



GHL SYSTEMS BERHAD
(Company No. 293040-D)

Quarterly report on consolidated results for the second quarter ended 30 June 2009

B. ADDITIONAL INFORMATION REQUIRED BY THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Review of Performance

For the quarter ended 30 June 2009, the Group recorded revenue of RM13.09 million, representing an increase of approximately 11.98% as compared to RM11.70 million achieved in the preceding year's corresponding quarter ended 30 June 2008. The increase was mainly attributable to the improved in sales of value-added solutions and maintenance in the domestic market during the current quarter under review. The Group however incurred a loss before taxation of RM2.45 million as compared to a loss before taxation of RM1.51 million in the preceding year's corresponding quarter ended 30 June 2008. The higher loss before taxation was mainly due to an increase in the operational costs as a result of the continued regional expansion as well as the write-down of stocks used as demonstration sets for customers, for testing purposes, and for warranty claims.

For the six (6) months period ended 30 June 2009, the Group recorded revenue of RM23.61 million, representing an increase of 2.16% as compared to RM23.11 million achieved in the preceding year's corresponding period. The Group recorded a loss before taxation of RM5.53 million for the current six (6) months period ended 30 June 2009 as compared to loss before taxation of RM2.00 million recorded in the preceding year's corresponding period. The loss was mainly due to increased operational costs and the write-down of residual value of Non-EuroPay Mastercard Visa ("EMV") Electronic Data Capture ("EDC") terminals of RM1.38 million. In addition, there was a write-down of RM0.19 million for stocks used as demonstration sets for customers, for testing purposes, and for warranty claims.

B2. Comparison of Current Quarter Results with the Preceding Quarter

| | <u>Current Quarter ended</u> <u>30 June 2009</u> | <u>Preceding Quarter ended</u> <u>31 March 2009</u> |
|-----------------|---|--|
| | RM'000 | RM'000 |
| Revenue | 13,089 | 10,519 |
| Loss Before Tax | (2,453) | (3,079) |

For the current quarter under review, the Group's revenue increased by approximately 24.43% to RM13.09 million, as compared to RM10.52 million registered in the preceding quarter ended 31 March 2009 mainly due to the increased sales of cards in the local market and sales of hardware in the local and overseas markets. The Group incurred a loss before taxation of RM2.45 million in the current quarter as compared to a loss before taxation of

RM3.08 million in the preceding quarter due to lower operating cost in the quarter under review compared to the preceding quarter.

B3. Current Year's Prospects

In view of the economic downturn affecting business sentiment across the region, the Board of Directors of GHL (“Board”) believes that the level of competition will continue to be intense in the domestic and overseas markets. Therefore, the Group will constantly enhance its competitive edge by providing value-added solutions, and focus on capturing opportunities in the overseas markets via resellers/ distributors. The Board expects the Group’s prospects to be challenging in the financial year ending 31 December 2009.

B4. Profit forecast and Profit Guarantee

The Company has not issued any profit forecast or profit guarantee for the current year.

B5. Taxation

The taxation charge for the period is in respect of interest income. There is no taxation charge on the business source of income as the Company was granted pioneer status which exempts its income from taxation for a period of five (5) years commencing from 1 June 1999. This exemption only applies in respect of income derived from the Company's MSC-qualifying activities as set out in its application documents submitted to Multimedia Development Corporation Sdn Bhd at the time when the Company applied for Multimedia Super Corridor (“MSC”) status. The pioneer status is renewed upon application by the Company prior to 1 June 2004 for a further period of five (5) years. The Company has obtained approval for another five (5) years extension for pioneer status from 1 June 2004 to 31 May 2009, vide letters from Multimedia Development Corporation Sdn Bhd dated 21 June 2004 and Ministry of International Trade and Industry, Malaysia dated 15 September 2004.

The Company had applied FRS 112, Income Taxes, whereby under FRS 112, deferred tax liabilities are provided for, using the liability method, on temporary differences at the balance sheet date, between the tax bases of assets and liabilities and their carrying amounts in the financial statement.

B6. Profit on Sale of Unquoted Investment and/or Properties

There was no disposal of unquoted investment or properties during the financial quarter under review.

B7. Purchase and Disposal of Quoted Securities

There was no purchase or disposal of quoted securities during the financial quarter under review.

B8. Status of Corporate Proposals

Save as disclosed below, there were no corporate proposals announced and not completed as at the date of this report:-

The proposed subscription of shares in GHJ AP by the Directors of the Company was approved by the shareholders of the Company in the extraordinary general meeting held on 7 May 2007 (“Proposed Subscription”). The completion of the Proposed Subscription is deferred to a later date after taking into consideration the prevailing market condition.

B9. Group Borrowings and Debt Securities

The Group’s borrowings and debt securities as at the financial period ended 30 June 2009 are as follows:-

(a) Bank Borrowings

| | Total Secured Term Loan |
|-----------------------------------|--------------------------------|
| | RM |
| Repayable within twelve months | 222,840 |
| Repayable more than twelve months | 2,934,036 |
| | <u>3,156,876</u> |

The secured term loan from a local financial institution is to finance the purchase of three (3) units of 4 ½ storey shop offices. The term loan bears an interest of 5.0 % per annum on monthly rest for the first three (3) years and thereafter Base Lending Rate + 0.00% per annum and is repayable over eleven (11) years. The loan is expected to be fully repaid by year 2019. The Base Lending Rate as at 30 June 2009 is 5.55% per annum.

The Group’s banking facilities are secured by way of pledging of fixed deposits to the financial institution and pledging of the aforementioned three (3) units of the 4½ storey shop offices.

(b) Hire Purchase

| | RM |
|-----------------------------------|----------------------|
| Repayable within twelve months | 20,426 |
| Repayable more than twelve months | 25,530 |
| | <u>45,956</u> |

The hire purchase payables of the Group as at 30 June 2009 are for the Group’s motor vehicles. The portion of the hire purchase due within one (1) year is classified as current liabilities.

B10. Off Balance Sheet Financial Instruments

The Company does not have any financial instruments with off balance sheet risk as at the date of this report.

B11. Material Litigation

Save as disclosed below, as at the date of this report, the Group is not engaged in any material litigation, claims, arbitration or prosecution, either as plaintiff or defendant, and the Board is not aware of any proceedings pending or threatened against the Group or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of the Group:-

- (a) GHL International Sdn Bhd (“GHLI”), GHLSYS Singapore Pte Ltd (“GHLSYS”) and Privilege Investment Holdings Pte Ltd ("Privilege") had entered into a shareholders’ agreement dated 31 October 2005 (“Shareholders Agreement”) for the purpose of a joint venture. Subsequently, the above-mentioned parties mutually agreed to terminate the Shareholders Agreement via a termination agreement dated 3 March 2006 with a view of entering into a new joint venture subject to further discussions on the terms for such new joint venture. However, the said new joint venture has not eventuated as the parties were unable to reach an agreement on the final terms for the proposed new joint venture. Consequently, a dispute has since arisen in respect of the termination of the Shareholders Agreement.

On 1 April 2006 and 28 April 2006, the Indonesian lawyers acting on behalf of Privilege ("Privilege Lawyers") have via their letter ("Allegation Letter") to GHL, GHLI and GHLSYS (collectively "GHL Entities") alleged various matters against the GHL Entities and certain representatives of the GHL Entities ("GHL Representatives"), amongst others, fraud and misrepresentation in respect of the termination of the Shareholders Agreement, unlawful repudiation of obligations under the Shareholders Agreement, violation of various Indonesian laws and regulations as specified therein, and defamation (“Privilege Threat”).

In this connection, the GHL Entities and GHL Representatives have engaged a firm of Indonesian lawyers ("GHL Lawyers"), to represent and advise them on this matter. In their letter dated 3 April 2006 and subsequently on 6 July 2006, the GHL Lawyers have replied to the allegations made in the Allegation Letter by informing the Privilege Lawyers that the GHL Entities and GHL Representatives have categorically denied all the allegations in the Allegation Letter.

Subsequently, PT Multi Adiprakarsa Manunggal (“PT MAM”) had in its letter dated 13 February 2007 addressed to the GHL Entities and the GHL Representatives referred to the Allegation Letter dated 1 April 2006 and alleged that it was an intended beneficiary of the Shareholders Agreement and a direct contracting party to all contracts arising out of the Shareholders Agreement and it was injured by the unlawful conduct of the GHL Entities. PT MAM also claimed an amount of USD3 million in damages to be payable by or before 20 February 2007, failing which PT MAM deemed itself free to file litigation in Malaysia, Singapore and/or Indonesia and that the GHL Entities’s reporting of accounts receivable in its financial statements may constitute fraudulent misrepresentation as the amount claimed were provided by the GHL Entities as equity contributions to a proposed joint venture company in Indonesia (“PT MAM Threat”). GHLI had in its letter dated 21

February 2007 replied to PT MAM requesting them to refer to the letter dated 6 July 2006 issued by GHJ Lawyers to Privilege Lawyers and that GHJ remained open to meeting with PT MAM to resolve matters amicably.

As the matter has yet to proceed to Court and the GHJ Entities and GHJ Representatives hope to negotiate with Privilege and/or PT MAM to settle the matter amicably. The GHJ Lawyers had expressed that that they were not aware of any doctrine of intended beneficiary under Indonesian law in respect of the PT MAM Threat. The GHJ Lawyers are of the view that there are legal grounds for the GHJ Entities to defend both the Privilege Threat and the PT MAM Threat in the event that litigation is commenced in the Courts of the Republic of Indonesia. However, the GHJ Lawyers have qualified all such views by expressing that the Indonesian judiciary is sometimes unpredictable in its decision-making process and that a decision may not necessarily be based on the merits of a case. However, as no calculation of a claim for damages has been submitted by Privilege or its Indonesian lawyers and the PT MAM's claim for USD3 million was not quantified, the GHJ Lawyers are not able to opine fully on the financial consequences to the GHJ Entities. The Directors of GHJ are of the opinion that should this matter go to court, the GHJ Entities will vigorously defend its position.

Meanwhile on 13 May 2009, GHJ received a letter from Messrs Zaid Ibrahim & Co., representing Privilege with the following claims:-

- (i) Payment of the sum of USD3,009,700.00 as general damages suffered by Privilege arising out of GHJ's failure to perform the obligations;
- (ii) Payment of the sum of USD43,047.00 as special damages for expenses incurred by Privilege in setting up PT MAM and GHJSYS;
- (iii) Return of all confidential information, trade secrets and/ or any other proprietary information belonging to Privilege that remain in GHJ's and/ or any other related party's custody;
- (iv) Provision of a written undertaking that GHJ does not have any confidential information, trade secrets and/ or proprietary information belonging to Privilege other than that which was returned, and that GHJ has not and will not utilize the confidential information, trade secrets and/ or proprietary information save other than in the course of the joint venture; and
- (v) Payment of the sum of RM2,500.00 being the cost of the letter of demand.

On 19 May 2009, the management through its solicitor, Messrs. Sreenevasanyoung, denied each and every allegation as set out in the letter and denied being liable as alleged or at all.

The Board of Directors of GHJ remains of the view that the GHJ Entities have a good defence against such claims made by Privilege. The directors of GHJ are of the opinion that should this matter go to court, the GHJ Entities will vigorously defend its position.

- (b) On 7 August 2007, two letters of demand were issued against M1. The first claim made by the Company demanding M1 to pay to the Company RM591,425 which comprises fees for servers hosting, rental of EDC terminals and other miscellaneous

matters. The second claim was made by GHJ Transact, a subsidiary of GHJ, demanding M1 to pay RM375,241 which comprises fees for maintenance and rental of EDC terminals and other miscellaneous matters. M1 has made partial payments to these claims. Further details are set out in Note A12 - Contingent Liabilities.

B12. Dividend Proposed

There was no dividend declared during the quarter under review.

B13. Loss Per Share

(a) Basic loss per share

The basic loss per share is calculated by dividing the net loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the financial period and excluding the treasury shares held by the Company.

(b) Diluted loss per share

For the purpose of calculating diluted loss per share, the net loss for the period attributable to equity holders of the parent and weighted average number of ordinary shares in issue during the period and excluding treasury shares held by the Company.

| <u>Basic</u> | | Current Quarter 30.06.09 | Preceding Year Corresponding Quarter 30.06.08 | Current Year To Date 30.06.09 | Preceding Year Corresponding Period 30.06.08 |
|--|--------|--------------------------------|---|-------------------------------------|--|
| Net loss attributable to equity holders of the parent | (RM) | 2,406,344 | 1,519,260 | 5,573,593 | 1,998,642 |
| Weighted average number of ordinary shares in issue and issuable | (Unit) | 138,065,097 | 137,783,849 | 138,290,722 | 138,281,362 |
| Basic loss per share | (Sen) | 1.74 | 1.10 | 4.03 | 1.45 |
| <u>Diluted</u> | | Current Quarter 30.06.09 | Preceding Year Corresponding Quarter 30.06.08 | Current Year To Date 30.06.09 | Preceding Year Corresponding Period 30.06.08 |
| Net loss attributable to equity holders of the parent | (RM) | 2,406,344 | 1,519,260 | 5,573,593 | 1,998,642 |
| Weighted average number of ordinary shares in issue and issuable | (Unit) | 138,065,097 | 137,783,849 | 138,290,722 | 138,281,362 |
| Diluted loss per share | (Sen) | 1.74 | 1.10 | 4.03 | 1.45 |

For the current quarter and period ended 30 June 2009, the calculation of basic or diluted loss per share had excluded the treasury shares held by the Company.

B14. The Memorandum of Understanding pursuant to Paragraph 9.29 of Main Market Listing Requirements of Bursa Securities

On 31 July 2008, GHL had entered into a memorandum of understanding (“MOU”) with a Filipino group on the event date represented by Mr. Ferdinand A Domingo to establish teaming arrangement between GHL & the Filipino Group to undertake the business of providing information technology solutions in the Philippines through a joint venture agreement.

There was no material development or changes in the status of the above mentioned MOU since the date of announcement.