



**SUCCESS TRANSFORMER CORPORATION BERHAD**  
*(Company No: 636939-W)*

**Notes on the quarterly report – 30 June 2007**

**PART A: EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134  
("FRS 134")**

**A1. Basis of preparation**

The condensed interim financial statements for the 2nd quarter ended 30 June 2007 are unaudited and have been prepared in accordance with FRS134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and Paragraph 9.22 and Part A of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"). The condensed interim financial statements should be read in conjunction with the audited consolidated financial statements of STC for the financial year ended 31 December 2006.

The explanatory notes attached to the condensed interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of STC and its subsidiary companies ("Group") since the financial year ended 31 December 2006.

**A2. Changes in Accounting Policies**

The significant accounting policies and methods of computation adopted by STC in these condensed interim financial statements are consistent with those adopted in the audited consolidated financial statements of STC for the financial year ended 31 December 2006 except for the adoption of Amendment to FRS 119 Employee Benefits (Amended "FRS 119") issued by MASB that is effective for the Group's annual reporting date, 31 December 2007. The adoption of Amended FRS 119 does not have significant financial impact on the financial results of the Group.

**A3. Qualification of Annual Financial Statements**

The latest audited consolidated financial statements of STC for the financial year ended 31 December 2006 were not qualified.

**A4. Seasonal and cyclical factors**

The Group's business operation results were not materially affected by any major seasonal or cyclical factors during the financial period ended 30 June 2007. However, the Process Equipment's business operation results is very much depends on the timing of completion of each project.



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**A5. Unusual nature and amounts of items affecting assets, liabilities, equity, net income or cash flows**

There were no items of unusual nature and amounts affecting assets, liabilities, equity, net income or cash flows during the financial period ended 30 June 2007.

**A6. Changes in accounting estimates**

There were no changes in accounting estimates that have had a material effect in the current quarter results.

**A7. Issuances and repayment of debt and equity securities**

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the current quarter under review.

**A8. Dividend**

During the financial period ended 30 June 2007, an interim tax-exempt dividend of 5% in respect of the current financial year amounting to RM 3 million had been approved by the Board on 11 June 2007 and was paid on 15 August 2007.

**A9. Segment information**

The Group is principally engaged in the manufacturing and trading of electrical industrial equipment and process equipment.



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**A9. Segment information (Continued)**

**Business Segments**

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	Current Year Quarter 30-Jun-07 RM'000	Preceding Year Corresponding Quarter 30-Jun-06 RM'000	Current Year To Date 30-Jun-07 RM'000	Preceding Year Corresponding Period 30-Jun-06 RM'000
<b>Revenue</b>				
- Transformer, lighting & related products	24,236	22,488	43,995	39,447
- Process equipment	15,402	-	21,407	-
	<u>39,638</u>	<u>22,488</u>	<u>65,402</u>	<u>39,447</u>
<b>Profit after tax and Minority interest</b>				
- Transformer, lighting & related products	3,831	3,620	6,627	5,945
- Process equipment	1,170	-	1,495	-
	<u>5,001</u>	<u>3,620</u>	<u>8,122</u>	<u>5,945</u>

**Geographical Segment**

The Group operates principally in Malaysia, therefore geographical segment is analysed based on geographical location of its customers. The analysis of segment results is not presented because it is not practicable to allocate operating expenses as the basis for making these allocations is arbitrary. Segment revenue from external customers by geographical area based on the geographical location of its customers is shown as follows:

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	Current Year Quarter 30-Jun-07 RM'000	Preceding Year Corresponding Quarter 30-Jun-06 RM'000	Current Year To Date 30-Jun-07 RM'000	Preceding Year Corresponding Period 30-Jun-06 RM'000
<b>Revenue</b>				
- Local	28,227	18,881	47,184	32,637
- Export	11,411	3,607	18,218	6,810
	<u>39,638</u>	<u>22,488</u>	<u>65,402</u>	<u>39,447</u>



**Notes on the quarterly report – 30 June 2007**

**A10. Carrying Amount of Revalued Assets**

The Group did not revalue any of its property, plant and equipment for the current quarter under review and the valuations of property, plant and equipment have been brought forward without amendment from the audited consolidated financial statements of STC for the financial year ended 31 December 2006.

**A11. Material events subsequent to the end of the interim period**

There were no material events subsequent to the end of the current quarter under review save as disclosed in Note A8 and B8.

**A12. Changes in the composition of the Group**

**(1) Internal Restructuring**

The Company had on 8 May 2007 undertaken an internal restructuring of its subsidiaries by acquiring:

- (i) the entire issued and paid-up share capital of Success Electronics & Transformer Manufacturer Sdn Bhd (200853-K), Nikkon Industrial Lighting Sdn Bhd (408117-K), SES Property Sdn Bhd (167985-V) and Success Transformer Marketing Sdn Bhd (465030-W) from its wholly owned subsidiary, Success Transformer Manufacturer Sdn Bhd (248892-A) (“STMFG”) for a total consideration amounting to RM49,979,081, and
- (ii) 75% of the issued and paid up share capital of Daiichi Steel Sdn Bhd (484410-V) and 65% of the issued and paid up share capital of Omega Metal Industries Sdn Bhd (522621-K) from STMFG for a purchase consideration of RM 525,521 and RM 698,882 respectively and subject to the terms and conditions contained in a conditional sale and purchase agreement dated 8 May 2007.

The purchase considerations for the above proposals are payable by way of book entry as amount owing by STC to STMFG. The restructuring exercise was completed on 31 May 2007.

(Collectively referred to as “the **Internal Restructuring**”)



**A12. Changes in the composition of the Group (Continued)**

As the existing corporate structure of the Group is multi-tiered and does not clearly reflect its core business segments or allow it to achieve better efficiencies in terms of its operations and financial reporting, the Internal Restructuring will result in the removal of intermediary holding company that is no longer required and achieve efficiencies in operational and financial reporting. (i.e. STMFG). The Internal Restructuring will not have any material effect on the net assets per share and earnings per share of the Company for the financial year ending 31 December 2007.

**(2) Acquisition of Subsidiary**

The Company's 60% owned subsidiary, Seremban Engineering Sdn Bhd ("SESB"), had on 27 June 2007 entered into a related party transaction with Mr. Wong Choon Cheon and Ms. Wong Poh Chee ("the Vendors"), whereby SESB agreed to acquire 200,002 ordinary shares of RM1.00 each in Seremban Engineering Industries Sdn Bhd ("SEISB") ("Sale Shares"), representing 100% equity interests in SEISB from the Vendors for a cash consideration of RM 236,101.

The Acquisition of SEISB will not have any effects on the share capital, substantial shareholders' shareholdings, gearing and net assets of STC Group.

In addition, the Acquisition of SEISB is not expected to have any material effects on the earnings of the STC group for the financial year ending 31 December 2007.

Save as disclosed above, there were no other changes in the composition of the Group during the current quarter under review.

**A13. Changes in contingent liabilities and contingent assets**

As at the date of this announcement, there were no material contingent liabilities and contingent assets incurred by the Group which, upon becoming enforceable, may have a material impact on the financial position of the Group.



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**A14. Condition imposed by the Securities Commission (“SC”)**

**The utilization of the proceeds from the rights issue of 6,507,488 STC shares at an issue price of RM0.74 per STC share**

A total of about RM4.8 million has been received by STC pursuant to the rights issue implemented by STC. This gross proceeds has been utilized in the following manner:-

	Total Proceeds RM'000	Utilization Up To 30 June 2007 RM'000	Balance Unutilised RM'000
Purchase of plant & machinery	3,316	669	2,647
Listing expenses	1,500	1,528	(28)
Total	4,816	2,197	2,619

Subsequently, the Board had on 05 July 2007 approved to undertake a variation to the utilization of RM 2.619 million arising from proceeds from the rights issue. The status of utilization of the proceeds is set out in Note B8.



**PART B: ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES**

**B1. Review of performance**

The Group recorded revenue of approximately RM 39.6 million and RM 65.4 million respectively for the current quarter and financial year-to-date under review as compared to RM 22.49 million and RM 39.4 million in the previous corresponding quarter and period ended 30 June 2006, showing substantial increase of approximately 76.3% and 65.8% respectively. This impressive increase was mainly due to higher sales volume from both local and export sales, including significant contribution of approximately RM 15.4 million and RM 21.4 million respectively from the newly acquired subsidiary, Seremban Engineering Sdn Bhd (SESB).

Profit after tax (PAT) improved to approximately RM 5.0 million and RM 8.1 million for the current quarter and financial year-to-date, increased by approximately 38.1% and 36.6% respectively as compared to previous corresponding quarter and period ended 30 June 2006 of RM 3.6 million and RM 5.9 million. This was achieved on the back of higher sales volume from transformer and industrial lighting segment coupled with profits of approximately RM 1.2 million and RM 1.5 million contributed by SESB respectively.

Save as disclosed as above, there were no material factors affecting the earnings and/or revenue of the Company and the Group for the current quarter under review.

**B2. Variation of results against preceding quarter**

The Group's PBT of RM 8.7 million for the 2<sup>nd</sup> quarter ended 30 June 2007 shows an impressive growth of 105.6% as compared to the PBT of RM 4.2 million for the preceding quarter ended 31 March 2007. The substantial increase was mainly due to increase in sales volume from transformer and lighting segment coupled with additional 3 months contribution of RM 2.5 million from SESB as compared to the preceding quarter 1 month contribution of RM 500 thousand.

**B3. Prospects 2007**

The outlook for the manufacturing of transformers, industrial lightings and process equipment are expected to continue to remain favourable with Malaysia's improving economic fundamentals and anticipated increase in domestic demand especially with the rollout of projects under the Ninth Malaysia Plan. The Group has so far built good track record and reputation with quality products and services to meet customers' expectation. In pursuit of its growth strategy, the Group will continue to intensify its effort to focus on strengthening its existing markets as well as expanding its new markets, both locally and overseas. Furthermore, SESB starts contributing significant positive results to the Group.



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**B3. Prospects 2007 (Continued)**

Hence, barring any unforeseen circumstances, the Board is optimistic that the Group is on track to achieve its target of double-digit profit growth for the year 2007, surpassing the growth rate achieved last year.

**B4. Profit Forecast or Profit guarantee**

Not applicable as there was no profit forecast or profit guarantee issued by the Group.

**B5. Tax expense**

	2nd Quarter ended		Six months ended	
	30-Jun 2007 RM'000	30-Jun 2006 RM'000	30-Jun 2007 RM'000	30-Jun 2006 RM'000
Income tax	2,829	1,315	3,703	2,162
Deferred tax	60	20	52	14
Total	<u>2,889</u>	<u>1,335</u>	<u>3,755</u>	<u>2,176</u>

The effective tax rate for the current quarter and financial year-to-date under review were higher than the statutory tax rate of 27% due to under provision of tax in prior years by a subsidiary company of the Group.

**B6. Unquoted investments and/or properties**

The Group has not disposed of any unquoted investments and/or properties during the current quarter under review.





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**B7. Quoted Securities**

There was no purchase or disposal of quoted securities during the financial year-to-date under review.

Details of investment in quoted securities:

	<b>2nd Quarter ended 30 Jun 2007 RM'000</b>
At cost	5
At book value	2
At market value	4

**B8. Corporate Proposals**

**Status of Utilization of Proceeds**

Further to our announcement on 18 January 2007, the Board had on 5 July 2007 approved to undertake a variation to the utilization of RM 2.619 million arising from proceeds from the rights issue. The Board had resolved to utilize the remaining listing proceeds of RM 2.619 million, which was initially reserved for the production of solar power supply systems, for STC and its group of companies' ("STC Group") working capital purposes, mainly for the purchase of raw materials (e.g. silicon steel, copper wire and aluminium) used in the manufacturing operations ("Variation"). It shall be noted that the prices of the raw materials have been on an increasing trend and hence, STC intends to utilize the remaining listing proceeds to increase its stockholding of the raw materials to meet its current and future production demands.

The Variation will not result in any change to the issued and paid-up share capital of STC and the substantial shareholders' shareholdings in STC nor will the Variation have any material effect on the earnings and the net assets of the STC Group for the financial year ending 31 December 2007. Subsequently, the listing proceeds had been fully utilized on 18 July 2007.



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**B9. Group borrowings**

The Group's borrowings as at the end of the reporting quarter are as follows:

	Payable within 12 months RM'000	Payable after 12 months RM'000
<b><u>Secured</u></b>		
Bank Borrowings	18,218	2,707
Hire purchase payables	399	663
Total Borrowing	<u>18,617</u>	<u>3,370</u>

All the borrowings are denominated in Ringgit Malaysia.

**B10. Off balance sheet financial instrument**

There are no off balance sheet financial instruments as at the date of this report that might materially affect the Group's business position.

**B11. Changes in material litigation**

Save as disclosed below, the Group is not engaged in any material litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the Group, and the Board is not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Group;

A suit initiated by SESB on 15 August 2003 against Dato Dr. Mohd Aminuddin bin Mohd Rouse ("Defendant") in the Kuala Lumpur High Court via suit number S7-22-1243-2003. SESB's claim arises from an agreement dated 23 April 1998 whereby SESB had advanced an interest free loan of RM 1,104,700 to the Defendant. SESB is now seeking damages of RM 1,454,700 together with interest against the Defendant. The matter is now at an interlocutory stage and no dates have been fixed by the court as of to-date. The solicitors are of the view that SESB's chances of success on the matter to be fair.



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**B12. Dividend**

- (i) An interim tax-exempt dividend of 5% has been approved by the directors on 11 June 2007;
- (ii) Amount per share : 2.5 sen tax-exempt;
- (iii) Previous corresponding period : - NA -;
- (iv) Payment date : 15 August 2007;
- (v) In respect of deposited securities, entitlement to the interim dividend will be determined on the basis of the Record of Depositors as at the close of business on 18 July 2007.

**B13. Earnings per share**

**(a) Basic**

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the financial quarter ended 30 June 2007 are computed as follow:-

	<b>2nd Quarter ended</b>		<b>6 months ended</b>	
	<b>30 Jun</b>	<b>30 Jun</b>	<b>30 Jun</b>	<b>30 Jun</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net Profit attributable to equity holders of the parent (RM'000)	5,001	3,620	8,122	5,945
Weighted average number of ordinary shares RM0.50 each in issue ('000)	117,926	112,000	117,926	112,000
Basic earning per share (sen)	4.24	3.23	6.89	5.31

**(b) Diluted**

No diluted earnings per share is calculated as there is no potential dilutive ordinary shares.



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By order of the Board

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Tan Ah Bah @ Tan Ah Ping  
Managing Director  
20 August 2007