



**GHL SYSTEMS BERHAD**  
(Company No. 293040-D)

**Quarterly report on consolidated results for the second quarter ended 30 June 2011**

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

**B1. Review of Performance**

For the current quarter ended 30 June 2011, the Group recorded revenue of RM17.03 million, representing an increase of approximately 30.90% as compared to RM13.01 million achieved in the preceding year's corresponding quarter ended 30 June 2010. The increase was mainly attributable to the higher sales in the local and overseas markets during the current quarter under review. The profit before taxation of RM0.13 million of the Group for the current quarter under review is an improvement from the loss before taxation of RM2.64 million in the preceding year's corresponding quarter ended 30 June 2010. The increase in revenue and profit before taxation are mainly attributed to higher sales in monthly service rental, maintenance, sales of hardware, software and cards in local and overseas markets during the quarter under review as compared to preceding year corresponding quarter.

For the six (6) months period ended 30 June 2011, the Group registered revenue of RM32.59 million, which is 24.15% higher than RM26.25 million achieved in the previous corresponding period, mainly due to the higher sales in the local and overseas markets during the period. Correspondingly, the Group recorded profit before taxation of RM0.66 million as compared to the loss before taxation of RM2.47 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**

	<b><u>Current Quarter</u></b> <b><u>ended 30 June 2011</u></b> <b>RM'000</b>	<b><u>Preceding Quarter</u></b> <b><u>ended 31 March 2011</u></b> <b>RM'000</b>
Revenue	17,032	15,560
Profit Before Tax	130	526

For the current quarter under review, the Group's revenue increased by approximately 9.46% to RM17.03 million, as compared to RM15.56 million reported in the preceding quarter ended 31 March 2011 mainly due to higher sales in monthly service rental, hardware and software during the current quarter. However, the Group reported profit before taxation of RM0.13 million as compared to profit before taxation of RM0.53 million in the preceding quarter. The lower profit before taxation was due to sales mix composition with lower margin in the current quarter as compared to preceding quarter.

**B3. Current Year's Prospects**

The Board of Directors of GHL (“Board”) is cognizant of the current challenging environment locally and overseas. Therefore, the Board is undertaking a comprehensive review of its overall business operations with a view to enhance its business model and bring the Group towards better performance in the future.

**B4. Profit forecast and Profit Guarantee**

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

**B5. Taxation**

	<b>Current Quarter <u>30.06.11</u> RM</b>	<b>Preceding Year Corresponding Quarter <u>30.06.10</u> RM</b>	<b>Current Year To Date <u>30.06.11</u> RM</b>	<b>Preceding Year Corresponding Period <u>30.06.10</u> RM</b>
Tax expenses	-	3,401	-	3,401

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**

There were no corporate proposals announced and not completed as at the date of this report.

**B9. Group Borrowings and Debt Securities**

The Group’s borrowings and debt securities as at 30 June 2011 are as follows:-

**(a) Bank Borrowings**

	<b>Total Secured Term Loan RM</b>
Repayable within twelve months	208,657
Repayable more than twelve months	2,464,838
	<b>2,673,495</b>

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 13 May 2011 is 6.60% pa.

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

The portion of the bank borrowings due within one (1) year is classified as current liabilities.

The Group does not have any foreign currency denominated bank borrowings as at 30 June 2011.

(b) **Hire Purchase**

	<b>Total Hire Purchase RM</b>
Repayable within twelve months	399,324
Repayable more than twelve months	92,436
	<b>491,760</b>

The hire purchase payables of the Group as at 30 June 2011 are for the Group’s motor vehicles. The portion of the hire purchase due within one (1) year is classified as current liabilities.

**B10. Realised and Unrealised Profits/Losses**

	Current Quarter As at 30.06.11	Immediate Preceding Quarter As at 31.03.11
	RM	RM
Total accumulated losses of the Company and subsidiaries:-		
- Realised	(27,544,914)	(27,574,931)
- Unrealised	(429,780)	(529,917)
	(27,974,694)	(28,104,848)
Less: Consolidation adjustment	18,859,836	18,859,836
<b>Total group retained</b>	<b>(9,114,858)</b>	<b>(9,245,012)</b>

**B11. 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.

## **B12. 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 GHL Lawyers to Privilege Lawyers and that GHLI remained open to meeting with PT MAM to resolve matters amicably.

As the matter has yet to proceed to Court, the GHL Entities and GHL Representatives hope to negotiate with Privilege and/or PT MAM to settle the matter amicably. The GHL 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 GHL Lawyers are of the view that there are legal grounds for the GHL 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 GHL 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 GHL Lawyers are not able to opine fully on the financial consequences to the GHL Entities.

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

- (b) Payment Processing Corporation ("PPC") had entered into a Memorandum of Agreement ("MOA") with GHLSYS Philippines, Inc. ("GHLP") wherein the former sold and transferred to the latter its merchant acquiring business and the management of its merchant portfolio, the purchase price of which is to be paid in 48 equal monthly installments every 15<sup>th</sup> of the month through a revenue-sharing scheme. PPC claims that payments are delayed, there were unauthorized deductions such as withholding tax and value added tax and there was unreported revenue which caused it to lose substantial income.

A Writ of Summons (“Summons”) dated 25 April 2011 filed by PPC was served to the GHLP’s office address at the 16<sup>th</sup> Floor, BA Lepanto Condominium, 8747 Paseo de Roxas Avenue, Makati City on 10 May 2011.

PPC prays for the compliance with the MOA as indicated in (i) to (vii) below and the payment of the amount as indicated in (viii) to (x) below:

- (i) pay PPC the correct amount of share in the revenues (within 15 days of the following month of the transaction) based on the formula under the MOA;
- (ii) refund to PPC the withholding tax of Peso 602,860.81 (equivalent to approximately RM42,045 based on the exchange rate dated 12 May 2011 of Peso 100 : RM6.9742);
- (iii) include manual transactions of merchants belonging to the Merchant Portfolio in computing for PPC’s share in the Revenues;
- (iv) provide PPC with the correct accounting of revenues derived from the Merchant Portfolio;
- (v) stop making unauthorised deductions from PPC share in revenues such as withholding taxes, value added taxes and other tax penalties;
- (vi) pay PPC the stipulated late payment of PPC share in revenue as of 3 March 2011 of Peso 86,577.85 (equivalent to approximately RM6,038);
- (vii) pay PPC the stipulated overdue interest from unreported share in revenues at the rate of 12% from due date of payment;
- (viii) to pay PPC additional exemplary damages of Peso 500,000.00 (equivalent to approximately RM34,871);
- (ix) to pay PPC’s attorney’s fees of Peso 250,000.00 (equivalent to approximately RM17,436); and
- (x) to pay PPC’s litigation expenses of Peso 100,000.00 (equivalent to approximately RM6,974).

GHLP is given fifteen (15) days within which to file its Answer to the Complaint wherein defenses will be raised. In the Answer, counter claims may also be filed if it is proven that PPC filed this case merely to harass.

On 2 June 2011, GHLP, through its Philippines Counsel, Fortun Narvasa and Salazar Law Offices, filed an Omnibus Motion, asking the Court to issue an Order:

- a. Requiring PPC to file with the Court and to furnish GHLP copies of page 7 of Annex C-1 and page 3 of Annex E-1 of the Complaint; and
- b. Ordering PPC to file or submit a bill of particulars or a more definite statement of its claim.

On 8 June 2011, the Omnibus Motion was heard and PPC was given fifteen (15) days within which to answer said pleading. While PPC addressed the first item requested in its Comment, it opposed the motion for bill of particulars.

To date, the Court has yet to rule on GHLP' Omnibus Motion. Should the Court grant the motion, PPC has ten (10) days from notice to prepare a more definitive complaint. After the service of the bill of particulars or a more definitive pleading, or after notice of denial of the motion, GHLP has six (6) days within which to file its Answer, the period to which it is entitled to file such at the time of filing of the motion. The Answer is being finalized sans the details requested from PPC.

The Board is of the view that the GHLP have a good defence against such claims made by PPC and GHLP will vigorously defend its position.

(c) GHL (Thailand) Co. Ltd. (“GHLT or “Plaintiff””) had served on Global Icare Corporation Co. Ltd. (“Global or “Defendant”), a Statement of Claim and Writ of Summons on 22 May 2011 to claim the following:-

- (i) The Defendant shall pay the amount of 16,824,394.41 Baht (equivalent to approximately RM1,670,780 based on the exchange rate dated 1 June 2011 of Baht 100 : RM9.9307) and the interest calculated from the date of filling onward at 15% from principal amount of 16,367,469.24 Baht (equivalent to approximately RM1,625,404) per year, until the Defendant complete the payment requested by the Plaintiff; and
- (ii) The Defendant shall be responsible for all the court fees and attorney fees.

There is no representative at court on behalf of Global on the Assize of the Southern Bangkok Civil Court on 4 July 2011. Therefore, the judge decided to postpone court hearing date to 19 August 2011 at 9.00 am. Meanwhile representatives of both GHLT and Global will continue to meet to attempt to resolve the matters amicably until the forth coming hearing.

### **B13. Dividend Proposed**

There was no dividend declared during the quarter under review.

### **B14. Earnings Per Share**

#### **a) Basic earnings per share**

The basic earnings per share is calculated by dividing the net profit 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 per share**

For the purpose of calculating diluted earnings per share, the net profit 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.

<b><u>Basic</u></b>		<b>Current Quarter <u>30.06.11</u></b>	<b>Preceding Year Corresponding Quarter <u>30.06.10</u></b>	<b>Current Year To Date <u>30.06.11</u></b>	<b>Preceding Year Corresponding Period <u>30.06.10</u></b>
Net profit attributable to equity holders of the parent	(RM)	130,154	(2,641,936)	655,951	(2,472,005)
Weighted average number of ordinary shares in issue and issuable	(Unit)	142,280,297	147,678,350	142,280,297	146,560,257
Basic earnings per share	(Sen)	0.09	(1.79)	0.46	(1.69)

<b><u>Diluted</u></b>		<b>Current Quarter <u>30.06.11</u></b>	<b>Preceding Year Corresponding Quarter <u>30.06.10</u></b>	<b>Current Year To Date <u>30.06.11</u></b>	<b>Preceding Year Corresponding Period <u>30.06.10</u></b>
Net profit attributable to equity holders of the parent	(RM)	130,154	(2,641,936)	655,951	(2,472,005)
*Weighted average number of ordinary shares in issue and issuable	(Unit)	142,280,297	147,678,350	142,280,297	146,560,257
Diluted earnings per share	(Sen)	0.09	(1.79)	0.46	(1.69)

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

**B15. 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.