

**Challenger
Technologies
Limited**



**HALF YEAR FINANCIAL STATEMENT
AND DIVIDEND ANNOUNCEMENT
FOR THE FINANCIAL PERIOD ENDED
30 JUNE 2007**

Co reg No: 198400182 K

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2007

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 2007

	Group		Change %
	30.6.2007 \$'000	30.6.2006 \$'000	
Revenue	65,326	41,957	56
Financial income [note (A)]	819	242	238
Financial expense [note (A)]	-	(253)	(100)
Changes in inventories	1,163	17	6,741
Cost of goods purchased	(53,071)	(33,379)	59
Other consumables used	(248)	(124)	100
Employee benefits expense including Directors' remuneration	(4,148)	(2,640)	57
Depreciation expense	(777)	(205)	279
Other operating expenses [note (B)]	(4,078)	(2,638)	55
Other (charges) / credits [note (C)]	(104)	(118)	(12)
Profit before tax	4,882	2,859	71
Income tax expense	(1,060)	(624)	70
Profit for the period	<u>3,822</u>	<u>2,235</u>	71
Attributable to:			
Equity holders of the company	3,822	2,236	71
Minority interest	-	(1)	(100)
	<u>3,822</u>	<u>2,235</u>	71
N.M. = not meaningful			
<u>Note (A) - Financial Income / (Expenses)</u>			
Bank overdraft interest	-	(1)	(100)
Bad debt recovered	1	-	N.M.
Foreign exchange transaction gain / (loss)	501	(252)	299
Interest income	265	224	18
Sundry income	52	18	189
	<u>819</u>	<u>(11)</u>	
Presented in the income statement as:			
Financial income	819	242	238
Financial expense	-	(253)	(100)
	<u>819</u>	<u>(11)</u>	
<u>Note (B) - Other Operating Expenses</u>			
Rental expenses	(2,503)	(1,670)	50
Selling and distribution costs	(1,039)	(531)	96
Other operating expenses	(536)	(437)	23
	<u>(4,078)</u>	<u>(2,638)</u>	
<u>Note (C) - Other (Charges) / Credits</u>			
Amortisation of master franchise fee	-	(5)	(100)
Loss on disposal of plant and equipment	-	(5)	(100)
Inventories written off	-	(108)	(100)
Provision for impairment of goodwill on consolidation	(4)	-	N.M.
Provision for loyalty program	(100)	-	N.M.
	<u>(104)</u>	<u>(118)</u>	

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2007

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	
	30.6.2007 \$'000	31.12.2006 \$'000	30.6.2007 \$'000	31.12.2006 \$'000
Current assets				
Cash and cash equivalents	18,232	11,359	17,583	10,796
Trade receivables	2,653	2,477	4,360	2,841
Other receivables	1,085	1,124	952	867
Inventories	8,359	7,196	6,504	6,168
	<u>30,329</u>	<u>22,156</u>	<u>29,399</u>	<u>20,672</u>
Non-current assets				
Plant and equipment	4,429	3,120	3,813	2,771
Investments in subsidiaries	-	-	898	889
Investments in associates	-	-	51	51
Available-for-sale investment	1,302	1,208	1,302	1,208
Other assets	-	-	-	-
	<u>5,731</u>	<u>4,328</u>	<u>6,064</u>	<u>4,919</u>
Total assets	<u>36,060</u>	<u>26,484</u>	<u>35,463</u>	<u>25,591</u>
Current liabilities				
Short-term provisions	600	500	600	500
Trade payables	11,669	9,021	11,521	8,683
Other payables	296	287	492	262
Current tax payable	1,692	1,693	1,510	1,582
Current portion of deferred income	849	545	849	532
	<u>15,106</u>	<u>12,046</u>	<u>14,972</u>	<u>11,559</u>
Non-current liabilities				
Finance leases	-	-	-	-
Deferred income	420	274	420	261
Deferred tax liabilities	162	162	138	138
	<u>582</u>	<u>436</u>	<u>558</u>	<u>399</u>
Total liabilities	<u>15,688</u>	<u>12,482</u>	<u>15,530</u>	<u>11,958</u>
Equity				
Share capital	15,852	11,295	15,852	11,295
Other reserves	2	(2)	-	-
Retained earnings	4,518	2,704	4,081	2,338
Total shareholders' funds	<u>20,372</u>	<u>13,997</u>	<u>19,933</u>	<u>13,633</u>
Minority interest	-	5	-	-
Total equity	<u>20,372</u>	<u>14,002</u>	<u>19,933</u>	<u>13,633</u>
Total liabilities and equity	<u>36,060</u>	<u>26,484</u>	<u>35,463</u>	<u>25,591</u>

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

Amount repayable in one year or less, or on demand

Not applicable.

Amount repayable after one year

Not applicable.

Details of any collateral

Not applicable.

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2007

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

	30.6.2007 \$'000	30.6.2006 \$'000
Cash flow from operating activities		
Profit for the year	3,822	2,235
Adjustments for:		
Amortisation of master franchisee fee	-	5
Depreciation expense	777	205
Goodwill on consolidation written off	4	-
Loss on disposal of plant and equipment	-	5
Income tax expense	1,060	624
Interest expense	-	1
Interest income	(265)	(224)
Foreign exchange transaction gain	(94)	-
Operating profit before working capital changes	<u>5,304</u>	<u>2,851</u>
Trade and other receivables	(137)	(280)
Inventories	(1,163)	(30)
Short-term provisions	100	-
Trade and other payables	<u>3,108</u>	<u>50</u>
Cash generated from operations	7,212	2,591
Income tax paid	<u>(1,061)</u>	<u>(387)</u>
Net cash generated from operating activities	<u>6,151</u>	<u>2,204</u>
Cash flows from investing activities		
Investment in subsidiary	(9)	-
Interest received	265	224
Proceeds from disposal of plant and equipment	-	44
Purchase of plant and equipment	<u>(2,087)</u>	<u>(1,059)</u>
Net cash used in investing activities	<u>(1,831)</u>	<u>(791)</u>
Cash flows from financing activities		
Dividends paid	(2,008)	(2,456)
Decrease in finance leases	-	(43)
Interest paid	-	(1)
Proceeds from issuing shares	4,741	-
Share issue expenses	<u>(184)</u>	<u>-</u>
Net cash from / (used in) financing activities	<u>2,549</u>	<u>(2,500)</u>
Net effect of exchange rate changes in consolidating foreign subsidiaries	4	(2)
Net increase / (decrease) in cash	6,873	(1,089)
Cash at beginning of the period	<u>11,359</u>	<u>10,646</u>
Cash at end of the period	<u>18,232</u>	<u>9,557</u>

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2007

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 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
Balance at 1 January 2006	6,140	5,155	(3)	2,163	13,455	7	13,462
Changes in equity for the period ended 30 June 2006							
Transfer (Note D)	5,155	(5,155)	-	-	-	-	-
Exchange difference on translating foreign operations	-	-	(2)	-	(2)	-	(2)
Net income recognised directly in equity	-	-	(2)	-	(2)	-	(2)
Profit for the period	-	-	-	2,236	2,236	(1)	2,235
Total recognised income and (expense) for the period	-	-	(2)	2,236	2,234	(1)	2,233
Dividends	-	-	-	(2,456)	(2,456)	-	(2,456)
Balance at 30 June 2006	11,295	-	(5)	1,943	13,233	6	13,239
Company							
Balance at 1 January 2007	11,295	-	-	2,338	13,633	-	13,633
Changes in equity for the period ended 30 June 2007							
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
Balance at 1 January 2006	6,140	5,155	-	2,174	13,469	-	13,469
Changes in equity for the period ended 30 June 2006							
Transfer (Note D)	5,155	(5,155)	-	-	-	-	-
Profit for the period	-	-	-	2,226	2,226	-	2,226
Total recognised income for the period	-	-	-	2,226	2,226	-	2,226
Dividends	-	-	-	(2,456)	(2,456)	-	(2,456)
Balance at 30 June 2006	11,295	-	-	1,944	13,239	-	13,239

Note D:

With changes to the Companies Act, Cap 50, effective from 30 January 2006, there is the removal of the concept of par value and authorised capital and there is no share premium account. The Company had a share premium account balance of \$5,155,000 as at 30 June 2006. This amount has now been included in the share capital as required by the changes to the Companies Act in 2006.

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HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2007

- 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 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 2007, 29,343,376 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 2007	153,500,000	11,295,000
Shares arising from rights issue at \$0.1 each	46,050,000	4,605,000
Shares arising from warrants exercised at \$0.1 each	1,356,182	135,618
Share issue expenses	-	(183,812)
Balance at 30 June 2007	<u>200,906,182</u>	<u>15,851,806</u>

- 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.

- 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 2006.

- 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	
	30.6.2007	30.6.2006
	cents	cents
Earnings per share based on consolidated profit after taxation and minority interest		
- on weighted average number of shares	2.03	1.26
- on a fully diluted basis	2.01	1.26

(i) Basic earnings per ordinary shares for the financial period ended 30 June 2007 was calculated based on the weighted average number of ordinary shares in issue of 188,360,492 (30 Jun 2006: 153,500,000).

(ii) Earnings per share for the financial period ended 30 Jun 2007 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 29,343,376 warrants.

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2007

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

	Group		Company	
	30.6.2007	31.12.2006	30.6.2007	31.12.2006
	cents	cents	cents	cents
Net asset value per share based on existing issued share capital as at the end of the respective period	10.14	9.12	9.92	8.88

The net asset value per ordinary share at the end of the current period have been calculated based on 200,906,182 ordinary shares (30 June 2006: 153,500,000).

- 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

Revenue for the Group of \$65.3 M was 55.7% higher than the corresponding period last year. This was mainly due to our expansion strategy through the opening of new stores in Singapore since April 2006.

IT products and services business segment increased 57.5% to \$64.9 M. This was largely due to additional revenue arising from the new outlets which mostly opened since the second half of 2006 and improved performance of our existing megastore in Funan and small format outlets.

Revenue from electronic signage services business segment decreased 42.8% to \$0.4 M. This was partly due to the disposal of a former subsidiary in Malaysia in December 2006 and bigger projects were secured in the last corresponding period.

Profit after taxation

The increase in profit after taxation of \$1.6 M has been mainly attributable to the following:

- i) Gross profit increased about \$4.7 M due to stronger retail sales.
- ii) Higher net financial income of \$0.8 M as compared to last year mainly due to appreciation of Australian dollar against Singapore dollar during the period, whereby a foreign exchange transaction loss of \$0.3 M in last corresponding financial period was recorded compared to a foreign exchange gain of \$0.5 M in this financial period.

The above items have been offset by:

- i) Increase in employee benefits expense by \$1.5 M mainly due to increase in headcount for new retail outlets and incentive as a result of higher sales achieved.
- ii) Increase in premises expenses of \$0.8 M due to increased number of stores.
- iii) Increase in depreciation expenses of about \$0.6 M as a result of acquisition of plant and equipment and fit-out costs of new outlets during the period.
- iv) Higher selling and distribution cost of \$0.5 M due to higher transaction costs as a result of increased in sales and more advertising and promotion expenses.
- v) Higher provision for redemption for members' loyalty program of \$0.1 M.
- vi) Higher income tax provision of \$0.4 M.

Working capital, assets and liabilities

Cash generated from operating activities amounted to about \$6.1 M. This has resulted mainly from the followings:

- a) operating profit derived from the current period of \$5.3 M
- b) increase of trade / other payables and accrued liabilities of \$3.1 M
- c) increase of short-term provisions of \$0.1 M
- d) increase in trade / other receivables of \$0.1 M
- e) increase in inventory of \$1.2 M
- f) income tax paid of \$1.1 M

The net cash outflow from investing activities of about \$1.8 M was mainly due to the increase in renovation costs incurred at our new retail outlets for the period noted above. During the period, the Group raised net proceeds of \$4.6M from its renounceable non-underwritten rights issue. In addition, the Group also paid dividends of about \$2.0 M in May 2007, resulting in net cash inflow from financing activities. Hence, cash and cash equivalents increased by about \$6.9 M for the six month ended 30 June 2007.

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

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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 2006, 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 \$3.8 M for the half year ended 30 June 2007 exceeded that of the corresponding period by \$1.6 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. New retail outlets will be added in more locations to further expand our retail network in Singapore.

During the period, the Group has added another 3 Challenger superstores, 1 Matrix and 2 Pixels specialty stores. This gives our Group a total of 16 outlets comprising 1 Challenger megastore, 7 Challenger superstores, 6 Matrix specialty stores and 2 Pixels specialty stores.

As shown by recent advance estimates, the Singapore economy continues to record strong growth in the second quarter. Real GDP rose by 8.2% on a year-on-year basis in the second quarter, up from 6.4% in the previous quarter. In view of this, the outlook of overall retail industry in Singapore is expected to remain positive. We expect to grow our retail revenue through expansion despite increasing staff and rental cost.

b. Electronic signage services

We will concentrate on the Singapore market. Although keen competition is expected to continue in this segment of our business, we are actively pursuing new business opportunities in this market. This includes architectural lighting for commercial and residential projects. We believe that there will be more opportunities if we can work with the right partners to secure bigger projects.

c. Group

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

CHALLENGER TECHNOLOGIES LIMITED**HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2007****11 Dividend****(a) Current Financial Period Reported On**

The directors recommend an interim dividend to be paid for the period ended 30.6.2007 as follows:

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

(b) Corresponding Period of the Immediately Preceding Financial Year

Interim dividend for the half year ended 30.06.2006 paid on 12.09.2006 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

29 August 2007.

(d) Books Closure Date

Notice is hereby given that the Share Transfer Books and Register of Members will be closed on 17 August 2007 for the purpose of determining members' entitlements to the tax-exempt one-tier final dividend of 1.0 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 16 August 2007 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 16 August 2007 will be entitled to such dividend.

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 2007 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	395	NIL
Total	395	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: 30 July 2007

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 results for the period ended 30 June 2007 to be false or misleading.

On behalf of the Board of Directors

LOO LEONG THYE
 DIRECTOR AND CHIEF EXECUTIVE OFFICER

ONG SOCK HWEE
 EXECUTIVE DIRECTOR

Singapore, 30 July 2007