new IFRS on Revenue and the proposed limited amendments to IAS 41 (Agriculture) by the International Accounting Standards Board. Accordingly, the Group and the Company are unable to assess the potential financial effects of the differences between accounting standards under FRSs and the MFRSs.



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 flows during the quarter under review.

A5. Material Changes in Estimates

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

A6. Debts and Equity Securities

Save as disclosed in Note B8 and below, there was no repurchase and repayment of debt and equity securities, for the current period and financial period-to-date.

There were no share buy-back or treasury shares cancelled by the Company in the current financial quarter. As at 30 June 2014, the number of treasury shares repurchased and held are as follow:

	Number of shares	30/6/2014 RM'000
Balance as at 1 October 2013	7,372,808	3,249
Repurchased	-	-
Total treasury shares held	<u>7,372,808</u>	<u>3,249</u>

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A7. Dividend Paid

No dividend was paid during the quarter under review.

A8. Segmental Information

Segment information for the cumulative period is presented in respect of the Group's business segments as follows:

30-Jun-2014 RM'000 The Group	System		Maintenance	Investment		Property			Group
	Integration	Trading	Income	Holding	Rental	Development	Construction	Elimination	RM
	RM	RM	RM	RM	RM	RM	RM	RM	RM
REVENUE									
External revenue	20,833	3,881	1,227	-	1,320	17,669	-	-	44,930
Intersegment revenue	26,142	-	-	-	171	-	9,509	(35,822)	-
Total revenue	46,975	3,881	1,227	-	1,491	17,669	9,509	(35,822)	44,930
RESULTS									
Segment results (external)	2,556	1,394	(147)	-	(71)	527	(106)	-	4,153
Finance costs	(213)	-	-	-	-	(75)	-	-	(288)
Profit from ordinary activities before taxation									3,865
Income tax expense									(1,411)
Profit after taxation									2,454
Non-controlling interest									45
Net profit attributable to the owners of the Company									2,499

30-Jun-2013 RM'000 The Group	System		Maintenance	Investment		Property			Group
	Integration	Trading	Income	Holding	Rental	Development	Construction	Elimination	RM
	RM	RM	RM	RM	RM	RM	RM	RM	RM
REVENUE									
External revenue	24,185	1,022	1,657	-	1,207	19,985	-	-	48,056
Intersegment revenue	-	-	-	-	234	-	-	(234)	-
Total revenue	24,185	1,022	1,657	-	1,441	19,985	-	(234)	48,056
RESULTS									
Segment results (external)	2,797	184	1,142	56	81	2,119	-	-	6,379
Finance costs	57	-	-	-	-	-	-	-	57
Profit from ordinary activities before taxation									6,436
Income tax expense									(1,138)
Profit after taxation									5,298
Non-controlling interest									(29)
Net profit attributable to the owners of the Company									5,269



A9. 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 (being the latest practicable date not earlier than seven (7) days from the date of issue of this report).

A10. Changes in the Composition of the Group

There were no changes in the composition of the Group during the quarter under review and financial period to-date except for:

On 9 December 2013, Digistar acquired 2 ordinary shares of RM1.00 each in Digistar Construction Sdn Bhd (øDCSBø) (formerly known as Titanium Titan Sdn Bhd) comprising 100% equity interest for a total cash consideration of RM2 and DCSB has become a wholly owned subsidiary of Digistar.

A11. Contingent Liabilities

Save as disclosed in below, there were no material contingent liabilities up to the date of this report (being the latest practicable date not earlier than seven (7) days from the date of issue of this report).

	As at 30/6/2014
	RM'000
Contingent Liabilities :	
Unsecured :	
Guarantees given to financial institutions in respect of facilities extended to a subsidiary	8,745
Guarantee given to a subsidiary's supplier for credit facility	6,000
Guarantee given to a subsidiary's customer for due performance of works by a subsidiary	12,412
Corporate Guarantee given to a financial institution for performance guarantee facility to a subsidiary	280,000
Total	<u>307,157</u>

A12. 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 revenue of RM17.32 million for the third quarter ended 30 June 2014 as compared to RM11.22 million in the preceding year corresponding quarter. The cumulative revenue to-date for the Group was at RM44.93 million as compare to RM48.05 million in the preceding year. The revenue improved for the current quarter due to increase in recognition in revenue.

The Group registered a profit before taxation of RM1.66 million for the current quarter ended 30 June 2014 as compared to profit before taxation of RM0.49 million in the preceding year corresponding quarter. The cumulative profit before taxation to-date was at RM3.87 million and RM6.41 million for the preceding year quarter. The decrease in the result were due to lower contribution from the property development and maintenance sector.

The business segment in the system integration and broadcast engineering generated RM20.83 million which is approximately 46.37% of the total Group revenue which shown an decrease of RM3.35 million from RM24.18 million as compared to previous year. The decreased in the revenue generation for current quarter year ended was mainly due to the commencement of the new projects still at its preliminary stage in system integration and broadcast engineering projects. This segment has recorded a pre-tax margin rate of 4.99% or (RM2.34 million) as compared to a pre-tax margin 11.8% or RM2.85 million in the preceding year corresponding quarter year ended.

The business segment from trading, maintenance and rental shown improvement on revenue but incurred higher operating and administrative cost as compared to previous year quarter. In overall, these three (3) segments generated revenue of RM6.43 million and profit before taxation and margin rate of RM1.18 million / 18.29% respectively for current year end quarter as compared to revenue of RM3.88 million with RM1.41 million profit before taxation / 36.34% margin rate in previous year end quarter. There was no external dividend income generated from the investment holding segment for current and preceding year corresponding quarter.

The property development sector has contributed RM17.67 million in revenue which is approximately 39.33% of the total Group revenue and generated a pre-tax profit of RM0.45 million for the Group mainly due to the higher operating cost, marketing cost and administrative expenses. Overall, the budgeted profit margin for this project is estimated at a range from 15% to 20%. This sector has achieved approximately 36% of the total sales value with an average 75% development stage for The Heritage project which was implemented under Seni Pujaa Sdn Bhd, a wholly owned subsidiary for the Group.



B2. Variation of Results against Preceding Quarter

	Current Quarter Ended 30/6/2014 RM'000	Preceding Quarter Ended 31/3/2014 RM'000	Difference	
			RM'000	%
Revenue	17,320	19,336	(2,016)	(10.43)
Profit before taxation	<u>1,662</u>	<u>1,938</u>	<u>(276)</u>	<u>(14.24)</u>

The Group achieved a revenue of RM17.32 million in the current quarter as compared to RM19.33 million recorded in the immediate preceding quarter which represent a decrease of RM2.01 million. The decrease result were mainly due to decrease in revenue recognition in system integration.

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B3. INDUSTRY OUTLOOK, FUTURE PROSPECTS AND OUTLOOK OF DIGISTAR GROUP

Digistar is primarily a provider of systems engineering and integration. Through its subsidiary companies, the Group is principally engaged in the provision of design, supply, installation and integration of IT infrastructure, tele-conferencing, local area networks, interactive media management systems, radio and TV news automation, telecommunication systems, integrated audio and visual systems and other related electronic systems. In addition, the Group is also involved in the provision of e-commerce, interactive pay TV services, property development, property holding and management operations. Due to nature of the Group's businesses, the Group's performance is closely dependant on the future prospects of the related industries, namely construction, communication particularly in broadcasting, and ICT industries.

3.1 Outlook of the construction and property development industry

The construction sector consists of three (3) subsectors, namely civil engineering, residential and non-residential.

To expand the supply of affordable houses, the government has introduced the 1Malaysia Housing Programme ("PR1MA"), which is expected to provide 80,000 houses as announced in the 2013 Budget. As at end-June 2013, a total of 20,000 houses under 15 affordable housing projects are being constructed in the Klang Valley, Johor, Pulau Pinang, Sabah and Sarawak. In line with the government's objective to provide affordable houses to the low income group, Syarikat Perumahan Negara Berhad ("SPNB") has constructed 5,063 units of Rumah Mesra Rakyat 1Malaysia as at end-June 2013. In addition, SPNB has targeted to build 7,092 units of low and medium-cost apartments and terraced houses within the next three (3) years. Meanwhile, a total of 45 projects involving 20,454 units of houses under the Program Perumahan Rakyat ("PPR") will be implemented by Jabatan Perumahan Negara.

In the non-residential subsector, the moderating construction activity in 2013 was due to the near completion of large industrial development projects such as the Samalaju Industrial Park in Sarawak. However, demand for commercial buildings remained stable with the average occupancy rate of office and retail space at 84.2% and 79.7%, respectively, reflecting sustained demand, particularly for commercial space located in prime areas.

For 2014, growth in the construction sector is projected to increase at a moderate pace of 9.6% in 2014 due to slower construction activity in the civil engineering subsector following the completion of several major infrastructure projects. Meanwhile, the residential subsector is expected to remain strong in view of the increased demand for housing, particularly from the middle-income group. The implementation of PR1MA housing project, is expected to accelerate to meet the target of providing 80,000 units of houses for the middle-income group by 2015. Activity in the non-residential subsector is expected to remain stable, albeit at a moderate pace, supported by buoyant business and industrial activities as well as improved consumer sentiment.

(Source: Chapter 3: Economic Performance and Prospects, Economic Report 2013/ 2014, Ministry of Finance Malaysia)



3.2 Outlook of the communication industry

Communication industry is part of the overall umbrella of the services sector. The communication industry is estimated to grow 9.3% in 2012. For 2013, the communication subsector is expected to grow 8.2%.

In the broadcasting industry, the subscription-based satellite television, namely Astro Malaysia Holdings Berhad ("Astro"), has 3.2 million subscribers with a household penetration rate of 50.4% as at end July 2012. This was largely attributed to a wide range of content offerings with 156 channels, including 22 high-definition channels and increased subscriptions to sports packages. In addition, Astro can now be accessed through smartphones, tablets, laptops and personal computers with internet connection. The performance of the industry in 2012 is expected to remain favourable with the offerings of more high-definition channels and introduction of prepaid packages to targeted groups.

Prospects for the services sector are expected to remain upbeat in 2013, with the accelerated implementation of major initiatives under the National Key Result Areas and continued investment in the seven (7) services subsectors under the National Key Economic Areas. These initiatives are expected to drive the wholesale and retail trade, finance and insurance, and communication subsectors, which are expected to grow 6.8%, 5.2% and 8.2% respectively. Overall, the sector is estimated to remain strong at 5.6% supported by domestic consumption, investment and travel-related activities.

(Source: Chapter 3: Economic Performance and Prospects, Economic Report 2012/ 2013, Ministry of Finance Malaysia)

3.3 Outlook of the ICT industry

In information technology services, 83 companies were granted the Multimedia Super Corridor Malaysia ("MSC") status with total estimated investment of RM1,465.3 million and 7,891 employment opportunities during the first eight (8) months of 2012. As at end August 2012, the total number of MSC Malaysia companies stood at 3,037, of which 2,273 or 74.8% are Malaysian-owned, 677 or 22.3% are foreign-owned, and the remaining 87 or 2.9% are joint ventures. These companies are clustered into infotech (75.8%), creative multimedia (11.6%), global sourcing (8.8%), and institutions of higher learning and incubators (3.8%). In addition, there were 26 cyber cities and cyber centres as at end August 2012 including three (3) new cyber centres approved in 2012, namely Jaya 33 in Petaling Jaya, Puchong Financial and Corporate Centre, and Menara Worldwide in Bukit Bintang. Furthermore, three (3) new premises are in the pipeline for consideration as cyber city and cyber centre status by end 2012.

Under the nation's programme, namely, Digital Malaysia, the government aims to create an ecosystem which promotes the pervasive use of digital technology in all aspects of the economy to connect communities globally and interact in real time resulting in increased economic activity, productivity and standard of living. While Malaysia has built a strong ICT foundation, Digital Malaysia will focus on driving value-added services through digital technologies. One of the goals to be achieved under Digital Malaysia is to raising Malaysia's ICT contribution from 9.8% of GDP in 2010 to 17% by 2020.



Digital Malaysia also aims to create 160,000 high-income job opportunities, particularly in areas such as cloud enterprise applications, gamification, embedded systems, micro-sourcing, social media, e-commerce and green technology. The Tenth Malaysia Plan shows that the bulk of government investment in ICT is on supply-centric or infrastructure-based projects such as high-speed broadband, development of information technology centres, and purchase of computer hardware and software. Digital Malaysia aims to create demand-side activities such as the development of digital entrepreneurs to tap into the total domestic ICT spending of RM175 billion by 2020.

(Source: Chapter 3: Economic Performance and Prospects, Economic Report 2012/ 2013, Ministry of Finance Malaysia)

3.4 Outlook of the electrical and electronics industry

Output of electrical and electronics ("E&E") rebounded 1.6% during the first seven (7) months of 2012 mainly driven by the higher production of semiconductor devices as well as audio, visual and communication apparatus. The improved performance of E&E was partly due to chip vendors and storage producers taking advantage of stable prices and supply of parts to replenish inventories as well as the launching of new products which was delayed by massive floods in Thailand during the fourth quarter of 2011.

On the back of a slowdown in global demand, E&E manufacturers continued to invest in new technology and product development to upscale the value chain. Approved capital spending in the E&E subsector amounted to RM1.72 billion in 46 projects, of which RM1.35 billion were from foreign investors. This further reaffirms Malaysia as an attractive and cost-efficient E&E manufacturing base in the region. The continued strong investments will further strengthen growth in the E&E subsector and create more skilled jobs.

For 2013, the E&E subsector is expected to grow further driven by higher demand for electronic equipment and parts as well as semiconductors in line with the economic recovery in advanced economies.

(Source: Chapter 3: Economic Performance and Prospects, Economic Report 2012/ 2013, Ministry of Finance Malaysia)

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3.5 Future prospects and outlook of Digistar Group

The prospects of Digistar Group are favourable in light of the following factors:-

- i. The Group's competitive advantages and key strengths that will enable the Group to compete successfully as well as to provide the Group with growth prospects. The competitive advantages and key strengths of the Group are set out below:-
 - a) The Group's track record and established reputation as a comprehensive system integration solutions provider since the commencement of its business in 1982;
 - b) The Group's expertise in providing customised solutions in systems engineering and integration to meet its customers' requirements; and
 - c) The services provided to large user-industries, which is a key strength as it enables the Group to sustain its business and future growth.
- ii. The Group has in place the following future plans that are expected to create growth opportunities to the Group in long term:-
 - a) The Group plans to expand its broadcasting systems engineering and integration business by servicing more local media broadcast operators as well as to address new markets in the Asia Pacific region;
 - b) The Group plans to expand its interactive pay television segment locally by targeting a niche market of residential users in condominiums, apartments and flats where the Group is able to install centralised content systems in these types of buildings;
 - c) The Group plans to expand its business in the provision of security systems, particularly in the operation of 24-hour central monitoring system that are targeting at residential, commercial, industrial, warehouse, small and medium enterprises, and bank properties within Malaysia.

The central monitoring system will utilise internet protocol based detection platform and high technology surveillance system to detect intruders before they enter the protected premises. In the event of a motion detected, the system will automatically relay a distress or emergency signal. CMS, which is a centre that links all the premises with the central monitoring system, will coordinate and respond to the signal received.

Presently, the CMS is located in Kuala Lumpur and the Group plans to set up additional (3) CMS in Penang, Malacca and Johor, at where the branch office is located.

The Group has just started to roll out the central monitoring system operation in second quarter of 2014.



- d) The Group plans to expand its existing communication business by venturing into the provision of mobile virtual network services and machine-to-machine solutions.

On 21 January 2013, Digistar Rauland MSC Sdn Bhd, an 80%-owned subsidiary company of Digistar, has been awarded three (3) licences, namely network facilities provider, network services provider and content applications service provider by Malaysian Communications and Multimedia Commission. The Group is currently in the midst of identifying the host mobile network operator in Malaysia whom it may lease the network capacity from, to provide voice and data communication, and other value-added services to individual users and small and medium enterprises.

The management believes that the Group's expansion into the provision of mobile virtual network services and machine-to machine solutions will contribute positively to the earnings of the Group in long term.

As part of the business expansion, the Group plans to set up three (3) branch offices in Penang, Malacca and Johor. As at the date of this Circular, the Group has identified two (2) properties in Johor and Penang for the establishment of the branch offices and CMSs which is expected to commence in second quarter of 2014.

Furthermore, the electronic systems engineering and integration industry is closely related to the construction industry. This is because many of the buildings, structures and amenities constructed are commonly fitted with various types of electronic systems, particularly for non-residential buildings and amenities. In tandem with the positive outlook of the construction industry, the Board anticipates greater business opportunities for the system integration segment through projects involving the installation and integration of IT infrastructure. In addition, TV networks and production facilities in the Asia Pacific region are increasingly making the transition from analogue to digital TV broadcasting. With the introduction of digitalisation, most of the broadcasters are working towards having their broadcast stations equipped with the necessary technology. This gives ample continuous opportunities for the Group to offer its broadcast system integration services to broadcasters in this region.

In view of the above, the Board believes that the prospect of the Group is favourable for the current and coming financial years after having considered all the relevant aspects including the outlook of the related industries which are closely linked to the Group's business performance.

(Source: Management of Digistar)



B4. Profit Forecast, Profit Guarantee and Internal Targets

Not applicable as the Group did not provide any profit forecast, profit guarantee and internal targets in any public document or any announcements made.

B5. Taxation

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Corresponding Quarter	To Date	Corresponding Period
	30/6/2014	30/6/2013	30/6/2014	30/6/2013
	RM'000	RM'000	RM'000	RM'000
Income tax expense for the period	370	375	1,411	1,138

The effective tax rate of the Group for the financial period to date and the current quarter is higher than the statutory tax rate is due to there are certain expenses disallowed for tax 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 period-to-date.

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B7. Purchase or Disposal of Quoted Securities

There was no disposal of quoted securities for the current quarter and financial period-to-date.

B8. Status of Corporate Proposals

Save as disclosed below, there were no other corporate proposals announced but not completed as at 30 June 2014 (being the latest practicable date not earlier than seven (7) days from the date of issue of this report) :-

- a) On 4 December 2012, the Company announced to undertake a renounceable rights issue of up to 137,664,390 Rights Shares on the basis of two (2) Rights Shares for every five (5) existing Digistar Shares held, together with up to 103,248,292 free Warrants on the basis of three (3) free Warrants for every four (4) Rights Shares subscribed for, based on an entitlement date to be determined later.

On 1 April 2013, the Company had announced the results of the acceptance for the Rights Issue. As at the close of acceptance and payment for the Rights Issue with Warrants at 5.00 p.m. on 28 March 2013, the total acceptances and excess applications for the Rights Issue with Warrants were 135,961,938 Rights Shares, which represents an over-subscription of 37.75% over the total number of 98,699,136 Rights Shares available for subscription under the Rights Issue with Warrants. On 11 April 2013, the Company had announced that 98,699,136 Rights Shares and 74,024,334 Warrants issued pursuant to the Rights Issue with Warrants and 11,808,860 additional 2007/ 2017 warrants of Digistar ("Warrant(s) A") issued pursuant to the adjustments to the outstanding Warrants A as a consequence of the Rights Issue with Warrants were listed and quoted on the Main Market of Bursa Malaysia Securities Berhad with effect from 9.00 a.m. on Thursday, 11 April 2013, marking the completion of the Rights Issue with Warrants.

As of 30 June 2014, the Company has utilised the proceeds raised of RM19.74 million as follow:

Details of Utilisation	Timeframe for utilisation	Proposed Utilisation RM'000	Actual Utilisation RM'000	Amount Unutilise RM'000	% Utilised
Business expansion	within 24 months	3,500	970	2,530	27.71
General working capital	within 24 months	13,452	13,452	-	100.00
Repayment of bank borrowings	within 6 months	2,200	2,200	-	100.00
Estimated expenses in relation to the corporate exercises	upon completion	587	587	-	100.00
		<u>19,739</u>	<u>17,209</u>	<u>2,530</u>	



- b) On 18 November 2013, Digistar proposes to undertake a private placement of up to 105,738,661 new ordinary shares of RM0.10 each in Digistar representing up to 20% of the issued and paid-up share capital of Digistar, at an issue price to be determined later. The listing application in relation to the Proposed Private Placement has been submitted to Bursa Malaysia Securities Berhad on 25 November 2013. On 10 December 2013, Bursa has approved the listing of and quotation for up to 105,738,661 new ordinary shares of RM0.10 each in Digistar to be issued pursuant to the Proposed Placement. The Proposed Private Placement was duly passed by Digistar's shareholders at the EGM on 9 January 2014.

On 20 January 2014, Digistar has fixed the issue price for the first tranche of Private Placement comprising 34,544,695 Placement Shares representing approximately 10% of the existing issued and paid-up share capital of the Company (excluding treasury shares), at RM0.23 per Placement Share. The aforementioned issue price represents a discount of 20.69% to the five (5)-day weighted average market price of Digistar Shares up to and including 20 January 2014 of RM0.29. A total of 34,544,695 Placement Shares were listed and quoted on the Main Market of Bursa Malaysia Securities Berhad with effect from 9.00 a.m. on Thursday, 30 January 2014, marking the completion of the first tranche of Private Placement.

On 17 March 2014, Digistar has fixed the issue price for the second tranche of Private Placement comprising 34,544,700 Placement Shares representing approximately 10% of the existing issued and paid-up share capital of the Company (excluding treasury shares), at RM0.20 per Placement Share. The aforementioned issue price represents a discount of 20.00% to the five (5)-day weighted average market price of Digistar Shares up to and including 14 March 2014 of RM0.25. A total of 34,544,700 Placement Shares were listed and quoted on the Main Market of Bursa Malaysia Securities Berhad with effect from 9.00 a.m. on Wednesday, 26 March 2014.

The Private Placement has been completed following the listing of and quotation for 34,544,695 first tranche Placement Shares on 30 January 2014, and 34,544,700 second tranche Placement Shares on 26 March 2014, on the Main Market of Bursa Securities.

As of 30 June 2014, the Company has utilised the proceeds raised of RM14.85 million as follow:

Details of Utilisation	Timeframe for utilisation	Proposed Utilisation RM'000	Actual Utilisation RM'000	Amount Unutilise RM'000	% Utilised
Business expansion	within 24 months	6,000	2,447	3,553	40.78
General working capital	within 24 months	8,574	8,574	-	100.00
Estimated expenses in relation to the corporate exercises	upon completion	280	280	-	100.00
		<u>14,854</u>	<u>11,301</u>	<u>3,553</u>	



- c) Digistar had on 9 December 2013 acquired 2 ordinary shares of RM1.00 each representing 100% of the equity interest in Titanium Titan Sdn Bhd (TTTSB) for a cash consideration of RM2.00 only (the Acquisition). Following the Acquisition, TTTSB has become a wholly-owned subsidiary of Digistar. TTTSB was incorporated as a private limited company on 2 May 2013 with an authorised share capital of RM400,000 comprising 400,000 ordinary shares of RM1.00 each and paid up capital of RM2 comprising 2 ordinary shares of RM1.00 each. TTTSB is dormant for the current quarter under review. The intended principal business is construction activities.

B9. Group Borrowings and Debt Securities

The Group's borrowings (which are all denominated in Ringgit Malaysia) as at 30 June 2014 consist of the following:-

	Short Term RM'000	Long Term RM'000	Total RM'000
Secured:-			
Bank overdraft	1,112	-	1,112
Bankers acceptance	3,299	-	3,299
Hire purchase payables	606	1,115	1,721
Bridging Loan	-	7,115	7,115
Bonds	-	212,599	212,599
Total	<u>5,017</u>	<u>220,829</u>	<u>225,846</u>

B10. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risks as of to date of this report.

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B11. Material Litigation, Claims or Arbitration

Save as disclosed below (being the latest practicable date not earlier than seven (7) days from the date of issue of this report), the Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Board is not aware and does not have any knowledge of any proceedings pending or threatened against the Group, or of any facts likely to give rise to any proceedings, which might materially or adversely affect the financial position or business of the Group:-

a. Kuala Lumpur High Court of Malaya Civil Suit No. 22NCVC-655-2011

- i. On 29 July 2011, Digistar Holdings Sdn Bhd ("DHSB"), a wholly-owned subsidiary company of Digistar, had filed a writ of summons and statement of claim against Waterside IT Solutions Sdn Bhd at Kuala Lumpur High Court of Malaya for the outstanding sum of RM2,456,886.92 in relation to the debts due and payable under two (2) separate contracts. The matter was fixed for trial in May 2012, and the hearing has since concluded.

On 9 October 2012, DHSB has obtained a High Court judgment to claim the aforementioned outstanding sum together with interest charged thereon and cost of RM10,000 against the defendant.

As at the date of this quarterly result released, the outstanding sums, interest and cost have not been paid to DHSB. DHSB is in the process of recovering the aforementioned sums in accordance with the judgment, and is of the view that the aforementioned amounts can be recovered. Nevertheless, in the event that the claim shall fail, there will be no material impact on the financial position or business of Digistar Group as the debts were fully provided in the accounts, save and except for legal costs.

B12. Dividends

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

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B13. Earnings Per Share

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30/6/2014	Preceding Year Corresponding Quarter 30/6/2013	Current Year To Date 30/6/2014	Preceding Year Corresponding Period 30/6/2013
(a) Basic Earnings Per Share				
Net profit attributable to members of the Company (RM'000)	1,334	152	2,499	5,298
Weighted average number of ordinary shares in issue	421,909,181	334,600,919	380,261,121	276,032,201
Basic earnings per share (sen)	0.66	0.05	0.66	1.92
(b) Diluted Earnings Per Share				
Net profit attributable to members of the Company (RM'000)	1,334	152	2,499	5,298
Weighted average number of ordinary shares in issue	421,909,181	334,600,919	380,261,121	276,032,201
Adjustment for assumed exercise of Warrants	60,193,801	47,266,285	51,057,942	64,702,231
Adjusted weighted average number of ordinary shares in issue and issuable	482,102,982	381,867,204	431,319,063	340,734,432
Diluted earnings per share (sen)	0.28	0.04	0.58	1.55

B14. Qualification of Financial Statements

The audit report of the preceding financial statements for the financial year ended 30 September 2013 was not subject to any audit qualification.

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B15. Supplementary Information Disclosed Pursuant to Bursa Malaysia Securities Berhad Listing Requirements

The following analysis of realised and unrealised retained profits/ (accumulated losses) is prepared pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Securities Berhad Listing Requirements and in accordance with the Guidance on Special Matter No. 1 - Determination of Realised and Unrealised Profits or Losses as issued by the Malaysian Institute of Accountants. This disclosure is based on the format prescribed by Bursa Malaysia Securities Berhad.

	As at 30/6/2014 RM'000
Total retained profits of the Company and its subsidiaries	
- Realised	28,522
- Unrealised	-
	28,522
Less: Consolidation adjustments	(15,508)
Total group retained profits as per consolidated financial statements	13,014

B16. Notes to the Condensed Consolidated Statements of Income

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Corresponding Quarter	To Date	Corresponding Period
	30/6/2014	30/6/2013	30/6/2014	30/6/2013
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Other operation income:				
- Bad debts recovery	-	-	-	(1,310)
- Interest Income	(5,668)	(203)	(5,872)	(419)
- Loss/ (Gain) on disposal of property, plant and equipment	(23)	-	(28)	39
Interest Expense	5,596	(15)	5,722	61
Depreciation and Amortization	584	490	1,566	1,483
Net Foreign Exchange (Gain) / Loss	8	(12)	28	(40)
	8	(12)	28	(40)



B17. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors on 28 August 2014.