



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

Notes on the quarterly report – 31 March 2008

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

A1. Basis of preparation

The condensed interim financial statements for the 1st quarter ended 31 March 2008 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 2007.

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 2007.

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 2007 except for the change in accounting policy on revenue recognition by the Company's wholly owned subsidiary company, Seremban Engineering Sdn Bhd ("SESB").

The salient points of the change are as follows,

- (a) SESB had on 1 January 2008, changed its revenue recognition policy for its process equipment manufacturing division from completion method to that of percentage of completion method.
- (b) The Directors estimates that the change in revenue recognition policy has resulted in an increase in turnover, profit after tax and earnings per share attributable to equity holders of the parent for current period of the Group by RM 8.1 million, RM 0.8 million and 0.65 sen respectively.
- (c) The change in the accounting policy has been accounted for prospectively in accordance with FRS 108 : Accounting Policies, Changes in Accounting Estimates and Errors ("FRS 108").



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A2. Changes in Accounting Policies (Continued)

(d) The interim results of the corresponding comparative quarter have not been restated as it is impracticable to determine the period specific effects or the cumulative effect of the change. The management has not collected sufficient data in prior periods in a way that allows retrospective application of the new accounting policy.

(e) The change in the accounting policy will reduce the fluctuation in reporting the process equipment manufacturing division's results that previously depends very much on the timing of the completion of the projects. It also allows better reflection and consistency of the periodic performance of process equipment manufacturing division in line with the industry norms and common practices.

A3. Qualification of Annual Financial Statements

The latest audited consolidated financial statements of STC for the financial year ended 31 December 2007 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 31 March 2008.

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 31 March 2008.

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.



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A8. Dividend Paid

There was no dividend paid by the Company during the current quarter under review.

A9. Segment information

The Group is principally engaged in the manufacturing and trading of transformer, industrial lighting and process equipment.

Business Segments

	<u>Individual Quarter</u>		<u>Cumulative Quarter</u>	
	Current Year Quarter 31-Mar-08 RM'000	Preceding Year Corresponding Quarter 31-Mar-07 RM'000	Current Year To Date 31-Mar-08 RM'000	Preceding Year Corresponding Period 31-Mar-07 RM'000
Revenue				
- Transformer, Industrial lighting & related products	25,864	19,759	25,864	19,759
- Process equipment	16,783	6,005	16,783	6,005
	<u>42,647</u>	<u>25,764</u>	<u>42,647</u>	<u>25,764</u>
Profit after tax and Minority interest				
- Transformer, Industrial lighting & related products	4,115	2,796	4,115	2,796
- Process equipment	985	325	985	325
	<u>5,101</u>	<u>3,121</u>	<u>5,101</u>	<u>3,121</u>



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A9. Segment information (Continued)

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 the basis for making the allocations of operating expenses 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 31-Mar-08 RM'000	Preceding Year Corresponding Quarter 31-Mar-07 RM'000	Current Year To Date 31-Mar-08 RM'000	Preceding Year Corresponding Period 31-Mar-07 RM'000
Revenue				
- Malaysia	26,729	18,957	26,729	18,957
- Outside Malaysia	15,918	6,807	15,918	6,807
	<u>42,647</u>	<u>25,764</u>	<u>42,647</u>	<u>25,764</u>

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 2007.

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 B8.

A12. Changes in the composition of the Group

Acquisition of a subsidiary

There were no changes in the composition of the Group during the current quarter under review save as disclosed in note B8.



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

B1. Review of performance

The Group recorded revenue of approximately RM 42.6 million for the current quarter ended 31 March 2008 under review as compared to RM 25.8 million in the previous corresponding quarter ended 31 March 2007 showing an increase of approximately 65.5%. Profit after tax (PAT) increased by approximately 63.4% to approximately RM 5.1 million for the current quarter ended 31 March 2008 as compared to previous corresponding quarter ended 31 March 2007 of RM 3.1 million.

The improved performance was a result of higher sales volume from transformer, industrial lighting and process equipment segments from both local and export sales and partly due to change in accounting policy on revenue recognition by SESB.

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

There was no significant variance on the Group's result for the current quarter ended 31 March 2008 as compared to the preceding quarter other than the effect of the change in accounting policy as disclosed in Note A2 above. Had there been no change in accounting policy on revenue recognition, the Directors estimates that the Group's PAT for the current quarter would be RM 4.4 million as compared to the preceding quarter of RM 5.5 million.

B3. Prospects 2008

With the increasingly uncertain external environment, we expect the outlook for the manufacturing of transformers, industrial lightings and process equipment to remain challenging. Nevertheless, the Group will continue to maintain its competitiveness by leveraging on extensive customers network, competitive products and superior delivery services for market expansions. Barring any unforeseen circumstances, the Group is expected to continue to record satisfactory performance in 2008.

B4. Profit Forecast or Profit guarantee

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



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B5. Tax expense

	1st Quarter ended		Three months ended	
	31-Mar 2008 RM'000	31-Mar 2007 RM'000	31-Mar 2008 RM'000	31-Mar 2007 RM'000
Income tax	1,862	874	1,862	874
Deferred tax	17	(8)	17	(8)
Total	<u>1,879</u>	<u>866</u>	<u>1,879</u>	<u>866</u>

The effective tax rate for the current quarter under review was lower than the statutory tax rate of 26% due to the utilization of reinvestment allowances by subsidiary companies 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.

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:

	1st Quarter ended 31 March 2008 RM'000
At cost	5
At book value	2
At market value	4



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B8. Corporate Proposals

Status of Proposed Acquisition

Further to the announcement dated 1 April 2008 and 30 April 2008, the Company has completed the acquisition of the remaining 40% equity interests in SESB for a total cash consideration of RM 21,780,000 on 30 April 2008. Consequently, SESB became a wholly owned subsidiary of the Company.

Proposed Joint Venture

Further to the announcement dated on 15 May 2008, STC had on 15 May 2008 accepted a letter of offer from Ninghai Zhenye Luminaries Manufacturing Co. Ltd (“Zhenye”) (“JV Offer”) to incorporate a joint venture company, to be known as Ningbo Success Zhenye Luminaire Limited Liabilities Company (“JV Co”), in the county of Ninghai, People’s Republic of China (“PRC”) (“Proposed Incorporation”). Upon incorporation of the JV Co, Zhenye shall lease its factory, machines/facilities, production moulds, office accessories and other assets to the JV Co (“Proposed Lease”).

(The Proposed Incorporation and the Proposed Lease shall collectively be referred to as the “JV Proposal”)

The JV Proposal is subject to formal agreements to be entered into at a later date between STC and Zhenye within 60 days from the date of acceptance of the JV Offer by STC. STC shall make a detailed announcement upon execution of the formal agreements.

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
<u>Secured</u>		
Bank Borrowings	13,468	3,222
Hire purchase payables	112	667
Total Borrowing	<u>13,580</u>	<u>3,889</u>

All the borrowings are denominated in Ringgit Malaysia.



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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 1,454,700 to the Defendant. SESB is now seeking damages of RM 1,454,700 together with interest against the Defendant. The matter is now fixed for mention on 4 August 2008 by the court. The solicitors of SESB are of the view that SESB's chances of success on the matter to be fair.

B12. Proposed Dividend

- (i) An interim tax-exempt dividend of 6% per ordinary share proposed by the directors on 20 May 2008;
- (ii) Amount per share : 3.0 sen tax-exempt;
- (iii) Previous corresponding period : - NA -;
- (iv) Payment date : 10 July 2008;
- (v) In respect of deposited securities, entitlement to the interim dividend will be determined the basis of the Record of Depositors as at the close of business on 13 June 2008.



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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 31 March 2008 are computed as follow:-

	1st Quarter ended		3 months ended	
	31 Mar	31 Mar	31 Mar	31 Mar
	2008	2007	2008	2007
Net Profit attributable to equity holders of the parent (RM'000)	5,101	3,121	5,101	3,121
Weighted average number of ordinary shares RM0.50 each in STC in issue ('000)	120,000	115,996	120,000	115,996
Basic earning per share (sen)	4.25	2.69	4.25	2.69

(b) Diluted

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

By order of audit committee

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Chong Kian Soon
Chairman
21 May 2008