

P.I.E. INDUSTRIAL BERHAD (COMPANY NO.: 424086-X)
NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE 4TH QUARTER ENDED 31 DECEMBER 2007

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134₂₀₀₄, 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”) 134₂₀₀₄, 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 financial report for the year ended December 31 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:

| | As Previously stated | Effect of changes in accounting policy | As Restated |
|---------------------------------------|-------------------------------------|---|------------------------|
| | 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 year ended December 31, 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 year-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 year-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 year ended December 31, 2007:

- (a) During the financial year ended December 31, 2007, the Company has issued 877,000 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 year ended December 31, 2007, the Company repurchased 294,300 of its issued share capital from the open market for an average price of RM3.272 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. The Company had also re-issued 1,500,800 treasury shares by re-sale in the open market for an average price of RM4.06 per share during the fourth quarter of year 2007.
- (c) Of the total 64,007,000 issued and fully paid ordinary shares, 500 are held as treasury shares by the Company. As at December 31, 2007, the number of outstanding shares in issue and fully paid is 64,006,500 ordinary shares of RM1 each.

8. DIVIDEND PAID

| | 12 months ended September 31, | |
|---|-------------------------------|--------------|
| | 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

| Segments | Manufacturing | Trading | Others | Elimination | Total |
|-------------------------------|----------------------|----------------|----------------|--------------------|----------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | | | | | |
| External sales | 274,444 | 6,505 | - | - | 280,949 |
| Inter-segment sales | 16,604 | 1,743 | 161,465 | (179,812) | - |
| | <u>291,048</u> | <u>8,248</u> | <u>161,465</u> | <u>(179,812)</u> | <u>280,949</u> |
| Results | | | | | |
| Profit/ (loss) before tax | 52,964 | (57) | 157,920 | (166,730) | 44,097 |
| Income tax expense | (10,367) | (28) | (40,364) | 42,253 | (8,506) |
| Profit/ (loss) for the period | <u>42,597</u> | <u>(85)</u> | <u>117,556</u> | <u>(124,477)</u> | <u>35,591</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

There are no material events subsequent to the end of the current quarter that requires adjustment to, or disclosure in the financial statements for the financial year ended December 31, 2007.

12. CHANGES IN THE COMPOSITION OF THE GROUP

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

13. CONTINGENT LIABILITIES

As of December 31, 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 bank amounting to approximately RM230,000.

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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14. CAPITAL COMMITMENT

As of December 31, 2007, the Group has outstanding capital expenditures contracts amounting to RM3,960,000 in respect of the acquisition of leasehold land and factory building.

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

15. REVIEW OF PERFORMANCE

The slightly drop in the Group's revenue for the current quarter ended December 31, 2007 by RM5.297 million or -6.2% as compared with the same quarter of previous year was the net effect of the sharp decrease on demand from Trading activities versus the satisfactory increase on the demand from the existing and new customers in Contract Electronics Manufacturing Services, Wire and Cable Manufacturing and Cable & Wire Harness Assembly activities.

Even though the quarterly revenue decreases slightly, the Group has generated a higher profit before tax of RM16.476 million during the quarter under review. The increase of profit before tax by RM4.055 million or 32.65% as compared to RM12.421 million recorded in the corresponding quarter of last year was mainly due to the increase on sales of higher profit margin manufacturing products and reversal of the provision for bonus overprovided in the previous quarter.

16. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

In comparison to the immediate preceding quarter, the Group's revenue and profit before tax of RM80.126 million and RM16.476 million respectively for this quarter has increased by RM7.475 million or 10.29% and RM3.864 million or 30.64% respectively which was mainly attributed to the higher demand on all manufacturing activities which have higher profit margin.

17. CURRENT YEAR PROSPECTS

Barring any unforeseen circumstances, the Group expects to achieve satisfactory performance both in revenue and profitability in the coming years with the continuous efforts to streamline and rationalize the operational facilities and constantly seeking new business opportunities that are synergistic to the development of the Group.

18. VARIANCE ON PROFIT FORECAST

Not applicable as no profit forecast was announced and published.

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19. INCOME TAX EXPENSE

| | 3 Months Ended | | Year Ended | |
|--------------------------------------|----------------|--------------|--------------|--------------|
| | 31.12.2007 | 31.12.2006 | 31.12.2007 | 31.12.2006 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Income tax in respect of: | | | | |
| Current period | 628 | 3,060 | 7,699 | 8,114 |
| Under/ (over)provision in prior year | 231 | (456) | 162 | (456) |
| Deferred tax expense/ (income) | 1,418 | (783) | 645 | (867) |
| | <u>2,277</u> | <u>1,821</u> | <u>8,506</u> | <u>6,791</u> |

The Group's taxation for the current quarter and financial year-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 and tax reduction of 50% for certain income.

20. SALE OF UNQUOTED INVESTMENTS AND PROPERTIES

Save as disclosed below, there was no sale of unquoted investment and/or property for the current quarter and financial year-to-date:

| | Year Ended | |
|-----------------------------------|------------|------------|
| | 31.12.2007 | 31.12.2006 |
| | RM'000 | RM'000 |
| Sales of bond funds | | |
| Proceeds from sales of bond funds | 5,011 | 4,152 |
| Carrying value of bond funds | (5,000) | (4,000) |
| Profit on sales of bond funds | <u>11</u> | <u>152</u> |

21. QUOTED SECURITIES

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

22. STATUS OF CORPORATE PROPOSALS ANNOUNCED

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

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23. GROUP BORROWINGS AND DEBT SECURITIES

There were no borrowings and debt securities as of December 31, 2007.

24. 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.

25. 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 have commenced the negotiations with Xircom. However until the date of this interim report, Xircom has not responded to our revised claim.
- (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 and the lawsuit is still under the process by the Court of Appeal.

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26. 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 ended 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.

27. 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 year, excluding treasury shares held by the Company.

| | 3 Months Ended | | Year Ended | |
|--|----------------|------------|------------|------------|
| | 31.12.2007 | 31.12.2006 | 31.12.2007 | 31.12.2006 |
| Profit attributable to ordinary equity shareholders (RM'000) | 14,199 | 10,600 | 35,591 | 26,162 |
| Weighted average number of ordinary share in issue (units'000) | 63,520 | 61,983 | 62,614 | 62,414 |
| Basic earnings per ordinary share (sen) | 22.354 | 17.100 | 56.842 | 41.917 |

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(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 | | Year Ended | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | 31.12.2007 (Units'000) | 31.12.2006 (Units'000) | 31.12.2007 (Units'000) | 31.12.2006 (Units'000) |
| Weighted average number of ordinary share in issue | 63,520 | 61,983 | 62,614 | 62,414 |
| Adjustment for share options | 0 | 353 | 0 | 274 |
| Weighted average number of ordinary shares for calculating diluted earnings per ordinary share | 63,520 | 62,336 | 62,614 | 62,688 |
| Diluted earnings per ordinary share (sen) | 22.354 | 17.000 | 56.842 | 41.734 |