



GHL SYSTEMS BERHAD
(Company No. 293040-D)

Quarterly report on consolidated results for the second quarter ended 30 June 2010

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

B1. Review of Performance

For the current quarter ended 30 June 2010, the Group recorded revenue of RM13.01 million, representing decline of approximately 0.6% in revenue as compared to RM13.09 million achieved in the preceding year's corresponding quarter ended 30 June 2009. The decrease was mainly attributed to lower sales from domestic market during the quarter under review.

Loss before taxation of the Group for the current quarter under review is RM2.64 million as compared to loss before taxation of RM2.45 million in proceeding year's corresponding quarter under review mainly due to higher distribution cost incurred.

For the six (6) months period ended 30 June 2010, the Group registered revenue of RM26.25 million, which is 11.18% higher than RM23.61 million in the previous corresponding period, mainly due to the higher sales in the local and overseas markets during the period. Correspondingly, the Group recorded narrower loss before taxation of RM2.47 million as compared to the loss before taxation of RM5.53 million recorded in the preceding year's corresponding period. Besides the increase in revenue, lower operational costs also led to more favourable result in the current period.

B2. Comparison of Current Quarter Results with the Preceding Quarter

	<u>Current Quarter</u> <u>ended 30 June 2010</u> RM'000	<u>Preceding Quarter</u> <u>ended 31 March 2010</u> RM'000
Revenue	13,009	13,237
(Loss)/ Profit Before Tax	(2,639)	170

For the current quarter under review, the Group's revenue decreased by approximately 1.74% to RM13.01 million, as compared to RM13.24 million reported in the preceding quarter ended 31 March 2010 mainly due to slower sales in monthly services rental, maintenance, merchant discount rate transaction and software during the current quarter.

Loss before taxation of the Group for the current quarter under review is RM2.64 million as compared to profit before taxation of RM0.17 million in preceding quarter under review due to higher administrative costs and operating expenses.

B3. Current Year's Prospects

In light of the gradually-recovering economy 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 as industry players secure market share. Therefore, the Group will continue to enhance its competitive edge by constantly innovating new solutions, and appointing resellers/distributors to penetrate into overseas markets.

B4. Profit forecast and Profit Guarantee

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

B5. Taxation

	Current Quarter <u>30.06.10</u> RM'000	Preceding Year Corresponding Quarter <u>30.06.09</u> RM'000	Current Year To Date <u>30.06.10</u> RM'000	Preceding Year Corresponding Period <u>30.06.09</u> RM'000
Tax expenses for current year provision	(3)	47	(3)	41

The Group’s tax rate is disproportionate to the statutory tax rate due to unabsorbed tax loss and unutilised tax allowances and deferred tax benefits of certain companies within the Group.

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:-

- a) The proposed subscription of shares in GHL 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.
- b) On 12 February 2010, on behalf of the Board of Directors of GHL (“Board”), Public Investment Bank Berhad (“PIVB”) had announced that the Company proposed to undertake a private placement of up to 13,800,000 ordinary shares of RM0.50 each in GHL, representing up to 10% of the issued and paid-up share capital of GHL (“Proposed Private Placement”).

PIVB had also on 17 February 2010, on behalf of GHL, submitted the listing application in relation to the Proposed Private Placement to Bursa Malaysia Securities Berhad (“Bursa Securities”) which was duly approved by Bursa Securities vide its letter dated 2 March 2010. The Proposed Private Placement is currently pending implementation.

B9. Group Borrowings and Debt Securities

The Group’s borrowings and debt securities as at the financial period ended 30 June 2010 are as follows:-

(a) Bank Borrowings

	Total Secured Term Loan RM
Repayable within twelve months	262,565
Repayable more than twelve months	2,663,600
	2,926,165

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 (“pa”) on monthly rest for the first three (3) years and thereafter Base Lending Rate (“BLR”) + 0.60% pa and is repayable over fifteen (15) years. The loan is expected to be fully repaid by year 2019. The term loan interest rate was revised at BLR + 0.00% pa based on letter dated 21 December 2007. Subsequently, the term loan interest rate was revised at BLR – 1.00% pa based on letter dated 23 February 2010 and 26 April 2010. The BLR as at 30 June 2010 is 5.80% pa and revised to 6.30% pa as at July 2010.

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.

The Group does not have any foreign currency denominated bank borrowings as at 30 June 2010.

(b) Hire Purchase

	Total Hire Purchase RM
Repayable within twelve months	512,917
Repayable more than twelve months	311,821
	824,738

The hire purchase payables of the Group as at 30 June 2010 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 Group 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 GHIL Lawyers to Privilege Lawyers and that GHIL remained open to meeting with PT MAM to resolve matters amicably.

As the matter has yet to proceed to Court, the GHIL Entities and GHIL Representatives hope to negotiate with Privilege and/or PT MAM to settle the matter amicably. The GHIL Lawyers had expressed that they were not aware of any doctrine of intended beneficiary under Indonesian law in respect of the PT MAM Threat. The GHIL Lawyers are of the view that there are legal grounds for the GHIL 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 GHIL 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 GHIL Lawyers are not able to opine fully on the financial consequences to the GHIL Entities.

Meanwhile on 13 May 2009, GHIL 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 GHIL'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 GHILSYS;
- (iii) Return of all confidential information, trade secrets and/ or any other proprietary information belonging to Privilege that remain in GHIL's and/ or any other related party's custody;
- (iv) Provision of a written undertaking that GHIL does not have any confidential information, trade secrets and/ or proprietary information belonging to Privilege other than that which was returned, and that GHIL 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 remains of the view that the GHIL Entities have a good defence against such claims made by Privilege. The directors of GHIL are of the opinion that should this matter go to court, the GHIL Entities will vigorously defend its position.

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 earnings/(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.

Basic

		Current Quarter <u>30.06.10</u>	Preceding Year Corresponding Quarter <u>30.06.10</u>	Current Year To Date <u>30.06.10</u>	Preceding Year Corresponding Period <u>30.06.10</u>
Net loss attributable to equity holders of the parent	(RM)	<u>(2,641,936)</u>	<u>(2,406,344)</u>	<u>(2,472,005)</u>	<u>(5,573,593)</u>
Weighted average number of ordinary shares in issue and issuable	(Unit)	<u>147,678,350</u>	<u>144,968,352</u>	<u>146,560,257</u>	<u>145,205,258</u>
Basic loss per share	(Sen)	<u>(1.79)</u>	<u>(1.66)</u>	<u>(1.69)</u>	<u>(3.84)</u>

Diluted

		Current Quarter <u>30.06.10</u>	Preceding Year Corresponding Quarter <u>30.06.10</u>	Current Year To Date <u>30.06.10</u>	Preceding Year Corresponding Period <u>30.06.10</u>
Net loss attributable to equity holders of the parent	(RM)	<u>(2,641,936)</u>	<u>(2,406,344)</u>	<u>(2,472,005)</u>	<u>(5,573,593)</u>
*Weighted average number of ordinary shares in issue and issuable	(Unit)	<u>147,678,350</u>	<u>144,968,352</u>	<u>146,560,257</u>	<u>145,205,258</u>
Diluted loss per share	(Sen)	<u>(1.79)</u>	<u>(1.66)</u>	<u>(1.69)</u>	<u>(3.84)</u>

*The number of shares exercised under ESOS was not taken into account in the computation of diluted earnings per shares because the effect on the basic loss per share is antidilutive.

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.