GPRO TECHNOLOGIES BERHAD ("GPRO" OR "COMPANY")

NOTES TO THE FINANCAL STATEMENTS

1. Basis of Preparation

The interim financial report is unaudited and is prepared in accordance with the requirements of the Financial Reporting Standard ("FRS") 134: Interim Financial Reporting and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the MESDAQ Market which was issued on 8 May 2006.

The interim financial report should be read in conjunction with the audited financial statements of the Company for the financial year ended 31 December 2005.

2. Changes in Accounting policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards ("FRS") effective for financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-Current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of FRS 2, 5, 102, 108, 110, 116, 121, 127, 128,131, 132, 133,138 and 140 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are discussed below:

(a) FRS 3: Business Combinations and FRS 136: Impairment of Assets

The adoption of these new FRSs has resulted in the Group ceasing annual goodwill amortisation. Goodwill is carried at cost less accumulated impairment losses and is now tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in profit or loss and subsequent reversal is not allowed. Prior to 1 January 2006, goodwill was amortised on a straight-line basis over its estimated useful life of 20 years. This change in accounting policy has been accounted for prospectively for business combinations where the agreement date is on or after 1 January 2006. The transitional provisions of FRS 3, however, have required the Group to eliminate at 1 January 2006 the carrying amount of the accumulated amortisation of RM405,090 with a corresponding decrease in goodwill. The carrying amount of goodwill as at 1 January 2006 of RM4,224,471 ceased to be amortised.

2. Changes in Accounting Policies (Cont'd)

(b) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest. In the consolidated balance sheets, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

3. Qualification of Financial Statements

The audit report on the preceding annual financial statements was not subject to any qualification.

4. Nature and Amount of Exceptional and Extraordinary Items

There were no unusual items in the financial statements under review.

5. Valuation of Plant and Equipment

The Company did not revalue any of its plant and equipment during the quarter.

6. Taxation

The Company has been accorded Multimedia Super Corridor ("MSC") Status on 15 August 2003. The financial incentive awarded together with the MSC status is Pioneer Status which exempts 100% of the statutory business income from taxation for a period of 5 years. The effective date for the Pioneer Status has not commenced. New Paradigm Technologies Sdn Bhd ("NPT"), a wholly-owned subsidiary of GPRO, was granted the pioneer status on 1 January 2003 which entitled NPT to enjoy tax exemption in respect of its profit until 31 December 2007. In addition, GPRO Technologies (Hang Zhou) Co. Ltd. (a wholly-owned subsidiary of NPT) and G.PRO Technologies (Vietnam) Co. Ltd. (a 60% owned subsidiary of NPT) are also enjoying the relevant tax incentives in the respective countries in which they operate.

There were no provision for taxation as the Company has no chargeable income and the taxes of its subsidiaries were exempted under the tax structure of the respective jurisdictions.

7. Profit on sale of Unquoted Investments and/or Properties

There was no disposal of unquoted investment and properties in the quarter ended 30 June 2006 and during the current financial period to date.

8. Purchase or Disposal of Quoted Securities

There was no acquisition or disposal of quoted securities for the current quarter and financial period to date.

9. Changes in the Composition of the Group

There is no change in the composition of the Group including business combinations, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations for the current financial period to date, saved for the following:-

The company has on 22^{nd} August 2006 acquired the entire issued and paid-up share capital of GPRO Technologies Pte Ltd comprising two (2) ordinary shares of SGD 1.00 each from a Director and substantial shareholder of GPRO, namely, Quek Kar Piaw on a willing-buyer willing-seller basis for a cash consideration of SGD2.00. Pursuant to the Acquisition, GTPL is now a wholly-owned subsidiary of GPRO.

10. Corporate Proposals

There were no corporate proposals announced but not completed as at the date of this announcement.

11. Seasonal or Cyclical Factors

The business of the Company is not affected by any significant seasonal or cyclical factors.

12. Issuance and Repayment of Debt and Equity Securities

There were no issuance and repayment of debt and equity securities, share buy-back, share cancellation, shares held as treasury shares and resale of treasury shares during the current financial period to date.

13. Company Borrowings and Debt Securities

The borrowing of the Company as at 30 June 2006 represents secured hire-purchase loans for the Company's motor vehicles.

	As at 30 June 2006 **RM**
Secured short-term (due within 12 months):	
Finance creditors	43,558
Secured short-term (due after 12 months):	
Finance creditors	171,475
Total Borrowings	215,033

14. Contingent Liabilities and Contingent Assets

There were no contingent liabilities and contingent assets as at 25 August 2006 (the latest practicable date not earlier than 7 days from date of issue of this financial results).

15. Off Balance Sheet Financial Instruments

The Company does not have any financial instrument with off balance sheet risk as at 25 August 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this financial results).

16. Review of Performance

For the current quarter ended 30 June 2006, the Group recorded a revenue and loss after tax and minority interest of RM3.47 million and RM0.27 million respectively. As for the six (6)-month financial period to-date, the Group recorded a revenue of RM7.04 million and profit after tax and minority interest ("PATMI") of RM0.11 million. Total revenue for the six (6)-month financial period ended 30 June 2006 has increased slightly by 0.17 million or 2.4% as compared to the preceding year corresponding financial period ended 30 June 2005. However, PATMI has decreased by 92.3% from RM1.46 million. This was due to the decrease in gross profit margin as a result of the reduction in the selling prices of hardware. The management is taking the necessary steps to improve the situation. One such measure is to increase the selling prices of software and charges for value adding services.

As compared against the first quarter ended 31 March 2006, the Company also recorded a loss before tax of RM0.28 million from a profit before tax of 0.34 million.

The IEES (Industrial Engineering Executive System) which is a software product is beginning to contribute towards the revenue. The Company expects the sales of IEES to pick up and therefore generate additional revenue as well as improving the profit of the Group.

The sales of RFID (Radio Frequency Identification Technology) Smart Terms and Smart Tags are overtaking the sales of the contact version. This trend is expected to continue. The Group plans to phase out the contact version within the next two years.

17. Current Year's Prospects

The general economic situation of global textile and apparel industry is still healthy. The whole supply chain is working towards greater efficiency after the quota removal. Buyers/brand owners are reducing their number of suppliers as a move towards improving procurement efficiency and cost. This is likely to lead to consolidation into ever larger companies among the producers.

Factors which shape the decision on where to locate apparel and textile production include labour costs, quality, productivity, time to market, reliability, and the presence of synergistic focus in apparel-producing industrial districts. Another factor is the ability of a country's producers to engage in full-package production-that is, to go beyond simple assembly and supply the client with a finished product by providing designing, sourcing, cutting, sewing, assembling, labeling, packing and shipping. Other important factors are political stability, quality of transportation infrastructure, quality of telecommunication infrastructure and policies affecting labour.

The following countries or regions are likely to grow in importance in apparel production:
China, Hong Kong, India, Pakistan, Vietnam, Mexico, The Caribbean, Eastern Europe and North Africa.

China had already reached USD 52 billion in export in 2003, approximately 22% of the world total. Some studies predict that China may account for as much as half of the world market after 2005. In addition, China's internal market for clothing has been predicted to double, from roughly USD 50 billion in 2000 to around USD 100 billion in 2010.

Another trend is the increasing popularity of "lean retailing" and "lean manufacturing". Lean retailing" and "lean manufacturing" are management concepts / practices which are meant to reduce wastages and improve cost effectiveness in retail and production environment.

GPRO's response

(a) Focus more marketing effort in the growth centers;

(b) Focus sales target on the bigger and stronger producers;

(c) Adapting the Company's products to the market trend such as "lean retailing" and "lean manufacturing";

(d) Moving products and services to meet the requirements up the value chain.

The Group expects the demand for RFID solution to pick up. The Group targets to ship 8,000 RFID Smart-Term (Z1 & Z2) and 400,000 RFID Smart-Tags by end of 2006. This will mean growth in revenue.

The IEES is also expected to generate more revenue and improve profit of the Group.

18. Profit Forecast and Profit Guarantee

Not applicable.

19. Changes In Estimates

There were no changes in estimates of amounts reported during this quarter.

20. Segmental Information

The Group operates predominantly in one business segment only and in two principal geographical areas of the world. The segmental revenue and results for the current quarter and the cumulative ended 30 June 2006 are as follows:-

Segment Revenue	**Three months ended 30 June 2006 RM'000**	**Six months ended 30 June 2006 RM'000**
Domestic	189	419
Overseas	3,278	6,624
Total Revenue	3,467	7,043
Segment Earnings/(Loss)		
Domestic	(246)	(284)
Overseas	(26)	356
Total (loss)/profit from operations	(272)	72

21. Subsequent Events

The company has on 22nd August 2006 acquired the entire issued and paid-up share capital of GPRO Technologies Pte Ltd comprising two (2) ordinary shares of SGD 1.00 each from a Director and substantial shareholder of GPRO, namely, Quek Kar Piaw on a willing-buyer willing-seller basis for a cash consideration of SGD2.00. Pursuant to the Acquisition, GTPL is now a wholly-owned subsidiary of GPRO.

22. Capital Commitments

There are no material commitments which require disclosure during the quarter.

23. Material Litigation

The Company is not engaged in any material litigation either as plaintiff or defendant and the directors do not have any knowledge of any proceedings pending or threatened against the Company as at 25 August 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this financial results).

24. Earnings Per Share

a) Basic

The earnings per share was calculated by dividing the profit for the period attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

	INDIVIDUAL AND CUMULATIVE PERIOD TO DATE	
	Current year quarter 30/6/2006	Current year to date 30/6/2006
(Loss)/Profit attributable to equity holders of the parent (RM)	(265,189)	113,397
Weighted average number of ordinary shares	250,000,000	250,000,000
Basic (Loss)/ earnings per share (sen)	(0.11)	0.05

b) Diluted

Since the diluted earnings per share increased when taking the ESOS into account as the market price is higher than the exercise price, the ESOS is anti-dilutive and is ignored in the calculation of diluted earnings per share

25. Dividends paid

There were no dividends paid during the quarter under review.

26. Dividend payable

No interim ordinary dividend has been declared for the financial period ended 30 June 2006.

27. Utilisation of Proceeds

The Company raised RM25 million during its Initial Public Offering exercise in June 2004 and the details of the status of the utilisation of proceeds as at 30 June 2006 are as follows: -

	Description	Proposed Utilisation RM'000	Actual Utilisation RM'000	Balance Amount RM'000	%	Explanations
(i)	R & D expenditure	8,000	5,688	2,312	28.9	By end 2007
(ii)	Expansion of overseas operations	10,000	8,344	1,656	16.6	By end 2006
(iii)	Working capital	5,300	5,284	16	0.3	By end 2006
(iv)	Estimated listing expenses	1,700	1,368	332	19.5	To be transferred to working capital
	Total	25,000	20,684	4,316		