



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

Notes on the quarterly report – 30 June 2008

**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 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 quarter of the Group by RM 2.8 million, RM 1.0 million and 0.83 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 30 June 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 30 June 2008 other than the completion of the acquisition of the remaining equity interest of Seremban Engineering Sdn Bhd.

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 30-Jun-08 RM'000	Preceding Year Corresponding Quarter 30-Jun-07 RM'000	Current Year To Date 30-Jun-08 RM'000	Preceding Year Corresponding Period 30-Jun-07 RM'000
Revenue				
- Transformer, Industrial lighting & related products	30,871	24,236	56,734	43,995
- Process equipment	17,780	15,402	34,563	21,407
	<u>48,651</u>	<u>39,638</u>	<u>91,297</u>	<u>65,402</u>
Profit after tax and Minority interest				
- Transformer, Industrial lighting & related products	4,964	3,831	9,078	6,627
- Process equipment	1,620	1,170	2,606	1,495
	<u>6,584</u>	<u>5,001</u>	<u>11,684</u>	<u>8,122</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	Preceding Year Corresponding Quarter	Current Year To Date	Preceding Year Corresponding Period
	30-Jun-08	30-Jun-07	30-Jun-08	30-Jun-07
	RM'000	RM'000	RM'000	RM'000
Revenue				
- Malaysia	29,507	28,227	56,235	47,184
- Outside Malaysia	19,144	11,411	35,062	18,218
	<u>48,651</u>	<u>39,638</u>	<u>91,297</u>	<u>65,402</u>

A10. Carrying Amount of Revalued Assets

As an integral part of the acquisition of the remaining equity interest in Seremban Engineering Sdn Bhd, the Group had on 30 April 2008, undertook a revaluation of Seremban Engineering Sdn Bhd properties to determine its fair value. This does not constitute a revaluation of the Group's property, plant and equipment in accordance with the Group's accounting policy on revaluation.

Save as disclosed above, the valuation of other 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.



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A12. Changes in the composition of the Group

Acquisition of a subsidiary

Further to the announcement dated 1 April 2008 and 30 April 2008, the Company had 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.

- (a) The effect of the acquisition on the financial results of the Group during the financial quarter is as follows:

	30-06-08
	RM'000
Increase in Group's net profit for the interim period	<u>484</u>

- (b) The effects of the acquisition on the financial positions of the Group at the end of the financial quarter are as follows:

	Pre-acquisition Carrying amounts	Fair value adjustments	Recognized values on acquisitions
	RM'000	RM'000	RM'000
Property, plant and equipment	15,232	5,655	20,887
Investment Property	384	326	710
Trade and other receivables	22,012	-	22,012
Inventories	6,946	-	6,946
Deposit, Cash and Bank balances	7,061	-	7,061
Trade and other payables	(11,965)	-	(11,965)
Borrowings	(14,086)	-	(14,086)
Deferred tax liabilities	(497)	(1,045)	(1,542)
Fair value of identifiable net assets acquired	<u>25,087</u>	<u>4,936</u>	<u>30,023</u>
Equity interest acquired @ 40%	10,035	-	-
Goodwill on acquisition	<u>11,832</u>	<u>(4,936)</u>	<u>6,896</u>
Total purchase consideration	<u>21,867</u>		

There were no changes in the composition of the Group during the current quarter under review save as disclosed above and 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 48.7 million and RM 91.3 million for the current quarter and financial period ended 30 June 2008 under review as compared to RM 39.6 million and RM 65.4 million in the previous corresponding quarter and period ended 30 June 2007, showing an increase of approximately 22.7% and 39.6% respectively. Profit after tax (PAT) increased by approximately 31.6% and 43.9% for the current quarter and financial period ended 30 June 2008 to RM 6.6 million and RM 11.7 million respectively as compared to previous corresponding quarter and financial period ended 30 June 2007 of RM 5.0 million and RM 8.1 million.

The Group performance improved mainly due to higher sales volume from transformer, industrial lighting and process equipment segments 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

The Group's PAT of RM 6.6 million for the 2nd quarter ended 30 June 2008 shows an increase of RM 1.5 million as compared to the PAT of RM 5.1 million for the preceding quarter ended 31 March 2008 mainly due to increase in sales recorded from transformer and industrial lighting and process equipment segments. The effect of the change in accounting policy is 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 5.6 million as compared to the preceding quarter of RM 4.4 million.

B3. Prospects 2008

In view of the increasingly external global uncertainties and high inflation, we expect the operating environment for the manufacturing of transformers, industrial lightings and process equipment to remain competitive and challenging. Nevertheless, the Group will continue to focus on competitive products quality, continuous cost improvement exercise and efficient delivery services in maintaining its competitive edge. Barring any unforeseen circumstances, the Group is expected to record positive performance in 2008.



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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 2008 RM'000	30-Jun 2007 RM'000	30-Jun 2008 RM'000	30-Jun 2007 RM'000
Income tax	2,289	2,829	4,153	3,703
Deferred tax	75	60	92	52
Total	<u>2,364</u>	<u>2,889</u>	<u>4,245</u>	<u>3,755</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:

	2nd Quarter ended 30 June 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

Save as disclosed in note A12, there were no changes in the composition of the Group during the current quarter under review.

Proposed Joint Venture

Further to the announcements dated on 15 May 2008, 19 June 2008 and 14 July 2008, STC has received the notice for the approval of business license for the Ningbo Success Zhenye Luminaire Limited Liabilities Company (“JV Co”). However, the JV Co shall only commence operations after filing of the necessary documents with the local administrative authorities in the People’s Republic of China.

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	24,794	3,194
Hire purchase payables	73	732
Total Borrowing	<u>24,867</u>	<u>3,926</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.



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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 hearing on 20 September 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 30 June 2008 are computed as follow:-

	2nd Quarter ended		6 months ended	
	30 Jun	30 Jun	30 Jun	30 Jun
	2008	2007	2008	2007
Net Profit attributable to equity holders of the parent (RM'000)	6,584	5,001	11,684	8,122
Weighted average number of ordinary shares RM0.50 each in issue ('000)	120,000	117,926	120,000	117,926
Basic earning per share (sen)	5.49	4.24	9.74	6.89

(b) Diluted

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

By order of the Board

Tan Ah Bah @ Tan Ah Ping
Managing Director
18 August 2008