

P.I.E. INDUSTRIAL BERHAD

P.I.E. Industrial Berhad (PIE) issued to Bursa Malaysia Securities Berhad an update on the proposed acquisition of 5,000,000 ordinary shares of THB10.00 each in Pan International Electronics (Thailand) Co Ltd (PIT) representing the entire issued and paid-up share capital of PIT from Pan Global Holding Co Ltd (PGH), a major shareholder of PIE, for a cash consideration of USD3,850,000 (equivalent to approximately MYR14,534,000) (Proposed Acquisition).

(1) Introduction

On behalf of the Board of Directors of PIE (Board), AmMerchant Bank Berhad (a member of AmInvestment Group) (AmMerchant Bank) disclosed that on August 11, 2005, PIE has entered into a share sale and purchase agreement (SSPA) with PGH to acquire 5,000,000 ordinary shares of THB10.00 each in PIT representing the entire issued and paid-up share capital of PIT (Sale Shares) for a cash consideration of USD3,850,000 (equivalent to approximately MYR14,534,000 based on the foreign exchange rate of MYR3.775: USD1.00 as at August 10, 2005) (Proposed Acquisition).

(2) Details of the Proposed Acquisition

(2.1) Salient Terms of the SSPA

The salient terms of the SSPA in relation to the Proposed Acquisition are as follows:

(2.1.1) Purchase Consideration

The purchase consideration for the sale, purchase and transfer of the Sale Shares is an aggregate of USD3,850,000 (equivalent to approximately MYR14,534,000 based on the foreign exchange rate of MYR3.775 : USD1.00 as at 10 August 2005) (Purchase Consideration).

Upon execution of the SSPA, ten percent (10%) of the Purchase Consideration has been paid as deposit which shall form part of the Purchase Consideration upon fulfillment of the conditions precedent (as defined in Section 2.1.2 of this announcement) (Deposit).

The Purchase Consideration (less the Deposit) shall be paid by PIE to PGH on completion of the SSPA (as detailed in Section 2.1.3 of this announcement).

(2.1.2) Conditions Precedent

The sale, purchase and transfer of the Sale Shares are amongst others conditional upon the following:

(i) The approvals have been obtained from all the relevant public authorities of both Thailand and Malaysia, including:

- (a) Any government in any jurisdiction;
 - (b) Any minister, department, officer, commission, delegate, instrumentality, agency, board, authority or organization of any government or in which any government is interested;
 - (c) Any non-government regulatory authority; and
 - (d) Any provider of public utility services, whether or not government owned or controlled.
- (ii) The approval of the shareholders of PIE in a shareholders' meeting to be convened for the transaction contemplated in the SSPA.
- (iii) The conduct of a due diligence investigation by PIE into PIT and its affairs, the results of which are satisfactory to PIE in its absolute discretion.

(hereinafter referred to as the Conditions Precedent).

(2.1.3) Completion

The completion of the SSPA shall take place on or before:

- (i) The date which is thirty (30) days after the day on which the last of the Conditions Precedent of the SSPA is received, obtained or fulfilled (as the case may be); or
- (ii) Any other date agreed in writing between the parties;

at a place mutually agreed by the parties.

(2.2) Source of Funding and Liabilities to be Assumed by PIE
There are no other liabilities to be assumed by PIE arising from the Proposed Acquisition other than those stated in the balance sheet of PIT on the completion date of the Proposed Acquisition. The estimated financial commitment for the Proposed Acquisition is the Purchase Consideration for the Proposed Acquisition which will be funded via internally generated funds of PIE.

(2.3) Basis of Arriving at the Purchase Consideration

The Purchase Consideration was arrived at on a willing-buyer willing-seller basis after taking into consideration the following:

- (i) The audited net tangible assets (NTA) of PIT as at December 31, 2004 of THB92.06 million (equivalent to approximately *MYR8.99 million) after adjusting for the dividend payable for the financial year ended December 31, 2004 amounting to THB60.0 million (equivalent to approximately *MYR5.86 million) (Adjusted NTA);
- (ii) The expected future earnings contribution from PIT to PIE and its subsidiaries (Group or PIE Group); and

(iii) The historical performance of PIT. The audited financial highlights of PIT for the past five (5) financial years ended 31 December 2000 to 31 December 2004 are set out in Table 3. The Purchase Consideration represents a premium of approximately 61.70% of the Adjusted NTA of PIT as at 31 December 2004. (* Based on the average foreign exchange rate of MYR9.7636: THB100 as at December 31, 2004)

(2.4) Rationale for the Proposed Acquisition

The Proposed Acquisition is intended to enable PIE to become a regional holding company of PGH's operations in South East Asia. PIE believes that the Proposed Acquisition will enhance the management efficiency and will ultimately benefit the shareholders of PIE.

In addition, the Proposed Acquisition will allow PIE to expand its business to Thailand and enable PIE to penetrate and gain a foothold in the Thailand market with the availability of certain competitive advantages, namely products integration, lower production and transportation costs.

Pursuant to the Proposed Acquisition, PIE will be able to achieve a faster growth as compared to organic growth as PIT has proven operations track records, established network and instant customer base in Thailand. With such synergies, the PIE Group will be able to achieve higher turnover and profitability.

The Proposed Acquisition is expected to contribute positively to the earnings of PIE in the immediate term as PIE is able to consolidate the earnings of PIT, thereby enhancing value to PIE's shareholders.

(2.5) Sale Shares Acquired Free from Encumbrances

The Sale Shares will be acquired by PIE free from all encumbrances and with all rights and benefits attaching to the Sale Shares including but without limitations to all bonuses, rights, dividends and other distributions declared, paid or made in respect of the Sale Shares on and/or after the completion date of the Proposed Acquisition.

(2.6) Policy on Foreign Investments and Repatriation of Profits

PIT is incorporated in Thailand and is subject to Thailand's laws and regulations on foreign investments.

Currently, there are no regulations controlling or restricting repatriation of foreign investments, dividends or sale proceeds of foreign investment issued under the Exchange Control Act B.E. 2485 (Exchange Act). However, under Ministerial Regulation No.13 issued under the Exchange Act, repatriation must be made through a person authorised by the Minister of Finance of Thailand.

Currently, Thailand government's policies allow a 100% foreign investment in manufacturing industries. Prohibitions are imposed on indigenous industries and businesses related to national

safety or securities or affecting arts and culture, tradition, folk handicrafts or natural resources and environment. As PIT is a manufacturer, it is not subject to any kind of restriction or prohibition.

An expert opinion will be sought before the completion of the Proposed Acquisition.

The repatriation of profits to PIE by PIT is dependent on the ability of PIT to pay dividends to PIE in the future.

(3) Background Information on PIT

PIT was incorporated in Thailand on August 21, 1990 as a private limited company under the Civil and Commercial Code of Thailand. PIT is principally involved in cable and wireharness assembler and providing of cable and wireharness set to the computer communication and consumer electronic industry. PIT's principal place of business is located at 12/1 Moo 9, Tambon Dongkeelex Suwannasorn Road, Amphur Mueng Prachinbure 25000, Thailand.

The present authorised and issued paid-up share capital of PIT is THB50,000,000 comprising 5,000,000 ordinary shares of THB10.00 each. For the financial year ended 31 December 2004, PIT recorded an audited profit after taxation (PAT) of approximately THB44.01 million (equivalent to approximately *MYR4.30 million). The audited NTA of PIT as at December 31, 2004 is approximately THB152.06 million (equivalent to approximately *MYR14.85 million). PIT is a wholly owned subsidiary of PGH.

(* Based on the average foreign exchange rate of MYR9.7636: THB100 as at December 31, 2004)

PIT does not have any subsidiary or associated company.

Please refer to Table 1 to 3 for details on the shareholders, Board of Directors and the financial highlights of PIT.

(4) Background Information on PGH

PGH was incorporated in British Virgin Islands on July 19, 1995. PGH is an investment holding company. The present issued and paid-up share capital of PGH is USD21,750,000 comprising 2,175 ordinary shares of USD10,000 each.

PGH is a major shareholder of PIE. As at July 31, 2005, PGH holds 53.05 percent equity interest in PIE, hence, PIE is a subsidiary of PGH.

Please refer to Tables 4 to 6 for details on the shareholders and Board of Directors of PGH, and the original cost of investment in the Sale Shares of PIT by PGH.

(5) Prospects of the Economy and Industry

(5.1) Overview of the Malaysia and Global Economy

The Malaysian economy is projected to grow by 6 percent in 2005 in line with the moderation in world growth. Strong private consumption and steadily rising private investment will drive domestic economic activity, while public spending gradually consolidates.

Monetary policy will continue to support domestic growth by ensuring low and stable interest rates to facilitate economic activities, whilst maintaining a positive real rate of return for savers.

Notwithstanding the anticipated gradual rise in global interest rates, Malaysia's increased economic resilience and strong macroeconomic fundamentals will continue to accord flexibility in undertaking a supportive monetary stance.

The outlook for 2005 will generally remain favorable although global growth is expected to moderate on account of high oil prices, inflationary pressures, interest rate hikes and a probable slowdown in China's economy.

The emergence of these risks, that became apparent in the second half of 2004 and are expected to continue into 2005, will have a larger impact on growth next year. Global economic growth is projected to moderate to 4.4 percent in 2005 from 4.6 percent in 2004.

The stronger macroeconomic fundamentals and resilience, backed by sturdy domestic demand and broad-based growth, will however, continue to support Malaysia's gross domestic product growth, forecast at 6 percent in 2005.

The positive outlook for 2005 is premised on a more resilient domestic demand, driven by greater private sector spending. The strong private sector performance, amidst a favorable external environment will enable the public sector to progressively consolidate its overall financial position, whilst confirming private sector's entrenched role as the engine of economic growth. Domestic demand expenditure (excluding change in stocks) in real terms is, thus, forecast to continue to increase favorably by 4.6 percent (2004: 6.7 percent).

(Source: Economic Report 2004/2005)

The 2005 budget was formulated with the objective of generating stronger private investment activity and reinstating the private sector as the main engine of economic growth. In particular, public policy continued to emphasize on the need for Malaysian companies to identify and take advantage of the opportunities available in new growth areas. The diversification of the economy would further enhance the resilience of the economy while providing opportunities for companies to move up the value chain.

In 2004, the global economy expanded at its strongest pace of 4.8 percent since 1984, led by the United States, reinforced by strong growth in the Asian region and revival of growth in Japan

and Europe. Robust global growth was reflected in significant improvements in international trade and financial flows.

The outlook for 2005 remains favorable. World output and world trade are projected to expand at a steady pace of 4 percent and 5.8 percent respectively in 2005.

(Source: Bank Negara Malaysia Annual Report 2004)

(5.2) Overview of the Thailand Economy

The Thai economy grew by 6.1 percent in 2004, decelerating slightly from 6.9 percent growth in 2003, due to the slowdown in domestic demand especially in private consumption and private investment. External demand remained satisfactory with export value attaining record levels.

The engines of growth in 2004 proved to be private investment and exports. The Private Investment Indicator expanded by 12.8 percent, decelerating from 13.6 percent growth in the previous year. Exports, on the other hand, grew by 23.0 percent, up from 18.2 percent in the previous year.

Overall economic stability remained satisfactory with headline inflation in 2004 averaging only 2.7 percent, accelerating from 1.8 percent in the previous year in line with the rise in the prices of raw food and energy. Core inflation averaged 0.4 percent, compared with 0.2 percent in the previous year. The unemployment rate remained low at 2.1 percent.

Public debt also remained low at 47.8 percent of gross domestic products. As for external stability, the current account continued to be in a surplus in terms of both the trade balance and the services and transfers balance. External debt declined over the course of the year. At end-2004, the foreign reserves position was strong at 49.8 billion United States Dollars or roughly four times that of short-term foreign debt.

The Thai economy in 2005 is expected to continue its growth trend but at a more decelerated pace as compared to previous year. This is in line with the expected moderation in external demand, private consumption and private investment. Private and public investment will prove to be key drivers of growth.

(Source: Thailand's Economic and Monetary Conditions in 2004)

(5.3) Overview of the Electrical and Electronics (E&E) Industry

Global demand for electronics is expected to remain favorable in 2005 supported by the relatively strong global growth. The personal computer segment would also continue to benefit from the strong demand in the Asia-Pacific region. The growth in the electronics sector would be further reinforced by the continued trend towards increased application of chips in consumer appliances due to the increasing convergence in computing, digital media and wireless technology.

(Source: Bank Negara Malaysia Annual Report 2004)

Production of E&E appliances industry, one of Thailand's main export-oriented industries, had decelerated significantly from the previous year. Even though the production of integrated circuits expended well in the first half of 2004 in line with global demand for electronics products, its production in the second half of the year declined considerably due to contracted global demand for integrated circuits as well as their relatively high level of inventories. On the other hand, production of television sets rose owing to strong exports demand. The capacity utilization rate in the electronics and electrical appliances industry increased slightly from 62.1 percent in 2003 to 63.8 percent in 2004.

(Source: Thailand's Economic and Monetary Conditions in 2004)

(6) Risk Factors

Below are the main risk factors relating to the Proposed Acquisition, which may not be exhaustive:

(6.1) Business Risks

The business of PIT will be generally subject to certain risks inherent to the industry. These risks primarily relate to potential shortage of inputs including manpower and raw material, increasing competition from other players and any change in the legal and environmental framework governing the industry where PIT operates.

However, PIT is well positioned to manage these business risks in the ever-changing business environment since it is an established company with proactive management. PIT seeks to limit these business risks through, among others, expansion of both existing and new markets, supplying high quality products, maintaining good business relationships with its suppliers and customers and complying with the rules and regulations of the relevant authorities.

However, no assurance can be given that any change in the above factors will not have any material and adverse impact to the business of PIT.

(6.2) Foreign Operations/ Currency Risk

The Proposed Acquisition will be transacted in United States Dollars. As such, PIE will be subjected to the foreign currency risks from the date of the execution of the SSPA until the completion of the Proposed Acquisition.

As PIT is located in Thailand, most of the transactions carried out by PIT are transacted in Baht. This exposes PIE to foreign currency risks. Any fluctuation in Baht may affect PIE's financial results.

PIE will adopt a prudent approach by continuously monitoring PIE's and PIT's foreign currency transactions and foreign currency movements. When necessary, PIE will hedge its net foreign exchange exposure by entering into short-term forward currency contracts.

PIE believes that its internal control policies should be able to minimize the foreign currency risks. However, no assurance can be given that any adverse movement in the foreign currency rate(s) will not have an adverse impact on the financial results of PIE and PIT.

(6.3) Economic, Political and Regulatory Risks

The business, prospects and financial conditions, and profitability level of the Proposed Acquisition may be affected by any development in the economic, political and regulatory environment of Malaysia, Thailand as well as other countries where PIT may operates and markets its products.

Political and economic uncertainties include (but not limited to) changes in general economic, business and credit conditions, government legislations and policies affecting manufacturers, inflation, interest rates, fluctuation in foreign exchange rates, political or social development, risks of war, expropriation, nationalization, renegotiation or nullification of existing contracts, methods of taxation and currency exchange controls.

However, no assurance can be given that any changes in these factors will not have any material adverse impact to PIE and PIT.

(6.4) Competition

Generally, operators in the E&E industry face normal competitive conditions. Competition is based on a number of factors which include quality of products, sustainable competitive pricing, delivery dependability, manufacturing capabilities and service capacities. In this respect, PIT has long-standing business relationship with its suppliers and customers, and produces high quality products. The management of PIT is confident that PIT will continue to remain competitive with strict quality control and low overheads to achieve higher operational efficiency.

However, no assurance can be given that PIT will be able to remain competitive and maintain its existing market share in the future.

(6.5) Dependence on Key Personnel

The management of PIT believes that its continued success will depend, to a significant extent, upon the abilities and continued efforts of its existing Directors, senior management and other key personnel. The loss of the key members of PIT could adversely affect PIT's performance and/or its ability to maintain its competitive edge. In this respect, to a certain

degree, PIT's ability to attract and retain a competent workforce is crucial to sustain the efficiency level of PIT's operations. PIT will strive to continue attracting and retaining skilled personnel to support its business operations and has made efforts to train its staff.

PIT will always maintain a conducive working environment and a comprehensive human resource strategy, which includes competitive compensation package as well as a structured succession plan.

However, there can be no assurance that the above measures will always be successful in retaining key personnel or ensuring a smooth transition should changes occur.

(6.6) Risks in Relation to the Proposed Acquisition

There is a potential risk that the returns from the Proposed Acquisition may have a longer payback period than expected as the investment in the Proposed Acquisition may not generate the expected return. Although PIE will mitigate its investment risks by exercising due care in the evaluation of its investment in PIT, there can be no assurance that the Proposed Acquisition will yield positive returns to PIE and would not have any adverse material effect on PIE's future financial performance.

(7) Effects of the Proposed Acquisition

(7.1) Share Capital and Major Shareholders' Shareholdings

The Proposed Acquisition will have no effect on the issued and paid-up share capital of PIE as well as the shareholdings of its major shareholders. The shareholdings of the major shareholders of PIE based on the Register of Major Shareholders as at 31 July 2005 are set out in Table 7.

(7.2) Earnings

The Proposed Acquisition is expected to be completed by end of year 2005. As such, the Proposed Acquisition is not expected to have material impact on the earnings of the PIE Group for the financial year ending December 31, 2005.

The Board expects the Proposed Acquisition to contribute positively to the earnings of the PIE Group for the financial year ending 31 December 2006 and is also expected to enhance the future profitability of the PIE Group.

(7.3) NTA

The effect of the Proposed Acquisition on the NTA per share and gearing of the PIE Group is set out in Table 8.

(8) Estimated Time Frame for Completion

Barring any unforeseen circumstances, the Board expects the Proposed Acquisition to be completed by end of year 2005.

(9) Approvals Required

The following approvals will be sought for the Proposed Acquisition:

(i) The approval from the shareholders of PIE at the Extraordinary General Meetings (EGM) to be convened;

(ii) Bank Negara Malaysia; and

(iii) Any other authorities, where applicable.

(10) Directors' and Major Shareholders' Interests

PGH and Pan-International Industrial Corporation (PIIC) (by virtue of PIIC's substantial shareholding in PGH), being the major shareholders of both PIE and PIT, are deemed interested in the Proposed Acquisition. Accordingly, PGH and PIIC shall abstain from voting in respect of their direct and indirect shareholdings (if any) on the resolution pertaining to the Proposed Acquisition to be tabled in the forthcoming EGM.

Mui Chung Meng, Chen, Chih-Wen, Cheng Shing Tsung and Cheung Ho Leung are the Directors of PIE and are also the management representatives of PGH. As such, they are deemed related to PGH and PIIC by virtue of the fact that they are accustomed to or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of PGH and PIIC.

Consequently, Mui Chung Meng, Chen, Chih-Wen, Cheng Shing Tsung and Cheung Ho Leung have abstained and will continue to abstain from all deliberations and voting on the Proposed Acquisition at all board meetings and will abstain from voting in respect of their direct and indirect shareholdings (if any) on the resolution pertaining to the Proposed Acquisition to be tabled in the forthcoming EGM.

The abovementioned major shareholders and Directors who are interested in the Proposed Acquisition shall undertake to ensure that persons connected with them shall abstain from voting in respect of their direct and indirect shareholdings (if any) on the resolution pertaining to the Proposed Acquisition to be tabled in the forthcoming EGM.

The shareholdings of the Directors and major shareholders of PIE based on the Register of Directors' Shareholdings and Register of Major Shareholders as at July 31, 2005 are set out in Table 7.

Save as disclosed above, none of the other Directors and/or major shareholders of PIE and/or persons connected with them have any interest, either direct or indirect, in the Proposed Acquisition.

(11) Board of Directors' Statement

After taking into consideration all relevant factors, the Board (with the exception of Mui Chung Meng, Chen, Chih-Wen, Cheng Shing Tsung and Cheung Ho Leung), is of the opinion that the Proposed Acquisition is in the best interest of the Company and its shareholders.

The Board (with the exception of Mui Chung Meng, Chen, Chih-Wen, Cheng Shing Tsung and Cheung Ho Leung) recommends that you vote in favour of the resolution pertaining to the Proposed Acquisition to be tabled in the forthcoming EGM.

(12) Appointment of Advisers

AmMerchant Bank Berhad has been appointed as the Adviser for the Proposed Acquisition. K & N Kenanga Bhd has been appointed as the Independent Adviser to the Independent Directors and minority shareholders of PIE for the Proposed Acquisition.

(13) Departure from the securities commission's policies and guidelines on issue/offer of securities (SC Guidelines)

To the best of the knowledge and belief of the Board, the Proposed Acquisition does not involve any departure from the SC Guidelines.

(14) Documents for Inspection

Shareholders who wish to inspect the SSPA may do so at the registered office of PIE at 3rd Floor, Wisma Wang, 251-A Jalan Burma, 10350 Penang, Malaysia between 9:00 a.m. and 5:00 p.m. from Mondays to Fridays (except for public holidays) for a period of one (1) month from the date of this announcement.

This announcement is dated 11 August 2005.