

P.I.E. INDUSTRIAL BERHAD (COMPANY NO.: 424086-X)
NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE 2ND QUARTER ENDED 30 JUNE 2009

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 31 December 2008.

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 31 December 2008. 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, methods of computation and basis of consolidation 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 31 December 2008.

The Group has not adopted the following FRSs and IC Interpretation which are effective from 1 January 2010.

- | | |
|--------------------------|---|
| (a) FRS 4 | Insurance Contracts |
| (b) FRS 7 | Financial Instruments : Disclosures |
| (c) FRS 8 | Operating Segments |
| (d) FRS 139 | Financial Instruments : Recognition and Measurement |
| (e) IC Interpretation 9 | Reassessment of Embedded Derivatives |
| (f) IC Interpretation 10 | Interim Financial Reporting and Impairment |

The adoption of FRS 7 and the consequential amendment to FRS 101 Presentation of Financial Statements will introduce new disclosure requirements in relation to the Group's financial instruments and the objectives, policies and processes for managing capital. FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. By virtue of the exemption in Paragraph 103AB of FRS 139, the impact on the financial statements upon first adoption of FRS 139 as required by Paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed.

The directors anticipate that all of the other FRSs and IC Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

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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. However the trend may fluctuate unexpectedly after the global economic downturn since end of 2008.

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 year-to-date because of their nature, size or incidence.

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 year-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 30 June 2009.

- (a) During the financial period ended 30 June 2009, the Company repurchased 1,000 of its issued share capital from the open market for an average price of RM4.02 per share. The repurchased 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.

As of 30 June 2009, out of the total 64,007,000 issued and fully paid-up share capital, 12,000 are held as treasury shares. Hence, the number of outstanding ordinary shares in issue and fully paid-up is 63,995,000 ordinary shares of RM1 each.

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7 Dividends Paid

	6 months ended	
	<u>30.06.2009</u>	<u>30.06.2008</u>
	RM'000	RM'000
Dividends declared and paid:		
Special dividend of 23 sen gross per ordinary share of RM1.00 each, less tax at 25%, for 2008	11,039	-
Special dividend I of 8 sen per ordinary share of RM1.00 each, tax exempt, for 2007	-	5,120
Special dividend II:		
16 sen gross per ordinary share of RM1.00 each, less tax at 26%, for 2007	-	7,578
First and final dividend:		
12 sen gross per ordinary share of RM1.00 each, less tax at 25%, for 2008	5,760	-
12 sen gross per ordinary share of RM1.00 each, less tax at 26%, for 2007	-	5,684
	<u>16,799</u>	<u>18,382</u>

8 Segment Revenue and Results

Segments	Manufacturing	Trading	Others	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
External sales	97,399	1,144	-	-	98,543
Inter-segment sales	4,722	359	1,230	(6,311)	-
Total revenue	<u>102,121</u>	<u>1,503</u>	<u>1,230</u>	<u>(6,311)</u>	<u>98,543</u>
Results					
Profit before tax	14,763	84	556	41	15,444
Income tax expense	(3,408)	(6)	-	462	(2,952)
Profit for the period	<u>11,355</u>	<u>78</u>	<u>556</u>	<u>503</u>	<u>12,492</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 31 December 2008.

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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 year-to-date including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations.

12 Contingent Liabilities

As of 30 June 2009, 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 RM243,000.

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.

13 Capital Commitment

There was no capital expenditure contracted but not provided for in the unaudited interim financial report of the Group during the current financial period under review.

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 RM52.582 million and a profit before tax of RM8.532 million in the current quarter ended 30 June 2009.

As compared to revenue of RM70.096 million and a profit before tax of RM10.387 million in the preceding year corresponding quarter, the revenue decreased by RM17.514 million or -24.99%, which was mainly due to lower demand in all manufacturing and trading activities as most of the customers managed to reduce their inventory level; while profit before tax was reduced by RM1.855 million or -17.86% due to lower revenue achieved, higher losses from foreign currency exchange transactions and lower income from sale of scrap. However, the reduction in profit was narrowed by reversal of provision of doubtful debts, reversal of provision of slow moving inventories and less operating expenses.

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15 Comparison with Immediate Preceding Quarter's Results

The Group's revenue for the quarter under review increased by RM6.621 million or 14.41% if compared with the preceding quarter, RM45.961 million. Higher revenue recorded during the quarter under review was mainly due to higher demand on all manufacturing activities, especially from wire and cable related products.

In line with increased of revenue, the Group recorded a profit before tax of RM8.532 million, representing an increase of RM1.619 million or 23.42% if compared to profit before tax of RM6.913 million in the preceding quarter. The increase was mainly caused by higher revenue achieved, reversal of provision of doubtful debts, reversal of provision of slow moving inventories and higher income from sales of scrap. However, the profit was partly offset by losses from foreign currency exchange transactions.

16 Current Year Prospect

The Group's revenue and profit in coming quarter are expected to be improved gradually when the global economic recession reaches its bottom in the near future. The Group will prepared itself by focusing on its cost management, inventory control and on-time collection of account receivables to maintain its competitiveness in market and take secure steps to look for the new customers or business opportunities. With a sound financial support, the Group is optimistic to achieve satisfactory performance when economic uptrend appears to come.

17 Variance of Actual Profit from Forecast Profit

Not applicable as no profit forecast was announced and published.

18 Income Tax Expense

	Quarter Ended		Period Ended	
	30.06.2009	30.06.2008	30.06.2009	30.06.2008
Income tax in respect of				
Current period	1,855	2,373	3,415	5,029
Under/(over)provision in prior year	0	0	0	0
Deferred tax income	50	(28)	(463)	(56)
	<u>1,905</u>	<u>2,345</u>	<u>2,952</u>	<u>4,973</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%.

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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 30 June 2009.

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 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 24 October 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.

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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 had a meeting with our Finance Manager, Miss Saw Siew Hong and Marketing Manager, Mr. Sam Lim on Tuesday, 12 February 2009 to discuss the case. Messrs. Adam Abdullah & Mani has advised the Board to comments the arbitration as they believe PIESB has a reasonable chance of success.

- (b) Pan International Electronics (Thailand) Co., Ltd. (PIT) had on 30 December 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 21 August 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 29 December 2006. However, the Court of Appeal has decided to uphold the judgement of the Court of First Instance. On 16 October 2008, PIT had filed an appeal to Supreme Court against the judgement of the Court of Appeal.
- (c) Pan-International Wire & Cable (Malaysia) Sdn. Bhd. (PIWSB) had on 16 January 2009 commenced legal action against Container Link Depot Sdn Bhd (CLDSB) to claim the deposit sum of Ringgit Malaysia Eight Hundred and Ten Thousand only (RM810,000.00) as a result of CLDSB's failure to comply with the Sales and Purchase Agreement of a piece of leasehold land. PIWSB also claimed for interest and legal fee amounting to RM45,552.30 from CLDSB. As at 30 June 2009, the case had settled by both parties after PIWSB had received both refund and claim from CLDSB.

25 Dividends

The following Dividends for the year ended 31 December 2008, approved by the Company's shareholders at the Twelfth Annual General Meeting on 22 May 2009 has been paid on 9 June 2009 to depositors registered in the Record of Depositors on 27 May 2009:

- (a) A Special Dividend of 23 sen per share less income tax at 25%; and
(b) A First and Final Dividend of 12 sen per share less income tax at 25%.

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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 year, excluding treasury shares held by the Company.

	Quarter Ended		Period Ended	
	30.06.2009	30.06.2008	30.06.2009	30.06.2008
Profit attributable to ordinary equity shareholders (RM'000)	6,627	8,042	12,492	15,675
Weighted average number of ordinary share in issue (units'000)	63,996	64,006	63,996	64,006
Basic earnings per ordinary share (sen)	10.355	12.565	19.521	24.491

(b) Diluted earnings per ordinary share

There are no diluted earnings per share as the Company does not have any convertible financial instruments as at the end of the current quarter and financial period-to-date.

27 Auditors' Report on Preceding Annual Financial Statements

The auditors' report of the Group's most recent annual audited financial statements did not contain any qualification.