

THIS CIRCULAR TO SHAREHOLDERS OF DIGISTAR CORPORATION BERHAD (“DIGISTAR” OR THE “COMPANY”) IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.

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DIGISTAR CORPORATION BERHAD

(Registration No. 200301001232 (603652-K))

(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 287,518,911 NEW ORDINARY SHARES IN DIGISTAR (“DIGISTAR SHARE(S)” OR “SHARES”) (“RIGHTS SHARE(S)”) ON THE BASIS OF 1 RIGHTS SHARE FOR EVERY 3 EXISTING DIGISTAR SHARES HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER TOGETHER WITH UP TO 287,518,911 FREE DETACHABLE WARRANTS (“WARRANTS C”) ON THE BASIS OF 1 WARRANT C FOR EVERY 1 RIGHTS SHARE SUBSCRIBED BY THE ENTITLED SHAREHOLDERS

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser

UOB KayHian

UOB KAY HIAN SECURITIES (M) SDN BHD

(Registration No. 199001003423 (194990-K))

(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Notice of the Extraordinary General Meeting (“**EGM**”) of Digistar to be held at Platinum Hall, Level 3, Imperial Heritage Hotel Melaka, No 1, Jalan Merdeka 1, Taman Melaka Raya, 75000 Melaka, Malaysia on Monday, 29 March 2021 at 11.00 a.m., or immediately after the conclusion or adjournment (as the case may be) of the 18th Annual General Meeting of the Company to be held at the same venue on the same day at 10.00 a.m., whichever is later, or at any adjournment thereof, together with the accompanying Proxy Form are enclosed herein.

A member entitled to attend, speak and vote at the EGM is entitled to appoint a proxy or proxies to attend and vote on his/her behalf. In such event, the Proxy Form must be deposited at the Registered Office of the Company at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, not less than twenty four (24) hours before the time stipulated for holding the EGM as indicated below. The lodging of the Proxy Form will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

Last date and time for you to lodge the Proxy Form : Sunday, 28 March 2021, at 11.00 a.m.

Date and time of the EGM : Monday, 29 March 2021, at 11.00 a.m.

This Circular is dated 12 March 2021

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:-

“Act”	: Companies Act 2016, as amended from time to time and includes any re-enactment thereof
“Board”	: Our Board of Directors of Digistar
“Bursa Depository”	: Bursa Malaysia Depository Sdn Bhd (Registration No. 198701006854 (165570-W))
“Bursa Securities”	: Bursa Malaysia Securities Berhad (Registration No. 200301033577 (635998-W))
“Circular”	: This circular to shareholders of Digistar dated 12 March 2021
“COVID-19”	: Coronavirus disease 2019
“Deed Poll B”	: The deed poll dated 4 March 2013 constituting the Warrants B
“Deed Poll C”	: The deed poll constituting the Warrants C to be executed by the Company
“Digistar” or the “Company”	: Digistar Corporation Berhad (Registration No. 200301001232 (603652-K))
“Digistar Group” or the “Group”	: Digistar and its subsidiary companies, collectively
“Digistar Share(s)” or “Share(s)”	: Ordinary share(s) in Digistar
“Director(s)”	: The director(s) of Digistar having the meaning given in Section 2(1) of the Act and Section 2(1) of the Capital Markets and Services Act 2007
“EGM”	: Extraordinary general meeting of the Company
“Entitled Shareholder(s)”	: The shareholder(s) of Digistar whose name(s) appear in the Record of Depositors of the Company on the Entitlement Date
“Entitlement Date”	: A date (to be determined and announced by our Board later) on which the names of the Entitled Shareholders must appear in the Record of Depositors of the Company as at 5.00 p.m. in order to be entitled to the Rights Shares with free Warrants C pursuant to the Proposed Rights Issue with Free Warrants
“Entitlement Undertaking”	: Irrevocable undertaking dated 10 February 2021 from the Undertaking Shareholder, who has irrevocably undertaken to apply and subscribe in full for its entitlements to the Rights Shares together with the Warrants C based on its shareholdings as at the Entitlement Date
“EPS”	: Earnings per share
“FPE”	: Financial period ended/ending
“FYE”	: Financial year ended/ending
“LBT”	: Loss before tax

DEFINITIONS (CONT'D)

“Listing Requirements”	:	Main Market Listing Requirements of Bursa Securities, as amended and modified from time to time
“LPD”	:	1 March 2021, being the latest practicable date prior to the printing and despatch of this Circular
“Market Day(s)”	:	Any day between Monday to Friday (inclusive), excluding public holidays, and any day on which Bursa Securities is open for trading of securities
“Maximum Scenario”	:	Assuming all treasury shares are resold to the open market, all outstanding Warrants B are exercised prior to the implementation of the Proposed Rights Issue with Free Warrants and all Entitled Shareholders fully subscribe for their respective entitlements under the Proposed Rights Issue with Free Warrants
“MCO”	:	Movement Control Order
“Minimum Scenario”	:	Assuming all treasury shares are retained, none of the outstanding Warrants B are exercised prior to the implementation of the Proposed Rights Issue with Free Warrants and the Proposed Rights Issue with Free Warrants is undertaken on the Minimum Subscription Level
“Minimum Subscription Level”	:	The minimum subscription level of 69,280,302 Rights Shares together with 69,280,302 Warrants C by the Undertaking Shareholder to raise the required minimum level of funds that Digistar intends to raise from the Proposed Rights Issue with Free Warrants amounting to RM3.46 million
“NA”	:	Net assets
“Official List”	:	A list specifying all securities which have been admitted for listing on the Main Market of Bursa Securities and not removed
“PBT”	:	Profit before tax
“Price Fixing Date”	:	The date (to be determined and announced later by our Board) on which the issue price of the Rights Shares and exercise price of the Warrants C shall be fixed pursuant to the Proposed Rights Issue with Free Warrants
“Proposed Rights Issue with Free Warrants”	:	The proposed renounceable rights issue of up to 287,518,911 Rights Shares on the basis of 1 Rights Share for every 3 existing Digistar Shares held, together with up to 287,518,911 Warrants C on the basis of 1 Warrant C for every 1 Rights Share subscribed by the Entitled Shareholders on the Entitlement Date at an issue price to be determined by our Board at a later date
“Record of Depositors”	:	A record of depositors established by Bursa Depository under the Rules of Bursa Depository
“Rights Share(s)”	:	Up to 287,518,911 new Shares to be allotted and issued pursuant to the Proposed Rights Issue with Free Warrants
“RM” and “sen”	:	Ringgit Malaysia and sen respectively
“Rules of Bursa Depository”	:	The rules of Bursa Depository as issued pursuant to the Securities Industry (Central Depositories) Act 1991 as amended from time to time

DEFINITIONS (CONT'D)

“TERP”	:	Theoretical ex-rights price
“Undertaking Shareholder”	:	The substantial shareholder of Digistar who has provided its Entitlement Undertaking, the details of which are set out in Section 2.6 of this Circular
“UOBKH” or the “Adviser”	:	UOB Kay Hian Securities (M) Sdn Bhd (Registration No. 199001003423 (194990-K))
“VWAP”	:	Volume-weighted average market price
“Warrants B”	:	The outstanding Warrants 2013/2023 issued by the Company pursuant to the Deed Poll B and expiring on 4 April 2023
“Warrants C”	:	Up to 287,518,911 free detachable warrants of Digistar to be allotted and issued pursuant to the Proposed Rights Issue with Free Warrants

All references to “we”, “us”, “our” and “ourselves” are to Digistar or Digistar Group. All references to “you” in this Circular are to the shareholders of Digistar. Words incorporating the singular shall, where applicable, include the plural and vice versa. Words incorporating the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Any reference to persons shall include a corporation, unless otherwise specified.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise specified. Any discrepancies in the tables included in this Circular between the amounts listed, actual figures and the totals thereof are due to rounding.

Certain statements in this Circular may be forward-looking in nature, which are subject to uncertainties and contingencies. Forward-looking statements may contain estimates and assumptions made by our Board after due enquiry, which are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed or implied in such forward-looking statements. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Circular should not be regarded as a representation or warranty that our plans and objectives will be achieved.

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EXECUTIVE SUMMARY

This Executive Summary highlights only the salient information of the Proposed Rights Issue with Free Warrants. You are advised to read this Circular in its entirety for further details of the Proposed Rights Issue with Free Warrants and not to rely solely on this Executive Summary in forming a decision on the Proposed Rights Issue with Free Warrants before voting at the EGM.

KEY INFORMATION

SUMMARY

Basis of allotment and number of Rights Shares and Warrants C to be issued pursuant to the Proposed Rights Issue with Free Warrants : Up to 287,518,911 Rights Shares on the basis of 1 Rights Share for every 3 existing Digistar Shares held on the Entitlement Date, together with up to 287,518,911 Warrants C on the basis of 1 Warrant C for every 1 Rights Share subscribed by the Entitled Shareholders at an issue price to be determined by our Board later.

The Proposed Rights Issue with Free Warrants will be undertaken on a minimum subscription basis, after taking into consideration, amongst others, the minimum level of funds that we intend to raise from the Proposed Rights Issue with Free Warrants amounting to RM3.46 million based on the Entitlement Undertaking obtained from the Undertaking Shareholder.

Please refer to **Section 2.1** of this Circular for further details of the basis of allotment and number of Rights Shares and Warrants C to be issued pursuant to the Proposed Rights Issue with Free Warrants.

Indicative issue price of the Rights Shares : For illustrative purposes only, the indicative issue price of the Rights Shares is assumed to be RM0.05 each, which represents a discount of approximately 28.57% to the TERP of Digistar Shares of RM0.07, calculated based on the 5-day VWAP of Digistar Shares up to and including the LPD of RM0.08.

Please refer to **Section 2.2** of this Circular for the basis and justification for the issue price of the Rights Shares.

Indicative exercise price of the Warrants C : The Warrants C will be issued at no cost to the Entitled Shareholders and/or their renounee(s) who successfully subscribed for the Rights Shares.

For illustrative purposes only, the indicative exercise price of the Warrants C is assumed to be RM0.10 each, which represents a premium of approximately 42.86% to the TERP of Digistar Shares of RM0.07, calculated based on the 5-day VWAP of Digistar Shares up to and including the LPD of RM0.08.

Please refer to **Section 2.3** of this Circular for the basis and justification for the exercise price of the Warrants C.

Shareholder's undertaking and underwriting arrangements : The substantial shareholder of the Company, LWC Capital Sdn Bhd has provided its Entitlement Undertaking to subscribe in full for its entitlement of 69,280,302 Rights Shares under the Proposed Rights Issue with Free Warrants.

As the Proposed Rights Issue with Free Warrants will be undertaken on the Minimum Subscription Level, our Company will not procure any underwriting arrangement for the remaining Rights Shares not subscribed by the other Entitled Shareholders and/or their renounee(s).

Please refer to **Section 2.6** of this Circular for further details of the shareholder's undertaking.

EXECUTIVE SUMMARY (CONT'D)

Utilisation proceeds of : Based on the indicative issue price of RM0.05 per Rights Share, the Proposed Rights Issue with Free Warrants is expected to raise gross proceeds of up to approximately RM14.38 million to be utilised in the following manner:-

Details of utilisation	Timeframe for utilisation from completion of the Proposed Rights Issue with Free Warrants	Minimum Scenario (RM'000)	Maximum Scenario (RM'000)
(i) Working capital	Within 12 months	1,600	5,800
(ii) Business expansion of the hospitality segment	Within 24 months	1,364	6,076
(iii) Repayment of bank borrowings	Within 3 months	-	2,000
(iv) Estimated expenses for the Proposed Rights Issue with Free Warrants	Within 1 month	500	500
Total		3,464	14,376

Please refer to **Section 4** of this Circular for further details of the utilisation of proceeds.

Approvals required/obtained and conditionality of the Proposed Rights Issue with Free Warrants : The Proposed Rights Issue with Free Warrants is subject to the following approvals being obtained:-

- (a) Bursa Securities, which was obtained on 11 March 2021, for the following:-
- (i) the admission of the Warrants C to the Official List of Bursa Securities;
 - (ii) the listing of and quotation for the Rights Shares, Warrants C and the new Digistar Shares to be issued arising from the exercise of the Warrants C on the Main Market of Bursa Securities;
 - (iii) listing of and quotation for any additional new Warrants B to be issued arising from the adjustments pursuant to the Proposed Rights Issue with Free Warrants on the Main Market of Bursa Securities; and
 - (iv) listing of and quotation for the new Digistar Shares to be issued arising from the exercise of any additional new Warrants B on the Main Market of Bursa Securities;
- (b) shareholders of Digistar for the Proposed Rights Issue with Free Warrants at the forthcoming EGM; and
- (c) any other relevant authorities, if required.

The Proposed Rights Issue with Free Warrants is not conditional upon any other proposals undertaken or to be undertaken by our Company.

Please refer to **Section 9** of this Circular for further details of the approvals required/obtained for the Proposed Rights Issue with Free Warrants.

Directors' recommendation : Our Board recommends that you vote **FOR** the resolution pertaining to the Proposed Rights Issue with Free Warrants to be tabled at the forthcoming EGM.

Please refer to **Section 12** of this Circular for further details of the Directors' recommendation.



DIGISTAR CORPORATION BERHAD

(Registration No. 200301001232 (603652-K))
(Incorporated in Malaysia)

Registered Office

Level 2, Tower 1
Avenue 5, Bangsar South City
59200 Kuala Lumpur

12 March 2021

Board of Directors

Tan Sri Dato' Ir. Hj. Zaini Bin Omar	(Independent Non-Executive Chairman)
Mejar (K) Datuk Wira Lee Wah Chong	(Group Managing Director)
Dato' Haji Ishak Bin Haji Mohamed	(Senior Independent Non-Executive Director)
Thee Kok Chuan	(Independent Non-Executive Director)
Lee Mey Ling	(Executive Director)
Lee Jin Jean	(Executive Director)
Lee Chun Szen	(Executive Director)

To: The shareholders of Digistar

Dear Sir/Madam,

PROPOSED RIGHTS ISSUE WITH FREE WARRANTS

1. INTRODUCTION

On 10 February 2021, UOBKH, on behalf of our Board, announced that our Company proposes to undertake a renounceable rights issue of up to 287,518,911 Rights Shares on the basis of 1 Rights Share for every 3 existing Digistar Shares held, together with up to 287,518,911 Warrants C on the basis of 1 Warrant C for every 1 Rights Share subscribed by the Entitled Shareholders on the Entitlement Date at an issue price to be determined by our Board later.

Subsequently, on 11 March 2021, UOBKH, on behalf of our Board, announced that Bursa Securities had vide its letter dated on even date, resolved to approve the following:-

- (i) admission of Warrants C to the Official List of Bursa Securities;
- (ii) listing of and quotation for the Rights Shares, Warrants C and the new Digistar Shares to be issued arising from the exercise of Warrants C on the Main Market of Bursa Securities;
- (iii) listing of and quotation for any additional new Warrants B to be issued arising from the adjustments pursuant to the Proposed Rights Issue with Free Warrants on the Main Market of Bursa Securities; and
- (iv) listing of and quotation for the new Digistar Shares to be issued arising from the exercise of any additional new Warrants B on the Main Market of Bursa Securities.

The approval of Bursa Securities is subject to the conditions as set out in **Section 9** of this Circular.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE RELEVANT INFORMATION ON THE PROPOSED RIGHTS ISSUE WITH FREE WARRANTS AND TO SEEK YOUR APPROVAL FOR THE RESOLUTION PERTAINING TO THE PROPOSED RIGHTS ISSUE WITH FREE WARRANTS TO BE TABLED AT THE FORTHCOMING EGM. THE NOTICE OF THE FORTHCOMING EGM AND THE PROXY FORM ARE ENCLOSED TOGETHER WITH THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED RIGHTS ISSUE WITH FREE WARRANTS TO BE TABLED AT THE FORTHCOMING EGM.

2. DETAILS OF THE PROPOSED RIGHTS ISSUE WITH FREE WARRANTS

2.1 Basis and number of Rights Shares and Warrants C to be issued

The Proposed Rights Issue with Free Warrants entails an issuance of up to 287,518,911 Rights Shares on the basis of 1 Rights Share for every 3 existing Digistar Shares held on the Entitlement Date, together with up to 287,518,911 Warrants C on the basis of 1 Warrant C for every 1 Rights Share subscribed by the Entitled Shareholders. The basis of 1 Rights Share together with 1 free Warrant C for every 3 existing Digistar Shares held on the Entitlement Date under the Proposed Rights Issue with Free Warrants was arrived at after taking into consideration, amongst other, the following:-

- (i) the minimum amount of proceeds to be raised from the Proposed Rights Issue with Free Warrants, details of which are set out in **Section 4** of this Circular;
- (ii) the issued share capital of our Company as at the LPD of RM104,936,629 comprising 788,532,399 Digistar Shares (including 7,372,808 treasury shares held as at the LPD); and
- (iii) the outstanding 74,024,334 Warrants B as at the LPD, all of which are constituted by the Deed Poll B. Each Warrant B carries the entitlement to subscribe for 1 new Digistar Share at an exercise price of RM0.26 per Warrant B during the 10-year exercise period up to 4 April 2023.

The Proposed Rights Issue with Free Warrants will be undertaken on a minimum subscription basis, after taking into consideration, amongst others, the following:-

- (i) the minimum level of funds that we intend to raise from the Proposed Rights Issue with Free Warrants amounting to RM3.46 million, which would entail a minimum subscription of 69,280,302 Rights Shares at an indicative issue price of RM0.05 per Rights Share; and
- (ii) the irrevocable and unconditional undertaking of the Undertaking Shareholder of Digistar, LWC Capital Sdn Bhd, vide its letter dated 10 February 2021 to subscribe in full for its respective entitlements of the Rights Shares based on its shareholdings as at the Entitlement Date.

The actual number of Rights Shares to be issued will be determined based on the issued share capital of Digistar as at the Entitlement Date and the actual number of Warrants C to be issued would depend on the total number of Rights Shares subscribed by the Entitled Shareholders.

The maximum number of new Digistar Shares to be issued upon full exercise of the Warrants C is 69,280,302 new Digistar Shares (under the Minimum Scenario) and up to 287,518,911 new Digistar Shares (under the Maximum Scenario).

The Warrants C are attached to the Rights Shares without any cost and will be issued only to the Entitled Shareholders and/or their renounee(s) who subscribe for their entitled number of Rights Shares. The Warrants C will be immediately detached from the Rights Shares upon issuance and will be separately traded from the Rights Shares on the Main Market of Bursa Securities. The Warrants C will be issued in registered form and constituted by Deed Poll C. Please refer to **Appendix I** of this Circular for the indicative salient terms of Warrants C.

The Rights Shares and the free Warrants C will be provisionally allotted and issued to the Entitled Shareholders. In determining shareholders' entitlements under the Proposed Rights Issue with Free Warrants, fractional entitlements of the Rights Shares and Warrants C, if any, will be disregarded, and dealt with in such manner and on such terms and conditions as our Board in its absolute discretion deems fit or expedient and in the best interest of our Company.

The Proposed Rights Issue with Free Warrants is renounceable in full or in part. Accordingly, the Entitled Shareholders can subscribe for and/or renounce their entitlements to the Rights Shares together with the free Warrants C in full or in part. For avoidance of doubt, the Rights Shares and Warrants C are not separately renounceable. Only Entitled Shareholders and/or their renounee(s) who successfully subscribe for the Rights Shares will be entitled to Warrants C. The remaining Rights Shares which are unsubscribed, not taken up or not validly taken up shall be made available for excess applications by the other Entitled Shareholders and/or their renounee(s). It is the intention of our Board to allocate the excess Rights Shares in a fair and equitable manner on a basis to be determined by our Board and announced later by our Company.

The Proposed Rights Issue with Free Warrants will not be implemented in stages.

The Proposed Rights Issue with Free Warrants will give rise to adjustments to the exercise price and the number of outstanding Warrants B held as specified in the Deed Poll B. Further details on the adjustments are set out in **Section 7.5** of this Circular.

2.2 Basis and justification for the issue price of the Rights Shares

The issue price of the Rights Shares will be determined and fixed by our Board at a later date after receipt of all relevant approvals, taking into consideration the following:-

- (i) the minimum gross proceeds of RM3.46 million to be raised from the Proposed Rights Issue with Free Warrants, which shall be primarily utilised to fund the hospitality business of Digistar as disclosed in **Section 4** of this Circular. Accordingly, the issue price of the Rights Shares will be fixed at no less than RM0.05 per Rights Share in order to raise the said minimum gross proceeds from the Proposed Rights Issue with Free Warrants undertaken on the Minimum Subscription Level;
- (ii) the prevailing market conditions and market prices of Digistar Shares for the past 12 months; and
- (iii) the range of discounts to the TERP of Digistar Shares based on the 5-day VWAP of Digistar Shares immediately preceding the Price-Fixing Date.

Our Board intends to fix the issue price of the Rights Shares such that the issue price is at a range of discount between 20.0% and 40.0% to the TERP of Digistar Shares calculated based on the 5-day VWAP of Digistar Shares up to and including the last trading day prior to the Price-Fixing Date. This discount range was determined by our Board after taking into consideration a suitable issue price deemed attractive to encourage subscription of the Rights Shares by the Entitled Shareholders and/or their renounee(s).

For illustrative purposes only, the indicative issue price of the Rights Shares is assumed to be RM0.05 each, which represents a discount of approximately 28.57% to the TERP of Digistar Shares of RM0.07, calculated based on the 5-day VWAP of Digistar Shares up to and including the LPD of RM0.08.

An announcement will be made on the basis and justification for determining the issue price of the Rights Shares once the said issue price has been fixed by our Board at a later date.

2.3 Basis and justification for the exercise price of Warrants C

The exercise price of Warrants C shall be determined by our Board at a later date before the announcement of the Entitlement Date after taking into consideration, amongst others, the following:-

- (i) Warrants C will be issued at no cost to the Entitled Shareholders and/or their renounee(s) who successfully subscribed for the Rights Shares;
- (ii) the range of premiums to the TERP of Digistar Shares based on the 5-day VWAP of Digistar Shares immediately preceding the Price-Fixing Date.

Our Board intends to fix the exercise price of the Warrants C such that the exercise price is at a range of premium between 25.0% and 45.0% to the TERP of Digistar Shares calculated based on the 5-day VWAP of Digistar Shares up to and including the last trading day prior to the Price-Fixing Date. This premium range was determined by our Board after taking into consideration, the prospects of our Group (further details of which are set out in **Section 6.6** of this Circular), as well as the Board's intention to fix the exercise price at a price deemed attractive to stimulate further demand for the subscription of the Rights Shares; and

- (iii) the prevailing market conditions and the historical trading price of Digistar Shares.

For illustrative purposes, the indicative exercise price of Warrants C is assumed to be RM0.10 each, which represents a premium of approximately 42.86% to the TERP of Digistar Shares of RM0.07, calculated based on the 5-day VWAP of Digistar Shares up to and including the LPD of RM0.08.

An announcement will be made on the basis and justification for determining the exercise price of Warrants C once the said exercise price has been fixed by our Board.

2.4 Ranking of the Rights Shares and the new Digistar Shares to be issued arising from the exercise of the Warrants C and the additional new Warrants B (which are to be issued as a result of the Proposed Rights Issue with Free Warrants)

The Rights Shares will, upon allotment and issuance, rank equally in all respects with the existing Digistar Shares, save and except that the Rights Shares will not be entitled to any dividends, rights, allotments and/or any other forms of distribution where the entitlement date of such dividends, rights, allotments and/or any other forms of distribution precedes the relevant date of allotment and issuance of the Rights Shares.

The new Digistar Shares to be issued arising from the exercise of Warrants C and the additional new Warrants B will, upon allotment and issue, rank equally in all respects with the existing Digistar Shares, save and except that the new Digistar Shares to be issued arising from the exercise of Warrants C and the additional new Warrants B will not be entitled to any dividends, rights, allotments and/or any other forms of distribution where the entitlement date of such dividends, rights, allotments and/or any other forms of distribution precedes the relevant date of allotment and issuance of the new Digistar Shares.

2.5 Listing of and quotation for the Rights Shares, Warrants C, new Digistar Shares to be issued arising from the exercise of Warrants C and additional securities arising from consequential adjustments

Bursa Securities had, vide its letter dated 11 March 2021, approved the admission of the Warrants C to the Official List of Bursa Securities as well as the listing of and quotation for the Rights Shares, Warrants C, additional new Warrants B to be issued arising from any adjustments as may be made pursuant to the Deed Poll B and the new Digistar Shares to be issued arising from the exercise of Warrants C and additional new Warrants B on the Main Market of Bursa Securities, subject to the conditions set out in **Section 9** of this Circular.

2.6 Minimum Subscription Level, shareholder’s undertakings and underwriting agreement

Our Board has determined to undertake the Proposed Rights Issue with Free Warrants on the Minimum Subscription Level, after taking into consideration the minimum level of funds of approximately RM3.46 million that we intend to raise from the Proposed Rights Issue with Free Warrants that will be channeled towards the proposed utilisation as set out in **Section 4** of this Circular.

In order to meet the Minimum Subscription Level, the Undertaking Shareholder had, vide its letter dated 10 February 2021, provided its irrevocable and unconditional undertaking to subscribe in full for its entitlement of the Rights Shares with free Warrants C based on its shareholdings as at the Entitlement Date.

As at the LPD, the Undertaking Shareholder holds 207,840,907 Digistar Shares, representing approximately 26.61% of the issued share capital of Digistar. The details of the Entitlement Undertaking are set out below:-

Undertaking Shareholder	Direct shareholdings as at the LPD		Entitlement Undertaking		Direct shareholdings after the Proposed Rights Issue		⁽⁴⁾ Funding required RM
	No. of Shares	⁽¹⁾ %	No. of Rights Shares	⁽²⁾ %	No. of Shares	⁽³⁾ %	
LWC Capital Sdn Bhd	207,840,907	26.61	69,280,302	24.10	277,121,209	32.59	3,464,015

Notes:-

- (1) Based on the total issued shares of Digistar as at the LPD comprising 781,159,591 Digistar Shares (excluding 7,372,808 treasury shares).
- (2) Based on up to 287,518,911 Rights Shares to be issued pursuant to the Proposed Rights Issue with Free Warrants under the Maximum Scenario.
- (3) Based on the enlarged share capital comprising 850,439,893 Shares (excluding 7,372,808 treasury shares) after the completion of the Proposed Rights Issue with Free Warrants under the Minimum Scenario.
- (4) Computed based on the indicative issue price of RM0.05 per Rights Share.

Pursuant to the Entitlement Undertaking, the Undertaking Shareholder has:-

- (i) irrevocably and unconditionally undertaken to subscribe in full for its entitlements under the Proposed Rights Issue with Free Warrants calculated based on its shareholdings as at the date of the Entitlement Undertaking;
- (ii) irrevocably and unconditionally undertaken not to dispose of or transfer its existing interest in our Company or any part thereof during the period commencing from the date of the Entitlement Undertaking up to the Entitlement Date; and
- (iii) vide its letter dated 10 February 2021, confirmed that it has sufficient financial resources and has obtained all approvals and authorisations necessary to pay for and to take up its entitlements at any issue price that may be determined by Digistar.

The Entitlement Undertaking provided by the Undertaking Shareholder reflect its commitment and confidence in growing our business and driving the financial performance of our Group further under the current economic outlook.

UOBKH, being the Adviser for the Proposed Rights Issue with Free Warrants has also verified that the Undertaking Shareholder has sufficient financial resources to take up the number of Rights Shares as specified in the Entitlement Undertaking.

As the Proposed Rights Issue with Free Warrants will be undertaken on the Minimum Subscription Level, we do not intend to procure any underwriting arrangement for the remaining Rights Shares not subscribed for by the other Entitled Shareholders and/or their renouncee(s) pursuant to the Proposed Rights Issue with Free Warrants.

Pursuant to Paragraphs 3.06(1) and 8.02(1) of the Listing Requirements, we must ensure that at least 25% of the total listed Digistar Shares (excluding treasury shares) are in the hands of a minimum number of 1,000 public shareholders holding not less than 100 Digistar Shares each. Our public shareholding spread will not fall below 25% of our enlarged issued share capital after the completion of the Proposed Rights Issue with Free Warrants.

We confirm that upon completion of the Proposed Rights Issue with Free Warrants, the resultant shareholdings of the Undertaking Shareholder will not give rise to any consequences of mandatory take-over obligation under the Malaysian Code on Take-overs and Mergers 2016 and the Rules on Take-overs, Mergers and Compulsory Acquisitions issued by the Securities Commission Malaysia. However, should the Undertaking Shareholder and/or any of its related parties exercise their Warrants C, such that their shareholdings in Digistar increases to more than 33.0%, whether on an individual or collective basis, the Undertaking Shareholder and/or any of its related parties are obliged to undertake a mandatory offer for all the remaining Digistar Shares not already held by them after the exercise of the Warrants C.

Notwithstanding the above, the Undertaking Shareholder and persons acting in concert with it may, at a later stage after the completion of the Proposed Rights Issue with Free Warrants, seek an exemption from the obligation to undertake a mandatory offer for all the remaining Digistar Shares not already held by them that may arise pursuant to their exercise of the Warrants C.

2.7 Details of fund raising exercises undertaken by our Company for the past 12 months

We had on 21 January 2020 announced a private placement of not more than 20% of the total number of Digistar Shares in accordance with the general mandate pursuant to Sections 75 and 76 of the Act (“**Private Placement**”). We have placed out 130,193,265 Shares (“**Placement Share(s)**”) at an issue price of RM0.02 per Placement Share, raising total gross proceeds of approximately RM2.60 million.

The status of the utilisation of the said gross proceeds from the Private Placement as at the LPD is set out below:-

Details of utilisation	Timeframe for utilisation from completion of the Private Placement	Proposed utilisation (RM'000)
Business expansion	Within 12 months	2,000
Working capital	Within 12 months	404
Estimated expenses in relation to the Private Placement	Upon completion	200
Total		2,604

The Private Placement was completed on 7 April 2020 and the proceeds raised have been fully utilised by our Group as at the LPD. For further details on the Private Placement, please refer to the announcement of Digistar dated 21 January 2020.

Save for the Private Placement, we have not undertaken any other fundraising exercise in the past 12 months up to the LPD.

3. RATIONALE FOR THE PROPOSED RIGHTS ISSUE WITH FREE WARRANTS

The Proposed Rights Issue with Free Warrants is undertaken to raise proceeds to be utilised in the manner as set out in **Section 4** of this Circular. After due consideration of the various options available as well as our capital structure, our Board is of the opinion that the Proposed Rights Issue with Free Warrants is the most appropriate means of raising funds for the following reasons:-

- (i) the Proposed Rights Issue with Free Warrants will involve the issuance of new Digistar Shares without diluting the existing shareholders' respective shareholdings provided that all the Entitled Shareholders subscribe in full for their respective entitlements under the Proposed Rights Issue with Free Warrants;
- (ii) the Proposed Rights Issue with Free Warrants will provide the Entitled Shareholders with an opportunity to participate in an equity offering in our Company on a pro rata basis and ultimately, participate in the prospects and future growth of Group by subscribing to the Rights Shares;
- (iii) the Proposed Rights Issue with Free Warrants will enable us to raise requisite funds without incurring interest expense as compared to bank borrowings, thereby minimising any potential cash outflow in respect of interest servicing costs; and
- (iv) the Proposed Rights Issue with Free Warrants will strengthen Digistar Group's financial position with enhanced shareholders' funds and reduced gearing level as compared to bank borrowings which are expected to facilitate the continuous long-term growth and expansion plans of Digistar Group.

Further, the free Warrants C attached to the Rights Shares is intended to reward and provide the Entitled Shareholders with an option to further increase their equity participation in our Company by exercising their Warrants C at a predetermined price over the tenure of Warrants C. The exercise of Warrants C will also strengthen our capital base and provide additional funds to Digistar Group. In addition, Warrants C will be listed and traded separately from the Digistar Shares on the Main Market of Bursa Securities, thereby providing the holders of Warrants C with an avenue to monetise Warrants C should they choose to do so.

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4. UTILISATION OF PROCEEDS

Based on the indicative issue price of RM0.05 per Rights Share, the gross proceeds to be raised from the Proposed Rights Issue with Free Warrants will be utilised in the following manner:-

Details of utilisation	Timeframe for utilisation from the completion of the Proposed Rights Issue with Free Warrants	Minimum Scenario (RM'000)	Maximum Scenario (RM'000)
(i) Working capital	Within 12 months	1,600	5,800
(ii) Business expansion of the hospitality segment	Within 24 months	1,364	6,076
(iii) Repayment of bank borrowings	Within 3 months	-	2,000
(iv) Estimated expenses for the Proposed Rights Issue with Free Warrants	Within 1 month	500	500
Total		3,464	14,376

Notes:-

(i) Working Capital

The hospitality industry was one of the hardest-hit sectors during the COVID-19 pandemic. This was mainly due to the restrictions placed on international and domestic travel throughout the MCO period. The occupancy rates and the revenue of our hotel, Imperial Heritage Hotel located in Melaka were significantly affected during this period whilst our Group had to incur an average monthly operating expenses of approximately RM600,000 in respect of the operations of the Imperial Heritage Hotel. The current occupancy rate of our Imperial Heritage Hotel is at a low of approximately 35.30%. As such, management envisage that the hospitality and tourism industry will remain challenging in the near term in view of the recent resurgence of COVID-19 infections.

As such, we have earmarked up to RM5.80 million of the proceeds from the Proposed Rights Issue with Free Warrants to support and strengthen the cash flows of our hospitality operations given the economic uncertainty in the near term. The proceeds will be utilised to fund the working capital requirements of our hospitality business, which includes, but are not limited to, payment to our suppliers/trade creditors, general administrative and daily operational expenses such as staff-related costs, utilities, statutory payments and any other overhead expenditures. The breakdown of such proceeds has not been determined at this juncture and will be dependent on the operating and funding requirements at the time of utilisation.

Notwithstanding that, and on a best estimate basis, the percentage of the allocation of the proceeds to be utilised for each component of the working capital are as follows:-

	Estimated allocation of proceeds (%)
Payment to suppliers/ trade creditors of our Group	50.00
General administrative expenses and other operating expenses such as staff-related costs, utilities, statutory payments and any other overhead expenditures	50.00
Total	100.00

(ii) Business expansion of the hospitality segment

Despite the current industry economic outlook, our management anticipates that the hospitality and tourism industry would recover and regain its pre-COVID-19 footing upon the re-opening of the international borders for tourism and the roll-out of the vaccination plans. In anticipation of the recovery of the hospitality and tourism industry, our management plans to expand our hospitality footprint as we only currently own and operate Imperial Heritage Hotel, located in Melaka town. The management intends to expand our hospitality footprint by way of, amongst others, the following:-

- (a) acquisition of suitable properties which are strategically located in Wilayah Persekutuan, Selangor, Melaka or such other locations that the management deems as strategic for our hospitality operations. The proposed acquisitions may involve acquisition of existing buildings suited for hotels/short stay accommodations (“**Existing Properties**”) or vacant lands located in strategic locations suited for hotels/short stay accommodations (“**Hotel Land**”);
- (b) potential partnership/joint venture with strategic partners to jointly acquire, refurbish, rebrand and operate the Existing Properties, or to jointly acquire the Hotel Land, construct and operate the new hotel (“**JV**”); or
- (c) explore to construct the hotel on our existing vacant land bank, which are primarily located in Selangor and Melaka, subject to feasibility studies to be undertaken by our Group.

As at this juncture, the management is in the midst of identifying suitable properties located in Wilayah Persekutuan, Selangor and Melaka that will enable the Company to embark on option (a) or (b) above. Our management is confident that we would be able to embark on the business expansion exercise based on option (a) or (b) above in view that the property market is currently depressed by the economic outlook. However, in the event the management is unable to pursue the business expansion under option (a) or (b) above, we will proceed with option (c).

As such, we intend to allocate up to RM6.08 million of the proceeds from the Proposed Rights Issue with Free Warrants to part finance the hospitality business expansion plans. The proceeds will potentially be channelled towards, amongst others, payment of upfront deposits for the acquisition/joint venture and the associated costs to undertake feasibility studies as well as hotel construction costs. The balance/shortfall required to fund the hospitality business expansion will be financed through our internally generated funds and/or bank borrowings, the breakdown of which has yet to be determined by our management at this juncture.

We will make necessary announcement(s) in accordance to the Listing Requirements, as and when, we have entered into any agreement in relation to the acquisition of any new properties or potential joint venture. In the event such transactions require shareholders’ approval and/or other regulatory approvals, we will obtain the necessary approval(s) to undertake the said transactions.

In the event that we are unable to undertake the above business expansion within 2 years from the completion of the Proposed Rights Issue with Free Warrants, the proceeds earmarked for such purposes will be reallocated to our working capital as disclosed in item (i) above.

(iii) Repayment of bank borrowings

As at the LPD, our total borrowings stood at RM272.84 million, comprising bonds and bank borrowings such as term loans, bankers acceptance and overdraft facilities. The bonds were previously issued mainly to finance the construction and completion of the JKR Training Institute in Melaka under an 18-year concession agreement with the Government and also to finance the expansion and refurbishment of our Imperial Heritage Hotel located in Melaka. The coupon rates for the bonds ranges from 4.00% to 16.00% per annum with a fixed repayment schedule.

It is our intention to utilise up to RM2.0 million from the proceeds of the Proposed Rights Issue with Free Warrants towards partial repayment of our existing bank borrowings facilities. As at the LPD, our total bank borrowings stood at approximately RM6.02 million, of which RM3.14 million are long term borrowings and RM2.88 million are short term borrowings. We have earmarked up to RM2.00 million for the partial repayment of our existing facility, as set out below:-

Facility	Bank	Total amount outstanding as at the LPD (RM'000)	Proposed repayment (RM'000)	Interest rate (% per annum)	Purpose of borrowing
Term loan	Affin Bank Berhad	3,443	2,000	7.06	To finance the acquisition of freehold land

For illustrative purposes, the repayment of the bank borrowings set out in the table above amounting to RM2.0 million is expected to result in interest savings of approximately RM0.14 million per annum, assuming an interest rate of 7.06% per annum.

(iv) Estimated expenses for the Proposed Rights Issue with Free Warrants

The proceeds earmarked for the estimated expenses relating to the Proposed Rights Issue with Free Warrants shall be utilised in the following manner:-

	<i>(RM'000)</i>
Professional fees (i.e. principal adviser, solicitors, company secretary and share registrar)	285
Regulatory fees	115
Contingencies and other incidental expenses in relation to the Proposed Rights Issue with Free Warrants (i.e. convening of EGM, printing and advertisement expenses)	100
Total	500

If the actual expenses are higher than budgeted, the deficit will be funded from the portion allocated for working capital. Conversely, any surplus of funds following the payment of expenses will be utilised for working capital requirements of our Group.

Pending utilisation of proceeds from the Proposed Rights Issue with Free Warrants for the above purposes, the proceeds will be placed in deposits with licensed financial institutions or short-term money market instruments. The interest derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used to fund our working capital requirements. Any variance to the total gross proceeds raised from the Proposed Rights Issue with Free Warrants will be adjusted against the proceeds earmarked for working capital.

The exact quantum of proceeds that may be raised from the exercise of Warrants C will depend upon the actual number of Warrants C as and when exercised during the tenure of Warrants C as well as the exercise price of Warrants C to be fixed. As such, the exact timeframe for utilisation of such proceeds arising from the exercise of Warrants C is not determinable at this juncture. Notwithstanding thereof, our Company will utilise the proceeds within 3 months from the date of receipt of the proceeds (arising from the exercise of Warrants C) and such proceeds shall be utilised to fund our working capital requirements, which includes, amongst others, payment to our suppliers/trade creditors, general administrative and daily operational expenses (i.e. staff-related costs, utilities, statutory payments and any other overhead expenditures), the breakdown of which has yet to be determined by the management at this juncture.

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5. ADDITIONAL INFORMATION OF OUR GROUP

5.1 The current financial position of our Group

The financial performance of Digistar Group for the past 3 financial years up to the FYE 30 September 2020 are as follows:-

	Audited FYE 30 September			Unaudited	
	2018 (¹ Restated) (RM'000)	2019 (RM'000)	2020 (RM'000)	3-month FPE 31 December 2019 (RM'000)	3-month FPE 31 December 2020 (RM'000)
Revenue	57,289	32,495	26,261	6,850	3,780
Other income	5,734	27,377	27,991	8,987	5,970
PBT/(LBT)	(11,395)	1,875	629	1,525	(3,609)
Income tax expense	(3,524)	(3,285)	(1,636)	-	(85)
Profit/(Loss) after tax ("PAT")/("LAT")	(14,919)	(1,410)	(1,007)	1,525	(3,694)
PAT/LAT attributable to the owners of the Company	(17,993)	(2,849)	(2,750)	430	(4,324)
Accumulated losses	(41,625)	(44,473)	(47,223)	(44,043)	(50,749)
NA	63,464	60,615	60,469	61,045	56,943
Total Borrowings ⁽²⁾	309,440	281,961	264,615	281,342	266,341
Deposits, cash and bank balances	94,542	66,429	58,501	67,770	63,942
Net borrowings	214,898	215,532	206,114	213,572	202,399
Net gearing ratio (times)	3.39	3.56	3.41	3.50	3.55
No. of issued shares ⁽³⁾ ('000)	650,966	650,966	781,159	650,966	781,159
Basic loss per share (sen)	(2.75)	(0.43)	(0.35)	0.07	(0.55)
NA per share (sen)	9.75	9.31	7.74	9.38	7.29
Current ratio (times)	3.48	2.37	1.35	2.43	1.40

Notes:-

- (1) The restatement was mainly due to the reclassification of inventory, trade receivables and other payables.
- (2) Mainly comprising bonds issued for the (i) financing of the JKR Project, i.e. construction and completion of the JKR Training Institute in Melaka under an 18-year concession agreement with the Government of Malaysia; and (ii) financing for amongst others, the expansion and refurbishment of the hotel in Melaka, the design and construction of Wisma Digistar, the expansion of JKR Project, as well as the working capital of our Group.
- (3) Excluding treasury shares.

Commentary on past performance

i) Audited FYE 30 September 2018 ("FYE 2018")

We recorded a lower revenue of approximately RM57.29 million for the FYE 2018, representing a decrease of approximately 9.68% or RM6.14 million, as compared to the revenue of RM63.43 million recorded in the previous financial year. The decline in revenue was mainly attributable to the following:-

- (a) lower progress billings from our system engineering and integration segment following the completion of most of our existing extra-low voltage (ELV) systems projects located in Johor and Selangor in the previous FYE 30 September 2017 ("FYE 2017"); and

- (b) lower income from our central security monitoring services segment as the contracts secured in the FYE 2018 are of lower value as compared to the previous financial year .

We incurred a net LBT of approximately RM11.40 million in the FYE 2018 as compared to the PBT of approximately RM6.30 million recorded in the FYE 2017. The LBT was mainly due to the following:-

- (a) higher bond interest expenses due to issuance of a new RM80.0 million Unrated Fixed Rate Serial bond by our wholly-owned subsidiary, Jaya Persada Sdn Bhd on 13 March 2018;
- (b) the increase in staff cost incurred due to the expansion of our hotel workforce at Imperial Heritage Hotel in Melaka; and
- (c) write-off of inventories and investment properties of approximately RM1.31 million recorded in FYE 2018 given the absence of any write-off of inventories and investment properties in FYE 2017.

ii) Audited FYE 30 September 2019 (“FYE 2019”)

We recorded a lower revenue of approximately RM32.50 million for the FYE 2019, representing a decrease of approximately 43.27% or RM24.79 million, as compared to the revenue of approximately RM57.29 million for the FYE 2018. The decrease in revenue was mainly attributed to the reclassification of the interest income from our concession assets from revenue to other income in the FYE 2019. Had the concession income been recognised as revenue, we would record a revenue of RM56.77 million for the financial period under review, which is consistent with the revenue of RM57.29 million recorded in the previous financial year.

We recorded a PBT of approximately RM1.88 million for the FYE 2019 as compared to the LBT of RM11.40 million recorded in the previous financial year. The increase in profits was mainly due to decrease in staff costs and increase in write back of impairment losses on trade and other receivables from approximately RM1.73 million recorded in the previous financial year to approximately RM5.16 million in the FYE 2019.

iii) Audited FYE 30 September 2020 (“FYE 2020”)

We recorded a lower revenue of approximately RM26.26 million for the FYE 2020, representing a decrease of approximately 19.2% or RM6.24 million, as compared to the revenue of approximately RM32.50 million for the FYE 2019. The decrease in revenue was mainly attributed to the impact of the COVID-19 and the movement control order on the business segments of our Group, in particular, the hospitality and the system engineering and integration segments.

We recorded a lower PBT of approximately RM0.63 million for the FYE 2020, representing a decrease of approximately 66.49% or RM1.25 million, as compared to the PBT of RM1.88 million recorded in the previous financial year. The decrease in PBT was mainly due to the increase in bad debts written off from approximately RM1.09 million in the FYE 2019 to approximately RM2.51 million in the FYE 2020, increase in impairment losses on trade receivables from approximately RM0.67 million in the FYE 2019 to approximately RM1.68 million in the FYE 2020 and the decrease in interest income of our Group from approximately RM27.06 million in the FYE 2019 to approximately RM25.33 million in the FYE 2020.

(iv) Unaudited 3-month FPE 31 December 2020 (“FPE 2020”)

We recorded a lower revenue of approximately RM3.78 million for the FPE 2020, representing a decrease of approximately 44.82% or RM3.07 million, as compared to the revenue of approximately RM6.85 million recorded in the corresponding period in the preceding financial year. The decrease in revenue was mainly attributed to the decline in revenue of our hospitality segment following the conditional movement control order, which took effect in most states in Malaysia from 9 November 2020 to 14 January 2021.

Due to the decline in revenue, we recorded a LBT of approximately RM3.61 million for the FPE 2020 as compared to the PBT of approximately RM1.53 million recorded in the corresponding period in the preceding financial year. The LBT was mainly due to the following:-

- (a) decrease in other income from approximately RM8.99 million in the corresponding period in the preceding financial year to approximately RM5.97 million in the FPE 2020 as we recorded:-
 - (i) an allowance for doubtful debt of approximately RM1.03 million recorded in the financial period under review; and
 - (ii) lower interest income from concession receivables recorded in FPE 2020 of RM5.66 million as compared to RM7.43 million recorded in the corresponding period;
- (b) the impairment on goodwill and inventory of approximately RM1.32 million incurred in FPE 2020.

5.2 How the Proposed Rights Issue with Free Warrants will create value to our Company and its securities holders

We had explored various financing options, including but not limited to debt financing. Given the current challenging economy due to the COVID-19 pandemic, we have decided that the Proposed Rights Issue with Free Warrants is the most appropriate and expedient avenue to raise funds at this juncture.

The Proposed Rights Issue with Free Warrants will serve as an additional source of funding for our Group without incurring interest expenses as compared to bank borrowings. The Proposed Rights Issue with Free Warrants will also strengthen our capital structure. The Proposed Rights Issue with Free Warrants is expected to raise up to RM14.38 million (based on an indicative issue price of RM0.05 per Rights Share and on a Maximum Scenario) and shall be utilised towards, amongst others, partial funding of our business expansion, the working capital of our hospitality division and repayment of bank borrowings.

For illustration purposes only, should the requisite funds of up to approximately RM13.88 million be raised (after deducting estimated expenses of RM0.50 million in relation to the Proposed Rights Issue with Free Warrants) through bank borrowings, we would incur additional finance costs of approximately RM0.98 million per annum (based on our current average interest rate of 7.06% per annum). Hence, by undertaking the Proposed Rights Issue with Free Warrants, we will be able to preserve funds for our business operation as opposed to incurring additional finance costs.

5.3 Impact of the Proposed Rights Issue with Free Warrants to our Group and our shareholders

The financial impact of the Proposed Rights Issue with Free Warrants to our Company and our shareholders as highlighted in **Section 7** of this Circular, will increase the NA of our Group from approximately RM60.47 million to approximately RM96.84 million upon completion of the Proposed Rights Issue with Free Warrants under the Maximum Scenario. Assuming full exercise of the Warrants C, our Group's NA will further increase to RM125.59 million. The increase in NA position will strengthen the capital base of our Group and result in a lower net gearing ratio. For illustrative purposes, after taking into consideration the increase in NA position, our Group's net gearing level is expected to improve from 3.41 times to 1.12 times under the Maximum Scenario.

The Proposed Rights Issue with Free Warrants will also enlarge the issued share capital of our Group, which in turn will increase our shareholder's equity and enhance our overall financial position. Nevertheless, the increase in the total number of issued Shares arising from the Proposed Rights Issue with Free Warrants will have a dilutive impact on the EPS of our Group in the event the earnings of our Group does not increase in line with the increased number of Digistar Shares to be issued pursuant to the Proposed Rights Issue with Free Warrants.

Further, the Proposed Rights Issue with Free Warrants will involve the issuance of new Digistar Shares without diluting the existing shareholders' respective shareholdings provided that all the Entitled Shareholders subscribe in full for their respective entitlements under the Proposed Rights Issue with Free Warrants.

5.4 The adequacy of the Proposed Rights Issue with Free Warrants in addressing the financial concerns of our Company

Our Board is of the view that the Proposed Rights Issue with Free Warrants serves as a measure to meet our Group's immediate funding needs in the short-term as part of the proceeds from the Proposed Rights Issue with Free Warrants (up to approximately RM11.88 million out of RM14.38 million) will be utilised to fund the business expansion and working capital requirements of our hospitality division without relying on bank borrowings (which will result in higher finance costs to be incurred).

Premised on the above, our Board believes that the Proposed Rights Issue with Free Warrants will be beneficial to our Group and the shareholders as well, as it is deemed adequate in addressing our Group's current financial concerns. The proceeds raised from the Proposed Rights Issue with Free Warrants will also serve to support our Company in improving our financial position by enabling our Group to expand our operating businesses and take advantage of the overall economic recovery from the COVID-19 pandemic. In addition, our Board will also continue to assess and evaluate all other suitable proposals for our Group's long term financial requirements.

5.5 Steps taken to improve the financial condition of the Group

The Group has undertaken various steps to improve its financial and operational performance in the past few financial years including, amongst others, the following:-

- (i) the private placement exercise undertaken in the FYE 2020, which was primarily utilised for the business expansion and working capital requirements of our securities and monitoring division; and
- (ii) our management will continue to implement our on-going cost rationalisation exercises in our existing business segments.

In addition, the Proposed Rights Issue with Free Warrants is also one of such steps taken by the management and the Board to address the financial concerns and improve the financial performance of the Group. The Proposed Rights Issue with Free Warrants is expected to raise necessary funding for the Group's business expansion of the hospitality segment. Further, proceeds from the Proposed Rights Issue with Free Warrants is also intended to be utilised for the working capital requirements of our Group, which would allow the Group to conserve its existing cash and further improve its financial/liquidity position.

Notwithstanding the above, our Board will continue to evaluate the Group's longer-term funding requirements and will consider undertaking suitable fund raising exercises, if necessary. In addition, should our Board identify any other suitable corporate exercises to improve the Group's financial performance, the Group shall make the requisite announcements and/or seek necessary shareholders' approval in accordance with the Listing Requirements.

6. INDUSTRY OUTLOOK AND PROSPECTS

6.1 Overview and outlook of the Malaysian economy

The Malaysian economy experienced the full impact of the COVID-19 pandemic in the second quarter of 2020, with the real gross domestic product (GDP) contracting by 17.1%. The contraction was mainly attributed to the imposition of the Movement Control Order (MCO) to contain the outbreak. Though affecting all sectors in the economy, the move was necessary to flatten the COVID-19 curve and save lives. Hence, the Government has announced several stimulus packages totalling RM305 billion to support both households and businesses. Reinforced by the reopening of the economy in phases, growth is expected to improve gradually during the second half of the year, cushioning the significant contraction in the first half. Thus, the Malaysian economy is expected to rebound from a GDP of 4.3% in 2019 to a GDP between 6.5% – 7.5% in 2021.

Although domestic demand is expected to remain soft throughout 2020, there are signs of recovery in the second half of the year, particularly in private consumption. On the external front, the collapse in global demand and world trade led to a decline in exports during the year. However, current account of the balance of payments is expected to remain in surplus. On the supply side, all sectors are expected to contract, affected by the unprecedented crisis. Nevertheless, the pace of improvement gathered momentum in the third quarter, especially in the services and manufacturing sectors, with the resumption of economic activities.

(Source: Economic Outlook 2021, Ministry of Finance Malaysia)

6.2 Overview and outlook of the information and communication technology (“ICT”) industry in Malaysia

The information and communication subsector expanded by 5.8% in the first half of 2020, primarily supported by higher usage of internet, particularly online transactions, entertainments, educational and work from home (“WFH”) activities. The subsector is projected to expand further by 7.1% in the second half of the year buoyed by various Government initiatives. The initiatives include a tax exemption of up to RM5,000 for ICT equipment to support WFH activities and individual income tax relief of up to RM2,500 on the purchase of digital devices.

The subsector GDP contracted slightly from 6.6% in 2019 to an estimated 6.4%, and is anticipated to accelerate and expand to 7.9% in 2021 as WFH activities, virtual communication and online businesses become the new normal. The roll-out of the National Fourth Industrial Revolution (4IR) Policy and Digital Economy Blueprint in the fourth quarter of 2020 is expected to enhance the productivity and competitiveness of the subsector. The formation of the Malaysian Digital Economy Task Force, which focusses on digital technology, cybersecurity, trade and digital content is expected to support the acceleration of the subsector.

(Source: Economic Outlook 2021, Ministry of Finance Malaysia)

6.3 Overview and outlook of the construction industry

Activity in the construction sector improved, contracting by a smaller rate of 12.4% (2Q 2020: -44.5%). Activity resumed across all sub-sectors supported by on-going large transportation projects in the civil engineering sub-sector and affordable housing projects in the residential sub-sector.

(Source: Economic and Financial Developments in the Malaysian Economy in the Third Quarter of 2020, Bank Negara Malaysia)

The value of construction work done advanced 58.6 per cent as compared to second quarter 2020, amounting to RM31.4 billion (Q2 2020: RM19.8 billion).

On year-on-year comparison, the value of construction work done improved -13.1 per cent (Q2 2020: -44.9%) in the third quarter 2020. Special trades activities sub-sector registered a growth of 1.6 per cent. Meanwhile, the three sub-sectors namely Residential buildings, Civil engineering and Non-residential sub-sector uptrend by -12.0 per cent, -13.6 per cent and -16.0 per cent respectively, as compared with the same quarter 2019.

The Civil engineering sub-sector remained dominant as the main contributor to the value of construction work done with 45.8 per cent share. Residential buildings contributed 24.5 per cent, Non-residential buildings (24.0%) and Special trades activities (5.7%).

The private sector continued to propel the construction activity with 50.7 per cent share of value of construction work done (RM15.9 billion) as compared to the public sector with 49.3 per cent share of value of construction work done (RM15.5 billion).

(Source: Quarterly Construction Statistics third quarter 2020, Department of Statistics Malaysia)

The construction sector contracted by 25.9% in the first half of 2020 and is expected to shrink by 11.8% in the second half with all segments declining significantly. At the same time, prolonged property overhangs continue to weigh down the performance of the sector. However, civil engineering and specialized construction activities subsectors are expected to improve gradually, cushioned by various measures under the economic stimulus packages. Overall, for the year, the sector is projected to contract by 18.7%.

The GDP of the construction sector has contracted from 0.1% in 2019 to an estimated -18.9% in 2020. The GDP of the construction sector is expected to rebound by 13.9% in 2021 on account of the acceleration and revival of major infrastructure projects, coupled with affordable housing projects.

(Source: Economic Outlook 2021, Ministry of Finance Malaysia)

6.4 Overview and outlook of the Malaysian tourism, leisure and hospitality industry

Activity in the services sector recovered substantially, with growth recording a smaller contraction of 4.0% (2Q 2020: -16.2%). The wholesale and retail trade subsector showed a marked improvement, with accelerated sales in the motor vehicles segment following the Sales and Services Tax (SST) exemptions, as well as better performance of the retail trade segment, supported by higher demand for necessities. The recovery, however, was weighed down by subdued spending on non-essential retail goods, such as durable goods and recreational activities. In addition, tourism activity remained weak due to continued closure of international borders, affecting key sub-sectors such as food and beverage and accommodation, as well as transport and storage. Nevertheless, relaxation on movement restrictions enabled resumption of domestic travel activity and facilitated an incipient restoration of activity in these sub-sectors. Meanwhile, the finance and insurance sub-sector registered positive growth, supported by higher capital market activity, particularly from domestic retail participants, as well as higher net interest and fee income. In addition, growth in the information and communication sub-sector continued to improve amid higher demand for data communication services, particularly driven by the rise of remote working arrangements.

While still remaining negative, private sector wage growth recorded a smaller decline (-2.6%; 2Q 2020: -5.6%). Wages for the private services sector registered a smaller contraction of 2.5% (2Q 2020: -6.4%). This improvement was driven by tourism-related services subsectors, such as wholesale and retail trade; food and beverage and accommodation; transport and storage; as well as health; education; and arts and entertainment. In the manufacturing sector, wages recorded a lower contraction of 2.7% (2Q 2020: -4.0%), attributable to the E&E, primary-related, and construction-related clusters.

(Source: Economic and Financial Developments in the Malaysian Economy in the Third Quarter of 2020, Bank Negara Malaysia)

The third wave of pandemic was prolonged in November 2020 and the Conditional Movement Control Order (CMCO) had been implemented in phases to curb a drastic spike of COVID-19 along with to balance between healthcare system and economy requirements. The implementation of CMCO started with Wilayah Persekutuan Kuala Lumpur, Putrajaya and Selangor on 14 October 2020 and subsequently expanded to all states except Perlis, Pahang and Kelantan. During the CMCO, inter-state travels were not allowed, while economic activities continued to operate with adherence to strict standard operating procedures. Nevertheless, as the spread of the pandemic grew in the recent months, the labour market was also affected. Based on the Loss of Employment (LOE) statistics reported by Social Security Organisation (SOCSSO), it was recorded that 9,086 persons lost their jobs as against 7,416 persons registered in October 2020. In addition, Employment Insurance System (EIS) through MYFuture Jobs, reported a higher number of jobseekers with 185,236 persons (October 2020: 57,733 persons) as compared to 68,555 job vacancies (October 2020: 98,568 vacancies) in November 2020.

Hence, in November 2020 the employment saw a small decrease whereas the unemployment rate was slightly higher as compared to the previous month. Among others, this may be due to job losses and cancellation or freezing of new hires. In the meantime, during the month, the small businesses were the most affected following a slower demand. Thus, the number of labour force showed a little positive change in November 2020.

Employed persons dropped 0.1 per cent month-on-month or 11.0 thousand persons to 15.20 million persons in November 2020 after recording an upward trend for five consecutive months. Year-on-year comparison, the indicator continued with a decreasing trend for eight consecutive months whereby the number of employed persons declined 0.8 per cent during the month (November 2019: 15.32 million persons).

Meanwhile, by economic sector, employed persons in Services continued to increase mainly in Wholesale & retail trade; Communication & information, Human health & social work and Education activities. However, the employment in tourism related industry such as accommodation and food & beverages; transports & storage; and arts, entertainment & recreational activities still seemed to be adversely affected as a consequence of the pandemic. In the meantime, employment in the Agriculture and Mining & Quarrying sectors remained in the negative trend since August 2020, while Manufacturing and Construction sectors posted an increase month-on-month.

(Source: Key Statistics of Labour Force in Malaysia November 2020, Department Of Statistics Malaysia)

The tourism industry, with a share of 15.9% of GDP, is one of the main contributors to the services sector in 2019. Domestic tourists contributed RM92.6 billion while international tourists spent RM89.4 billion in 2019. The implementation of the MCO in Malaysia and the closure of international borders to contain the virus outbreak have affected people's movements and activities, particularly in tourism-related sub-sectors. According to Malaysia Association of Hotels, hotel booking cancellations from January 2020 to 20 March 2020 breached over 193,000 rooms, which translates into RM76 million losses in revenue for the industry. At the same time, the hotel occupancy rate dropped from 61.6% in January 2020 to 25% in March 2020. With the gradual recovery of the economy, the accommodation industry started to pick-up with the occupancy reaching 42.1% from 30 August to 5 September 2020. In addition, the Malaysian aviation industry is projected to lose RM13 billion in 2020 as air travel plummeted following international travel restrictions. As it is still uncertain when a vaccine for COVID-19 will be available and made accessible to all, the tourism industry is facing a bleak near term future.

(Source: Economic Outlook 2021, Ministry of Finance Malaysia)

6.5 Impact of COVID-19 to our Group

On 16 March 2020, the Government announced the imposition of the MCO, which took effect from 18 March 2020 until 3 May 2020, in an effort to contain the COVID-19 outbreak in Malaysia. The enforcement of the MCO resulted in the mandatory closure of all Government and private premises (except those involved in providing essential services). Our business operations were suspended during this period as they were deemed as non-essential services under the MCO. Despite the suspension of our hotel operations during this period, our hotel remained open as a quarantine centre to support the Government's precautionary measures of ensuring all Malaysians returning from overseas are quarantined.

The restrictions under the MCO were gradually eased and relaxed, and extended under a conditional MCO ("**CMCO**") from 4 May 2020 to 9 June 2020. During this period, we resumed all of our business operations. The Government had subsequently announced that the CMCO was replaced with the recovery MCO ("**RMCO**"), which took effect from 10 June 2020 until 31 December 2020. On 1 July 2020, the restrictions on our hotel's amenities have been uplifted allowing us to recommence our hotel operations in full capacity.

On 12 October 2020, the Government had announced the enforcement of CMCO ("**CMCO 2**") in Klang Valley, which came into effect on 14 October 2020 until 6 November 2020, entailing, amongst others, the restriction of inter district movements and the closure of schools, public parks, recreational centres, and entertainment centres. The CMCO 2 was subsequently extended to most states in Malaysia and took effect from 9 November 2020 to 14 January 2021. In view of the surge of COVID-19 infections, the Government had announced the imposition of MCO on 11 January 2021, which remain in force from 13 January 2021 until 26 January 2021, and further extended to 18 February 2021, in order to contain the COVID-19 pandemic.

In line with the directives issued by the Government and since the resumption of our business operations, we have implemented several procedures in our business conduct to safeguard and protect our employees and customers. These procedures include, amongst others, the following:-

- (i) prohibiting visitors from visiting our offices unless absolutely necessary;
- (ii) all our visitors are required to register/record their details upon entry or fill up our self-declaration application prior to their visit to our business premises and only visitors who have a quick response (QR) code generated upon filling up the application are allowed to enter the business premises; and
- (iii) all our visitors are required to wear face masks, undergo temperature measurement, register their attendance and to sanitise their hands before entering our business premises.

During the MCO and CMCO, our employees were mostly required to work remotely while some of our employees were required to be on site based on work shifts. With the implementation of RMCO, majority of our employees have resumed to work in our offices and on site. We have also been monitoring our operations closely in an attempt to mitigate disruptions to our businesses, as well as proactively and regularly communicating with our customers, our suppliers and contractors.

The outbreak of COVID-19 pandemic and implementation of the MCO, CMCO, RMCO and CMCO 2 have materially impacted our business operations, financial condition and performance, in particular, our hospitality segment. The occupancy rates and the revenue of our hospitality segment was significantly affected by the pandemic whilst incurring an average monthly operating expenses of approximately RM600,000.

There can be no assurance that any prolonged adverse development arising from recent MCO, COVID-19 and/ or any other external factors will not have material adverse effect on our financial performance and operations.

6.6 Prospects of our Group

The outbreak of COVID-19 had brought significant impact to our operations, in particular, our hospitality segment. The ongoing international border closure (for leisure and holiday travelling) and the recent re-imposition of COVID-19 travelling restrictions in Malaysia continues to dampen the business conditions of our hospitality business. This coupled with fear from the spread of COVID-19 had severely impacted the occupancy rates of our hotel operations. As such, our management envisage that the travel, tourism and hotel industry will remain uncertain in the near term until the roll-out of COVID-19 vaccination worldwide.

Despite the current economic outlook, we have been expanding our presence and market share in the securities and monitoring market, whereby we are involve in the designing, supplying, and installation and integration of security monitoring systems, which is also commercially known as Panther 911. This system provides 24-hour real-time monitoring services to the users in residential, commercial, industrial, business premises and public properties which cover a wide range of surveillance including alarm systems for amongst others, the elderly, children and vehicle. Our Group intends to further enhance our competitiveness to grow this segment and to increase our subscriber base as well as to develop more innovative products and services for this central monitoring system segment.

Our Board envisages that the economic outlook for 2021 will continue to be challenging with the recent surge of new COVID-19 infections and the re-imposition of COVID-19 travelling restrictions in Malaysia. Disruption from the COVID-19 pandemic is expected to continue with businesses operating under a 'new normal' environment. Hence, our Board is cautiously optimistic of the prospects of our Group's financial performance in the near term.

(Source: Management)

7. EFFECTS OF THE PROPOSED RIGHTS ISSUE WITH FREE WARRANTS

7.1 Issued share capital

The pro forma effects of the Proposed Rights Issue with Free Warrants on the issued share capital of Digistar are set out below:-

	Minimum Scenario		Maximum Scenario	
	No. of Shares	RM	No. of Shares	RM
Issued share capital as at the LPD	788,532,399	104,936,629	788,532,399	104,936,629
Less: Treasury shares, at cost	(7,372,808)	(3,248,747)	-	-
	781,159,591	101,687,882	788,532,399	104,936,629
Assuming full exercise of Warrants B	-	-	74,024,334	⁽⁵⁾ 19,246,327
Reversal of warrants reserve pursuant to the full exercise of Warrants B	-	-	-	6,004,487
	781,159,591	101,687,882	862,556,733	130,187,443
Rights Shares to be issued pursuant to the Proposed Rights Issue with Free Warrants	69,280,302	⁽¹⁾ 2,964,015	287,518,911	⁽¹⁾ 13,875,946
Reversal of Warrants C reserve	-	⁽²⁾ (4,156,818)	-	⁽²⁾ (17,251,135)
	850,439,893	100,495,079	1,150,075,644	126,812,254
Assuming full exercise of Warrants C	69,280,302	⁽³⁾ 6,928,030	287,518,911	⁽³⁾ 28,751,891
Reversal of warrants reserve pursuant to the full exercise of Warrants C	-	⁽⁴⁾ 4,156,818	-	⁽⁴⁾ 17,251,135
Enlarged issued share capital	919,720,195	111,579,927	1,437,594,555	172,815,280

Notes:-

- (1) Computed based on the indicative issue price of RM0.05 per Rights Share after deducting the estimated expenses pertaining to the Proposed Rights Issue with Free Warrants amounting to RM0.50 million.
- (2) Accounting for the creation of warrants reserve at an allocated fair value of RM0.06 per Warrant C (computed based on the Trinomial option pricing model as extracted from Bloomberg).
- (3) Computed based on the indicative exercise price of RM0.10 per Warrant C.
- (4) Computed based on the number of Warrants C multiplied by the theoretical fair value of RM0.06 per Warrant C based on the Trinomial option pricing model as extracted from Bloomberg.
- (5) Computed based on the exercise price of RM0.26 per Warrant B.

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7.2 NA per Share and gearing

Based on the latest audited consolidated financial statements of Digistar Group as at 30 September 2019 and on the assumption that the Proposed Rights Issue with Free Warrants had been effected on that date, the pro forma effects of the Proposed Rights Issue with Free Warrants on the consolidated NA per Share and gearing of Digistar Group are set out below:-

Minimum Scenario

	Audited as at 30 September 2020 (RM'000)	Pro forma I After the Proposed Rights Issue with Free Warrants (RM'000)	Pro forma II After Pro forma I and assuming full exercise of Warrants C (RM'000)
Share capital	104,937	⁽¹⁾ 103,744	⁽³⁾ 114,829
Treasury shares	(3,249)	(3,249)	(3,249)
Warrants reserves	6,004	⁽²⁾ 10,161	6,004
Accumulated losses	(47,223)	(47,223)	(47,223)
Shareholders' equity/ NA	60,469	63,433	70,361
Non-controlling interest	(3,765)	(3,765)	(3,765)
Total equity	56,704	59,668	66,596
No. of Shares in issue^ ('000)	781,159	850,439	919,720
NA per Share (RM)	0.08	0.07	0.08
Total borrowings* (RM'000)	264,615	264,615	264,615
Deposits, cash and bank balances (RM'000)	58,501	61,465	68,393
Net borrowings (RM'000)	206,114	203,150	196,222
Net gearing ratio (times)	3.41	3.20	2.79

Notes:-

^ Excluding treasury shares.

* Mainly comprising bonds issued for the (i) financing of the JKR Project, i.e. construction and completion of the JKR Training Institute in Melaka under an 18-year concession agreement with the Government of Malaysia; and (ii) financing for amongst others, the expansion and refurbishment of the hotel in Melaka, the design and construction of Wisma Digistar, the expansion of JKR Project, as well as the working capital of our Group.

(1) Assuming 69,280,302 Rights Shares are issued at an indicative issue price of RM0.05 per Rights Share after adjusting for the apportionment of its allocated fair value for 69,280,302 Warrants C at RM0.06 per Warrant C based on the Trinomial option pricing model as extracted from Bloomberg and deducting the estimated expenses pertaining to the Proposed Rights Issue with Free Warrants amounting to RM0.50 million.

(2) Warrants C are assumed to have a theoretical fair value of RM0.06 each derived from the Trinomial option pricing model as extracted from Bloomberg.

(3) Computed based on the indicative exercise price of RM0.10 per Warrant C and after accounting for the reversal of warrant reserve account.

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Maximum Scenario

	Audited as at 30 September 2020 (RM'000)	Pro forma I (¹)Assuming all treasury shares are resold (RM'000)	Pro forma II After Pro forma I and assuming full exercise of Warrants B (RM'000)	Pro forma III After Pro forma II and the Proposed Rights Issue with Free Warrants (RM'000)	Pro forma IV After Pro forma III and assuming full exercise of Warrants C (RM'000)
Share capital	104,937	104,937	(²)130,187	(³)126,812	(⁶)172,815
Treasury shares	(3,249)	-	-	-	-
Warrants reserves	6,004	6,004	(² -	(⁴)17,251	-
Accumulated losses	(47,223)	(47,223)	(47,223)	(47,223)	(47,223)
Shareholders' equity/ NA	60,469	63,718	82,964	96,840	125,592
Non-controlling interest	(3,765)	(3,765)	(3,765)	(3,765)	(3,765)
Total equity	56,704	59,953	79,199	93,075	121,827
No. of Shares in issue^ ('000)	781,159	788,532	862,556	1,150,075	1,437,594
NA per Share (RM)	0.08	0.08	0.10	0.08	0.09
Total borrowings* (RM'000)	264,615	264,615	264,615	(⁵)262,615	262,615
Deposits, cash and bank balances (RM'000)	58,501	61,750	80,996	(⁵)92,872	121,624
Net borrowings (RM'000)	206,114	202,864	183,618	160,743	140,991
Net gearing ratio (times)	3.41	3.18	2.21	1.66	1.12

Notes:-

^ Excluding treasury shares.

* Mainly comprising bonds issued for the (i) financing of the JKR Project, i.e. construction and completion of the JKR Training Institute in Melaka under an 18-year concession agreement with the Government of Malaysia; and (ii) financing for amongst others, the expansion and refurbishment of the hotel in Melaka, the design and construction of Wisma Digistar, the expansion of JKR Project, as well as the working capital of our Group.

(1) Assuming all treasury shares are resold to the open market at cost prior to the implementation of the Proposed Rights Issue with Free Warrants.

(2) Assuming all 74,024,334 Warrants B are exercised at the exercise price of RM0.26 per Warrant B and after accounting for the reversal of warrant reserve account.

(3) Computed based on the issuance of 287,518,911 Rights Shares at an indicative issue price of RM0.05 per Rights Share after adjusting for the apportionment of its allocated fair value for 287,518,911 Warrants C at RM0.06 per Warrant C based on the Trinomial option pricing model as extracted from Bloomberg and deducting the estimated expenses pertaining to the Proposed Rights Issue with Free Warrants amounting to RM0.50 million.

(4) Warrants C are assumed to have a theoretical fair value of RM0.06 each derived from the Trinomial option pricing model as extracted from Bloomberg.

(5) After adjusting for the utilisation of proceeds pursuant to the Proposed Rights Issue with Free Warrants of which RM2.0 million is earmarked for the partial repayment of bank borrowings.

(6) Computed based on the indicative exercise price of RM0.10 per Warrant C and after accounting for the reversal of warrant reserve account.

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7.3 Substantial shareholders' shareholdings

The pro forma effects of the Proposed Rights Issue with Free Warrants on the substantial shareholders' shareholdings as at the LPD are set out below:-

Minimum Scenario

Substantial shareholders	Shareholdings as at the LPD				Pro forma I After the Proposed Rights Issue with Free Warrants				Pro forma II After Pro forma I and assuming full exercise of Warrants C			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
LWC Capital Sdn Bhd	207,840,907	26.61	-	-	277,121,209	32.59	-	-	346,401,511	37.66	-	-
Mejar (K) Datuk Wira Lee Wah Chong	-	-	⁽¹⁾ 208,498,049	26.69	-	-	⁽¹⁾ 277,997,398	32.69	-	-	⁽¹⁾ 347,496,747	37.78

Note:-

- (1) Deemed interested by virtue of his shareholdings in LWC Capital Sdn Bhd pursuant to Section 8 of the Act and the shareholding of his son and daughter pursuant to Section 59(11)(c) of the Act.

Maximum Scenario

Substantial shareholders	Shareholdings as at the LPD				Pro forma I Assuming all treasury shares are resold				Pro forma II After Pro forma I and assuming full exercise of Warrants B ⁽²⁾			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
LWC Capital Sdn Bhd	207,840,907	26.61	-	-	207,840,907	26.36	-	-	226,219,907	26.23	-	-
Mejar (K) Datuk Wira Lee Wah Chong	-	-	⁽¹⁾ 208,498,049	26.69	-	-	⁽¹⁾ 208,498,049	26.44	-	-	⁽¹⁾ 226,877,049	26.30

Substantial shareholders	Pro forma III After Pro forma II and the Proposed Rights Issue with Free Warrants				Pro forma IV After Pro forma III and assuming full exercise of Warrants C			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
LWC Capital Sdn Bhd	301,626,542	26.23	-	-	377,033,177	26.23	-	-
Mejar (K) Datuk Wira Lee Wah Chong	-	-	⁽¹⁾ 302,502,732	26.30	-	-	⁽¹⁾ 378,128,415	26.30

Notes:-

- (1) Deemed interested by virtue of his shareholdings in LWC Capital Sdn Bhd pursuant to Section 8 of the Act and the shareholding of his son and daughter pursuant to Section 59(11)(c) of the Act.
- (2) The warrant holdings of the substantial shareholders as at the LPD are set out below:-

Substantial shareholders	No. of Warrants B
LWC Capital Sdn Bhd	18,379,000
Mejar (K) Datuk Wira Lee Wah Chong	-

7.4 Earnings and EPS

The Proposed Rights Issue with Free Warrants is not expected to have any material effect on the earnings of our Group for the FYE 30 September 2021. However, the EPS of our Group may be diluted as a result of the increase in the number of Digistar Shares to be issued pursuant to the Proposed Rights Issue with Free Warrants as and when Warrants C are exercised into new Digistar Shares during the tenure of Warrants C. Notwithstanding that, the proceeds from the Proposed Rights Issue with Free Warrants are expected to contribute positively to our earnings for the ensuing financial years, when the benefits of the utilisation of proceeds are realised.

7.5 Convertible securities

Save for the outstanding 74,024,334 Warrants B, we do not have any outstanding convertible securities as at the LPD.

Consequential to the Proposed Rights Issue with Free Warrants, the exercise price and/or number of Warrants B which are not exercised prior to the Entitlement Date may be adjusted in accordance to the provisions of the Deed Poll B to ensure that the status of Warrants B holders are not prejudiced as a result of the Proposed Rights Issue with Free Warrants.

For illustrative purposes, the adjustments arising from the Proposed Rights Issue with Free Warrants are based on the following key parameters:-

- (i) the Entitlement Date is assumed on the LPD;
- (ii) the issue price of the Rights Shares of RM0.05;
- (iii) the exercise price of each Warrant B of RM0.26;
- (iv) the Proposed Rights Issue with Free Warrants has been undertaken on the following scenarios:-
 - (aa) none of the existing Warrants B are exercised prior to the Entitlement Date, all the treasury shares are retained and the Proposed Rights Issue with Free Warrants is undertaken on the minimum subscription level i.e. Minimum Scenario; and
 - (bb) none of the existing Warrants B are exercised prior to the Entitlement Date, all the treasury shares are resold to the open market and the Proposed Rights Issue with Free Warrants is fully subscribed ("**Maximum Additional Warrants B Scenario**").
- (v) the following formulae as provided for in the Deed Poll B:-

$$\begin{aligned} \text{(a) Adjusted exercise price of Warrants B} &= \frac{(A \times C) + (Q \times F) + (U \times G)}{(A + Q + U) \times C} \times \text{Exercise price of Warrants B} \\ \text{(b) Adjustment number of Warrants B} &= \frac{(A + Q^*) \times C}{(A \times C) + (Q^* \times F^*)} \times \text{Existing number of Warrants B} \end{aligned}$$

where:-

- A : No. of Digistar Shares in issue on the Entitlement Date
- C : the closing price of Digistar Shares on 9 February 2021, being a date preceding the date of announcement on the Proposed Rights Issue with Free Warrants
- Q : No. of Rights Shares to be issued pursuant to the Proposed Rights Issue with Free Warrants
- Q* : No. of Rights Shares to be issued pursuant to the Proposed Rights Issue with Free Warrants
- F : Issue Price of the Rights Shares
- F* : Issue Price of the Rights Shares
- U : No. of new Digistar Shares to be issued arising from the exercise of Warrants C
- G : Exercise Price of Warrants C

The adjustment of exercise price and number of Warrants B under the Minimum Scenario and Maximum Additional Warrants B Scenario are as follows:-

Minimum Scenario

$$\begin{aligned} \text{Adjusted exercise price of Warrants B} &= \frac{[(781,159,591 \times \text{RM}0.08) + (69,280,302 \times \text{RM}0.05) + (69,280,302 \times \text{RM}0.10)]}{(781,159,591 + 69,280,302 + 69,280,302) \times \text{RM}0.08} \times \text{RM}0.26 \\ &= \text{RM}0.25 \text{ (rounded down in accordance to the provisions of the Deed Poll B)} \\ \text{Adjustment number of Warrants B} &= \frac{(781,159,591 + 69,280,302) \times \text{RM}0.08}{(781,159,591 \times \text{RM}0.08) + (69,280,302 \times \text{RM}0.05)} \times 74,024,334 \\ &= 76,356,965 \text{ (rounded down in accordance to the provisions of the Deed Poll B)} \\ \text{Additional number of new Warrants B to be issued} &= 2,332,631 \end{aligned}$$

Maximum Additional Warrants B Scenario

$$\begin{aligned} \text{Adjusted Exercise Price of Warrants B} &= \frac{[(788,532,399 \times \text{RM}0.08) + (262,844,133 \times \text{RM}0.05) + (262,844,133 \times \text{RM}0.10)]}{(788,532,399 + 262,844,133 + 262,844,133) \times \text{RM}0.08} \times \text{RM}0.26 \\ &= \text{RM}0.25 \text{ (rounded down in accordance to the provisions of the Deed Poll B)} \\ \text{Adjustment number of Warrants B} &= \frac{(788,532,399 + 262,844,133) \times \text{RM}0.08}{(788,532,399 \times \text{RM}0.08) + (262,844,133 \times \text{RM}0.05)} \times 74,024,334 \\ &= 81,682,023 \text{ (rounded down in accordance to the provisions of the Deed Poll B)} \\ \text{Additional number of new Warrants B to be issued} &= 7,657,689 \end{aligned}$$

Notwithstanding the above, Paragraph 6.50 of the Listing Requirements states that a listed issuer must ensure that the number of new shares which will arise from the exercise or conversion of all outstanding convertible equity securities, **does not exceed 50%** of the total number of issued shares of the listed issuer (excluding treasury shares and before the exercise of the convertible equity securities) at all times.

The number of additional new Warrants B after the Proposed Rights Issue with Free Warrants, based on the aforementioned scenarios, are as follows:-

	Minimum Scenario	Maximum Additional Warrants B Scenario
Existing number of Warrants B	74,024,334	74,024,334
Additional new Warrants B as computed from the formulae	2,332,631	7,657,689
Warrants C to be issued arising from the Proposed Rights Issue with Free Warrants	69,280,302	262,844,133
Total number of Warrants B and Warrants C after the Proposed Rights Issue with Free Warrants [All Warrants]	145,637,267	344,526,156
Issued share capital of the Company after the Proposed Rights Issue with Free Warrants [Total number of issued shares]	850,439,893	1,051,376,532
[All Warrants] / [Total number of issued shares] (%)	17.12	32.77
In compliance with Paragraph 6.50 of the Listing Requirements	Yes	Yes

Based on the above, the 50% threshold under Paragraph 6.50 of the Listing Requirements will not be breached under all aforementioned scenarios.

Notwithstanding the above which are shown for illustrative purposes only based on the stated assumptions, the necessary adjustment will only be finalised on the Entitlement Date. Any adjustment which is required will be made in accordance with the provisions of the Deed Poll B to mitigate any potential equity dilution resulting from the Proposed Rights Issue with Free Warrants and to ensure that the status of the holders of the outstanding Warrants B are not prejudiced after the completion of the Proposed Rights Issue with Free Warrants.

In relation thereto, we may appoint an approved adviser to consider the adjustment calculations or determination and we shall have discretion in determining the appropriate adjustment calculations or determination to be made in such manner as may be considered by such approved adviser in accordance with the provisions of Deed Poll B.

The details of the actual adjustments to the exercise price and number of outstanding Warrants B shall be announced at a later date and a notice of adjustments will be despatched to the holders of Warrant B, which shall be despatched within 30 days of such adjustments.

The rights and obligations of the holders of the Warrants B shall remain unchanged, save for the potential adjustment to the number and exercise price of the outstanding Warrants B.

8. HISTORICAL SHARE PRICES

The monthly highest and lowest transacted market prices of Digistar Shares traded on Bursa Securities for the past 12 months from March 2020 to February 2021 are as follows:-

	High (RM)	Low (RM)
<u>2020</u>		
March	0.04	0.02
April	0.04	0.02
May	0.07	0.04
June	0.08	0.05
July	0.09	0.06
August	0.21	0.07
September	0.14	0.06
October	0.08	0.06
November	0.11	0.06
December	0.12	0.08
<u>2021</u>		
January	0.10	0.08
February	0.12	0.07
The last transacted price of Digistar Shares as at 9 February 2021, being the last trading date prior to the announcement of the Proposed Rights Issue with Free Warrants		0.08
Last transacted market price of Digistar Shares as at the LPD		0.08

(Source: Bloomberg)

9. APPROVALS REQUIRED/OBTAINED AND CONDITIONALITY OF THE PROPOSED RIGHTS ISSUE WITH FREE WARRANTS

The Proposed Rights Issue with Free Warrants are subject to approvals being obtained from the following parties:-

- (a) Bursa Securities, for the following:-
- (i) admission of Warrants C to the Official List of Bursa Securities;
 - (ii) listing of and quotation for the Rights Shares, Warrants C and the new Digistar Shares to be issued arising from the exercise of Warrants C on the Main Market of Bursa Securities;
 - (iii) listing of and quotation for any additional new Warrants B to be issued arising from the adjustments pursuant to the Proposed Rights Issue with Free Warrants on the Main Market of Bursa Securities; and
 - (iv) listing of and quotation for the new Digistar Shares to be issued arising from the exercise of any additional new Warrants B on the Main Market of Bursa Securities.

The approval of Bursa Securities was obtained vide its letter dated 11 March 2021 and subject to the following conditions:-

Condition(s)		Status of compliance
(i)	Digistar and UOBKH must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Rights Issue with Free Warrants;	To be complied
(ii)	Digistar and UOBKH to inform Bursa Securities upon the completion of the Proposed Rights Issue with Free Warrants;	To be complied
(iii)	Digistar to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Rights Issue with Free Warrants is completed; and	To be complied
(iv)	Digistar to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of Warrants C as at the end of each quarter together with a detailed computation of listing fees payable.	To be complied

- (b) shareholders of Digistar for the Proposed Rights Issue with Free Warrants at the forthcoming EGM; and
- (c) any other relevant authorities, if required.

The Proposed Rights Issue with Free Warrants is not conditional upon any other proposals undertaken or to be undertaken by us.

10. CORPORATE PROPOSALS ANNOUNCED BUT PENDING COMPLETION

Save for the Proposed Rights Issue with Free Warrants, there are no other outstanding proposals announced by us but not yet completed as at the date of this Circular.

11. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED TO THEM

None of the Directors, major shareholders, chief executive of Digistar and/or persons connected to them have any interest, whether direct or indirect, in the Proposed Rights Issue with Free Warrants, save for their respective entitlements as shareholders of our Company under the Proposed Rights Issue with Free Warrants (including the right to apply for additional Rights Shares under the excess shares application), which are also available to all other shareholders.

12. DIRECTORS' RECOMMENDATION

Our Board, after due deliberation and having considered all aspects of the Proposed Rights Issue with Free Warrants, including the rationale and effects of the Proposed Rights Issue with Free Warrants as set out in **Section 3** and **Section 7** of this Circular respectively, is of the opinion that the Proposed Rights Issue with Free Warrants is in the best interest of the Company and recommends that the shareholders of Digistar vote in favour of the resolution pertaining to the Proposed Rights Issue with Free Warrants to be tabled at the forthcoming EGM.

13. ESTIMATED TIMEFRAME FOR COMPLETION

The tentative timetable for the implementation of the Proposed Rights Issue with Free Warrants is set out below:-

Date	Events
29 March 2021	EGM for the Proposed Rights Issue with Free Warrants
Early April 2021	Announcement on the Entitlement Date for the Proposed Rights Issue with Free Warrants
Mid April 2021	Despatch of abridged prospectus, rights subscription form and notices of provisional allotment in relation to the Proposed Rights Issue with Free Warrants
Early May 2021	Last day for payment and acceptance for the Rights Shares and excess application
Mid May 2021	Listing of and quotation for the Rights Shares and Warrants C on the Main Market of Bursa Securities

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposed Rights Issue with Free Warrants is expected to be completed by the 2nd quarter of 2021.

14. EGM

The EGM, the notice of which is enclosed with this Circular, will be held at Platinum Hall, Level 3, Imperial Heritage Hotel Melaka, No 1, Jalan Merdeka 1, Taman Melaka Raya, 75000 Melaka, Malaysia on Monday, 29 March 2021 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 18th Annual General Meeting of the Company to be held at the same venue on the same day at 10.00 a.m., whichever is later, or at any adjournment thereof, for the purpose of considering and, if thought fit, passing with or without any modifications to the ordinary resolution to give effect to the Proposed Rights Issue with Free Warrants.

If you are unable to attend and vote in person at the EGM, please complete, sign and return the enclosed Proxy Form in accordance with the instructions contained therein, and deposited at our registered office at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, not less than twenty four (24) hours before the time and date stipulated for the holding of the EGM or any adjournment thereof. The Proxy Form should be completed strictly in accordance with the instructions contained therein. The lodging of the Proxy Form will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

15. FURTHER INFORMATION

Shareholders are advised to refer to the appendices set out in this Circular for further information.

Yours faithfully,
For and on behalf of the Board of
DIGISTAR CORPORATION BERHAD

TAN SRI DATO' IR. HJ. ZAINI BIN OMAR
Independent Non-Executive Chairman

INDICATIVE SALIENT TERMS OF THE WARRANTS C

The indicative salient terms of the Warrants C are as follows:-

- Number of Warrants C** : Up to 287,518,911 Warrants C
- Form and denomination** : Warrants C which are issued with the Rights Shares are immediately detached upon issuance and will be separately traded on Bursa Securities. Warrants C will be issued in registered form and constituted by the Deed Poll C
- Exercise Rights** : Warrants C entitle the registered holders, at any time during the Exercise Period, to subscribe for new Shares on the basis of 1 new Digistar Share for 1 Warrant C at the exercise price at any time during the Exercise Period, subject to adjustments in accordance with the provisions of the Deed Poll C
- Tenure of Warrants C** : 5 years from the date of issuance of Warrants C
- Exercise Period** : Warrants C may be exercised at any time within a period of 5 years, which shall commence from and including the date of issuance of Warrants C and ending on the Expiry Date
- Warrants C not exercised during the Exercise Period will thereafter lapse and cease to be valid
- Indicative exercise price** : RM0.10 per Warrant C or such adjusted price as determined in the Deed Poll C
- Expiry Date** : A date being 5 years from and including the date of issuance of Warrants C, and if such a day is not a market day, on the immediate preceding market day
- Mode of exercise** : The registered holder of Warrant C is required to lodge a subscription form as set out in the Deed Poll C with our Company's registrar, duly completed and signed together with payment of the exercise price by bankers' draft or cashier's order drawn on a bank operating in Malaysia or a money order or postal order issued by a post office in Malaysia or by way of online transfer in accordance with the provisions of the Deed Poll C
- Mode of transfer** : Warrants C are transferrable in the manner and according to the provisions of the Deed Poll, Securities Industry (Central Depositories) Act 1991 and the Rules of Bursa Depository
- Participating rights of the holders of Warrants C in any distribution and/or offer of further securities** : Warrant C holders are not entitled to any voting right or participation in any forms of distribution and/or offer of further securities in our Company until and unless such Warrant C holders exercise the Warrants C for the new Shares in accordance with the provisions of the Deed Poll C and such new Shares have been allotted and issued to the Warrant C holders. Each Warrant C holder shall be deemed to remain the registered holder of Warrants C credited in his/her securities account until the name of the transferee is entered in the Record of Depositors

INDICATIVE SALIENT TERMS OF THE WARRANTS C (CONT'D)

- Ranking of new Shares arising from the exercise of Warrants C** : The new Digistar Shares to be issued arising from the exercise of Warrants C will, upon allotment and issue, rank equally in all respects with the then existing Digistar Shares, save and except that the new Digistar Shares to be issued arising from the exercise of Warrants C will not be entitled to any dividends, rights, allotments and/or any other forms of distribution where the entitlement date of such dividends, rights, allotments and/or any other forms of distribution precedes the relevant date of allotment and issuance of the new Digistar Shares
- Board lot** : For the purpose of trading in Bursa Securities, a board lot of Warrants C shall comprise 100 Warrants C carrying the right to subscribe for 100 new Digistar Shares at any time during the Exercise Period, or in such denomination as determined by Bursa Securities
- Listing status** : The Warrants C and new Digistar Shares to be issued pursuant to the exercise of the Warrants C will be listed and quoted on the Main Market of Bursa Securities
- Adjustments in the exercise price and/or number of Warrants C** : The exercise price and/or number of unexercised Warrants C may be adjusted, calculated or determined by the Board from time to time, at any time during the tenure of Warrants C in consultation with its professional advisers and/or auditors, in the event of alteration to the share capital of our Company, whether by way of, amongst others, rights issue, bonus issue, consolidation or subdivision or conversion of shares, reduction of capital, issuance of shares to our shareholders by way of capitalisation of profits or reserves or capital distribution or allotment of shares, offer or invitation to its shareholders or any other events in accordance with the provisions of the Deed Poll C
- Modification** : Save as expressly provided in the Deed Poll C, no modification, amendment, deletion or addition may be made to the provisions of the Deed Poll C without the sanction of a special resolution of the Warrant C holders unless the modifications, amendments, deletions or additions are required to correct any typographical errors or relate purely to administrative matters or are required to comply with any provisions of the prevailing laws or regulations of Malaysia or in the opinion of our Company, will not be materially prejudicial to the interests of the Warrant C holders
- Any modification, amendment, deletion or addition to the Deed Poll C (including the form and content of the warrant certificate) may be effected only (i) by a supplemental deed poll executed by our Company and expressed to be supplemental thereof and (ii) approved or sanctioned by the Warrant C holders by way of a special resolution

INDICATIVE SALIENT TERMS OF THE WARRANTS C (CONT'D)

Rights in the event of winding-up, liquidation, compromise and/or arrangement : Where a resolution has been passed for a member's voluntary winding-up of our Company, or where there is a compromise or arrangement whether or not for the purpose of or in connection with a scheme for the reconstruction of our Company or the amalgamation of the Company with 1 or more companies, then:

- (a) in the case of a winding-up, compromise or arrangement (other than a consolidation, amalgamation or merger in which our Company is the continuing corporation), to which the Warrant C holders, or some persons designated by them for such purposes by special resolution, shall be a party, the terms of such winding-up, compromise or arrangement shall be binding on all the Warrant C holders;
- (b) in any other case, every Warrants C holder shall be entitled upon and subject to the provisions of the Deed Poll C at any time within 6 weeks after the passing of such resolution for a members' voluntary winding-up of our Company or within 6 weeks after the granting of the court order approving the compromise or arrangement (whichever is later), by irrevocable surrender of his/her Warrants C to our Company, elect to be treated as if he/she had immediately prior to the commencement of such winding-up, compromise or arrangement exercised the exercise rights represented by his/her Warrants C to the extent specified in the relevant subscription forms and be entitled to receive out of the assets of our Company which would be available in liquidation as if he/she had on such date been the holder of the new Digistar Shares to which he/she would have been entitled to pursuant to such exercise

All Exercise Rights which have not been exercised within the above 6 weeks of either the passing of such resolution for the members' voluntary winding up or the granting of the court order for the approval of such winding-up, compromise or arrangement, as the case may be, will lapse and all the unexercised Warrants C will cease to be valid for any purpose

Governing law : Laws and regulations of Malaysia

FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by our Board, and the Directors individually and collectively accept full responsibility for the accuracy of the information contained herein and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements contained in this Circular or other facts, the omission of which would make any statements or information herein false or misleading.

2. CONSENT

UOBKH, being the Adviser for the Proposed Rights Issue with Free Warrants, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

3. DECLARATION OF CONFLICT OF INTEREST

UOBKH has given its written confirmation that there is no situation of conflict of interest that exists or is likely to exist in relation to its role as the Adviser to our Company for the Proposed Rights Issue with Free Warrants.

4. MATERIAL LITIGATION

As at the LPD, neither our Company nor our Group is engaged in any other material litigation, claims or arbitration, either as a plaintiff or defendant, which has a material effect on the financial position or the business of our Group, and our Board does not have any knowledge or any proceeding pending or threatened against our Group, or of any fact likely to give rise to any proceeding, which may materially or adversely affect the financial position or business of our Group.

5. MATERIAL COMMITMENTS

As at the LPD, our Board, after making all reasonable enquiries, is not aware of any material commitments incurred or known to be incurred by our Group, which upon becoming enforceable, may have a material impact on the financial results or position of our Group.

6. CONTINGENT LIABILITIES

As at the LPD, save as disclosed below, our Board is not aware of any contingent liabilities incurred or known to be incurred, which upon becoming enforceable, may have a material impact on the financial results or position of our Group.

	(RM)
Secured:-	
Corporate guarantee given by our Company to financial institutions for credit facility granted to a subsidiary company's customer for due performance of works by our subsidiary company	315,641
Total	315,641

FURTHER INFORMATION (CONT'D)

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at our registered office at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, during normal business hours between Mondays and Fridays (except public holidays) from the date of this Circular up to and including the date of the forthcoming EGM:-

- (i) the Constitution of Digistar;
- (ii) the Entitlement Undertaking provided by the Undertaking Shareholder;
- (iii) the audited consolidated financial statements of Digistar Group for the past 2 financial years up to FYE 30 September 2020, as well as the unaudited consolidated financial statements of Digistar Group for the 3-month FPE 31 December 2020;
- (iv) the Deed Poll B and the draft Deed Poll C; and
- (v) the letter of consent and declaration of conflict of interest referred to in **Section 2** and **Section 3** of this **Appendix II**.

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DIGISTAR CORPORATION BERHAD

(Registration No. 200301001232 (603652-K))
(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting (“**EGM**”) of Digistar Corporation Berhad (“**Digistar**” or the “**Company**”) will be held at Platinum Hall, Level 3, Imperial Heritage Hotel Melaka, No 1, Jalan Merdeka 1, Taman Melaka Raya, 75000 Melaka, Malaysia, on Monday, 29 March 2021 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 18th Annual General Meeting of the Company to be held at the same venue on the same day at 10.00 a.m., or at any adjournment thereof, for the purpose of considering and if thought fit, passing with or without modification, the following resolution:-

ORDINARY RESOLUTION

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 287,518,911 NEW ORDINARY SHARES IN DIGISTAR (“DIGISTAR SHARE(S)” OR “SHARE(S)”) (“RIGHTS SHARE(S)”) ON THE BASIS OF 1 RIGHTS SHARE FOR EVERY 3 EXISTING DIGISTAR SHARES HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER (“ENTITLEMENT DATE”), TOGETHER WITH UP TO 287,518,911 FREE DETACHABLE WARRANTS (“WARRANTS C”) ON THE BASIS OF 1 WARRANT C FOR EVERY 1 RIGHTS SHARE SUBSCRIBED BY THE ENTITLED SHAREHOLDERS (“PROPOSED RIGHTS ISSUE WITH FREE WARRANTS”)

“**THAT**, subject to the approvals of all relevant authorities being obtained, including but not limited to the approval of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the listing of and quotation for the Rights Shares, Warrants C, and the new Digistar Shares to be issued arising from the exercise of Warrants C and additional new Warrants B on the Main Market of Bursa Securities, the Board of Directors of the Company (“**Board**”) be and is hereby authorised to undertake the Proposed Rights Issue with Free Warrants as follows:-

- (i) to provisionally allot and issue by way of a renounceable rights issue of up to 287,518,911 Rights Shares together with up to 287,518,911 Warrants C to the shareholders of the Company whose names appear in the Record of Depositors at the close of business on the Entitlement Date (“**Entitled Shareholders**”) and/or their renounee(s), on the basis of 1 Rights Share for every 3 existing Digistar Shares held by the Entitled Shareholders together with 1 Warrant C for every 1 Rights Share subscribed by the Entitled Shareholders on the Entitlement Date at an issue price to be determined by the Board and on such terms and conditions and in such manner as the Board may determine;
- (ii) to determine the final issue price of the Rights Shares and the final exercise price of the Warrants C after taking into consideration the basis and justification for determining such prices, as set out in the Circular to shareholders dated 12 March 2021 (“**Circular**”);
- (iii) to enter into and execute a deed poll (“**Deed Poll C**”) with full powers to assent to any condition, modification, revaluation, variation and/or amendments (if any) as the Board may deem fit, necessary and/or expedient or as may be imposed by the relevant authorities and to take all steps as it may consider necessary and do all acts, deeds and things as it may deem fit or expedient in order to implement, finalise and give full effect to the Deed Poll C and all provisions and adjustments contained therein;
- (iv) wherein each of the Warrant C will carry the right to subscribe, subject to any adjustment in accordance with the Deed Poll C, at any time during the exercise period, for 1 new Digistar Share at an exercise price to be determined and fixed at a later date by the Board;

- (v) to allot and issue such number of new Digistar Shares arising from the exercise of the Warrants C, from time to time during the tenure of the Warrants C, in accordance with the provisions of the Deed Poll C;
- (vi) to allot and issue such further Warrants B (“**Additional Warrants B**”) and new Digistar Shares arising from the exercise of such further Warrants B as a consequence of any adjustment in accordance with the provisions of the Deed Poll B and/or as may be required by the relevant authorities; and
- (vii) to do all such acts and things including but not limited to the application to Bursa Securities for the listing of and quotation for the (i) Rights Shares, Warrants C and the new Digistar Shares which may from time to time be allotted and issued arising from the exercise of the Warrants C, (ii) any additional new Warrants B to be issued arising from the adjustments pursuant to the Proposed Rights Issue with Free Warrants, and (iii) new Digistar Shares to be issued arising from the exercise of the Additional Warrants B, on the Main Market of Bursa Securities;

THAT, the Board be and is hereby authorised to determine and vary if deemed fit, necessary and/or expedient, the issue price of the Rights Shares and the exercise price of the Warrants C to be issued in connection with the Proposed Rights Issue with Free Warrants;

THAT, any Rights Shares which are not validly taken up or which are not allotted for any reason whatsoever to the Entitled Shareholders and/or their renoucee(s) shall be made available for excess applications in such manner and to such persons (“**Excess Applicants**”) as the Board shall determine at its absolute discretion;

THAT, the Rights Shares, Warrants C, Additional Warrants B and new Digistar Shares to be issued pursuant to the exercise of Warrants C and Additional Warrants B (if any) shall be listed on the Main Market of Bursa Securities;

THAT, the proceeds arising from the Proposed Rights Issue with Free Warrants will be utilised for the purpose as disclosed in the Circular, and the Board be and is hereby authorised with full power to vary the manner and/or purpose of utilisation of such proceeds in such manner as the Board deem fit, necessary and/or expedient or in the best interest of the Company, subject (where required) to the approval of the relevant authorities;

THAT, the Board be and is hereby authorised to deal with any fractional entitlements that may arise from the Proposed Rights Issue with Free Warrants, in such manner as it shall in its absolute discretion deem fit and expedient, or in the best interest of the Company;

THAT, the Rights Shares will, upon allotment and issuance, rank equally in all respects with the existing Digistar Shares, save and except that the Rights Shares will not be entitled to any dividends, rights, allotments and/or any other forms of distribution where the entitlement date precedes the relevant date of allotment and issuance of the Rights Shares;

THAT, the new Digistar Shares to be issued arising from the exercise of Warrants C and Additional Warrants B (if any) will, upon allotment and issuance, rank equally in all respects with the existing Digistar Shares, save and except that the new Digistar Shares to be issued arising from the exercise of the Warrants C and Additional Warrants B (if any) will not be entitled to any dividends, rights, allotments and/or any other forms of distribution where the entitlement date precedes the relevant date of allotment and issuance of the Warrants C and Additional Warrants B (if any);

THAT, the Directors of the Company be and are hereby authorised to enter into and execute the Deed Poll C with full powers to assent to any conditions, variations, modifications and/ or amendments in any manner as may be required by the relevant authorities or deemed necessary by the Directors of the Company, and with full powers to implement and give effect to the terms and conditions of the Deed Poll C;

AND THAT, the Directors of the Company be and are hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the aforesaid Proposed Rights Issue with Free Warrants with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or permitted by any relevant authorities and to deal with all matters relating thereto and to take all such steps and do all such acts and things in any manner as they deem fit, necessary and/or expedient to implement, finalise and give full effect to the Proposed Rights Issue with Free Warrants.”

By Order of the Board,
DIGISTAR CORPORATION BERHAD

WONG YOUN KIM (MAICSA 7018778)
Company Secretary

Kuala Lumpur
12 March 2021

Notes:-

1. *For the purpose of determining a member who shall be entitled to attend and vote at the Extraordinary General Meeting (“EGM”), the Company shall be requesting the Record of Depositors as at 23 March 2021. Only a depositor whose name appears on the Record of Depositors as at date shall be entitled to attend and vote at the said meeting as well as for appointment of proxy(ies) to attend and vote on his/her stead.*
2. *A member entitled to attend, speak and vote at the meeting is entitled to appoint up to two (2) proxies to attend, speak and vote in his/her stead. If a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.*
3. *Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*
4. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for the multiple beneficial owners in one securities account (“omnibus account”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
5. *Where a member or the authorised nominee or an exempt authorised nominee appoints two (2) or more proxies, the proportion of the shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.*
6. *The instrument appointing a proxy or the power of attorney or other authority, if any, under which it is signed or a notariaily certified copy of that power or authority shall be deposited at the registered office of the Company at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, not less than twenty four (24) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposed to vote and in default the instrument of proxy shall not be treated as valid.*
7. *If the appointer is a corporation, this form shall be executed under its common seal or under the hand of its officer or attorney duly authorised.*
8. *If this Proxy Form is signed under the hands of an officer duly authorised, it should be accompanied by a statement reading “signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received”. If this Proxy Form is signed under the attorney duly appointed under a power of attorney, it should be accompanied by a statement reading “signed under Power of Attorney which is still in force, no notice of revocation having been received”. A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed in the Proxy Form.*

Form of Proxy



DIGISTAR CORPORATION BERHAD

Registration No. 200301001232 (603652-K)
(INCORPORATED IN MALAYSIA)

CDS Account No.	
No. of shares held	

*I/We _____ NRIC/Company No. _____
(FULL NAME IN BLOCK CAPITALS)

of _____
(FULL ADDRESS)

being a member/members of DIGISTAR CORPORATION BERHAD (603652-K), hereby appoint _____

(FULL NAME IN BLOCK CAPITALS)

NRIC No. _____ of _____
(FULL ADDRESS)

or failing *him/her, the Chairman of the Meeting as *my/our proxy to attend and vote on *my/our behalf at the Extraordinary General Meeting of the Company to be held at Platinum Hall, Level 3, Imperial Heritage Hotel Melaka, No 1, Jalan Merdeka 1, Taman Melaka Raya, 75000 Melaka, Malaysia on Monday, 29 March 2021 at 11.00 a.m. or immediately after the conclusion or adjournment (as the case may be) of the 18th Annual General Meeting of the Company to be held at the same venue on the same day at 10.00 a.m., or at any adjournment thereof.

*My/our proxy is to vote as indicated below:

ORDINARY RESOLUTION	FOR	AGAINST
Proposed Rights Issue with Free Warrants		

(Please indicate with an "X" in the appropriate boxes on how you wish your vote to be cast. Unless the voting instructions are indicated in the space above, the proxy will vote as he/she thinks fit.)

(i) Applicable to shares held through a nominee account.

*Delete where applicable

Signed this _____ day of _____ 2021

For appointment of two proxies, percentage of Shareholdings to be presented by the proxies:

	No. of shares	Percentage
Proxy 1		
Proxy 2		
Total		

Signature/Common Seal of Member

Notes:-

1. For the purpose of determining a member who shall be entitled to attend and vote at the Extraordinary General Meeting ("EGM"), the Company shall be requesting the Record of Depositors as at 23 March 2021. Only a depositor whose name appears on the Record of Depositors as at date shall be entitled to attend and vote at the said meeting as well as for appointment of proxy(ies) to attend and vote on his/her stead.
2. A member entitled to attend, speak and vote at the meeting is entitled to appoint up to two (2) proxies to attend, speak and vote in his/her stead. If a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.
3. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for the multiple beneficial owners in one securities account ("**omnibus account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
5. Where a member or the authorised nominee or an exempt authorised nominee appoints two (2) or more proxies, the proportion of the shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
6. The instrument appointing a proxy or the power of attorney or other authority, if any, under which it is signed or a notariaily certified copy of that power or authority shall be deposited at the registered office of the Company at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, not less than twenty four (24) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposed to vote and in default the instrument of proxy shall not be treated as valid.
7. If the appointer is a corporation, this form shall be executed under its common seal or under the hand of its officer or attorney duly authorised.
8. If this Proxy Form is signed under the hands of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If this Proxy Form is signed under the attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed in the Proxy Form.

Fold this flap for sealing

Then fold here

AFFIX
STAMP



**DIGISTAR CORPORATION BERHAD
COMPANY SECRETARY**

Level 2, Tower 1, Avenue 5
Bangsar South City 59200 Kuala Lumpur

1st fold here
