

P.I.E. INDUSTRIAL BERHAD (COMPANY NO.: 424086-X)
NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE 2ND QUARTER ENDED 30 JUNE 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 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 June 30, 2008.

3. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors’ report on the annual audited financial statements for the year ended December 31, 2007 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.

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6. 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 had material effect on the results during the current quarter and financial period-to-date.

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 June 30, 2008.

- (a) During the financial period ended June 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 been expired on March 11, 2008 and the Board of Directors and ESOS committee do not have intention to renew the scheme.

8. DIVIDENDS PAID

	6 months ended June 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
	18,382	13,736

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9. SEGMENT REVENUE AND RESULTS

Segments	Manufacturing RM'000	Trading RM'000	Others RM'000	Elimination RM'000	Total RM'000
Revenue					
External sales	147,196	1,968	-	-	149,164
Inter-segment sales	11,452	1,304	842	(13,598)	-
	158,648	3,272	842	(13,598)	149,164
Results					
Profit/ (loss) before tax	21,242	(900)	112	194	20,648
Income tax expense	(4,982)	-	-	9	(4,973)
Profit/ (loss) for the period	16,260	(900)	112	203	15,675

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 audited financial statements for the year ended December 31, 2007.

11. MATERIAL POST BALANCE SHEET EVENTS

Subsequent to June 30, 2008, the Group had completed the acquisition of leasehold land and factory building amounted to RM4,715,839.

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 June 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 RM229,000.

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.

14. CAPITAL COMMITMENT

As of June 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.

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

15. REVIEW OF PERFORMANCE

The Group's revenue was slightly increased in current quarter by RM1.08 million or 1.56% compared to previous year's corresponding quarter. The slight increased of revenue was resulted from high demand on Wire & Cable Manufacturing and Contract Electronics Manufacturing activities but partly was offset with decreased demand on Cable & Wire Harness Assembly and Trading activities.

The Group has achieved a higher profit before tax of RM10.387 million during the current quarter although there was only a slight increase in revenue. The increased of 24.16% or RM2.021 million of profit before tax was mainly due to increase in other operating income resulted from the increase of realised gain on foreign currency exchange and reduction of provision for doubtful debt.

16. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

The Group's revenue for this quarter was dropped by RM8.972 million or -11.35% as compared to RM79.068 million recorded in the immediate preceding quarter which was mainly due to low demand on Cable & Wire Harness Assembly and Contract Electronics Manufacturing activities from existing customers.

The profit before tax of RM10.387 million generated in this quarter has showed slightly increased by RM0.126 million or 1.23% as compared to the immediate preceding quarter. The increased in profit before tax was mainly contributed by increased of other operating income which derived from increased of realised gain on foreign currency exchange and lower provision for doubtful debt and bonus.

17. CURRENT YEAR PROSPECT

Barring any unforeseen circumstances, the Group expects positive growth in revenue and profitability from late of the coming quarter with the continued effort to grab the business opportunity by enhancing the strategies in business penetration, cost management and enlargement of customer base.

18. VARIANCE ON PROFIT FORECAST

Not applicable as no profit forecast was announced and published.

19. INCOME TAX EXPENSE

	3 Months Ended		Period Ended	
	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	RM'000	RM'000	RM'000	RM'000
Income tax in respect of				
Current period	2,373	1,671	5,029	3,571
Deferred tax income	(28)	(413)	(56)	(441)
	<u>2,345</u>	<u>1,258</u>	<u>4,973</u>	<u>3,130</u>

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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%.

20. 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.

21. QUOTED SECURITIES

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

23. GROUP BORROWINGS AND DEBT SECURITIES

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

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. Meanwhile, the Board has appointed Adam Abdullah & Mani to

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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. 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. The Board may consider filing a new court case on the ground of hire of work with the same number of claims after receiving the legal opinion from Messrs Frank International Ltd where the chances of success in filing an appeal with the Supreme Court are slim.

26. 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%.

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		Period Ended	
	30.06.2008	30.06.2007	30.06.2008	30.06.2007
Profit attributable to ordinary equity shareholders (RM'000)	8,042	7,108	15,675	11,879
Weighted average number of ordinary share in issue (units'000)	64,006	62,461	64,006	62,196
Basic earnings per ordinary share (sen)	12.565	11.379	24.491	19.099

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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.

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

	3 Months Ended 30.06.2007 (Units'000)	Period Ended 30.06.2007 (Units'000)
Weighted average number of ordinary share in issue	62,461	62,196
Adjustment for share options	5	5
Weighted average number of ordinary shares for calculating diluted earnings per ordinary share	62,466	62,201
Diluted earnings per ordinary share (sen)	11.378	19.098