

P.I.E. INDUSTRIAL BERHAD (COMPANY NO.: 424086-X)
NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE 3RD QUARTER ENDED 30 SEPTEMBER 2008

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134, INTERIM FINANCIAL REPORTING

1. Basis of Preparation

The unaudited interim financial report has been prepared in accordance with the requirements of Chapter 9, Continuing Disclosure, Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and in compliance with Financial Reporting Standard (“FRS”) 134, Interim Financial Reporting issued by Malaysian Accounting Standards Board (MASB), and should be read in conjunction with the Group’s annual audited financial statements for the year ended December 31, 2007.

The unaudited interim financial report contains condensed consolidated financial statements and selected explanatory notes which provide an explanation of the events and transactions that are significant to gain an understanding of the changes in the financial position and performance of the Group since the financial year ended December 31, 2007. The unaudited condensed consolidated financial statements and explanatory notes thereon do not include all of the information required for full set of financial statements to be prepared in accordance with Financial Reporting Standards (FRSs).

2. Changes in Accounting Policies

The significant accounting policies and methods of computation adopted by the Group for the preparation of the unaudited interim financial report are consistent with those adopted in the annual audited financial statements for the year ended December 31, 2007, except for the adoption of the following revised FRSs issued by MASB that are relevant to the Group’s operations and effective for the accounting periods beginning on January 1, 2008:

- a) Revised FRS 107 Cash Flow Statements
- b) Revised FRS 112 Income Taxes
- c) Revised FRS 118 Revenue
- d) Amendments to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
- e) FRS 134 Interim Financial Reporting
- f) Revised FRS 137 Provision, Contingent Liabilities and Contingent Assets

The adoption of the above revised FRSs did not have material impact on the unaudited interim financial report for the period ended September 30, 2008.

3. Seasonal or Cyclical Factors

The cyclical nature of the manufacturing sector is generally correlated to the global economy and is normally seasonal with demand peaking at the year-end festive seasons.

4. Unusual Items Due To Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter and financial period-to-date because of their nature, size or incidence.

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5. Changes in Estimates

There were no material changes in estimates of amount reported in either the prior interim period of the current financial year or prior financial years that have a material effect on the results during the current quarter and financial period-to-date.

6. Debt and Equity Securities

Save as disclosed below, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial period ended September 30, 2008.

- (a) During the financial period ended September 30, 2008, the Company repurchased 500 of its issued share capital from the open market for an average price of RM5.35 per share. The repurchase transactions were financed by the internally generated funds. The shares repurchased are being held as treasury shares in accordance with the requirement of Section 67A of the Companies Act 1965. There is no shares being cancelled or resold during the financial year under review.

Out of the total 64,007,000 issued and fully paid-up share capital, 1,000 are held as treasury shares. Hence, the number of outstanding ordinary shares in issue and fully paid-up is 64,006,000 ordinary shares of RM1 each.

The Employees' Share Option Scheme ("ESOS") implemented by the Company has expired on March 11, 2008 and the Board of Directors and ESOS committee do not have any intention to renew the scheme.

7. Dividends Paid

	9 months ended September 30,	
	2008	2007
	RM'000	RM'000
Dividends declared and paid:		
Special dividend I of 8 sen per ordinary share of RM1.00 each, tax exempt, for 2007 and 2006	5,120	5,006
Special dividend II:		
16 sen gross per ordinary share of RM1.00 each, less tax at 26%, for 2007	7,578	-
3 sen gross per ordinary share of RM1.00 each, less tax at 27%, for 2006	-	1,371
First and final dividend:		
12 sen gross per ordinary share of RM1.00 each, less tax at 26%, for 2007	5,684	-
12 sen gross per ordinary share of RM1.00 each, less tax at 27%, for 2006	-	5,482
Special interim tax exempt dividend I of 3 sen per ordinary share of RM1.00 each, for 2007	-	1,877
	<u>18,382</u>	<u>13,736</u>

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8. Segment Revenue and Results

Segments	Manufacturing RM'000	Trading RM'000	Others RM'000	Elimination RM'000	Total RM'000
Revenue					
External sales	215,027	3,116	-	-	218,143
Inter-segment sales	17,624	1,527	1,457	(20,608)	-
Total revenue	<u>232,651</u>	<u>4,643</u>	<u>1,457</u>	<u>(20,608)</u>	<u>218,143</u>
Results					
Profit/ (loss) before tax	31,525	(883)	338	273	31,253
Income tax expense	(7,534)	-	-	84	(7,450)
Profit/ (loss) for the period	<u>23,991</u>	<u>(883)</u>	<u>338</u>	<u>357</u>	<u>23,803</u>

Segment information is presented in respect of the Group's business segment which is based on the Company's management and internal reporting structure. Inter-segment pricing is determined based on a negotiated basis.

9. Revaluation of Property, Plant and Equipment

The valuations of building have been brought forward without amendment from the previous annual audited financial statements for the year ended December 31, 2007.

10. Material Post Balance Sheet Events

There were no material events subsequent to the end of the current financial quarter under review up to the date of this report.

11. Changes in the Composition of the Group

There was no change in the composition of the Group for the current quarter and financial period-to-date including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations.

12. Contingent Liabilities

As of September 30, 2008, there were obligations and contingent liabilities for the Group resulting from the issuance of letter of guarantee on a foreign subsidiary company's import duties by a bank amounting to approximately RM238,000.

There is no change in the contingent liabilities in respect of guarantees given by the Company to certain banks and financial institutions for banking facilities granted to and utilised by its subsidiary companies.

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13. Capital Commitment

As of September 30, 2008, capital expenditure contracted but not provided for in the unaudited interim financial report of the Group in respect of purchase a piece of leasehold land is approximately RM4,590,000.

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

14. Review of Performance

The Group recorded a revenue of RM68.978 million and a profit before tax of RM10.604 million in the current quarter ended 30 September 2008 as compared to revenue of RM72.651 million and a profit before tax of RM12.612 million in the preceding year corresponding quarter.

The decreased in revenue of RM3.673 million or -5.06% was resulted from lower demand on trading activities and manufacturing activities especially in Cable & Wire Harness Assembly activities.

The reduced in profit before tax by RM2.008 or -15.92% million was due to higher provision for allowance of slow moving inventories and lower gain in foreign currency exchange.

15. Comparison with Immediate Preceding Quarter's Results

The Group's revenue for the quarter under review decreased by RM1.118 million or -1.59% if compared with the preceding quarter, RM70.096 million. Lower revenue recorded during the quarter under review was mainly caused by decreased in revenue of trading activities and manufacturing activities especially in Cable & Wire Harness Assembly activities.

However, the Group recorded profit before tax of RM10,604 million, representing a slight increase of 2.09% or RM0.217 million if compared to profit before tax of RM10.387 million in the preceding quarter. The increased was mainly caused by higher margin of product mixture but partly offset with less gain in foreign currency exchange.

16. Current Year Prospect

Due to sharp drop of copper and PVC price coupled with the anticipated high unemployment rate and low demand of consumption followed from the recent burst of global financial crisis and credit crunch, the Group expects its revenue and profit may slow down in the coming quarters. With a sound financial status, continuous cost management and business development, the Group should be able to mitigate the effects of the coming economic recession and continue to grow upon advent of economic recovery.

17. Variance on Profit Forecast

Not applicable as no profit forecast was announced and published.

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18. Income Tax Expense

	Quarter Ended		Period Ended	
	30.09.2008	30.09.2007	30.09.2008	30.09.2007
	RM'000	RM'000	RM'000	RM'000
Income tax in respect of				
Current period	2,504	3,500	7,534	7,071
Overprovision in prior year	0	(69)	0	(69)
Deferred tax income	(28)	(332)	(84)	(773)
	<u>2,476</u>	<u>3,099</u>	<u>7,450</u>	<u>6,229</u>

The Group's taxation for the current quarter and financial period-to-date reflects an effective tax rate which is lower than the statutory income tax rate mainly due to certain income which is not taxable and incentives enjoyed by the foreign subsidiary in Thailand under Investment Promotion Act of Thailand B.E. 1977 in which income derived from Board of Investment operations is entitled to corporate income tax reduction at 15%.

19. Sale of Unquoted Investments and/or Properties

There was no sale of unquoted investment and/or property for the current quarter and financial period-to-date.

20. Quoted Securities

There was no purchase or disposal of quoted securities by the Group for the current quarter and financial period-to-date.

21. Status of Corporate Proposals Announced

There were no corporate proposals announced but pending completion as at the date of this unaudited interim financial report.

22. Group Borrowings and Debt Securities

There were no borrowings and debt securities as of September 30, 2008.

23. Financial Instruments with Off Balance Sheet Risk

There was no off balance sheet financial instrument as at the date of this unaudited interim financial report.

24. Changes in Material Litigation

Save as disclosed below, the Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and the Directors do not have any knowledge of any proceedings, pending or threatened, against the Group or of any facts likely to give rise to any

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proceedings which might materially and adversely affect the financial position or business of the Group:

- (a) Pan-International Electronics (Malaysia) Sdn. Bhd. (PIESB) had on October 24, 2002 commenced legal action against Xircom Operations (M) Sdn. Bhd. (Xircom) to claim the sum of Ringgit Malaysia Five Million Nine Hundred Fifty Seven Thousand Three Hundred Sixteen and Sen Twenty Only (RM5,957,316.20) for damages arising from the breach of contract to purchase goods and wrongful set-off of payment. Xircom has applied to the court for the case to be referred to arbitration while PIESB applied to set down preliminary issue down for trial. The Penang High Court has granted Xircom's application for arbitration. PIESB therefore proceed with the appeal No. P-02-1301-06 in the Court of Appeal against the decision of Penang High Court ordering the matter to go for arbitration. The date of the Appeal has not been fixed by the Court of Appeal. The Board is advised by the Company's solicitor that PIESB has a reasonable chance to succeed in the claim. In view of the long delay since the case was filed, the Board has authorized Encik Ahmad Murad to commence negotiations with Xircom's lawyer with a view to achieving an amicable settlement. We have commenced the negotiations with Xircom. However until the date of this interim report, Xircom has not responded to our revised claim. Meanwhile, the Board has appointed Adam Abdullah & Mani to commence a review of the case and provide the Board with an opinion of the PIESB's chances of success if we were to proceed with Arbitration. Messrs Adam Abdullah & Mani have reviewed all the documents provided by our lawyer handling the case and Messrs Adam Abdullah & Mani proposed to have a meeting with the management sometimes in November 2008. The Board will make a decision on how best to proceed upon receiving the legal opinion from Messrs Adam Abdullah & Mani in due course.
- (b) Pan International Electronics (Thailand) Co., Ltd. (PIT) had on December 30, 2003 commenced legal action against Delta Electronics (Thailand) Public Company Limited (Delta) to claim the sum of Baht13,559,759 (equivalent to approximately RM1,331,568) for the compensation damages as a result of the cancellation of purchase orders by Delta. Although the Court of First Instance gave the verdict to dismiss the case on August 21, 2006, PIT has proceeded with the appeal No. 01057/2549 (2006) in the Court of Appeal through the Samutprakarn Provincial Court against the decision on December 29, 2006. However, the Court of Appeal has decided to uphold the judgement of the Court of First Instance. On October 16, 2008, PIT had filed an appeal to Supreme Court against the judgement of the Court of Appeal.

25. Dividends

The following Dividends for the year ended December 31, 2007, approved by the Company's shareholders at the Eleventh Annual General Meeting on May 23, 2008 has been paid on June 10, 2008 to depositors registered in the Record of Depositors on May 28, 2008:

- (a) A Special Dividend I of 8 sen per share tax exempt;
- (b) A Special Dividend II of 16 sen per share less income tax at 26%; and
- (c) A First and Final Dividend of 12 sen per share less income tax at 26%.

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26. Earnings Per Ordinary Share

(a) Basic earnings per ordinary share

Basic earnings per ordinary share amounts are calculated by dividing profit attributable to the ordinary equity shareholders by the weighted average number of ordinary shares in issue during the financial period, excluding treasury shares held by the Company.

	Quarter Ended		Period Ended	
	30.09.2008	30.09.2007	30.09.2008	30.09.2007
Profit attributable to ordinary equity shareholders (RM'000)	8,128	9,513	23,803	21,392
Weighted average number of ordinary share in issue (units'000)	64,006	62,532	64,006	62,309
Basic earnings per ordinary share (sen)	12.699	15.213	37.190	34.332

(b) Diluted earnings per ordinary share

The earnings used in the calculation of the diluted earnings per share are the same as those for the equivalent basic earnings per ordinary share measures, as outlined above.

For the purpose of calculating diluted earnings per ordinary share, the weighted average number of ordinary share in issue for the period ended September 30, 2007 have been adjusted for the dilutive effects of all potential share options granted to employees.

	Quarter Ended	Period Ended
	30.09.2007	30.09.2007
Weighted average number of ordinary share in issue (units'000)	62,532	62,309
Adjustment for share options (units'000)	2	2
Weighted average number of ordinary shares for calculating diluted earnings per ordinary Share (units'000)	62,534	62,311
Diluted earnings per ordinary share (sen)	15.213	34.331

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27. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report of the Group's annual audited financial statements for the year ended December 31, 2007 was not subject to any qualification.