



GPRO TECHNOLOGIES BERHAD
 (“GPRO” OR “COMPANY”)
RESEARCH REPORT
31 DECEMBER 2008

1. PRINCIPAL ACTIVITIES

GPRO and its subsidiary companies (“GPRO Group” or “Group”) are principally engaged in the provision of innovative proprietary information technology (“IT”) solutions for the textile and apparel industry in Malaysia and Asia. The Group specialises in designing, developing and marketing its innovative IT solutions (both specialty software and dedicated hardware) to textile and apparel companies.

2. FINANCIAL HIGHLIGHTS

Summary of the audited consolidated financial results for the financial year ended (“FYE”) 31 December 2004 to 2007 and the unaudited consolidated financial results for the year ended 31 December 2008 of GPRO are as follows:-

	Audited 2004* (RM'000)	Audited 2005* (RM'000)	Audited 2006* (RM'000)	Audited 2007* (RM'000)	Unaudited 2008 (RM'000)
Turnover	13,622	12,593	9,961	7,042	4,541
Profit before tax (“PBT”)/(Loss before tax) (“LBT”)	4,743	(1,978)	(6,965)	(13,095)	(4,775)
PBT margin (%)	34.8	NA	NA	NA	NA
Minority Interest (“MI”)	132	(167)	135	48	-
Profit after tax (“PAT”) / (Loss after tax) (“LAT”) after MI	4,875^#	(2,146)	(6,828)	(13,065)	(4,775)
Gross earnings/(Loss) per share (EPS) (sen)	1.89	(0.79)	(2.79)	(5.24)	(1.91)
Net EPS (sen)	1.96	(0.86)	(2.73)	(5.23)	(1.91)

Notes:-

* As extracted from GPRO’s Annual Reports for the respective financial years.

^ Pursuant to GPRO’s restructuring and listing scheme, GPRO acquired 100% equity interest in New Paradigm Technologies Sdn Bhd (“NPT”) on 5 April 2004. As such, the profits of the NPT Group prior to its acquisition by GPRO amounted to pre-acquisition profits.

Including the pre-acquisition profits of NPT amounting to RM1.727 million.

	Quarter ended		FYE	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
	RM'000	RM'000	RM'000	RM'000
Turnover	597	793	4,541	7,042
Profit after tax (“PATMP”)/(Loss after tax) (“LATMI”) after MI	(1,288)	(10,380)	(4,775)	(13,113)

Quarter on quarter

Turnover for the quarter was RM0.597 million, a decrease of RM0.196 million or 24.7% as compared to RM0.793 million in the preceding year’s corresponding quarter ended 31 December 2007. For the quarter under review, the Group recorded LATMI of RM1.288 million.

Year on year

For the FYE 2008, the Group recorded turnover of RM4.541 million and LATMI of RM4.775 million. This represents a decrease of 35.5% in turnover as compared to the FYE 2007 of RM7.042 million. In the current year to date, the Group experienced a decreased LATMI of RM4.775 million as compared to LATMI of RM13.113 million for the FYE 2007.

The overall decrease in revenue is due to the downturn of the global economic situation. The Group is also in the midst of switching its sales and marketing strategies for its products to adapt to market demand, such as introducing a more affordable leasing model and value plans to its clients. Currently, as these strategies are just at the initial stages of implementation, the Group is in a transitional period. These new strategies are expected to contribute positively to the Group in the future.

3. ECONOMIC AND INDUSTRY OUTLOOK

(a) *Economic outlook*

The recession in advanced economies will set the tone for global economic outlook in 2009. Of importance is the extent of fiscal pump priming and monetary easing measures and how the combined action can help to bring the world economy back on its feet.

According to Malaysian Rating Corp Bhd’s (MARC) chief economist Nor Zahidi Alias, the Malaysian government will remain vigilant and keep a close watch on how the global economy, particularly the US, evolves owing to the correlation between the US and Malaysian economy.

MARC does not foresee the global economy plunging into a depression, as central banks around the world have been able to avoid the major mistake of restricting money supply that was made during the Great Depression in the 1930s, and with the strenuous efforts being made by the US government and the Fed to prevent the world’s largest economy from a total collapse.

With huge stimulus packages and a Zero Interest Rate Policy (ZIRP) being implemented in the US, a mild recovery can be expected at the end of 2009 or the early part of 2010, MARC noted, adding that despite this, it remains cautious as possible risks may emanate from the weaknesses of other major economies, particularly the Euro Zone and Japan.

“Given the circumstance, we are penciling in a 2.5% GDP growth as our base case for 2009 while anticipating a 0.5% expansion in our worst case scenario,” Nor Zahidi said.

According to MARC, the sustainability of domestic demand is the key assumption of its GDP forecast for 2009, in particular, the strength of private consumption will be a major factor in determining the overall performance of the economy over the next one year.

(Source: ‘Economic outlook 2009: Hazy days ahead’ on 10 January 2009, <http://biz.thestar.com.my/news/story.asp?file=/2009/1/10/business/2976547&sec=business>)

(b) ICT Outlook

Research firm Interactive Date Corporation (IDC) has lowered its growth rate forecast for the Asia-Pacific (excluding Japan) IT services market for this year to a “post-crisis” figure of 9.6 per cent from the previous 11.2 per cent.

This revised forecast implies a downside of US\$6.5 billion (RM23.4 billion) for the IT services market between 2008 and 2012 in the region, of which approximately US\$2 billion is expected in 2008 and 2009 alone (using a 2007 constant currencies exchange rate).

Despite this, the region’s IT services market is still expected to grow to US\$49.4 billion this year, driven primarily by continued demand for managed services and outsourcing as organisations focus on cost-cutting.

Organisations may move back to basics, focusing more on cost management than business transformation projects.

New options for management and support services will be brought to market by vendors to suit end users’ reduced ICT budgets.

(Source: ‘Lower growth forecast for regional IT service’s dated 23 February 2009, http://www.nst.com.my/Current_News/techNu/Monday/Newsfront/20090215202303/Article/index.htm)

The business operation of GPRO is related to the textile and apparel industry as GPRO is principally involved in the provision of innovative proprietary IT solutions for the textile and apparel industry in Malaysia and Asia. The following sets out the overview of the textiles industry in Asia.

(c) Textile Industry Outlook 2008

Influenced by international financial crisis, 2009 will become a very challenging & difficult year for China’s economy and also for China textile industry. Facing with such hard situation, Chinese government put forward economic incentives with 4 trillion RMB and measures for the light & textile industry development, to keep the steady development of China macro-economy and textile industry. Textile industry will continuously face with uncertain economic situations in 2009, such as: price fluctuation for raw materials, policy adjustments for finance and tax, unsteadiness for RMB exchange rate.

On the conference, Mr. Yao Jingyuan, general economist of the National Bureau of Statistics, made the speech entitled “2009 China Macro-economy trend and countermeasures”. With sufficient data and exact instance, he explained that China’s economy was still in a good condition, despite the influence of the financial crisis and the very difficult condition we faced. The economic situation of the first half year of 2009 will be tougher, but under the fundamental guidelines and policies by government such as “ensuring economic growth, expanding domestic demands and adjusting structure”, China’s economic will keep steady development.

(Source: ‘Face the financial crisis, ensure the development of the trade on 15 January 2009’, <http://www.oerlikontextile.com/desktopdefault.aspx/tabid-1957/>)

The Group acknowledged that the global economic downturn has negatively impacted the global textile and apparel industry and to a certain extent, the performance of the Group. At present, it is uncertain how far-reaching the impact would be. However, the Group feels that textile and apparel is a fundamental necessity and as such, the long term prospect of this industry should be viable as the economy stabilises.

4. PROSPECTS OF THE GROUP

The target market of the GPRO Group has always been the global textile and apparel manufacturers. The current global economic downturn has resulted in lower demands for garment. Consequently, the manufacturers tend to be more cautious with new investments in technologies.

Therefore, the Group is cautiously positive in terms of long term prospects and views that the global textile and apparel industry will stabilize and expand in due course.

The Group also expects the textile and apparel supply chain to move towards greater efficiency. Greater competition, eroding profit margins, more complex product mixes, shorter delivery times, higher quality demands and more stringent compliances will drive the industry towards adopting best practices and technologies. It also means that smaller companies with less resources lacking economies of scale are likely to find it difficult to survive. More mergers and acquisitions as well as vertical integrations across the supply chain are to be expected.

As to increasing targeted sales and marketing efforts, the Group plans to focus on specific markets such as the Southern China region and Bangladesh, which have been identified to have higher potential of subscribing to the Group's product solutions (*Source: Quarterly Report for FYE 2008*).

5. DEVELOPMENT MILESTONES OF THE BUSINESS DEVELOPMENT PLAN ("BDP")

In response to the economic downturn, the Group in the near term has opted to focus in servicing its existing customers. At the same time, the Group's sales activities are primarily directed towards targeted potential clients which are financially sound with available resources to consider investing in technologies and systems, which will bring about long term benefits.

The Group has shifted its marketing towards building relationships with national manufacturing associations, such as Vietnam Textile and Apparel Association (VITAS) and Shanghai Fashion Association by offering innovative solutions at low costs to the association members. During challenging times such as now, associations are more receptive to fresh ideas, especially to those whom are keen in improving cost efficiency. There have been requests for the Group to demonstrate its Industrial Engineering Execution System (IEES) product, which provides a cushion in reducing production costs.

The Group's business development plan has been principally carried out as planned during the relevant periods and is expected to contribute positively to the financial position of the Group in the long term.

6. RESEARCH & DEVELOPMENT

R&D has always been a key activity of the GPRO Group. For the financial year ended 31 December 2008, the Group incurred approximately RM1.61 million in R&D activities. The Board of Directors is of the opinion that it did not have major financial impact on the Group as this represents planned expenditure. Any future allocation for R&D funds will be from internally generated funds within the Group. The Board of Directors expects that the R&D expenditure and future allocation for the Group's R&D will contribute positively to the Group's earnings and financial position in the long term. However, the Group has reduced its spending on this area and has channelled more resources towards business development.

The R&D project currently allocated with the most resources is LEAN (a variation on the theme efficiency) Mover, a revolutionary automated material handling system for garment manufacturing and warehousing. This R&D project is partly funded by the Malaysian government. The pilot installation of the LEAN Mover is expected to be in second quarter 2009.

It is through commitment to R&D efforts over the last few years that the Group has developed a few world class and award winning innovative products, namely the RFID smart card and reader for automated data tracking and the IEES.

7. LIST OF TOP TEN LARGEST SHAREHOLDERS OF GPRO

The details of the 10 securities holders having the largest number of securities of GPRO according to the Record of Depositors as at 31 December 2008 are as follows:-

No.	Name of shareholders	No. of shares held	%
1.	Vital Research Sdn Bhd	70,680,828	28.27
2.	Malaysia Venture Capital Management Berhad	31,565,246	12.63
3.	Quek Kar Loon	15,939,528	6.38
4.	Tang Tiong Seng	5,737,628	2.30
5.	Ting Chek Hua	3,547,000	1.42
6.	Ting Kung Huat	3,186,600	1.27
7.	Lee Chai Eng	2,538,200	1.02
8.	Tan Chi Sing	2,300,000	0.92
9.	Teh Ooi Heong	1,935,900	0.77
10.	Chai Min Foh	1,650,000	0.66

8. PROFIT FORECAST

GPRO has not disclosed any profit forecast for the financial period ending 31 December 2008.

9. UTILISATION OF PROCEEDS

The Company has fully utilised its proceeds from the Initial Public Offering.