3. INTRODUCTION AND DETAILS OF THE ISSUE

3.1. Introduction

This Prospectus is dated 6 March 2003.

Approval has been obtained from the SC on 12 November 2002 for the Issue and from the KLSE on 15 November 2002 for admission to the Official List of the MESDAQ Market, and for the listing of and quotation for the entire issued and paid-up share capital of GHL Systems including the Issue Shares which are the subject of this Prospectus. These Shares will be admitted to the Official List of the MESDAQ Market and official quotation will commence upon receipt of confirmation from MCD that all the CDS accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all the successful applicants. The KLSE and the SC assume no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus. Admission to the MESDAQ Market is not to be taken as an indication of the merits of the Company and its subsidiary companies or of its Shares.

Under the KLSE's trading rules, effective from the date of listing, trading in all KLSE listed securities can only be executed through an ADA.

A copy of this Prospectus has been lodged with the Chief Executive Officer of the Companies Commission of Malaysia and registered with the SC who takes no responsibility for its contents.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, the KLSE has prescribed the Shares of the Company as a prescribed security. In consequence thereof, the Issue Shares offered through this Prospectus will be deposited directly with the MCD and any dealings in these Shares will be carried out in accordance with the aforesaid Act and the Rules of MCD.

An applicant for the Issue Shares should state his CDS account number in the space provided in the Application Form if he presently has such an account. Where an applicant does not presently have a CDS account, he should state in the Application Form his preferred ADA Code.

The written consents of the Adviser, Sponsor, Managing Underwriter and Placement Agent, Underwriters, Solicitors, Principal Bankers, Issuing House, Registrars and the Company Secretaries to the inclusion in this Prospectus of their names in the form and context in which their names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn.

The written consent of the Auditors and Reporting Accountants to the inclusion in this Prospectus of their name, Accountants' Report, and letter relating to the Pro-forma Consolidated Balance Sheets in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of KPMG Consulting Sdn. Bhd. to the inclusion in this Prospectus of its name and the extract from its Software Business Evaluation Report dated 27 August 2002 in the form and context in which its name and the said extract appear in this Prospectus, has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of Colliers, Jordan Lee & Jaafar Sdn. Bhd. to the inclusion in this Prospectus of its name and the reference to its Valuation Report dated 23 August 2002 on the market rental in respect of the Group's premises at Nos. 37, 39 and 41, Cangkat Bukit Bintang, 50200 Kuala Lumpur, in the form and context in which its name and the reference to the Valuation Report appear in this Prospectus, has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of CelNX International Ltd **("CelNX")** to the inclusion in this Prospectus of its name, as a party to an agreement dated 28 October 2002 between GHL Systems and CelNX for the sale and purchase of the computer software known as 'GHL Prepaid Reload Software' **("Software")** and the intellectual property rights attached to the Software together with related assets, and information quoted from the aforementioned agreement, in the form and context in which its name and the said information appear in this Prospectus, has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of SAGEM SA **("Sagem")** to the inclusion in this Prospectus of its name, as a party to the SAGEM SA Value Added Reseller Agreement No. DDS78/MON0206012 dated 16 October 2002 entered into between GHL EFTPOS and Sagem, and information quoted from the aforementioned agreement, in the form and context in which they are contained in this Prospectus, has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of MIMOS Berhad **("MIMOS")** to the inclusion in this Prospectus of its name, as a party to the Non-Disclosure Agreement dated 10 August 2001 and the Distributorship Agreement dated 21 January 2003 entered into between GHL Systems and MIMOS, and information quoted from the aforementioned agreements, in the form and context in which they are contained in this Prospectus, has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of N-Blue Star Sdn. Bhd. **("N-Blue Star")** to the inclusion in this Prospectus of its name, as a party to three (3) Sale and Purchase of Shares Agreements dated 29 December 2001 entered into between GHL Systems and N-Blue Star, and information quoted from the aforementioned agreements, in the form and context in which they are contained in this Prospectus, has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of RHB Bank Berhad **("RHB")** to the inclusion in this Prospectus of its name, as a party to an agreement dated 21 January 2003 entered into between GHL Transact and RHB, and information quoted from the aforementioned agreement, in the form and context in which they are contained in this Prospectus, has been given before the issue of this Prospectus and has not subsequently been withdrawn.

No person is authorised to give any information or to make any representation not contained herein in connection with the Issue and if given or made, such information or representation must not be relied upon as having been authorised by GHL Systems. Neither the delivery of this Prospectus nor any offer made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Group since the date hereof.

The distribution of this Prospectus and the sale of the Issue Shares in certain other jurisdictions may be restricted by law. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Issue in any jurisdiction in which such invitation is not authorised or lawful, or to any person to whom it is unlawful to make such an invitation.

If you are unsure of any information contained in this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

3.2. Purpose of the Issue

The purposes of the Issue are as follows:-

(a) To raise funds for the Group's continued operation and expansion, details of which are elaborated in Section 3.6 "Utilisation of Proceeds" below;

(b) To obtain the listing of and quotation for the entire issued and paid-up capital of GHL Systems on the MESDAQ Market, which is expected to enhance the business, profile and future prospects of the Group;

(c) To enable the Group to have access to the capital market for its future expansion and growth; and

(d) To provide an opportunity for the directors and employees of the Group to participate in the equity growth of the Group.

3.3. Particulars of the Issue

	RM
Issued and fully paid-up share capital:	
187,151,780 ordinary shares of RM0.10 each	18,715,178
To be issued pursuant to the Issue:	
63,000,000 ordinary shares of RM0.10 each	6,300,000
Enlarged capital upon listing	
250,151,780 ordinary shares of RM0.10 each	25,015,178
To be issued pursuant to full exercise of ESOS Options [a]	
25,015,000 ordinary shares of RM0.10 each	2,501,500
Enlarged capital upon full exercise of ESOS Options	
275,166,780 ordinary shares of RM0.10 each	27,516,678

Note:-

a *The ESOS will only be implemented i.e. the Options under the ESOS will only be offered to the eligible directors and employees of the Group, on the date of the Company's listing on the MESDAQ Market.*

There is only one (1) class of shares in the Company, namely ordinary shares of RM0.10 each. The Issue Shares shall rank pari passu in all respects with the existing issued Shares of the Company, including voting rights and rights to all dividends and distributions that may be declared, paid or made subsequent to the date of allotment thereof.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of Shares shall, in proportion to the amount paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of liquidation of the Company, such surplus to be distributed amongst the members in proportion to the capital paid-up at the commencement of the liquidation, in accordance with the Company's Articles of Association and the provisions of the Companies Act, 1965.

Each shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and, on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one (1) vote, and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each Share held. A proxy may but need not be a member of the Company.

The Issue of a total of 63,000,000 Shares at an Issue Price of RM0.20 per Share shall be subject to the terms and conditions of this Prospectus and, upon acceptance, will be allocated in the following manner:-

(a) 54,000,000 Issue Shares will be made available for application under the private placement;

(b) 1,000,000 Issue Shares will be made available for application under the public offer; and

(c) 8,000,000 Issue Shares will be made available for application by the eligible directors and employees of the Group, and other persons who have contributed to the success of the Group.

The Issue Shares under paragraphs (b) and (c) will be underwritten by the Underwriters in compliance with the Listing Requirements. The Placement Agent has received irrevocable undertakings from selected investors to take up the Issue Shares under paragraph (a) above. In the event of an under-subscription of the public offer, the unsubscribed public offer Shares may be made available for application under the private placement. Any Shares, which are made available for application by the eligible directors and employees of the Group, and other persons who have contributed to the success of the Group, which are not subscribed for, will be made available for application under the public offer and / or private placement. Any further Shares not subscribed for will be made available for subscription by the Underwriters in the proportions specified in the Underwriting Agreement dated 20 February 2003.

The Issue is for a total of 63,000,000 Shares at RM0.20 per Share. There is no minimum level of subscription in respect of the Issue.

3.4. Pricing of the Issue

Prior to the offering, there has been no public market for the Shares. The Issue Price of RM0.20 per Share was agreed between the Company and the Underwriters. Among the factors considered in determining the Issue Price, in addition to prevailing market conditions, were the Group's technology, estimates of business growth potential and revenue prospects for the Group, and an assessment of the Group's management.

The Issue Price of RM0.20 per Share represents a premium of RM0.08 or 62.41% over the pro-forma NTA per Share of the Group upon listing, based on the Pro-forma Consolidated Balance Sheet as at 31 October 2002.

3.5. Underwriting

The Underwriters mentioned herein have agreed to underwrite the Issue Shares which will be made available for application under the public offer, and by the eligible directors and employees of the Group, and other persons who have contributed to the success of the Group. The following are some of the salient clauses contained in the Underwriting Agreement dated 20 February 2003:-

"14. TERMINATION

14.1 Notwithstanding anything contained in this Agreement, the Underwriters and/or the Managing Underwriter (as the case may be) may by notice in writing to the Company given at any time before the Closing Date, terminate, cancel and withdraw their Underwriting Commitment if:

14.1.1 there is any breach by the Company of any of the representations, warranties or undertakings contained in Clause 11 (Representations, Warranties and Undertakings), which is not capable of remedy or, if capable of remedy, is not remedied within such number of days as stipulated in the notice of such breach given to the Company; or

14.1.2 there is failure on the part of the Company to perform any of its obligations contained in this Agreement; or

14.1.3 there is withholding of information of a material nature from the Underwriters which is required to be disclosed pursuant to this Agreement which, in the opinion of the Underwriters, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group, the success of the Public Issue, or the distribution or sale of the Shares issued under the Public Issue; or

14.1.4 there shall have occurred, or happened any material and adverse change in the business or financial condition of the Company or the Group; or

14.1.5 there shall have occurred, or happened any of the following circumstances:

14.1.5.1 any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or foreign exchange controls or the occurrence of any combination of any of the foregoing; or

14.1.5.2 any change in law, regulation, directive, policy or ruling in any jurisdiction; or

14.1.5.3 any event or series of events beyond the reasonable control of the Underwriters including (without limitation) acts of government, acts of God, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents which has or is likely to have the effect of making any material part of this Agreement incapable of performance with its terms or which prevents the processing of applications and/or payments pursuant to the Public Issue or pursuant to the underwriting of the Underwritten Shares;

which, in the reasonable opinion of the Underwriters, would have or can reasonably be expected to have, a material adverse effect on, and/or materially prejudice the business or the operations of the Company or the Group as a whole, the success of the Public Issue, or the listing of the Company on the MESDAQ Market or market conditions generally or which has or is likely to have the effect of making any material part of this Agreement incapable of performance in accordance with its terms.

14.2 Upon any such notice(s) being given pursuant to Clause 14.1 (Termination), the Underwriters shall be released and discharged of their obligations without prejudice to their rights under this Agreement, and where the Underwriters have terminated or withdrawn their Underwriting Commitments pursuant to Clause 14.1 (Termination), this Agreement shall be of no further force or effect and no party shall be under any liability to any other parties in respect of this Agreement, save and except that the Company shall remain liable in respect of its obligations and liabilities under Clause 11 (Representations, Warranties and Undertakings) and under Clause 12 (Costs and Expenses) for the payment of costs and expenses already incurred up to the date of or in connection with such termination and under Clause 8.3.2 (Prospectus and Listing) for the payment of any taxes, duties or levies, and for any antecedent breach."

3.6. Utilisation of Proceeds

The Company expects the gross proceeds of the Issue to amount to RM12.6 million. The proceeds shall accrue to the Company and the Company shall bear all expenses relating to the listing of and quotation for its entire issued and paid-up share capital on the MESDAQ Market.

The proceeds from the Issue of RM12.6 million are expected to be utilised for the following purposes:-

Purpose	Note	RM'000
Working capital	a	11,294
Estimated listing expenses		1,306
		12,600

Note:-

a *The utilisation of all the proceeds, net of the estimated listing expenses, for working capital purposes, mainly for the acquisition of EDC terminals and peripherals, pinPads and chips for the EDC terminals, is consistent with the nature and requirements of the Group's business. As stated in Section 6.7 "Growth and Marketing Strategy", the Group's objective is to expand its business through the widening of its existing customer base and the achievement of its growth targets. In order to achieve this objective, the Group's sales and debtors will be increased and the Group would therefore need additional working capital to fund these items. The estimated number of EDC terminals and peripherals, pinPads and chips for the EDC terminals to be acquired is as follows:-*

	Estimated No. of Units
EDC terminals and peripherals	*6,000*
PinPads	*4,800*
Chips for the EDC teminals	*2,000*

It is intended that the above-mentioned proceeds of RM12.6 million will be utilised within 24 months from the listing date.

3.7. Brokerage, Underwriting and Listing Expenses

In respect of the Issue Shares which will be made available for application under the public offer, underwriting commission of 2.0% and management fees of 1.0% of the Issue Price of RM0.20 per Share are payable by the Company to the Underwriters and the Managing Underwriter respectively. In respect of the Issue Shares which will be made available for application by the eligible directors and employees of the Group, and other persons who have contributed to the success of the Group, management fees / underwriting commission of 1.0% of the Issue Price of RM0.20 per Share are payable by the Company to the Managing Underwriter.

Listing expenses are estimated at approximately RM1.306 million, with the following estimated breakdown:-

	RM
Professional fees	456,000
Fees of the authorities	40,500
Underwriting fee (comprising underwriting commission and management fees)	22,000
Placement fee	324,000
Brokerage fee	2,000
Printing and advertising fees	200,000
Miscellaneous	261,500
Total	**1,306,000**

3.8. Future Financial Information

No future financial information is included in this Prospectus as it is difficult to forecast due to the uncertain nature and inherent risks of the business of the GHL Systems Group. Please refer to Section 4 "Risk Factors" of this Prospectus for further details.

3.9. Approvals and Conditions

GHL Systems' proposed listing was approved by the SC and the KLSE on 12 November 2002 and 15 November 2002 respectively.

The SC's approval was subject to the following conditions:-

(a) GHL Systems is required to disclose the status of the utilisation of proceeds from the issue of shares in its quarterly and annual reports until the proceeds have been fully utilised.

The Company will make the necessary disclosures in its quarterly and annual reports to comply with this condition;

(b) The directors of GHL Systems are required to ensure that the accounts and financial statements of the GHL Systems Group comply fully with the requirements of the accounting standards approved by the Malaysian Accounting Standards Board (**"MASB"**).

The directors of GHL Systems will ensure full compliance with the requirements of the accounting standards approved by the MASB;

(c) GHL Systems is required to disclose fully, in its Prospectus, the current transactions and agreements between the GHL Systems Group and companies or parties connected with the promoters, directors and substantial shareholders of GHL Systems.

The current transactions and agreements between the GHL Systems Group and companies or parties connected with the promoters, directors and substantial shareholders of GHL Systems have been set out in Section 9.9 "Related-Party Transactions and Conflict of Interest" of this Prospectus; and

(d) Any transactions between the GHL Systems Group and parties or companies connected with the promoters, directors and substantial shareholders of GHL Systems in the future must be at arm's length and not on terms that are detrimental to the GHL Systems Group. The Audit Committee of GHL Systems is required to monitor all such transactions and the directors of GHL Systems are required to report such transactions in the annual report of GHL Systems every year.

The directors of GHL Systems will ensure that any transactions between the GHL Systems Group and parties or companies connected with the promoters, directors and substantial shareholders of GHL Systems in the future will be at arm's length and not on terms that are detrimental to the GHL Systems Group. The Audit Committee will monitor all such transactions and the directors of GHL Systems shall make the necessary disclosures in respect of such transactions in the Company's annual report every year.

The KLSE's approval was subject to the following conditions:-

(a) GHL Systems is to enhance disclosure in the Prospectus on the risk of dependency and termination of the agreement with VeriFone North Asia Limited and the mitigating factors thereof.

Detailed disclosure of the above-mentioned risk and the mitigating factors thereof is set out in Section 4.2 "Mutual Reliance between Supplier of EDC Terminals and GHL Systems Group" of this Prospectus;

(b) GHL Systems is to disclose in the Prospectus the valuation basis of GHL Transact, GHL Payments and GHL EFTPOS.

The valuation basis for GHL Systems' acquisition of GHL Transact, GHL Payments and GHL EFTPOS has been set out in Section 2.1 "History, Principal Activities and Group Structure" and Section 9.1 "History of the Group" of this Prospectus;

(c) GHL Systems is to disclose in the Prospectus the valuation basis of the software intellectual property acquired from Tay Beng Lock, Yeng Fook Hoo, Joshua Tan Siew Meng and Goh Kuan Ho, together with a summary of the Valuation Report by KPMG Consulting Sdn. Bhd. **("KPMG Consulting")**.

The valuation basis of the above-mentioned software intellectual property, together with a summary of the Software Business Evaluation Report by KPMG Consulting dated 27 August 2002, has been set out in Section 13.3 "Directors and Substantial Shareholders" of this Prospectus;

(d) GHL Systems is to enhance disclosure in the Prospectus on the accounting policy of capitalising software intellectual property as fixed assets. In addition, GHL Systems is to disclose in the Prospectus the impact on the Company's NTA per share assuming:-

(i) full exercise of the ESOS; and
(ii) non-exercise of the ESOS;

had the Company classified the software intellectual property as intangible assets.

The accounting policy of capitalising software intellectual property as fixed assets, and the impact on the Company's NTA per Share assuming full exercise of the ESOS and non-exercise of the ESOS, have been set out in Section 5.5 "Significant Accounting Policies" and Section 2.6 "Pro-forma Historical Financial Record" of this Prospectus respectively;

(e) GHL Systems is to adjust the 3-year tenancy agreement entered into with GHL Enterprise Sdn. Bhd. **("GHL Enterprise")** to reflect the market rental rate based on the valuation report by Colliers, Jordan Lee & Jaafar Sdn. Bhd. with an option to renew upon expiry at the prevailing market rental rate at that point in time.

On 30 November 2002, the Company had entered into a Supplemental Agreement with GHL Enterprise to reduce the monthly rental payable to RM41,000 with effect from 1 January 2003. Please refer to Section 13.6 "Material Contracts and Agreements", material agreement no. 35, of this Prospectus for the salient terms;

(f) GHL Systems is to disclose in the Prospectus the proposed utilisation of the listing proceeds for capital expenditure with detailed breakdown of the respective assets to be acquired.

The proposed utilisation of the listing proceeds with detailed breakdown of the respective assets to be acquired has been set out in Section 3.6 "Utilisation of Proceeds" of this Prospectus;

(g) GHL Systems is to seek shareholders' approval of the Proposed ESOS and to furnish the final copy of the Bye-Laws and confirmation letter from its Adviser pursuant to Rule 6.12 of Guidance Notes 6 of the Listing Requirements.

GHL Systems had obtained its shareholders' approval for the Proposed ESOS on 11 February 2003. The final copy of the Bye-Laws and the letter of confirmation from AmMerchant Bank will be furnished to the KLSE prior to the date of the Company's listing on the MESDAQ Market;

(h) GHL Systems is to notify the KLSE on the appointment of independent directors and provide the necessary confirmations that they qualify as independent directors pursuant to the Listing Requirements.

GHL Systems had informed the KLSE in a letter dated 15 January 2003 on the appointment of two (2) independent directors and provided the necessary confirmations that they qualify as independent directors pursuant to the Listing Requirements; and

(i) GHL Systems is to include a negative statement in its Prospectus on the exclusion of profit forecast and projections from the Prospectus and the reasons thereof.

The negative statement on the exclusion of a profit forecast and projections from this Prospectus and the reasons for such exclusion have been set out in Section 3.8 "Future Financial Information" of this Prospectus.

4. RISK FACTORS

If you are unsure about any of the information contained in this section on "Risk Factors", you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

In addition to the other information in this Prospectus, the following factors should be considered carefully in evaluating an investment in the Issue Shares offered by this Prospectus. The discussion in this Prospectus contains certain forward-looking statements that involve risks and uncertainties. Prospective investors are cautioned that such statements are only predictions and that actual results or events may differ materially from those disclosed in this Prospectus.

Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Risk Factors", "Management's Discussions and Analysis of Financial Condition and Results of Operations" and "Business Overview" as well as those discussed elsewhere in this Prospectus.

4.1. Credit Card Fraud

The credit card fraud situation in Malaysia has grown into a major concern for both the card-issuing financial institutions as well as the credit card associations. In view of the prevalent fraud activities in the country, a growing number of local financial institutions have curtailed their merchant acquiring activities and have become more stringent in their approvals of potential merchants. These financial institutions will not hesitate to withdraw the credit card facilities provided to their existing merchants should they suspect that the merchants participate in any form of fraud activities. The shrinkage in the financial institutions' merchant bases will affect the Group's profitability as the number of EDC terminals rented out decreases.

However, the credit card associations have developed a new security standard in their effort to battle credit card fraud. This new standard, known as EMV, is a chip-based technology and has been adopted by BNM. BNM has directed all financial institutions to change all cards issued by them to be EMV-compliant by 2005, with the first roll-out to commence in 2003. To cater to this requirement, all EDC terminals will have to be EMV-compliant as well.

The Group is currently the distributor for VeriFone EDC terminals in Malaysia and VeriFone Inc is a manufacturer of EMV-compliant EDC terminals. The Group will therefore benefit from the BNM directive. Further, the recent crackdowns on credit card fraud activities by the police have to some degree restored the credit card associations' confidence in Malaysia as well as the financial institutions' confidence. However, there is no assurance that credit card fraud can be totally eradicated by the introduction of the EMV standard as technology is becoming increasingly sophisticated and may enable telephone line-tapping to obtain cardholders' information.

4.2. Mutual Reliance between Supplier of EDC Terminals and GHL Systems Group

The Group sources its supply of EDC terminals from VeriFone North Asia Limited (**"VeriFone NAL"**). To seal this relationship, GHL Transact had entered into a non-exclusive agreement with VeriFone NAL. This agreement expires on 31 October 2003 and amongst the terms and conditions, GHL Transact is required to meet a yearly purchasing quota for the duration of the agreement; otherwise, the agreement will be terminated or the scope of GHL Transact's distribution area will be reduced. GHL Transact had met the purchasing quota set by VeriFone NAL for the year 2002. There is no assurance that VeriFone NAL will renew its agreement with GHL Transact, or that VeriFone NAL will not appoint any other distributor for its EDC terminals in Malaysia. However, VeriFone NAL also relies on GHL Transact for the sale and marketing of VeriFone EDC terminals and currently, GHL Transact is the distributor for VeriFone EDC terminals in Malaysia.

On 16 October 2002, GHL EFTPOS, a wholly owned subsidiary of the Company, had entered into a Value Added Reseller Agreement with Sagem SA (**"Sagem"**) to source from Sagem its brand of handheld EDC terminals. The term of this agreement is three (3) years and amongst the terms and conditions, GHL EFTPOS is required to meet a yearly purchasing quota for the duration of the agreement; otherwise, Sagem reserves the right to terminate the agreement. In the event that the agreements between VeriFone NAL and GHL Transact, and between Sagem and GHL EFTPOS are terminated, the Group is of the view that alternative brands of EMV-compliant EDC terminals can be sourced easily and are readily accepted by merchants. In addition, the Group believes that the experience curve is long, being two (2) to three (3) years before a distributor can establish its presence in the market to achieve business viability. Nevertheless, the failure of GHL Transact and GHL EFTPOS to maintain their existing supplier relationships, or to satisfy the terms and conditions of their contracts with VeriFone NAL and Sagem respectively, may affect the Group's business, operating results and financial condition in the future.

4.3. Operating Risks

There is no assurance that the Group will be profitable in the future, or that it will achieve increasing or consistent levels of profitability. The Group's revenue and operating results are difficult to forecast and could be adversely affected by many factors. These include, amongst others, changes in the Group's operating expenses, the ability of the Group to develop and market new products and services and to control costs, market acceptance of new products or services, and other business risks common to going concerns.

Barring unforeseen circumstances, the directors of GHL Systems believe that the Group should be able to maintain its record of profitability. As at 21 February 2003, the Group had 6,858 EDC terminals installed at merchants' outlets, generating a total monthly rental of approximately RM800,000. The Group's cash flow management includes regular monitoring of its debtors position, having long term relationships with its customers and business partners, close monitoring of operating expenditure, and careful consideration of any proposed capital expenditure or borrowing and its effects on the Group.

4.4. Competition

The Group is involved in the following markets:-

(a) Merchant acquiring market within the credit card industry;
(b) Online payment market within the internet industry;
(c) Loyalty market within the retail industry; and
(d) Prepaid airtime reload services market within the telecommunications industry.

The markets in which the Group operates are competitive and characterised by rapid technological innovation. The Group has experienced and expects to continue to experience intense competition from current and future competitors. The Group believes that its ability to compete depends upon many factors both within and outside its control, including the timing and market acceptance of new products and services and enhancements developed by the Group and its competitors, product and service functionality, ease of use, performance, price, value for money, reliability, customer service and support, sales and marketing efforts, and product and service distribution channels.

The Group's competitors vary in size and in the scope and breadth of the products and services offered. The Group encounters competition from a number of sources. The Group's current primary competitors are mentioned in Section 6.9 "Competition" of this Prospectus.

Some of the Group's competitors may have significantly greater resources than the Group, in terms of finance, technical and human resources and others. The Group's competitors may be able to respond more quickly to new or emerging technologies and changes in customer preference or to devote greater resources to the development, promotion, sale and service of their products and services. The Group also expects to face additional competition from international competitors that have greater name recognition. Emerging companies could enter the market and introduce new products and technologies. Increased competition could result in price reductions, reduced revenue and margins, and loss of market share, any one of which could materially and adversely affect the Group's business, operating results and financial condition.

The Group focuses on technology that is highly reliable and able to handle high volumes and also invests in product innovation to ensure its competitiveness in capturing market share and garnering market acceptance. However, there can be no assurance that the Group will be able to maintain its competitiveness against current and future competitors or that competitive pressures will not materially and adversely affect the Group's business, operating results and financial condition.

4.5. Future Growth

The Group has grown rapidly since it started its merchant acquiring shared services. For example, the Group's installed base of EDC terminals at merchants' outlets has increased to 6,858 as at 21 February 2003, from 2,069 installed terminals as at 31 May 2001, and the Group has had to recruit and hire more personnel, modify its processing systems and expand its operations to accommodate its growth. In addition, in order to achieve the Group's growth targets as set out in its Five-Year Business Development Plan, there may be significant strain on the Group's management, financial, customer support, operational and other resources. There can be no assurance that the Group will be successful in managing its growth.

The Group's proposed future plan and prospects will be dependent upon, among other things, the Group's ability to enter into strategic marketing or other arrangements on a timely basis and on favourable terms; hire and retain skilled management as well as financial, technical, marketing and other personnel; successfully manage growth (including monitoring operations, controlling costs and maintaining effective quality, inventory and service controls); and obtain adequate financing as and when needed. There can be no assurance that the Group will be able to successfully implement its business plan or that unanticipated expenses or problems or technical difficulties will not occur which would result in material delays in its implementation or even deviation from its original plans. In addition, the actual results may deviate from the business plan due to rapid technological changes, and market as well as competitive pressures.

4.6. Changes in Technology and Products / Services

The markets for the Group's products and services are characterised by rapid technological developments, evolving industry standards, swift changes in customer requirements, computer operating environments and software applications, and frequent new product introductions and enhancements. The Group's future depends substantially upon its ability to address the increasingly sophisticated needs of its customers by supporting existing and emerging hardware, software, database and networking platforms.

The timely development of new or enhanced products and services is a complex and uncertain process. Although the Group believes that it will have the funding to implement its business plan, there can be no assurance that the Group will continue to have sufficient resources to successfully and accurately anticipate technological and market trends, or to successfully manage long development cycles. The Group may also experience design, marketing and other difficulties that could delay or prevent the development, introduction or marketing of its products and services, as well as new products and services and enhancements. The Group may also be required to collaborate with third parties to develop products and services and may not be able to do so on a timely and cost-effective basis, if at all.

If the Group is not able to develop new products and services or enhancements to its existing products and services on a timely and cost-effective basis, or if the Group's new products and services or enhancements fail to achieve market acceptance, or if one or more of the Group's competitors introduce products and services that better address customer needs or for any reason gain market share, the Group's business, operating results and financial condition would be adversely affected.

4.7. Continuing Demand for the Group's Products and Services

The Group's future results will depend on the overall demand for the Group's products and services. Any economic slowdown may cause the Group's customers to defer or terminate purchases or rental of the Group's products and services or otherwise alter their usage patterns. Uncertainty in the economic environment may cause some businesses to curtail or eliminate spending on payment technology. In addition, the Group may experience hesitancy on the part of existing and potential customers to commit to continuing or new services from the Group.

To date, the Group's products and services have been well-received by its customers and the Group expects that enhancements and improvements of features, quick time to market and good technical service should ensure continuing acceptance of its products and services.

4.8. Dependence on Directors and Key Personnel, and Need to Hire Additional Personnel for Future Growth

The Group's future performance depends to a significant extent upon the continued efforts and abilities as well as the networking of its directors, key technical, sales and marketing, and senior management personnel. The loss of the services of any of these individuals may have a material adverse effect on the Group. The Group's future success also depends on its ability to attract, hire, train, retain and motivate sufficient skilled employees.

As a mitigating factor, the Group currently enjoys a cordial relationship with its employees and they do not belong to any trade union. The employees are also frequently sent to various courses to upgrade their knowledge. In addition, the Group will be implementing the ESOS in conjunction with its proposed listing on the MESDAQ Market.

4.9. Reliance on Major Relationships

The Group's EDC business (selling and renting EDC terminals) is heavily dependent on its relationships with the acquiring banks and their relative intent in acquiring merchants. Currently, the Group is the merchant acquiring agent for Affin Bank, AmBank and RHB. Affin Bank, AmBank and RHB contributed approximately 6%, 2% and 26% respectively to the Group's turnover, and approximately 8%, 4% and 21% respectively to the Group's gross profit for the ten (10) months ended 31 October 2002. All three (3) banks have business relationships of less than two (2) years each with the Group. There is no assurance that these relationships will continue indefinitely. Moreover, the acquiring banks' policies on merchant recruitment will change from time to time and this will have a material effect on the Group's business, operating results and financial condition.

As a mitigating factor, the Group has formed a joint venture company, i.e. Card Pay, with BSNC to be a third party merchant acquirer for Electronic Purse Smart Card (**"MEPS CASH"**) and the Interbank Electronic Funds Transfer at Point of Sale (**"Debit ePOS"**). The existing laws and regulations do not require a third party acquirer to obtain any operating licence from BNM. As a non-bank acquirer, in order to process credit card transactions, the Group must be sponsored by a financial institution that is a principal member of Visa and MasterCard. The Group is in the process of negotiating for such sponsorship.

4.10. Protection of Intellectual Property Rights

The Group's success is also dependent on its ability to protect its proprietary technology. Currently, the Group is in the process of registering the *WHOOPS* and *PAYDIRECT* logos as servicemarks. Moreover, the Group's proprietary technology is protected by copyright laws applicable in Malaysia. The Group has also put in place several security measures to protect its proprietary technology, including never revealing the source codes of the Group's software to its customers to whom the software is sold, and having built-in controls in some of the software developed by the Group which will "lock" a particular copy of the software onto the hardware on which it is running, thus preventing any unauthorised copying of the software. The nature of the Group's software also acts as a barrier against illegal usage as specialised knowledge and familiarisation with the software are required to make it work, and most of its software requires special training and domain knowledge to develop or customise; hence, such software is often sold to customers together with the Group's professional services.

However, existing copyright, trademark and trade secret laws afford only limited protection. Accordingly, there can be no assurance that the Group will be able to protect its proprietary rights against unauthorised third party copying, use or exploitation, any of which could have a material adverse effect on the Group's business, operating results and financial condition.

Third parties may challenge or dispute the Group's intellectual property rights in terms of, amongst others, title and third party intellectual property rights infringement and the Group could incur substantial costs in defending or prosecuting any claims relating to its intellectual property rights. Issues relating to intellectual property rights can be complicated and there can be no assurance that disputes will not arise or that any disputes in relation to the Group's intellectual property will be resolved in the Group's favour. Moreover, any such disputes could be time consuming, cause delays in introducing new or improved products and services or require that the Group discontinue using the challenged technology, and could have a material adverse effect on the Group's reputation, business, operating results and financial condition.

4.11. Acquisitions and Joint Ventures

If appropriate opportunities present themselves, the Group intends to acquire businesses, products or technologies or enter into synergistic joint ventures that the Group believes will be in the interest of its shareholders. There can be no assurance that the Group will be able to successfully identify, negotiate or finance such acquisitions and joint ventures, or to integrate such acquisitions and joint ventures with its current business. Acquisitions and joint ventures may cause the Group to seek additional capital, which may or may not be available on satisfactory terms.

There can be no assurance that the anticipated benefits of any acquisition will be realised, or that the Group will be able to generate sufficient revenues from any such acquisition to offset associated acquisition costs, or that the Group will be able to maintain uniform standards of quality and service, controls, procedures and policies. Acquisitions may also result in potentially dilutive issuances of equity, the incurrence of debt and contingent liabilities, and amortisation expenses related to goodwill and other intangible assets. Any joint venture investments would involve many of the same risks posed by acquisitions.

4.12. Future Capital Injections

It is the management's opinion that the net proceeds of the Issue, together with cash flow from operations and other existing sources of liquidity, will be sufficient to meet the Group's projected working capital and other cash requirements. However, there is no assurance that future events may not cause the Group to seek additional capital sooner. If additional capital is required, there can be no assurance that it will be available or, if available, that it will be on terms satisfactory to the Group. The sale of additional equity or other convertible securities to non-shareholders will result in further dilution of the shareholdings of the Company's shareholders.

4.13. Continued Control by Existing Shareholders

Upon the completion of this Issue, the directors and substantial shareholders of the Company will, in the aggregate, beneficially own approximately 74.10% of the issued and paid-up share capital of the Company. Assuming the full exercise of all Options under the ESOS, the directors and substantial shareholders of the Company will collectively own approximately 68.09% of the enlarged issued and paid-up share capital of the Company. As a result, these shareholders, acting together, will possess voting control over the Company, giving them the ability, amongst others, to elect at least a majority of the Company's Board of Directors and to control the vote on significant corporate transactions.

Nevertheless, the Company has appointed two (2) independent directors as a step towards good corporate governance to ensure that any future transactions involving related parties are entered into on arms-length terms.

4.14. Foreign Exchange Risk

The Group's supply of EDC terminals comes from VeriFone NAL and all transactions with VeriFone NAL are conducted in the USD. Currently, the Ringgit is pegged to the USD at an exchange rate of RM3.80 for every USD1.00, thus eliminating currency fluctuations. However, there is no assurance that the currency peg will continue indefinitely. Any future significant fluctuations in exchange rates may have a significant impact on the revenue and earnings of the Group.

4.15. Litigation Risk

The Group's agreements with its customers typically contain provisions designed to limit the Group's exposure to potential product and/or service liability claims. To date, the Group has not experienced any material product and/or service liability claims. It is possible, however, that the limitation of liability provisions contained in the Group's customer agreements may not be effective as a result of existing or future laws or unfavourable judicial decisions. As the Group has not purchased any product liability insurance, there is a risk that the Group's interests will not be adequately protected in the event of litigation. However, the Group, as a payment services enabler, only provides payment services and solutions to its customers and the Group's liability is limited by the terms and conditions of the agreements between the Group and its customers. As the Group does not provide any transaction services to its customers, it is therefore not liable for any transaction losses incurred by its customers. In the opinion of the Group, any financial setback arising from litigation can be absorbed by the Group as the nature of its solutions is non-mission critical.

4.16. Maintenance and Reliability of the Telecommunications Network Infrastructure and Security Risks

The success of the Group's business will depend, to a certain degree, on the development and maintenance of its payment hosting service, *PayDirect.com.my*, its prepaid reload service, *WHOOPS*, and the 24-hour helpdesk service provided to merchants using the Group's EDC services. This includes leasing and monitoring of a reliable network backbone with the necessary speed, data capacity and security. The payment hosting service, the prepaid reload service and the 24-hour helpdesk service may experience a variety of outages and delays as a result of damage to portions of its infrastructure. These outages and delays could frustrate customers or partners using the Group's products and services, which could directly affect the revenue of the Group.

The ability to provide secure transmissions of confidential information over networks accessible to the public is a significant problem for electronic commerce and communications, and the ability to provide commendable after-sales service reflects on a company's commitment to quality service. The former is subject to capacity limitations, breaches of security by computer viruses, sabotage, break-ins and other factors, whilst the latter is subject to breakdowns in the telecommunications network infrastructure. As mitigating factors, the Group has installed firewalls and anti-virus software to protect its payment hosting service, provided its 24-hour service helpdesk personnel with mobile telephones and installed a dial-up modem to connect to the telecommunications companies should the lease lines fail.

Despite a variety of network security and alternative measures taken by the Group, the Group cannot assure that unauthorised access, computer viruses, accidental or intentional actions and other disruptions will not occur. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology that the Group uses to protect confidential customer and end-user data stored on or transmitted through the Group's network.

The costs required to prevent and eliminate computer viruses and alleviate other security problems as well as to enhance the reliability of the telecommunications network infrastructure could be prohibitively expensive. In addition, any of these occurrences may cause systems failures, interruptions in service or reduced customer capacity, which could have an impact on the Group's ability to acquire, manage or service its customers or partners and could materially and adversely affect the Group.

4.17. Dependence on Third Party Telecommunications Infrastructure / Vendors

The Group's business is dependent, to a certain degree, on the infrastructure lease lines of telecommunications companies. However, there can be no assurance that the Group will be able to maintain the infrastructure lease lines leased from Telekom Malaysia Berhad on existing terms, which could have a material adverse effect on the Group's business, operating results and financial condition.

4.18. Change in or Loss of MSC Status

GHL Systems was granted MSC status on 28 December 1998 by MDC. MDC is the body responsible for assessing and monitoring all MSC status companies. As an MSC status company, GHL Systems enjoys certain financial and non-financial incentives which are guaranteed under the Malaysian Government's Bill of Guarantees for MSC status companies.

Amongst others, the Company is, by virtue of its MSC status, granted pioneer status by the Ministry of International Trade and Industry under the Promotion of Investments Act, 1986, vide a letter dated 20 December 1999, and enjoys full exemption from paying Malaysian federal income tax 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 MDC at the time when the Company applied for MSC status.

Although pioneer status can be renewed on application by the Company on or before 1 June 2004 for a further period of five (5) years, approval is at the discretion of the Minister of International Trade and Industry with the concurrence of the Minister of Finance, and there is no assurance that such approval will be given at the time when the Company makes an application for renewal of its pioneer status. In any case, pioneer status cannot be extended beyond an aggregate of ten (10) years. The Company will be subject to pay statutory income tax upon the expiry of its pioneer status.

Furthermore, whilst it is usual for MSC status to be conferred so long as GHL Systems continues to comply with the conditions for MSC status as set out in the grant of MSC status by MDC, MDC has the right to revoke or withdraw the Company's MSC status at any time at its discretion. Although GHL Systems believes that it has and will continue to be able to fulfill the conditions for MSC status, there can be no assurance that the Company will continue to retain its MSC status or that it will continue to enjoy the benefits accorded to MSC status companies. If the Company loses its MSC status, it will cease to be entitled to the benefits accorded to MSC status companies, including its pioneer status. A loss or suspension of MSC status could subject the Company to be liable to pay statutory income tax.

4.19. Risk of Foreclosure on Premises and Disruption to Operations

The Company has invested a substantial amount in renovating and installing wiring works at its current premises. These premises at No. 37, 39 and 41, Cangkat Bukit Bintang, 50200 Kuala Lumpur are rented from GHL Enterprise Sdn. Bhd. (**"GHL Enterprise"**), in which Goh Kuan Ho, who is a Non-Executive Director of the Company, is a director and shareholder. These premises have been charged to a local financial institution in return for a loan to GHL Enterprise. Should the financial institution foreclose on the aforementioned premises due to default on the loan, the Group's operations may be disrupted as it would have to source for new premises on a short notice and would have to incur relocation costs. In addition, the relocation of the Group to new premises may inconvenience its customers. However, the Company enjoys a cordial relationship with the owners of its premises and this relationship is expected to continue.

4.20. No Prior Market for GHL Systems Shares and Possible Volatility of Share Price

There has been no prior public market for the Company's Shares. The Issue Price was determined through agreement between the Company and the Underwriters based upon several factors and may not be an indication of the market price of the Shares after the Issue. See Section 3.4 "Pricing of the Issue" for a discussion of the factors considered in determining the Issue Price.

There can be no assurance that an active public market in the Shares will be developed or be sustained after this Issue or that the market price of the Shares will not decline below the Issue Price. The Group believes that a variety of factors could cause the price of the Shares to fluctuate, including sales of substantial amounts of the Shares in the public market; announcements of developments relating to the Group's business; fluctuations in the Group's operating results and sales levels; general industry conditions or economic conditions; announcements of new products or services or product or service enhancements by the Group or its competitors; and developments in intellectual property rights.

In addition, in recent years the stock market in general, and the market for the shares of technology companies in particular, has experienced extreme price fluctuations which have sometimes been unrelated to the operating performance of such companies. Such fluctuations may adversely affect the market price of the Shares.

4.21. Disclosure Regarding Forward-Looking Statements

This Prospectus contains forward-looking statements, which are statements other than statements of historical facts. Although the Group believes that, barring unforeseen circumstances, the expectations reflected in such forward-looking statements are reasonable at this time, there can be no assurance that such expectations will prove to have been correct. Their inclusion in this Prospectus should not be regarded as a representation or warranty by the Company, the Adviser or any other advisers that the plans and objectives of the Group will be achieved.

4.22. Regulatory Risks

Currently, save for general company and contract laws, the business activities of the Group in Malaysia are not subject to any specific legislation or regulations. However, there can be no assurance that future legislative or regulatory policy changes will not affect the operations of the Group.

4.23. Changes in Political, Economic and Social Conditions

Changes in political, economic and social conditions in Malaysia and elsewhere could materially and adversely affect the financial and business prospects of the Group. The political, economic and social uncertainties include, but are not limited to, changes in political leadership, war, expropriation, nationalisation, renegotiation or nullification of existing contracts, changes in rates of interest, methods of taxation and currency exchange rules, and financial crises.

4.24. Failure or Delay in the Listing

The success of the listing of GHL Systems on the MESDAQ Market is also exposed to the risk that it may fail or be delayed due to any of the following reasons, amongst others:-

(a) The placees under the private placement tranche of the Issue fail to acquire the Issue Shares allocated to them;

(b) The eligible directors and employees of the Group, and other persons who have contributed to the success of the Group fail to acquire the Issue Shares allocated to them;

(c) The Underwriting Agreement is terminated; and

(d) GHL Systems is unable to meet the public shareholding spread requirements i.e. at least 25% but not more than 49% of the issued and paid-up share capital of the Company must be held by a minimum of 200 public shareholders at the time of the Company's admission to the Official List of the MESDAQ Market.

In the event of the failure of the proposed listing of GHL Systems on the MESDAQ Market, investors shall be reimbursed their application money without interest.