



GHL SYSTEMS BERHAD 293040-D

capitalizing on opportunities annual report 2005



GHL SYSTEMS BERHAD
293040-D

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Block C, Jalan Dataran SD 1, Dataran SD, PJU 9,
Bandar Seri Damansara, 52200 Kuala Lumpur
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annual report 2005



GHL SYSTEMS BERHAD
293040-D
Incorporated in Malaysia

Cover Rationale



capitalizing on opportunities

We recognize that opportunities unseized are as good as having none at all. Therefore, in view of the various developments in the regional and international arena, we are putting in place the appropriate strategies to effectively capitalize on each open prospect, to help GHL Systems grow from strength to strength each year.

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Corporate Information

Board of Directors

- **Tunku Dato' Abdul Malek bin Tunku Kassim**, *Independent Non-Executive Chairman*
- **Tay Beng Lock**, *Group Managing Director*
- **Yeng Fook Hoo**, *Deputy Group Managing Director*
- **Chin Fook Kheong**, *Group Finance Director*
- **Tajuddin bin Atan**, *Non-Independent Non-Executive Director*
- **Goh Kuan Ho**, *Non-Independent Non-Executive Director*
- **Yen Siw Kuin**, *Independent Non-Executive Director*
- **Chong Teck Foh**, *Independent Non-Executive Director*
- **Mohd Ariffin bin Marzuki**, *Alternate Director to En. Tajuddin bin Atan*

Company Secretaries

- Chin Fook Kheong (MIA 12596)
- Lim Lay Fong (MAICSA 7007624)

Audit Committee

- Yen Siw Kuin
- Chong Teck Foh
- Tunku Dato' Abdul Malek bin Tunku Kassim

Auditors

Anuarul Azizan Chew & Co
18 Jalan 1/64,
Off Jalan Kolam Air/
Jalan Ipoh,
51200 Kuala Lumpur

Registrar

Symphony Share Registrars Sdn Bhd
Level 26,
Menara Multi Purpose, Capital Square,
8 Jalan Munshi Abdullah
50100 Kuala Lumpur

Legal Advisors

Rajah, Lau & Associates
B-13-13, Block B,
13th Floor, Unit 13,
Megan Phileo Avenue,
12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tan Eng Choong & Co
23, Jalan Pudu Lama, Bukit Mahkamah,
50200 Kuala Lumpur

Wong Beh & Toh
Level 12, West Block, Wisma Selangor Dredging,
142-C, Jalan Ampang,
50450 Kuala Lumpur

Sponsor

AmMerchant Bank Bhd
22nd Floor,
Bangunan AmBank Group,
55 Jalan Raja Chulan, 50200 Kuala Lumpur
Tel: 603-2078 2633/44/55
Fax: 603-2078 8596 / 603-2032 4814

Principal Bankers

- Affin Bank Berhad
- Alliance Bank Berhad
- AmBank Berhad
- Malayan Banking Berhad
- RHB Bank Berhad

Registered Office

20C, Jalan 1/64, Off Jalan Kolam Air/Jalan Ipoh,
51200 Kuala Lumpur
Tel: 603-4041 7403
Fax: 603-4043 2309

Business Office

Unit L8 C-G-15
Block C, Jalan Dataran SD 1,
Dataran SD, PJU 9,
Bandar Seri Damansara,
52200 Kuala Lumpur
Tel: 603-6286 3388
Fax: 603-6280 2999
Email: kl@ghl.com

Stock Information

MESDAQ Market of Bursa Malaysia Securities Bhd
(BMSB)
BMSB Code: 0021
Reuters Code: GHLS.KL
Bloomberg Code: GHLS MK
Website: www.ghl.com
IR Channel: <http://ir.wallstraits.net/ghl>



NOTICE IS HEREBY GIVEN THAT the Twelfth Annual General Meeting of the Company will be held at Cempaka-Raya Room, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on 26 May 2006, Friday, at 10.00 a.m. for the purpose of transacting the following businesses:

AGENDA

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2005 together with the Reports of the Directors and Auditors thereon. (Resolution 1)
2. To re-appoint Tunku Dato' A Malek bin Tunku Kassim as a Director of the Company and to hold office until the conclusion of the next Annual General Meeting of the Company in accordance with Section 129(6) of the Companies Act, 1965. (Resolution 2)
3. To re-elect as a Director, Mr. Chong Teck Foh, who retires pursuant to Article 127 of the Company's Articles of Association. (Resolution 3)
4. To re-elect as a Director, Mr. Chin Fook Kheong, who retires pursuant to Article 127 of the Company's Articles of Association. (Resolution 4)
5. To re-elect as a Director, En. Tajuddin bin Atan, who retires pursuant to Article 132 of the Company's Articles of Association. (Resolution 5)
6. To approve the Directors' fees and remuneration as disclosed in the audited financial statements for the financial year ended 31 December 2005. (Resolution 6)
7. To re-appoint Messrs. Anuarul Azizan Chew & Co. as Auditors of the Company and to authorize the Directors to fix their remuneration. (Resolution 7)

As Special Business:

To consider and, if thought fit, to pass the following Ordinary Resolution:

8. **Authority to Directors to Allot and Issue Shares** (Resolution 8)
"That pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorized to issue shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares to be issued does not exceed 10% of the issued share capital of the Company for the time being, subject always to the approval of all the relevant regulatory bodies having been obtained for such allotment and issue."
9. To transact any other business of the Company for which due notice shall have been given.

BY ORDER OF THE BOARD

Chin Fook Kheong (MIA 12596)
Lim Lay Fong (MAICSA 7007624)
Company Secretaries

Kuala Lumpur
4 May 2006



NOTES ON APPOINTMENT OF PROXY

1. A member entitled to attend and vote at the general meeting is entitled to appoint up to two (2) proxies to attend and vote in his place. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 ("Act") shall not apply to the Company.
2. The Form of Proxy must be signed by the appointor or his attorney duly authorised in writing or in the case of a corporation, be executed under its common seal or under the hand of its attorney duly authorised in writing.
3. If the Form of Proxy is returned without any indication as to how the proxy shall vote, the proxy will vote or abstain as he thinks fit.
4. Where a member appoints two (2) proxies, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each Securities Account which is credited with ordinary shares of the Company.
5. The Form of Proxy or other instruments of appointment must be deposited at the Registered Office of the Company at 20-C, Jalan 1/64, Off Jalan Kolam Air/Jalan Ipoh, 51200 Kuala Lumpur at least 48 hours before the time fixed for holding the meeting or any adjournment thereof, or in the case of a poll, at least 24 hours before the time appointed for the taking of the poll.

EXPLANATORY NOTES ON SPECIAL BUSINESS

Resolution 8: Authority to Directors to Allot and Issue Shares

The Proposed Resolution 8, if passed, would enable the Directors to issue shares up to an amount not exceeding 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied by the Company at a General Meeting, will expire at the next Annual General Meeting.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

The Directors who are standing for re-election at the Twelfth Annual General Meeting of the Company are:-

Tunku Dato' A Malek bin Tunku Kassim	Section 129(6) Companies Act 1965	(Resolution 2)
Mr. Chong Teck Foh	Article 127	(Resolution 3)
Mr. Chin Fook Kheong	Article 127	(Resolution 4)
En. Tajuddin bin Atan	Article 132	(Resolution 5)

The profile of the Directors standing for re-election for Resolutions 2, 3, 4 and 5 are shown on pages 15 and 16 of the Annual Report 2005. The securities holdings of the abovenamed Directors in the Company or its related corporations are disclosed in the Directors report on page 30 of the aforesaid Annual Report.

The details of the Directors' attendance for Board Meetings are disclosed in the Corporate Governance Statement.

The Twelfth Annual General Meeting of the Company will be held at Cempaka-Raya Room, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on Friday, 26 May 2006, at 10.00 a.m.



GHL Systems Berhad is a leading end-to-end payment services enabler in the region. Headquartered in Kuala Lumpur, Malaysia, GHL Systems provides customers with world-class payment infrastructure, technology and services.

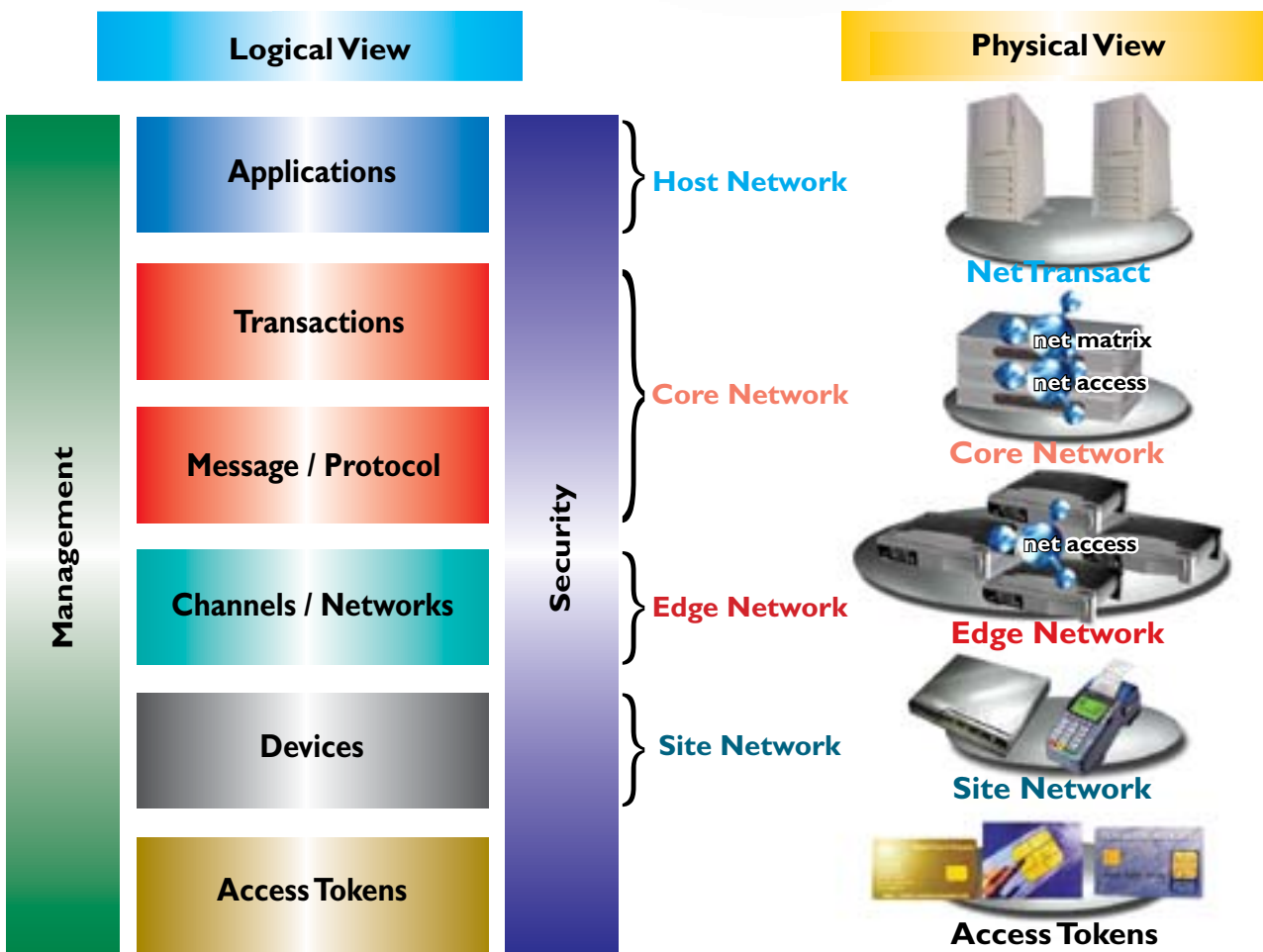
Established in 1994, GHL Systems is listed on the MESDAQ Market of Bursa Malaysia Securities Berhad. Over the years, the Group has developed an integrated business model incorporating the provision of end-to-end payment services, from EuroPay-Mastercard-Visa ("EMV") standard chip cards to banks, stored-value, loyalty and contactless card solutions, to network access controllers (NACs) designed for acquirer banks and financial institutions.

GHL Systems' customer portfolio includes local and global players in a wide range of industries, such as banking and insurance, retail petroleum, budget airlines, toll reload operator, loyalty program players, and large retail stores.

GHL Systems is proud to be the leading player in the EMV migration for banks in Malaysia - thus playing a pivotal role in assisting Malaysia in becoming one of the first fully EMV - compliant countries in the world.

VISION AND MISSION

*To be the leading
end-to-end payment services enabler
by deploying world-class
payment infrastructure, technology
and services*





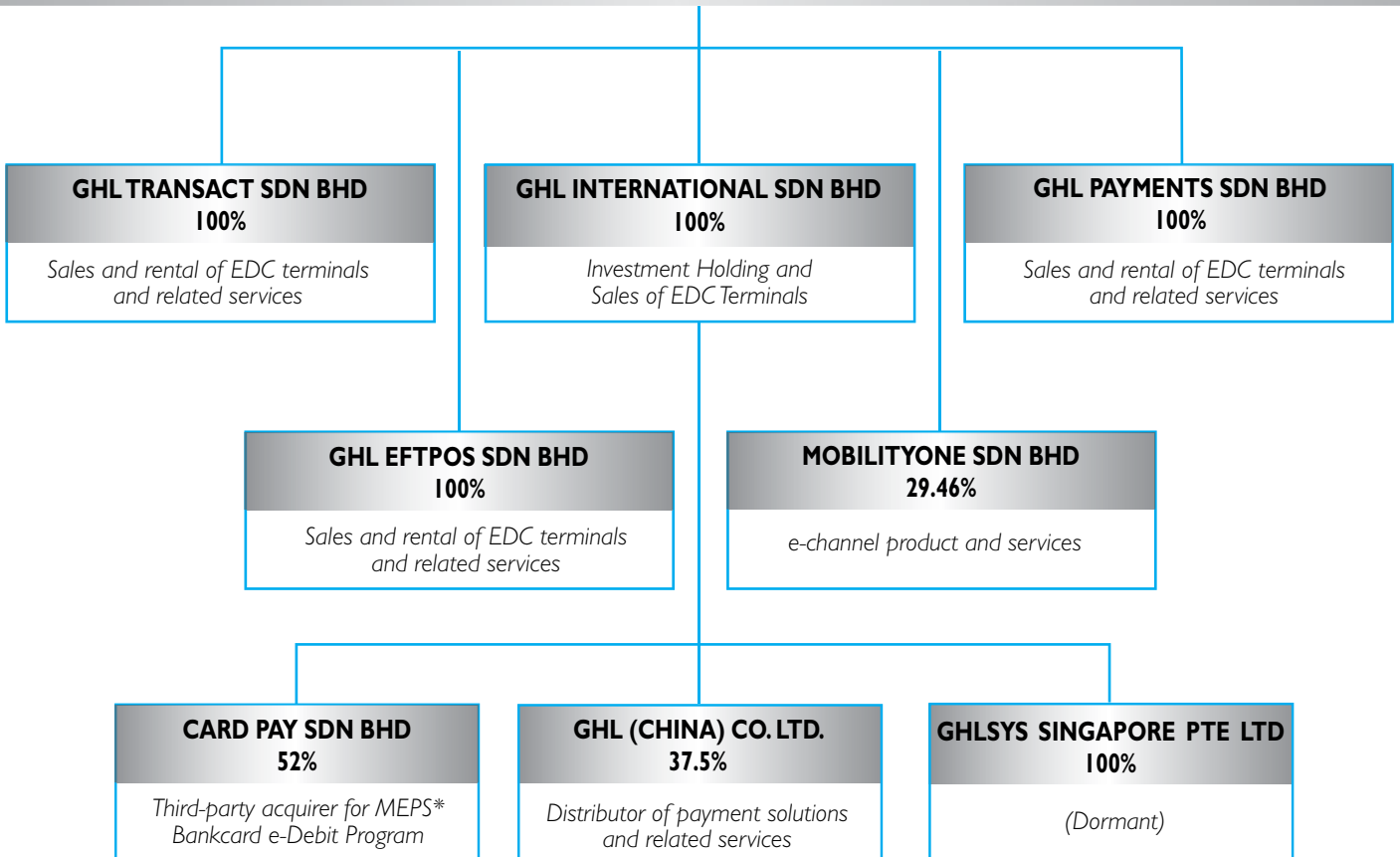
Corporate Structure

As at 31 March 2006



GHL SYSTEMS BERHAD
293040-D

Development and sales of end-to-end payment solutions



* Malaysian Electronic Payment System (1997) Sdn Bhd



Financial Highlights

Summarized Group Income Statement

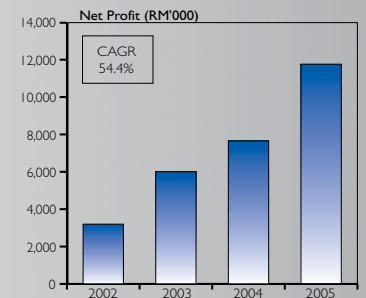
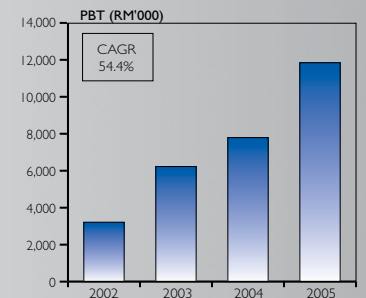
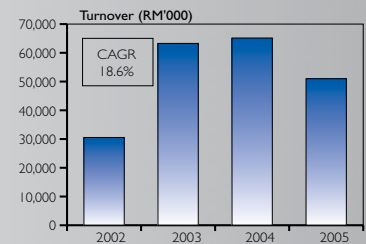
Year Ended (RM'000)	2002	2003	2004	2005
Turnover	30,545	63,268	65,153	50,992
Operating Profit	3,594	6,582	7,849	11,664
Profit Before Tax	3,215	6,227	7,793	11,843
Net Profit	3,198	6,003	7,652	11,760

Summarized Group Balance Sheet

Year Ended (RM'000)	2002	2003	2004	2005
Fixed Assets	14,064	14,136	23,571	40,697
Associated Company	391	23	-	4,368
Goodwill	1,624	1,624	1,744	1,744
	16,079	15,782	25,315	46,809
Current Assets	13,833	30,733	44,537	51,785
Current Liabilities	7,655	5,136	17,858	13,359
Net Current Assets	6,178	25,597	26,679	38,426
	22,257	41,379	51,994	85,235

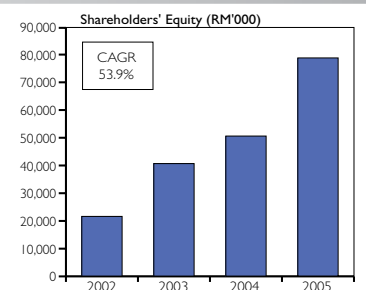
Financed By:

Share Capital	18,715	25,850	33,650	54,459
Share Premium	-	5,913	391	-
Reserves	2,919	8,922	16,574	24,338
Shareholders' Equity	21,634	40,685	50,616	78,797
Long-term Borrowings	79	-	413	5,473
Deferred Taxation	544	694	965	965
	623	694	1,378	6,438
	22,257	41,379	51,994	85,235



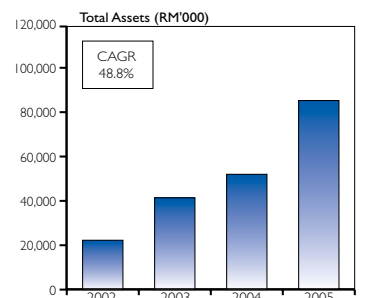
Summarized Group Cash Flows

Year Ended (RM'000)	2002	2003	2004	2005
Operating Profit Before Working Capital Changes	7,081	13,548	11,575	17,831
Net Cash Flows From Operating Activities	2,619	3,873	3,658	18,450
Net Cash Flows From Investing Activities	(6,098)	(7,252)	(11,486)	(27,303)
Net Cash Flows From Financing Activities	4,718	12,809	(687)	22,483
Net Increase in Cash and Cash Equivalents	1,240	9,431	(8,514)	13,631
Cash and Cash Equivalents at Beginning of Year	1,662	2,902	12,333	3,818
Cash and Cash Equivalents at End of Year	2,902	12,333	3,818	17,449



Financial Analysis

Year Ended (RM'000)	2002	2003	2004	2005
Turnover Growth	-	107.1%	3.0%	-21.7%
Operating Profit Growth	-	83.1%	19.2%	48.6%
Profit Before Tax Growth	-	93.7%	25.2%	52.0%
Net Profit Growth	-	87.7%	27.5%	53.7%
Operating Profit Margin	11.8%	10.4%	12.0%	22.9%
Pre-tax Profit Margin	10.5%	9.8%	12.0%	23.2%
Net Profit Margin	10.5%	9.5%	11.7%	23.1%

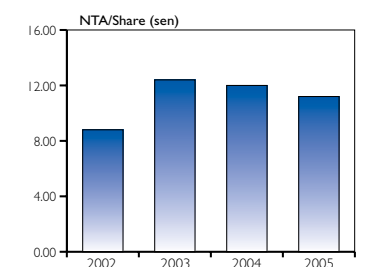


Total Assets	29,912	46,515	69,852	98,594
Total Borrowings/Equity Ratio	Net Cash	Net Cash	Net Cash	Net Cash
Cash and Cash Equivalents	2,902	12,333	7,918	20,649
ROE (Average Equity)	19.4%	19.3%	16.8%	18.2%
ROA (Average Total Assets)	12.2%	15.7%	13.2%	14.0%
NTA Per Share (Sen)	10.69	15.11	14.52	14.15
Net Earnings Per Share (Sen)*	2.09	2.54	2.30	2.76
Weighted Avg No. of Shares#	152.67	236.61	332.60	426.17

* Not adjusted for changes in share capital

Ordinary shares of RM0.10 each ('million)

CAGR = Compounded Annual Growth Rate





Financial Highlights (Cont'd)

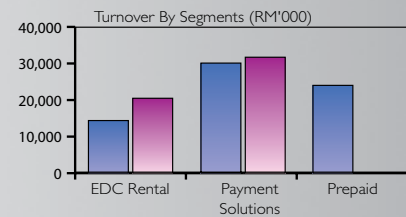
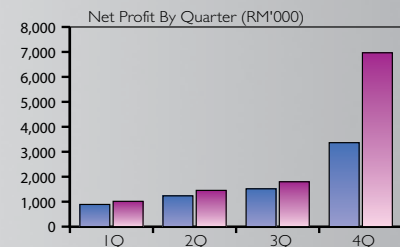
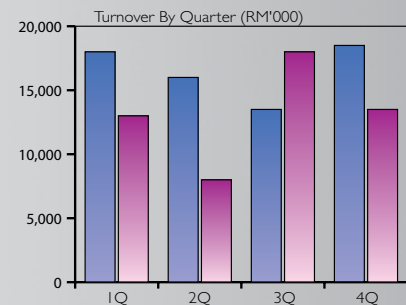
Quarterly Analysis

Year Ended (RM'000)	2004	2005	% Chg
Turnover			
1st Quarter	17,722	12,291	-30.6%
2nd Quarter	16,767	8,206	-51.1%
3rd Quarter	12,155	18,083	48.8%
4th Quarter	18,509	12,411	-32.9%
	65,153	50,992	-21.7%
Net Profit			
1st Quarter	729	1,017	39.6%
2nd Quarter	1,283	1,607	25.3%
3rd Quarter	1,755	2,123	21.0%
4th Quarter	3,886	7,013	80.5%
	7,652	11,760	53.7%

Segmental Analysis

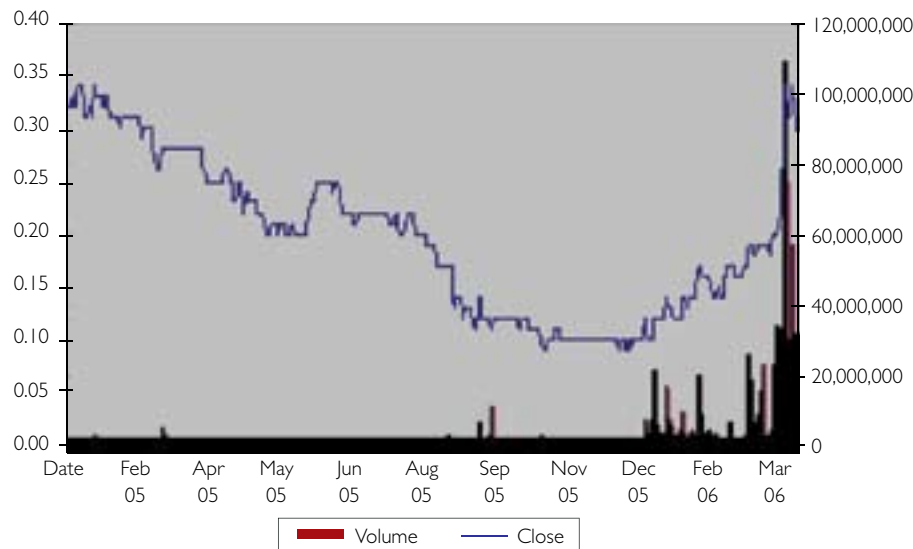
Year Ended (RM'000)	2004	2005	% Chg
EDC Rental	13,732	19,595	42.7%
Payment Solutions	30,053	31,396	4.5%
Prepaid	21,368	-	-100.0%
	65,153	50,992	-21.7%

Legend
2004 2005



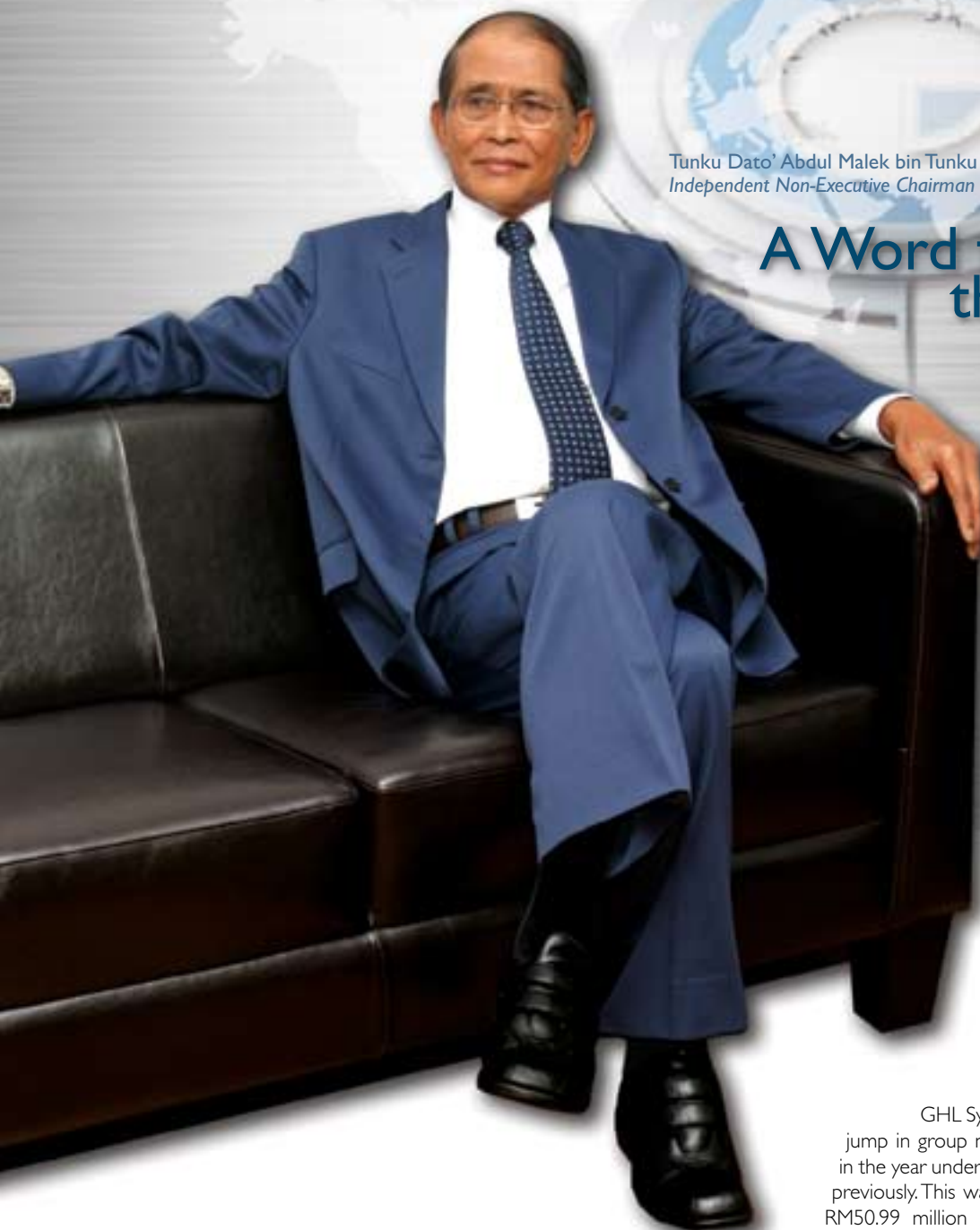
Share Information

Price



Share Capital Changes and Dilution

Date	Capital Exercise	Change in Number of Shares	Total Number of Shares @RM0.10 each
9 April 2003	IPO Exercise	63,000,000	250,151,780
12 months to 31 December 2003	ESOS Exercise	835,200	258,503,780
10 June 2003	1-for-4 Bonus Issue	66,971,570	325,475,350
12 months to 31 December 2004	ESOS Exercise	11,027,500	336,502,850
3 months to 31 March 2005	ESOS Exercise	3,868,250	340,371,100
26 October 2005	3-for-5 Rights Issue at 10 sen/share	204,222,660	544,593,760



Tunku Dato' Abdul Malek bin Tunku Kassim,
Independent Non-Executive Chairman

A Word from the Chairman

The Group has continued to chart an impeccable financial track record over the years...and by capitalizing on opportunities open to us, we are optimistic on our prospects moving into 2006 and beyond.

Dear Shareholders,

The Board of Directors of GHL Systems Berhad is pleased to inform you that the Group made outstanding progress in 2005, leading to its sterling performance for the year ended 31 December 2005 ("FY2005").

Achieving Continued Growth

GHL Systems recorded an impressive 53.7% jump in group net profit, achieving RM11.76 million in the year under review, compared to RM7.65 million previously. This was on the back of group revenue of RM50.99 million in FY2005, compared to RM65.15 million in FY2004.

Consequently, net margins in FY2005 leaped nearly two-fold to 23.1% from 11.7% in the year preceding. This reflects the better product mix achieved in the year under review, with increased sales of higher-margin solutions.

Taking into consideration that the revenue recorded in FY2004 included the RM21.37 million derived from the deconsolidated prepaid business, the remaining divisions consisting of Electronic Draft Capture ("EDC") Pool and Payment Solutions effectively contributed RM43.78 million in 2004. Thus, in absolute terms, group revenue increased from RM43.78 million to RM50.99 million in 2005, showing an improvement of 16.5%.

From the larger perspective, the Group has continued to chart an impeccable financial track record over the years, with its net profit growing at a commendable average rate of 54.4% per year from 2002 to 2005, while revenue (excluding the prepaid segment) registered annual growth of 35.0% in the same period.



A Word from the Chairman (Cont'd)

Moving on to the Group's balance sheet, shareholders' funds stood at RM78.80 million as at 31 December 2005, compared to RM50.62 million as at end of the preceding year. This amount takes into account the RM16.34 million in gross proceeds raised through the Group's two-call 3-for-5 rights issue exercise in October 2005. Of the RM16.34 million, RM15.79 million was allocated for working capital purposes, while the remaining RM0.55 million was paid as expenses related to the exercise. To date, proceeds earmarked for working capital have yet to be utilized. The Group's balance sheet is healthy, with cash and cash equivalents of RM20.65 million, and total borrowings of RM7.41 million.

The Group increased its return on average shareholders' equity from 16.8% in FY2004 to 18.2% in FY2005, while return on average assets improved to 14.0%. These ratios indicate the enhanced efficiency in the utilization of the Group's resources.

What makes this financial performance more remarkable is that it was achieved despite the dismal economic climate regionally and internationally in 2005. Global occurrences that influenced the health and sentiment of the Asian economies included the upward price trends for crude oil, the second outbreak of avian influenza, and terrorist attacks in London and Indonesia.

Making Continuous Progress

The dampened global climate, however, did not deter GHL Systems from making significant headway in sustaining the growth momentum of its business, in terms of both market and product development.

One of the Group's key corporate milestones in the year under review was the broadening of its local clientele base. We added into our EDC Pool a major local bank with the largest merchant network nationwide, and obtained merchant-acquiring rights from another leading local bank. We also successfully completed the first phase of delivery of payment solutions and Europay-Mastercard-Visa ("EMV") standard cards to Bank Simpanan Nasional, Malaysia's national savings bank – a deal worth RM19.9 million.

Not only do these achievements provide testimony to GHL Systems' ability to deploy payment solutions and services befitting industry requirements, but that also takes us to the leadership position in the payment services sector in Malaysia.

We also obtained new projects in the region, from the supply of EMV cards, to sales of back-end payment infrastructure, such as NetAccess, NetMatrix and NetMerchant. The Group is delighted at gaining access into these regional countries as it marks the first step into creating a firmer foothold in the international arena.

Indeed, the Group has begun establishing its presence overseas via the setting up of a joint venture company, GHL (China) Co. Ltd in Hong Kong, in which the Group holds a 37.5% stake through its fully-owned subsidiary GHL International Sdn Bhd.

Investing in R&D to Spearhead Growth

The Group's presence in the fast-moving and highly-competitive world of Information Technology has made it necessary for us to place a high premium on Research and Development ("R&D") initiatives, so as to enable us to continuously improve our existing payment solutions and create new payment technologies. As such, the Group invested RM3.1 million into R&D activities in FY2005, in line with its mission of developing innovative payment solutions to spearhead future growth.

Among the fruits of these R&D efforts was the development of the contactless reader – one of the 3 contactless readers in the world certified by Visa Wave. These contactless readers, designed to eliminate the need for the cardholder's signature when making purchases, were successfully sold to two leading banks in Malaysia, and adoption is anticipated to be encouraging, in view of the gradual acceptance of alternative hassle-free methods of payment by the Malaysian public and the Asia Pacific region.

Another new product rolled out in the year under review was MR. Kiosk, a self-vending machine targeted for highly-frequented neighborhood restaurants. An acronym for Multi-Reload Kiosk, MR.Kiosk is designed to enable consumers purchase prepaid airtime reloads, as well as pay for their purchases via Bankcard e-Debit. We have received positive feedback during the pilot launch, and we are anticipating greater adoption of the Bankcard e-Debit method of payment through MR.Kiosk.

This emphasis on constant product innovation and improvement has substantially helped GHL Systems maintain its competitive edge in the payment solutions industry. To this end, GHL Systems was conferred the D'ucoty Market Leadership Award by global industry research firm Frost & Sullivan, in collaboration with Cards Now! Asia, the region's leading publication on card payment. The Award was conferred based on four criteria: market share, revenue growth rates, profitability, and market and technology innovation. Undoubtedly, this award provides us the incentive to continue to strive to be innovative and develop cutting-edge payment solutions.

Through the years, GHL Systems has forged long-term alliances with international partners in line with our mission to provide world-class payment solutions to our portfolio of clients. These alliances were reinforced in the year under review, with the Group's certification as a Sagem Monetel's Partner/Value Added Reseller for Malaysia and the South East Asian region, as well as our inclusion in Verifone's President's Club in recognition of achievement of specific sales targets. We believe that the continuation of such partnerships of global standing would assist us in tapping further into the high-technology and business growth trend for the future.



A Word from the Chairman (Cont'd)

Corporate Social Responsibility

The Group takes its social obligation seriously, as part of its corporate responsibility initiatives. During the year under review, GHL Systems donated a Bankcard e-Debit facility to the Spastic Association of Federal Territory and Selangor – the second such donation to a non-profit charity organization. This donation is to give prominence to the convenience of the Bankcard e-Debit payments, and expand the usage of this payment method to include not just retail purchases but also charitable purposes as well.

Advancing Forward

Capitalizing on opportunities open to us, the Group is optimistic on its prospects moving into 2006 and beyond. We believe our growth will be driven by two factors: promising potential in the overseas markets, and sustained nurturing of the local market.

We intend to capitalize on the regional prospects that are open to us as a result of our initial awareness and maiden projects in targeted countries. For one thing, in view of the alarming rates of credit-card fraud in the region, neighboring countries are turning their systems to adopt the EMV standards to create a more secure payment environment. We see these developments as opportunities to equip the respective countries with the necessary infrastructure required to enable them achieve their goal.

In addition, the Group is implementing strategies that would help it grow its presence across the region, either through the setting up of joint venture companies, development of strategic alliances, or operation of a franchise program.

Locally, we will remain committed to developing the payment industry further via the provision of EMV-compliant infrastructure in order to fully equip the banks' systems following its migration in 2005. To this end, I am pleased to report that the Group recently secured the extension of the BSN contract. We hope that this project would be a good reference point for the expansion of our customer base.

We are also actively exploring the development of strategic partnerships with banks on merchant-acquiring activities, which would help the Group generate a steady and higher revenue stream from rental income as well as transaction-based fees.

We will intensify our marketing efforts domestically to enhance our leading position in payment solutions, infrastructure and services, as well as continue to invest in R&D to enhance our end-to-end payment solutions in order to compete effectively in the local and regional arenas.

Overall, the Group is confident of maintaining the growth momentum in the years to come, and by this, create more value for our shareholders and other stakeholders.

I am also pleased to announce that the Group has, on 31 March 2006, made an announcement to Bursa Malaysia Securities Berhad (Bursa Malaysia) to transfer the Company's listing status to the Main Board of Bursa Malaysia, from the MESDAQ Market presently. At the same time, the Company has also proposed a 1-for-10 Bonus Issue, and 5-to-1 Share Consolidation Exercise to consolidate five ordinary shares of RM0.10 each into one ordinary share of RM0.50 each.

The completion of the Proposed Bonus Issue and Proposed Share Consolidation Exercises would enable the Company to meet the Bursa Malaysia requirements for listing on the Main Board. The proposed exercises would effectively result in the issued and paid-up share capital of the Company to increase to at least RM60,662,895 comprising 121,325,790 Consolidated Shares of RM0.50 each, compared with the current share capital of RM55,148,086 comprising 551,480,860 Shares of RM0.10 each.

We believe that the proposed transfer to the Main Board of Bursa Malaysia will positively reflect on the current level of our operations, and will thus position us favorably among our stakeholders, including bankers, customers, suppliers, and the investment community.

Corporate Governance

The Board believes in maintaining high standards of corporate governance practices within the Group, as this is a fundamental aspect in discharging our responsibilities to protect and maximize shareholders' value, and enhance the business prosperity of the Group. The measures implemented are highlighted in the Corporate Governance Statement in this Annual Report.

Appreciation

At this juncture, on behalf of the Board of GHL Systems, I would like to acknowledge my appreciation to all our employees who have worked hard to drive the Group's growth forward in the past year. A word of thanks also to our valued customers, shareholders, merchants and business associates in the nation and region, for their continuous support for GHL Systems. Together, we look forward to the Group's brighter future ahead.

Tunku Dato' Abdul Malek bin Tunku Kassim,

Independent Non-Executive Chairman
17 April 2006