



Notes on the quarterly report – 30 September 2008

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

A1. Basis of preparation

The condensed interim financial statements for the 3rd quarter ended 30 September 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 4.8 million, RM 248 thousand and 0.21 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 September 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 September 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.



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A7. Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the current quarter under review except for the following:-

Share Buy-back

On 21 May 2008, the shareholders of the STC approved to buy-back its own shares. During the nine months ended 30 September 2008, the STC bought back from the open market, 302,000 STC Shares listed on the main Board of Bursa Malaysia Securities Berhad at an average buy-back price of RM0.88 per share. The total consideration paid for the share buy-back of STC shares during the nine months ended 30 September 2008, including transaction costs, was RM267,586 and was financed by internally generated funds. The STC Shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965. None of the treasury shares held were resold or cancelled during the nine months ended 30 September 2008.

A8. Dividend Paid

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



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A9. Segment information

Business Segments Revenue & Results

	Transformer, Industrial lighting & related products	Process equipment	Eliminations	Consolidated
Nine Months Ended 30 Sep 2008	RM'000	RM'000	RM'000	RM'000
REVENUE				
External Sales	89,662	53,253	-	142,915
Inter-segment sales	-	-	-	-
Total Revenue	89,662	53,253	-	142,915
RESULTS				
Segment results	19,360	7,281	-	26,641
Unallocated Corporate expenses				(602)
Finance Cost				(247)
Interest income				2
Profit before taxation				25,794
Taxation				(6,275)
Profit for the period				19,519
Nine Months Ended 30 Sep 2007				
REVENUE				
External Sales	69,000	32,921	-	101,921
Inter-segment sales	-	-	-	-
Total Revenue	69,000	32,921	-	101,921
RESULTS				
Segment results	14,762	5,036	-	19,798
Unallocated Corporate expenses				(331)
Finance Cost				(1)
Interest income				45
Profit before taxation				19,511
Taxation				(5,233)
Profit for the period				14,278



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A9. Segment information (Continued)

Geographical Locations Revenue & Results

	Malaysia	China	Eliminations	Consolidated
Nine Months Ended 30 Sep 2008	RM'000	RM'000	RM'000	RM'000
REVENUE				
External Sales	140,922	1,993	-	142,915
Inter-segment sales	-	1,080	(1,080)	-
Total Revenue	<u>140,922</u>	<u>3,073</u>	<u>(1,080)</u>	<u>142,915</u>
RESULTS				
Segment results	26,483	158	-	26,641
Unallocated Corporate expenses				(602)
Finance Cost				(247)
Interest income				2
Profit before taxation				<u>25,794</u>
Taxation				(6,275)
Profit for the period				<u>19,519</u>
Nine Months Ended 30 Sep 2007				
REVENUE				
External Sales	101,921	-	-	101,921
Inter-segment sales	-	-	-	-
Total Revenue	<u>101,921</u>	<u>-</u>	<u>-</u>	<u>101,921</u>
RESULTS				
Segment results	19,798	-	-	19,798
Unallocated Corporate expenses				(331)
Finance Cost				(1)
Interest income				45
Profit before taxation				<u>19,511</u>
Taxation				(5,233)
Profit for the period				<u>14,278</u>



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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.

A12. Changes in the composition of the Group

Incorporation of a subsidiary

(a) On 02 September 2008, Success Transformer Corporation Berhad ("STC") announced that Seremban Engineering Sdn Bhd ("SESB"), a wholly-owned subsidiary of STC has subscribed a total of 240,000 ordinary shares of RM1.00 each in Sepen Engineering Sdn Bhd ("SEPEN"), representing a 60% equity interest in the issued and paid-up share capital of SEPEN for a total cash consideration of RM240,000.00. As a result, SEPEN has become a subsidiary of SESB and an indirect subsidiary of STC.

SEPEN was incorporated on 29 August 2008 in Malaysia with an authorized share capital of RM1,000,000 ordinary shares of RM1.00 each, of which 400,000 ordinary shares of RM1.00 each have been issued and fully paid-up. SEPEN is principally involved in the manufacturing and fabrication of process equipment and other engineering works.

The effect of the investment on the financial results of the Group during the financial quarter is as follows:

	30 Sep 08
	RM'000
Increase in Group's net profit for the interim period	<u>87</u>



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

(b) Further to announcement on 14 July 2008, Ningbo Success Zhenye Luminaire Limited Liabilities Company (“JV Co”) (Joint venture between STC and Ninghai Zhenye Luminaires Manufacturing Co. Ltd) has commenced operation on 1 September 2008. The JV Co was incorporated in the People’s Republic of China with the registered share capital of RMB 10,000,000 of which STC subscribed for a total cash consideration of RMB 6,000,000, representing 60% interest equity in the registered share capital.

JV Co principally involve in the design, manufacture, and trading of industrial light fittings & fixtures (save for lamps manufacturing), home electrical appliances, moulds, plastic and glass parts, hardware stamping, ballast, electronic controllers and its accessories, to trade and/or as agent, to import or export of technology and skills, except for goods and technology and skills controlled or restricted by the country.

The effect of the investment on the financial results of the Group during the financial quarter is as follows:

	30 Sep 08
	RM’000
Increase in Group’s net profit for the interim period	<u>74</u>

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

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 RM 51.6 million and RM 142.9 million for the current quarter and financial period ended 30 September 2008 as compared to RM 36.5 million and RM 101.9 million in the previous year corresponding quarter and period ended 30 September 2007, showing an increase of 41.3% and 40.2% respectively. Profit after tax (PAT) increased by 52.6% and 46.9% for the current quarter and financial period ended 30 September 2008 to RM 6.7 million and RM 18.4 million respectively as compared to previous year corresponding quarter and financial period ended 30 September 2007 of RM 4.4 million and RM 12.5 million.

The improved performance of the Group was mainly attributable to higher sales volume from transformer, industrial lighting and process equipment segments and partly arising from 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 financial quarter as compared to the preceding quarter.

B3. Prospects 2008

We anticipate the operating environment for the manufacturing of transformers, industrial lightings and process equipment to be increasingly challenging, triggered by the current global financial crisis. Nevertheless, the performance of the Group is expected to improve as compared to previous year.

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

	3rd Quarter ended		Nine months ended	
	30-Sep 2008	30-Sep 2007	30-Sep 2008	30-Sep 2007
	RM'000	RM'000	RM'000	RM'000
Income tax	1,981	1,395	6,135	5,098
Deferred tax	49	84	140	135
Total	<u>2,030</u>	<u>1,479</u>	<u>6,275</u>	<u>5,233</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:

	3rd Quarter ended 30 September 2008 RM'000
At cost	5
At book value	2
At market value	4



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B8. Corporate Proposals

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

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	31,826	3,422
Hire purchase payables	<u>152</u>	<u>1,031</u>
Total Borrowing	<u>31,978</u>	<u>4,453</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 1,454,700 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 20 January 2009 by the court. The solicitors of SESB are of the view that SESB's chances of success on the matter to be fair.



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B12. Proposed Dividend

No dividend has been proposed for the 3rd quarter ended 30 September 2008.

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 September 2008 are computed as follow:-

	3rd Quarter ended		Nine months ended	
	30 Sep	30 Sep	30 Sep	30 Sep
	2008	2007	2008	2007
Net Profit attributable to equity holders of the parent (RM'000)	6,688	4,383	18,372	12,505
Weighted average number of ordinary shares RM0.50 each in STC in issue ('000)	119,966	117,926	119,966	117,926
Basic earning per share (sen)	5.57	3.69	15.31	10.54

(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
17 November 2008