



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

Notes on the quarterly report – 31 March 2010

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 2010 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 of the Main Market 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 2009. 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 2009.

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 2009, except for the adoption of the following new Financial Reporting Standards (“FRSs”), Amendments to FRSs and Interpretations by the Group with effect from 1 January 2010.

FRSs, Amendments to FRSs and Interpretations

FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101	Presentations of Financial Statements (Revised 2009)
FRS 123	Borrowing Costs (Revised)
FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 7	Financial Instruments: Disclosures
Amendments to FRS 8	Operating Segments
Amendments to FRS 107	Statement of Cash Flows
Amendments to FRS 108	Accounting policies, Changes in Accounting Estimates and Errors
Amendments to FRS 110	Events after Reporting Period
Amendments to FRS 116	Property, Plant and Equipment
Amendments to FRS 117	Leases
Amendments to FRS 118	Revenue
Amendments to FRS 119	Employee Benefits
Amendments to FRS 123	Borrowing Costs



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A2. Changes in Accounting Policies (cont’d)

Amendments to FRS 127	Consolidated and Separate Financial Statements: Costs of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 128	Investments in Associates
Amendments to FRS 131	Interest in Joint Ventures
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 134	Interim Financial Reporting
Amendments to FRS 136	Impairment of Assets
Amendments to FRS 139	Financial Instruments: Recognition and Measurement
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2-Group and Treasury Share Transactions

Other than the application FRS 8, FRS 101 and Amendment to FRS 117, the application of the above FRSs, Amendments to FRSs and Interpretations do not have any material impact on the financial position and results of the Group.

(a) FRS 8 : Operating Segments

FRS 8 requires segment information to be presented on a similar basis to that used for internal reporting purposes. As a result, the Group’s segmental reporting had been presented based on the internal reporting to the chief operating decision maker who makes decisions on the allocation of resources and assesses the performance of the reportable segments. This standard does not have any material impact on the financial position and results of the Group.

(b) FRS 101(revised) : Presentation of Financial Statements

FRS 101 separates owner and non-owner changes in equity. Therefore, the current consolidated statement of changes in equity only includes details of transactions with owners. All non-owner changes in equity are presented as a single line labeled as total comprehensive income. Comparative information, with exception of the requirements under FRS 139, had been re-presented so that it is also in conformity with the revised standard. This standard does not have any material impact on the financial position and results of the Group.



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(c) Amendments to FRS 117(revised) : Leases

Amendments to FRS 117 remove the classification of leases of land and of buildings, and instead, requires assessment of classification based on the risks and rewards of the lease itself. The reassessment of land elements of unexpired leases shall be made retrospectively in accordance with FRS 108. Therefore, the Group has reclassified the prepaid lease payments for land as land held in accordance with FRS 116. This amendment shall be presented on the statement of financial position as at the beginning of the earliest comparative period in accordance with FRS 101.

A3. Qualification of Annual Financial Statements

The latest audited consolidated financial statements of STC for the financial year ended 31 December 2009 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 2010. However, the Process Equipment’s business operation results is very much depends on the timing of completion of each project.

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 2010.

A6. Changes in accounting estimates

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



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A7. Debt and Equity Securities

(a) Bonus Issue

On 30 March 2010, our subsidiary, Seremban Engineering Bhd (“SEB”) had undertaken a bonus of 58,072,000 new shares, credited as fully paid-up, on the basis of approximately 2,904 Bonus shares for every 100 existing Shares held in SEB by way of capitalising an aggregate of RM 28,009,000 out of the retained earnings of SEB as at 31 December 2009 and RM 1,027,000 out of the revaluation reserves of SEB after incorporating an audited net revaluation surplus of RM 3,693,973 arising from the valuation of the properties of SEB. The Bonus Issue was completed on 31 March 2010.

(b) Share buy-back and treasury shares sold

During the 1st quarter ended 31 March 2010, the company had bought back a total of 565,400 ordinary shares of RM 0.50 each of its issued share capital from the open market at an average cost of RM 1.19 per share. The total consideration paid for the share buy-back of STC shares during the 1st quarter ended 31 March 2010, including transaction costs was RM 674,519.20 and was financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A Subsection 3(A) (b) of the Companies Act, 1965.

As at 31 March 2010, the number of treasury shares held was 675,800 STC Shares.

Save as disclosed above, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter under review.

A8. Dividend Paid

No dividends were paid since the end of the preceding financial year.

A9. Segment information

Business Segments Revenue & Results

	Transformer, Industrial lighting & related products	Process equipment	Eliminations	Consolidated
Three Months Ended 31 March 2010	RM’000	RM’000	RM’000	RM’000
REVENUE				
External Sales	33,015	6,352	-	39,367



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Inter-segment sales	-	-	-	-
Total Revenue	33,015	6,352	-	39,367

RESULTS

Segment results	7,735	(262)	-	7,473
Unallocated Corporate expenses				(250)
Finance Cost				(32)
Interest income				-
Profit before taxation				7,191
Taxation				(1,941)
Profit for the period				5,250
Three Months Ended 31 March 2009	Transformer, Industrial lighting & related products	Process equipment	Eliminations	Consolidated
	RM'000	RM'000	RM'000	RM'000

REVENUE

External Sales	27,425	18,031	-	45,456
Inter-segment sales	-	-	-	-
Total Revenue	27,425	18,031	-	45,456

RESULTS

Segment results	5,238	3,108	(27)	8,319
Unallocated Corporate expenses				(146)
Finance Cost				(75)
Interest income				1
Profit before taxation				8,099
Taxation				(2,004)
Profit for the period				6,095



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A9. Segment information (Continued)

Geographical Segments Revenue & Results

	Malaysia	China	Eliminations	Consolidated
	RM'000	RM'000	RM'000	RM'000
Three Months Ended 31 March 2010				
REVENUE				
External Sales	32,879	6,488	-	39,367
Inter-segment sales	-	2,783	(2,783)	-
Total Revenue	<u>32,879</u>	<u>9,271</u>	<u>(2,783)</u>	<u>39,367</u>

RESULTS

Segment results	7,030	443	-	7,473
Unallocated Corporate expenses				(250)
Finance Cost				(32)
Interest income				-
Profit before taxation				<u>7,191</u>
Taxation				<u>(1,941)</u>
Profit for the period				<u><u>5,250</u></u>

**Three Months Ended
31 March 2009**

REVENUE

External Sales	40,189	5,267	-	45,456
Inter-segment sales	-	3,575	(3,575)	-
Total Revenue	<u>40,189</u>	<u>8,842</u>	<u>(3,575)</u>	<u>45,456</u>

RESULTS

Segment results	7,990	329	-	8,319
Unallocated Corporate expenses				(146)
Finance Cost				(75)
Interest income				1
Profit before taxation				<u>8,099</u>
Taxation				<u>(2,004)</u>
Profit for the period				<u><u>6,095</u></u>



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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 valuation 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 2009.

A11. Capital Commitments

The amounts of capital commitments for the Group are as follows:

	RM'000
Approved and contracted for:	
Purchase of property, plant and equipment	7,567

A12. Material events subsequent to the end of the interim period

Listing of Seremban Engineering Berhad (SEB)

The entire enlarged issued and paid-up share capital of SEB was admitted to the Official List of Bursa Securities and the SEB Shares were listed and quoted on the Main Market of Bursa Securities on 10 May 2010.

A13. Changes in the composition of the Group

Listing of Seremban Engineering Berhad (SEB)

With the listing of SEB on the Main Market of Bursa Securities on 10 May 2010, SEB is now a 65% owned subsidiary of STC.

Incorporation of Subsidiary

The Company had on 5 May 2010 incorporated a wholly owned subsidiary, SE Oceania Pty Limited (“SEO”) in Australia with an issued share capital of AUD\$10,000.00 comprising 10,000 ordinary shares of AUD\$1.00 each.

Cooperation Agreement (CA)

Further to the announcement dated 17 September 2009, 17 December 2009 and 24 February 2010 in relation to the CA between SEB and Affcom Resources Sdn. Bhd., there are no further developments on the said CA.

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



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A14. 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 39.4 million for the current quarter ended 31 March 2010 as compared to RM 45.5 million in the previous year corresponding quarter, showing a decrease of 13.4%. Although both transformer and industrial lightings segments and the China operation registered higher revenue, this was offset by decrease in revenue achieved in process equipments segment mainly due to lower sales.

The Group achieved profit after tax (PAT) of RM 5.2 million for the current quarter ended 31 March 2010, representing a decrease of approximately 14% as compared to previous year corresponding quarter ended 31 March 2009 of RM 6.1 million. This was mainly due to lower sales contribution from process equipment segment, partly offset by favorable results from both transformer and industrial lightings segments and the China operation.

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 achieved profit before tax (PBT) of RM 7.2 million for the current quarter ended 31 March 2010, representing a decrease of 18.2% as compared to preceding quarter ended 31 December 2009 of RM 8.8 million. This was mainly due to lower sales contribution from process equipment segment, partly offset by favorable results from transformer and industrial lightings segments.

B3. Prospects 2010

The outlook for the manufacturing of transformer, industrial lightings and process equipment will remain challenging. Nevertheless, for the transformer and industrial lightings segments, the company had intensified its effort in offering wider range of products and aggressively expanding and penetrating into new export markets especially in Ocenia and Africa regions. Meanwhile, for process equipment segment, the Group believes that SEB’s performance will improve with completion and deliveries of secured job orders in the coming quarters coupled with growing inquiries and opportunities for project tenders.

Barring any unforeseen circumstances, the Group remains on target to achieve satisfactory performance in 2010.



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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

	1st Quarter ended		Three months ended	
	31-Mar 2010 RM'000	31-Mar 2009 RM'000	31-Mar 2010 RM'000	31-Mar 2008 RM'000
Income tax	1,838	2,105	1,838	2,105
Deferred tax	103	(101)	103	(101)
Total	1,941	2,004	1,941	2,004

The effective tax rate for the current quarter and financial year under review was higher than the statutory tax rate of 27% mainly due to add back of non allowable expenses 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

The particulars of the purchase and disposal of quoted securities by all companies other than insurance company, stockbroking company and such other companies exempted by Bursa Securities were as follows:-

- (a) The disposals of quoted securities are as follows:

	Current Quarter 31 March 2010 RM'000
Proceeds of quoted securities disposed	4
Gain on disposal of quoted securities	2



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B8. (a) Corporate Proposals

Saved as disclosed in A13, there were no changes in the composition of the Group during the current quarter under review.

(b) Utilisation of proceeds

As at the date of this report, the total gross proceeds of RM 6,861,200 raised from the Offer for sales of 8 million SEB ordinary shares of RM 0.50 each at an offer price of RM 0.85 in conjunction with SEB listing on the Main Market of Bursa Securities on 10 May 2010 are as follows:-

Details of the utilisation of proceeds	Proposed utilisation	Actual utilisation
	<u>RM'000</u>	<u>RM'000</u>
Working capital and all other expenses relating to the Offer Shares	6,861	212

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	8,797	5,538
Hire purchase payables	521	752
Total Borrowing	<u>9,318</u>	<u>6,290</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

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.

B12. Proposed Dividends

- (i) An interim tax-exempt dividend of 7% per ordinary share proposed by the directors on 21 April 2010.
- (ii) Amount per share: 3.5 sen
- (iii) Previous corresponding period: 3.0 sen
- (iv) Payment date: 16 June 2010
- (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 17 May 2010.

B13. Earnings per share

(a) Basic

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity owners of the parent by the weighted average number of ordinary shares in issue during the financial quarter ended 31 March 2010 are computed as follow:-

	1st Quarter ended		Three months ended	
	31 March 2010	31 March 2009	31 March 2010	31 March 2009
Profit attributable to owners of the parent (RM'000)	5,201	6,065	5,201	6,065
Weighted average number of ordinary shares RM0.50 each in STC in issue ('000)	119,527	119,360	119,527	119,360
Basic earning per share (sen)	4.35	5.08	4.35	5.08



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(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
24 May 2010