

**Challenger
Technologies
Limited**



**HALF YEAR FINANCIAL STATEMENT
AND DIVIDEND ANNOUNCEMENT
FOR THE FINANCIAL PERIOD ENDED
30 JUNE 2008**

Co Reg No: 198400182 K

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2008

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

Income Statement for 6 months ended 30 June 2008

	Group		Change %
	30.6.2008 \$'000	30.6.2007 \$'000	
Revenue	80,530	65,326	23
Changes in inventories	1,456	1,163	25
Cost of goods purchased	(65,461)	(53,071)	23
Other consumables used	(203)	(248)	(18)
Other Items of Income			
Interest Income	317	265	20
Dividend income	17	-	N.M.
Other Credits [note (A)]	335	554	(40)
Other Items of Expense			
Depreciation expense	(1,083)	(777)	39
Employee Benefits Expense	(4,945)	(4,148)	19
Finance Costs	(3)	-	N.M.
Other Expenses [note (B)]	(4,885)	(4,078)	20
Other Charges [note (A)]	(790)	(104)	660
Profit Before Tax from Continuing Operations	<u>5,285</u>	<u>4,882</u>	8
Income Tax Expenses	(1,096)	(1,060)	3
Profit Net of Tax	<u><u>4,189</u></u>	<u><u>3,822</u></u>	10
Attributable to:			
Profit Attributable to Equity holders of the Company, Net of Tax	4,170	3,822	9
Profit Attributable to Minority Interest, Net of Tax	19	-	N.M.
	<u><u>4,189</u></u>	<u><u>3,822</u></u>	10
<u>Note (A) - Other (Charges) / Credits</u>			
Bad debts written off - non- trade	(2)	-	N.M.
Bad debts recovered - trade	-	1	N.M.
Foreign exchange adjustment (loss) / gain	334	501	(33)
Sundry income	1	52	(98)
Loss on disposal of plant and equipment	(3)	-	N.M.
Impairment loss of goodwill on consolidation	(535)	(4)	13,275
Provision for loyalty program	(250)	(100)	150
	<u><u>(455)</u></u>	<u><u>450</u></u>	(201)
Presented in the income statement as:			
Other Credits	335	554	(40)
Other Charges	(790)	(104)	660
	<u><u>(455)</u></u>	<u><u>450</u></u>	(201)
<u>Note (B) - Other Expenses</u>			
Rental expenses	(3,013)	(2,503)	20
Other operating expenses	(598)	(536)	12
Selling and distribution costs	(1,274)	(1,039)	23
	<u><u>(4,885)</u></u>	<u><u>(4,078)</u></u>	20

N.M. = not meaningful

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2008

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	Group		Company	
	30.06.2008 \$'000	31.12.2007 \$'000	30.06.2008 \$'000	31.12.2007 \$'000
ASSETS				
Non-Current Assets				
Investment in Associates	-	-	51	51
Investment in Subsidiaries	-	-	1,604	717
Other Financial Asset, Non-Current	2,924	1,266	2,924	1,266
Plant and Equipment, Total	3,771	4,469	3,256	3,897
Total Non-Current Assets	6,695	5,735	7,835	5,931
Current Assets				
Cash and Cash Equivalents	16,385	20,310	15,449	19,297
Trade and Other Receivables	3,132	3,185	4,210	4,619
Other Assets, Current	2,719	1,267	1,931	958
Inventories	9,622	8,166	8,185	7,111
Total Current Assets	31,858	32,928	29,775	31,985
Total Assets	38,553	38,663	37,610	37,916
LIABILITIES				
Equity				
Share Capital	18,616	16,081	18,616	16,081
Retained Earnings	4,650	5,736	4,683	5,487
Other Reserve, Total	(8)	(2)	-	-
Equity, Attributable to Equity Holders	23,258	21,815	23,299	21,568
Minority interests	170	-	-	-
Total Equity	23,428	21,815	23,299	21,568
Non-Current Liabilities				
Deferred Tax Liabilities	159	159	138	138
Other Liabilities, Non-Current	260	320	260	320
Total Non-Current Liabilities	419	479	398	458
Current Liabilities				
Trade and Other payables, Current	10,141	12,537	9,528	12,193
Provisions, Current, Total	1,150	900	1,150	900
Income Tax Payable, Current	2,148	1,843	2,022	1,708
Other Liabilities, Current	1,267	1,089	1,213	1,089
Total Current Liabilities	14,706	16,369	13,913	15,890
Total Liabilities	15,125	16,848	14,311	16,348
Total Equity and Liabilities	38,553	38,663	37,610	37,916

1(b)(ii) Aggregate amount of group's borrowings and debt securities

Amount repayable in one year or less, or on demand

Nil.

Details of any collateral

Not applicable.

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2008

1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

Consolidated cash flows statement

	30.06.2008 \$'000	30.06.2007 \$'000
Cash flow from operating activities		
Profit before tax	5,285	4,882
Adjustments for:		
Depreciation expense	1,083	777
Impairment loss of goodwill on consolidation	535	4
Loss on disposal of plant and equipment	3	-
Interest expense	3	-
Interest income	(317)	(265)
Dividend income	(17)	-
Foreign exchange adjustment gain	(48)	(94)
Operating profit before working capital changes	6,527	5,304
Trade and other receivables	464	(111)
Other Assets	(1,411)	(26)
Inventories	(1,456)	(1,163)
Short-term Provisions	250	100
Trade and other payables	(2,447)	3,108
Cash generated from operations	1,927	7,212
Income tax paid	(797)	(1,061)
Net cash generated from operating activities	1,130	6,151
Cash flows from investing activities		
Investment in subsidiary	-	(9)
Interest received	317	265
Dividend income	17	-
Acquisition of subsidiary (Net of cash acquired)	(705)	-
Investment in quoted shares	(1,610)	-
Purchase of plant and equipment	(344)	(2,087)
Net cash used in investing activities	(2,325)	(1,831)
Cash flows from financing activities		
Dividends paid	(5,256)	(2,008)
Interest paid	(3)	-
Proceeds from issuing shares	2,535	4,741
Share issue expenses	-	(184)
Net cash (used in) / from financing activities	(2,724)	2,549
Net effect of exchange rate changes in consolidating foreign subsidiaries	(6)	4
Net decrease in cash and cash equivalents	(3,925)	6,873
Cash and cash equivalents, Cash flow statement, Beginning balance	20,310	11,359
Cash and cash equivalents, Cash flow statement, Ending balance	16,385	18,232

During the year, the Group acquired 70% interest in Incall Systems Pte Ltd. The fair value of assets acquired as at date of acquisition were as follows:

	\$'000
Goodwill on acquisition	535
Plant and Equipments	44
Trade and Other Receivables	411
Other Assets, Current	41
Cash and Cash Equivalents	182
Trade and Other Payables	(169)
Income Tax Payable	(6)
Minority Interest	(151)
Consideration	887
Less: cash takeover	(182)
Net cash outflow from acquisition	705

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2008

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

Changes in Equity

	Share capital \$'000	Share premium \$'000	Translation reserve \$'000	Retained earnings \$'000	Total \$'000	Minority interests \$'000	Total equity \$'000
Group							
Balance at 1 January 2008	16,081	-	(2)	5,736	21,815	-	21,815
Changes in equity for the year ended 30 June 2008							
Exchange difference on translating foreign operations	-	-	(6)	-	(6)	-	(6)
Net income recognised directly in equity	-	-	(6)	-	(6)	-	(6)
Profit for the period	-	-	-	4,170	4,170	19	4,189
Total recognised income and (expense) for the period	-	-	(6)	4,170	4,164	19	4,183
Acquisition of Subsidiary	-	-	-	-	-	151	151
Dividends	-	-	-	(5,256)	(5,256)	-	(5,256)
Issue of share capital	2,535	-	-	-	2,535	-	2,535
Share issue expenses	-	-	-	-	-	-	-
Balance at 30 June 2008	18,616	-	(8)	4,650	23,258	170	23,428
Balance at 1 January 2007	11,295	-	(2)	2,704	13,997	5	14,002
Changes in equity for the period ended 30 June 2007							
Loss on dilution of interest	-	-	-	-	-	(5)	(5)
Exchange difference on translating foreign operations	-	-	4	-	4	-	4
Net income recognised directly in equity	-	-	4	-	4	(5)	(1)
Profit for the period	-	-	-	3,822	3,822	-	3,822
Total recognised income and (expense) for the period	-	-	4	3,822	3,826	(5)	3,821
Dividends	-	-	-	(2,008)	(2,008)	-	(2,008)
Issue of share capital	4,741	-	-	-	4,741	-	4,741
Share issue expenses	(184)	-	-	-	(184)	-	(184)
Balance at 30 June 2007	15,852	-	2	4,518	20,372	-	20,372
Company							
Balance at 1 January 2008	16,081	-	-	5,487	21,568	-	21,568
Changes in equity for the period ended 30 June 2008							
Profit for the period	-	-	-	4,452	4,452	-	4,452
Total recognised income for the period	-	-	-	4,452	4,452	-	4,452
Dividends	-	-	-	(5,256)	(5,256)	-	(5,256)
Issue of share capital	2,535	-	-	-	2,535	-	2,535
Share issue expenses	-	-	-	-	-	-	-
Balance at 30 June 2008	18,616	-	-	4,683	23,299	-	23,299
Balance at 1 January 2007	11,295	-	-	2,338	13,633	-	13,633
Changes in equity for the year ended 31 December 2006							
Profit for the period	-	-	-	3,751	3,751	-	3,751
Total recognised income for the period	-	-	-	3,751	3,751	-	3,751
Dividends	-	-	-	(2,008)	(2,008)	-	(2,008)
Issue of share capital	4,741	-	-	-	4,741	-	4,741
Share issue expenses	(184)	-	-	-	(184)	-	(184)
Balance at 30 June 2007	15,852	-	-	4,081	19,933	-	19,933

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2008

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-back, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares or cash as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year**

In March 2007, the Company completed its renounceable non-underwritten rights issue of up to 46,050,000 new ordinary shares in the capital of the Company at an issue price of S\$0.10 for each rights share with up to 30,700,000 free detachable warrants, each warrant carrying the right to subscribe for one (1) new ordinary share in the capital of the Company at an exercise price of S\$0.10 for each new share, on the basis of three (3) rights shares with two (2) free warrants for every ten (10) existing ordinary shares held by shareholders of the Company as at the books closure date, fractional entitlements to be disregarded. 46,050,000 rights shares and 30,699,558 warrants were listed on the SGX-Sesdaq on 10 April 2007 and 11 April 2007 respectively.

As at 30 June 2008, 1,703,107 warrants have not been exercised.

The details of the number of shares issued and share capital are as follows:

	Number of Shares	Issued Share Capital in \$
<u>Issued and paid-up share capital</u>		
Balance at 1 January 2008	203,197,110	16,080,899
Shares arising from warrants exercised at \$0.1 each	25,349,341	2,534,934
Balance at 30 June 2008	<u>228,546,451</u>	<u>18,615,833</u>

- 1(d)(iii) Total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

	30-Jun-08	31-Dec-07
Total number of issued shares (excluding treasury shares)	228,546,451	203,197,110

- 1(d)(iv) A statement showing all sales, transfers, disposals, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable.

- 2 Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard)**

The figures have not been audited nor reviewed by the Group auditors.

- 3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)**

Not applicable.

CHALLENGER TECHNOLOGIES LIMITED

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- 4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied**

The Group has applied the same accounting policies and methods of computation in the financial statements for the current period as compared with the audited financial statements for the year ended 31 December 2007.

- 5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change**

Not applicable.

- 6 Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends**

	Group	
	30.6.2008	30.6.2007
	cents	cents
Earnings per share based on consolidated profit after taxation and minority interest		
- on weighted average number of shares	2.08	2.03
- on a fully diluted basis	2.07	2.01

(i) Basic earnings per ordinary shares for the financial period ended 30 June 2008 was calculated based on the weighted average number of ordinary shares in issue of 200,733,943 (30 Jun 2007: 188,360,492).

(ii) Earnings per share for the financial period ended 30 Jun 2008 on a fully diluted basis was calculated based on the number of ordinary shares in issue during the period adjusted for the dilutive effect of 1,703,107 warrants.

- 7 Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year**

	Group		Company	
	30.6.2008	31.12.2007	30.6.2008	31.12.2007
	cents	cents	cents	cents
Net asset value per share based on existing issued share capital as at the end of the respective period	10.18	10.74	10.19	10.61

The net asset value per ordinary share at the end of the current period have been calculated based on 228,546,451 ordinary shares (31 December 2007: 203,197,110).

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- 8 A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on

Revenue

Group revenue of \$80.5 M was 23.3% higher than the corresponding period last year. The growth has been mainly due to growth in our IT products and services business segment.

IT products and services business segment increased 22.7% to \$79.6 M. This has been due to revenue arising from full operations of outlets which opened since first half of 2007 and improved performance of our existing megastore and superstores.

Revenue from electronic signage services business segment increased 75.0% to \$0.7 M as more projects were completed in the first half of 2008 compared to the last corresponding period.

Profit after taxation

The increase in profit after taxation of \$0.4 M has been mainly attributable to the following:

- i) Gross profit increased about \$3.1 M due to stronger retail sales.
- ii) Higher interest earned from fixed deposits of \$0.1 M.

The above items have been offset by:

- i) Increase in employee benefits expense by \$0.8 M mainly due to increase in headcount and incentive as a result of higher sales achieved.
- ii) Increase in premises expenses of \$0.5 M due to increased number of stores compared to the same period last year.
- iii) Increase in depreciation expenses of about \$0.3 M as a result of acquisition of plant and equipment for increased number of outlets.
- iv) Higher selling and distribution cost of \$0.2 M due to higher charges from card companies and increased in sales volume.
- v) Higher provision for redemption for members' loyalty program of \$0.2 M
- vi) Increase in other operating expenses of about \$0.1 M to support increased number of outlets.
- vii) Lower foreign exchange gain of \$0.2 M.
- viii) Higher impairment charge of \$0.5 M on acquisition of a subsidiary.

Working capital, assets and liabilities

Cash generated from operating activities amounted to about \$1.1 M. This has resulted mainly from the followings:

- a) operating profit derived from the current period of \$6.5 M
- b) decrease of trade / other payables and accrued liabilities of \$2.4 M
- c) increase of short-term provisions of \$0.2 M
- d) increase in trade / other receivables / other assets of \$0.9 M
- e) increase in inventory of \$1.5 M
- f) income tax paid of \$0.8 M

The net cash outflow from investing activities of about \$2.3 M was mainly due to net cash outflow from acquisition of a subsidiary of \$0.7 M and investment in quoted shares of \$1.6 M during the first half of 2008. During the period, the Group also raised additional proceeds of \$2.5 M from share arising from warrants exercised. In addition, the Group also paid dividends of about \$5.2 M in May 2008, resulting in net cash outflow from financing activities. Hence, cash and cash equivalents decreased by about \$3.9 M for the period ended 30 June 2008.

Other assets (current) increased from \$1.3 M to \$2.7 M mainly due to increase in rental and renovation deposits paid for two outlets that were opened in July 2008.

Inventories increased from \$8.1 M to \$9.6 M which was in line with the increase in Group turnover. Inventory turnover was at 27 days as at 30 June 2008 as compared to 28 days as at 31 December 2007.

Other investments increased from \$1.3 M to \$2.9 M due to investment in quoted shares.

Plant & equipment decreased from \$4.5 M to \$3.8 M mainly due to depreciation charge of \$1.1 M offset by acquisitions of equipment and renovations for retail outlets of \$0.4 M.

Trade and other payables decreased from \$12.5 M to \$10.1 M mainly due to reduction in trade payables of about \$1.9 M due to timing difference in purchasing of goods and reduction of about \$0.5 M for staff incentive / bonus.

Other than the above, no significant difference was noted for other working capital, assets and liabilities.

CHALLENGER TECHNOLOGIES LIMITED

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9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

In our last results announcement for the full year ended 31 December 2007, the Board of Directors stated that the Group should be able to remain profitable in the current financial year.

In line with the expectations of the Directors, we have achieved net profit of \$4.2 M for the half year ended 30 June 2008 exceeded that of the corresponding period by \$0.4 M.

10 A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

a. IT products and services

We will continue to focus on the IT retail business in Singapore and Malaysia where growth opportunities are still available.

In July 2008, we marked our entry into Malaysia IT retail market with the debut of our megastore in Kuala Lumpur. We will continue our expansion in Malaysia if there are any potential locations available.

During the year, a new business division of marketing call centre has been acquired in June 2008. This business division is expected to complement our IT retail business by working closely with our membership department so as to add value to our member base.

b. Electronic signage services

We will continue to concentrate and focus on architectural and commercial lighting services. We are actively pursuing strategic partners and new business opportunities to secure more projects in order to grow our business in this market segment.

c. Group

The directors expect the Group to remain profitable for the current financial year.

11 Dividend

(a) Current Financial Period Reported On

The directors recommend an interim dividend to be paid for the period ended 30.6.2008 as follows:

Name of Dividend: Interim exempt (one-tier) dividend

Dividend type: Cash

Dividend amount per share (in cents): 1.20

Tax rate: Tax-exempt one-tier

(b) Corresponding Period of the Immediately Preceding Financial Year

Interim dividend for the half year ended 30.06.2007 paid on 29.08.2007 as noted below.

Name of Dividend: Interim exempt (one-tier) dividend

Dividend type: Cash

Dividend amount per share (in cents): 1.00

Tax rate: Tax-exempt one-tier

(c) Date Payable

3 September 2008.

(d) Books Closure Date

Notice is hereby given that the Share Transfer Books and Register of Members will be closed on 22 August 2008 for the purpose of determining members' entitlements to the tax-exempt one-tier final dividend of 1.20 cents. Duly completed registerable transfers in respect of the shares in the Company received by the Company's Share Registrar, Lim Associates (Pte) Ltd, 3 Church Street #08-01 Samsung Hub Singapore 049483, by the close of business at 5.00 pm on 21 August 2008 will be registered to determine the members' entitlements to such dividend. Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares as at 5.00 pm on 21 August 2008 will be entitled to such dividend.

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12 If no dividend has been declared/recommended, a statement to that effect

Not applicable.

13 Interested Person Transactions

Interested Person Transactions for the 6 months ended 30 June 2008 were as follows:

Name of Interested Person	Aggregate value of all interested person transactions during the financial period under review \$'000	Aggregate value of all interested interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000) \$'000
Columbia Computer Products, Inc * - Purchase of IT products	312	NIL
Total	312	NIL

* Note: Mr Ng Leong Hai, our non-executive director, is also the director of Columbia Computer Products, Inc.

BY ORDER OF THE BOARD

LOO LEONG THYE
DIRECTOR AND CHIEF EXECUTIVE OFFICER
DATE: 6 August 2008

CONFIRMATION BY THE BOARD

On behalf of the Board of Directors of the Company, Loo Leong Thye and Ong Sock Hwee being two directors of the Company, do hereby confirm to the best of our knowledge, that nothing has come to the attention of the Board of Directors of the Company which may render the financial statements for the period ended 30 June 2008 to be false or misleading in any material aspect.

On behalf of the Board of Directors

LOO LEONG THYE
DIRECTOR AND CHIEF EXECUTIVE OFFICER

ONG SOCK HWEE
EXECUTIVE DIRECTOR

Singapore, 6 August 2008