

**P.I.E. INDUSTRIAL BERHAD (COMPANY NO.: 424086-X)**  
**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
**FOR THE 3RD QUARTER ENDED 30 SEPTEMBER 2007**

**PART A – EXPLANATORY NOTES PURSUANT TO FRS 134<sub>2004</sub>, 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<sub>2004</sub>, Interim Financial Reporting issued by the 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, 2006.

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 an understanding of the changes in the financial position and performance of the Group since the financial year ended December 31, 2006. The unaudited condensed consolidated interim financial report and explanatory notes thereon do not include all of the information required for full set of financial statements to be prepared in accordance with 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 financial statements for the year ended December 31, 2006, except for the adoption of the following revised Financial Reporting Standards (“FRSs”) issued by MASB that are relevant to the Group’s operations and effective for the accounting periods beginning on January 1, 2007:

- a) FRS 117 Leases
- b) FRS 124 Related Party Disclosures

The adoption of revised FRSs did not have material impact on the unaudited interim financial report for the period ended September 30, 2007 except that the adoption of FRS 117 Leases has resulted in a change in accounting policy for leasehold land and flats.

The adoption of the revised FRS 117 has resulted in a retrospective change in accounting policy relating to the classification of leasehold land and flats. The up-front payments made for the leasehold land and flats represents prepaid lease payments and are amortised on a straight-line basis over the lease term. Prior to January 1, 2007, leasehold land and flats were classified as property, plant and equipment and was stated at valuation less accumulated depreciation and impairment loss. Revaluation was carried out at least once every five years and any revaluation increase is taken to equity as a revaluation surplus. The leasehold land and flats were last revalued in 2005.

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Upon the adoption of the revised FRS 117 at January 1, 2007, the unamortised revalued amount of leasehold land and flats are retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions of FRS 117. The reclassification of leasehold land and flats as prepaid lease payments has been accounted for retrospectively and certain comparative amounts as at December 31, 2006 have been restated which are disclosed as below:

	<b>As Previously stated</b>	<b>Effect of changes in accounting policy</b>	<b>As Restated</b>
	RM'000	RM'000	RM'000
Balance sheet as of December 31, 2006			
Non current assets			
Property, Plant and Equipment	37,274	(10,906)	26,368
Prepaid Lease Payments	-	10,906	10,906

There was no effect on the Group's unaudited income statements during the financial period ended September 30, 2007.

**3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The auditors' report on the audited financial statement for the year ended December 31, 2006 was not subject to any qualification.

**4. 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.

**5. 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 except as disclosed in Note 2.

**6. CHANGES IN ESTIMATES**

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

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**7. 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, 2007:

- (a) During the financial period ended September 30, 2007, the Company has issued 873,000 new ordinary shares of RM1 each for cash pursuant to the Employees' Share Option Scheme ("ESOS") of the Company at an exercise price of RM1.70 per ordinary share.
- (b) During the financial period ended September 30, 2007, the Company repurchased 269,800 of its issued share capital from the open market for an average price of RM3.212 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.

Of the total 64,003,000 issued and fully paid ordinary shares, 1,476,800 are held as treasury shares by the Company. As at September 30, 2007, the number of outstanding shares in issue and fully paid is 62,526,200 ordinary shares of RM1 each.

**8. DIVIDEND PAID**

	9 months ended September 30,	
	2007	2006
	RM'000	RM'000
Declared and paid:		
Special tax exempt dividend I:		
8 sen per ordinary share of RM1.00 each, for 2006	5,006	-
6 sen per ordinary share of RM1.00 each, for 2005	-	3,786
Special dividend II of 3 sen gross per ordinary 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 27%, for 2006	5,482	-
12 sen gross per ordinary share of RM1.00 each, less tax at 28%, for 2005	-	5,452
Special interim tax exempt dividend I of 3 sen per ordinary share of RM1.00 each, for 2007	1,877	-
	<u>13,736</u>	<u>9,238</u>

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**9. SEGMENT REVENUE AND RESULTS**

<b>Segments</b>	<b>Manufacturing</b>	<b>Trading</b>	<b>Others</b>	<b>Elimination</b>	<b>Total</b>
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Revenue</b>					
External sales	195,133	5,690	-	-	200,823
Inter-segment sales	10,660	1,217	7,404	(19,281)	-
	<u>205,793</u>	<u>6,907</u>	<u>7,404</u>	<u>(19,281)</u>	<u>200,823</u>
<b>Results</b>					
Profit/ (loss) before tax	30,893	(595)	5,859	(8,536)	27,621
Tax (expense)/ income	(6,424)	113	69	13	(6,229)
Profit/ (loss) for the period	<u>24,469</u>	<u>(482)</u>	<u>5,928</u>	<u>(8,523)</u>	<u>21,392</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.

**10. REVALUATION OF PROPERTY, PLANT AND EQUIPMENT**

The valuations of buildings have been brought forward without amendment from the previous annual financial statements for the year ended December 31, 2006.

**11. MATERIAL POST BALANCE SHEET EVENTS**

Subsequent to the financial period ended September 30, 2007, the Company has re-issued 1,500,800 treasury shares by re-sale in the open market. The average re-sale price of the treasury shares was RM4.06 per share.

**12. 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.

**13. CONTINGENT LIABILITIES**

As of September 30, 2007, 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 banker amounting to approximately RM289,000.

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

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

**14. REVIEW OF PERFORMANCE**

The Group's revenue for the current quarter ended September 30, 2007 slightly increased by RM1.05 million or 1.47% as compared to the previous year's corresponding quarter. The slight increase in the Group's revenue was the net effect of the increase on demand from the existing and new customers in Contract Electronics Manufacturing Services and Cable & Wire Harness Assembly activities versus the decrease on demand from the Wire and Cable Manufacturing and Trading activities.

The Group has achieved a higher profit before tax of RM12.612 million during the current quarter although there was only a slight increase in revenue. The increase in profit before tax of RM3.074 or 32.23% as compared with the same quarter of preceding year was mainly attributed to the higher product margin from manufacturing activities and reversal of the provision for bonus made in previous year, which is no longer required during this quarter.

**15. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS**

The Group's revenue of RM72.651 million for the quarter ended September 30, 2007 has increased by RM3.635 million or 5.27% as compared to the immediate preceding quarter. The increase was mainly attributed to the higher revenue contribution from the Contract Electronics Manufacturing and Wire and Cable Manufacturing activities but it was partly offset by the slight drop on the demand in Cable & Wire Harness Assembly and Trading activities.

The profit before tax of RM12.612 million generated for this quarter has increased by RM4.246million or 50.75% as compared to the immediate preceding quarter. The increase in profit before tax was mainly contributed by the increase of product margin from manufacturing activities, reversal of the provision for bonus which is no longer required and also the savings on administrative and distribution expenses.

**16. CURRENT YEAR PROSPECTS**

Barring any unforeseen circumstances, the Group expects to achieve satisfactory performance both in revenue and profitability in the next quarter of year 2007 with the continuous efforts to streamline and rationalize the operational facilities and constantly seek for new viable business opportunities that are synergistic to the development of the Group.

**17. VARIANCE ON PROFIT FORECAST**

Not applicable as no profit forecast was announced and published.

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**18. INCOME TAX EXPENSE**

	3 Months Ended		Period Ended	
	30.09.2007	30.09.2006	30.09.2007	30.09.2006
	RM'000	RM'000	RM'000	RM'000
Income tax in respect of:				
Current period	3,500	2,490	7,071	5,054
Overprovision in prior year	(69)	-	(69)	-
Deferred tax income	(332)	(28)	(773)	(84)
	<u>3,099</u>	<u>2,462</u>	<u>6,229</u>	<u>4,970</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 exemption of 50%.

**19. SALE OF UNQUOTED INVESTMENTS AND 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, 2007.

**23. FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK**

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

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**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 proceedings which might materially 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 are still in negotiations with Xircom.
- (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 RM1,355,976) 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 and the lawsuit is still under the process by the Court of Appeal.

**25. DIVIDEND**

The following Dividends for the year ended December 31, 2006, approved by the Company's shareholders at the Tenth Annual General Meeting on May 18, 2007 has been paid on June 12, 2007 to depositors registered in the Record of Depositors on May 25, 2007:

- (a) A Special Dividend I of 8 sen per share tax exempt;
- (b) A Special Dividend II of 3 sen per share less income tax at 27%; and
- (c) A First and Final Dividend of 12 sen per share less income tax at 27%.

The Special Interim Dividend I of 3 sen per share tax exempt for the year ending December 31, 2007, approved by the Board of Directors on April 3, 2007 has also been paid on June 12, 2007 to depositors registered in the Record of Depositors on May 25, 2007.

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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.

	3 Months Ended		Period Ended	
	30.09.2007	30.09.2006	30.09.2007	30.09.2006
Profit attributable to ordinary equity shareholders (RM'000)	9,513	7,076	21,392	15,562
Weighted average number of ordinary share in issue (units'000)	62,532	62,656	62,309	62,557
Basic earnings per ordinary share (sen)	15.213	11.294	34.332	24.878

*(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.

	3 Months Ended		Period Ended	
	30.09.2007 (Units'000)	30.09.2006 (Units'000)	30.09.2007 (Units'000)	30.09.2006 (Units'000)
Weighted average number of ordinary share in issue	62,532	62,656	62,309	62,557
Adjustment for share options	2	259	2	253
Weighted average number of ordinary shares for calculating diluted earnings per ordinary share	62,534	62,915	62,311	62,810
Diluted earnings per ordinary share (sen)	15.213	11.248	34.331	24.778