

**Challenger  
Technologies  
Limited**



**HALF YEAR FINANCIAL STATEMENT  
AND DIVIDEND ANNOUNCEMENT  
FOR THE FINANCIAL PERIOD ENDED  
30 JUNE 2006**

Co reg No: 198400182 K

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2006

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 2006

	Group		Change %
	6 months ended		
	30.6.2006 \$'000	30.6.2005 \$'000	
Revenue	41,957	37,262	13
Financial income [note (A)]	242	272	(11)
Financial expense [note (A)]	(253)	(11)	2,200
Changes in inventories	17	172	(90)
Cost of goods purchased	(33,379)	(30,314)	10
Other consumables used	(124)	(135)	(8)
Employee benefits expense including Directors' remuneration	(2,640)	(2,590)	2
Depreciation expense	(205)	(176)	16
Other operating expenses [note (B)]	(2,638)	(2,557)	3
Other (charges) / credits [note (C)]	(118)	528	(122)
Share of loss of associates	-	(59)	(100)
Profit before income tax	2,859	2,392	20
Income tax expenses	(624)	(440)	42
Profit for the period	2,235	1,952	14
Attributable to:			
Equity holders of the company	2,236	1,985	13
Minority interests	(1)	(33)	(97)
	2,235	1,952	14
N.M. = not meaningful			
<u>Note (A) - Financial Income / (Expenses)</u>			
Bank overdraft interest	(1)	-	N.M.
Foreign exchange adjustment (loss) / gain	(252)	55	(558)
Hire purchase interest	-	(2)	(100)
Interest income - financial institutions	224	186	20
Other interest paid	-	(9)	(100)
Sundry income	18	31	(42)
	(11)	261	
Presented in the income statement as:			
Financial income	242	272	(11)
Financial expense	(253)	(11)	2,200
	(11)	261	
<u>Note (B) - Other Operating Expenses</u>			
Rental expenses	(1,670)	(1,677)	(0)
Selling and distribution costs	(531)	(485)	9
Other operating expenses	(437)	(395)	11
	(2,638)	(2,557)	
<u>Note (C) - Other (Charges) / Credits</u>			
Amortisation of master franchise fee	(5)	(8)	(38)
Gain on disposal of investment in subsidiaries	-	536	(100)
Loss on disposal of plant and equipment	(5)	-	N.M.
Inventories written-off	(108)	-	N.M.
	(118)	528	

**CHALLENGER TECHNOLOGIES LIMITED**

**HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2006**

**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	
	30.6.2006 \$'000	31.12.2005 \$'000	30.6.2006 \$'000	31.12.2005 \$'000
<b>Current Assets</b>				
Cash and bank balances	9,557	10,666	9,104	10,349
Trade and other receivables	2,596	2,316	3,014	2,338
Inventories	6,509	6,479	5,656	5,818
	<u>18,662</u>	<u>19,461</u>	<u>17,774</u>	<u>18,505</u>
<b>Non-Current Assets</b>				
Plant and equipment	1,897	1,092	1,647	840
Investments in subsidiaries	-	-	889	889
Investments in associates	-	-	51	51
Other assets	-	5	-	-
	<u>1,897</u>	<u>1,097</u>	<u>2,587</u>	<u>1,780</u>
<b>Total Assets</b>	<u><b>20,559</b></u>	<u><b>20,558</b></u>	<u><b>20,361</b></u>	<u><b>20,285</b></u>
<b>Current Liabilities</b>				
Short-term borrowings	-	20	-	-
Trade and other payables	5,648	5,598	5,455	5,386
Short-term provisions	307	307	307	307
Current tax payable	1,238	1,001	1,236	999
Current portion of finance leases	-	8	-	-
	<u>7,193</u>	<u>6,934</u>	<u>6,998</u>	<u>6,692</u>
<b>Non-Current Liabilities</b>				
Deferred tax liabilities	127	127	124	124
Finance leases	-	35	-	-
	<u>127</u>	<u>162</u>	<u>124</u>	<u>124</u>
<b>Total liabilities</b>	<u>7,320</u>	<u>7,096</u>	<u>7,122</u>	<u>6,816</u>
<b>Equity</b>				
Share capital (Note D)	11,295	6,140	11,295	6,140
Other reserves	(5)	5,152	-	5,155
Retained earnings	1,943	2,163	1,944	2,174
	<u>13,233</u>	<u>13,455</u>	<u>13,239</u>	<u>13,469</u>
<b>Minority interests</b>	6	7	-	-
<b>Total equity</b>	<u>13,239</u>	<u>13,462</u>	<u>13,239</u>	<u>13,469</u>
<b>Total liabilities and equity</b>	<u><b>20,559</b></u>	<u><b>20,558</b></u>	<u><b>20,361</b></u>	<u><b>20,285</b></u>

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 31 December 2005. This amount has now been included in the share capital as required by the changes to the Companies Act in 2006.

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

**Amount repayable in one year or less, or on demand**

30.6.2006 \$'000		31.12.2005 \$'000	
Secured	Unsecured	Secured	Unsecured
-	-	28	-

**Amount repayable after one year**

30.6.2006 \$'000		31.12.2005 \$'000	
Secured	Unsecured	Secured	Unsecured
-	-	35	-

**Details of any collateral**

The Group has finance leases of \$NIL (31.12.2005: \$43,000) which are secured against motor vehicles with net book value of \$NIL (31.12.2005: \$47,000) as at 30 June 2006.

**CHALLENGER TECHNOLOGIES LIMITED**

**HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2006**

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**

	30.6.2006 \$'000	30.6.2005 \$'000
<b>Cash flow from operating activities</b>		
Profit for the year	2,235	1,952
Adjustments for:		
Amortisation of master franchisee fee	5	8
Depreciation expense	205	176
Gain on disposal of investment a subsidiary	-	(536)
Loss on disposal of plant and equipment	5	-
Income tax expense	624	440
Interest expense	1	11
Interest income	(224)	(186)
Share of losses of associates	-	59
Operating profit before working capital changes	2,851	1,924
Trade and other receivables	(280)	626
Inventories	(30)	(171)
Trade and other payables	50	(1,133)
Cash generated from operations	2,591	1,246
Interest received	224	186
Interest paid	(1)	(11)
Income tax paid	(387)	(431)
Net cash generated from operating activities	2,427	990
<b>Cash flows from investing activities</b>		
Increase in investments in associates	-	(12)
Disposal of subsidiaries	-	(166)
Proceeds from disposal of plant and equipment	44	-
Purchase of plant and equipment	(1,059)	(68)
Net cash used in investing activities	(1,015)	(246)
<b>Cash flows from financing activities</b>		
Dividends paid	(2,456)	(3,684)
Decrease in short-term borrowings	-	(315)
Decrease in finance leases	(43)	(6)
Net cash used in financing activities	(2,499)	(4,005)
Net effect of exchange rate changes in consolidating foreign subsidiaries	(2)	1
<b>Net decrease in cash and cash equivalents</b>	(1,089)	(3,260)
Cash at beginning of the period	10,646	12,737
<b>Cash at end of the period</b>	9,557	9,477

CHALLENGER TECHNOLOGIES LIMITED

HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2006

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
<b>Group</b>							
<b>Balance at 1 January 2006</b>	6,140	5,155	(3)	2,163	13,455	7	13,462
<b>Changes in equity for the period ended 30 June 2006</b>							
Transfer (Note D)	5,155	(5,155)	-	-	-	-	-
Foreign currency translation difference	-	-	(2)	-	(2)	-	(2)
Net income recognised directly in equity	-	-	(2)	-	(2)	-	(2)
Net profit for the period	-	-	-	2,236	2,236	(1)	2,235
Total recognised income and (expense) for the year	-	-	(2)	2,236	2,234	(1)	2,233
Dividends	-	-	-	(2,456)	(2,456)	-	(2,456)
<b>Balance at 30 June 2006</b>	<b>11,295</b>	<b>-</b>	<b>(5)</b>	<b>1,943</b>	<b>13,233</b>	<b>6</b>	<b>13,239</b>
<b>Balance at 1 January 2005</b>	6,140	5,155	(5)	3,283	14,573	35	14,608
<b>Changes in equity for the period ended 30 June 2005</b>							
Foreign currency translation difference	-	-	(1)	-	(1)	2	1
Net income recognised directly in equity	-	-	(1)	-	(1)	2	1
Net profit for the period	-	-	-	1,985	1,985	(33)	1,952
Total recognised income and (expense) for the period	-	-	(1)	1,985	1,984	(31)	1,953
Dividends	-	-	-	(3,684)	(3,684)	-	(3,684)
<b>Balance at 30 June 2005</b>	<b>6,140</b>	<b>5,155</b>	<b>(6)</b>	<b>1,584</b>	<b>12,873</b>	<b>4</b>	<b>12,877</b>
<b>Company</b>							
<b>Balance at 1 January 2006</b>	6,140	5,155	-	2,174	13,469	-	13,469
<b>Changes in equity for the period ended 30 June 2006</b>							
Transfer (Note D)	5,155	(5,155)	-	-	-	-	-
Net 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)
<b>Balance at 30 June 2006</b>	<b>11,295</b>	<b>-</b>	<b>-</b>	<b>1,944</b>	<b>13,239</b>	<b>-</b>	<b>13,239</b>
<b>Balance at 1 January 2005</b>	6,140	5,155	-	3,947	15,242	-	15,242
<b>Changes in equity for the period ended 30 June 2005</b>							
Profit for the period	-	-	-	1,626	1,626	-	1,626
Total recognised income for the period	-	-	-	1,626	1,626	-	1,626
Dividends	-	-	-	(3,684)	(3,684)	-	(3,684)
<b>Balance at 30 June 2005</b>	<b>6,140</b>	<b>5,155</b>	<b>-</b>	<b>1,889</b>	<b>13,184</b>	<b>-</b>	<b>13,184</b>

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 31 December 2005. This amount has now been included in the share capital as required by the changes to the Companies Act in 2006.

**CHALLENGER TECHNOLOGIES LIMITED**

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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

There has not been any change in the Company's number of shares issued and share capital since the end of the previous financial year. The details of the number of shares issued and share capital are as follows:

	Number of Shares	Issued Share Capital in \$
<b>Issued and paid-up share capital</b>		
As at 31 December 2005	153,500,000	6,140,000
Transfer of share premium	-	5,155,000
As at 30 June 2006	<u>153,500,000</u>	<u>11,295,000</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 2005.

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	
	30.6.2006	30.6.2005
	cents	cents
Earnings per share based on consolidated profit after taxation and minority interest		
- on weighted average number of shares	1.46	1.29
- on a fully diluted basis	1.46	1.29

The basic and fully diluted earnings per share for the 6 months ended 30 June 2006 and 30 June 2005 above have been calculated based on 153,500,000 ordinary shares.

**CHALLENGER TECHNOLOGIES LIMITED**

**HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2006**

- 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	
	30.6.2006	31.12.2005	30.6.2006	31.12.2005
	cents	cents	cents	cents
Net asset value per share based on existing issued share capital as at the end of the respective period	8.62	8.77	8.62	8.77

The net asset value per ordinary share at the end of the current period and the immediately preceding financial year have been calculated based on 153,500,000 ordinary shares.

- 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 \$42.0 M was 12.6% higher than the corresponding period last year. This was achieved despite the disposal of a former subsidiary, OA Supplies Pte Ltd in April 2005.

IT products and services business segment increased 12.7% to \$41.2 M mainly due to higher retail revenue at all our retail outlets and increased revenue of about \$0.8 M from our three new retail outlets. These three retail outlets have increased our retail area by approximately 5,000 sq ft.

The main drivers of the growth included:

- i) the continuing focus on our customers' reward programme. We have further enhanced our program by setting up an auction website, eAuction.sg, whereby our members are able to bid for products starting at half price on a weekly basis;
- ii) more variety of merchandise at competitive pricing; and
- iii) an increase in consumer spending power due to better economic climate.

Revenue from electronic signage services business segment increased 42.4% to \$0.8 M. This was contributed by revenue growth from Singapore operation.

**Profit after taxation**

The Group's profit after taxation grew by \$0.3 M to \$2.2 M, which is a 14.5% higher than the corresponding period last year. This was achieved on the back of better contributions of \$1.5 M from stronger retail sales, which has been partially offset by:

- i) Increase in financial expenses by \$0.3 M mainly due to exchange loss arising from depreciation of Australian dollar fixed deposits.
- ii) Inventories written-off of about \$0.1 M for our electronic signage business.
- iii) Increase in staff costs and depreciation expenses of about \$0.1 M. The former was due to increase in staff bonus and incentive as a result of higher sales. The latter was a result of acquisition of plant and equipment during the period.
- iv) There was a gain on disposal of a subsidiary of about \$0.5 M in the first half of 2005, while there was none in the first half of 2006.
- v) Higher income tax provision of \$0.2 M.

**Working capital, assets and liabilities**

Cash generated from operating activities amounted to about \$2.4 M. This has resulted mainly from the followings:

- a) operating profit derived from the current period of \$2.8 M
- b) increase of trade / other payables and accrued liabilities of \$0.1 M
- c) increase in trade / other receivables of \$0.3 M
- d) net interest received of \$0.2 M
- e) income tax paid of \$0.4 M

The net cash outflow from investing activities of about \$1.0 M was mainly due to the increase in renovation costs incurred at our retail outlets for the period noted above. In addition, the Group also paid dividends of about \$2.5 M in May 2006, resulting in net cash outflow from financing activities. Hence, cash and cash equivalents decreased by about \$1.1 M for the six month ended 30 June 2006.

In addition, we have paid deposits for on-going renovation works and additional rental deposits for new outlets have also resulted in an increase in other receivables.

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 2005, 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, the Group's profit of \$2.2 M for the half year ended 30 June 2006 exceeded that of the previous period by \$0.3 M or 14%.

**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**

The Group will continue to have its primary focus on the local IT retail market by expanding to suitable locations in Singapore.

Besides the opening of Eastpoint Mall store in May 2006 and two small format outlets in Sim Lim Square and Funan DigitalLife Mall, we have obtained new leases totalling about 17,000 sq ft at VivoCity, IMM Building, United Square and Whitesands Mall which are scheduled to open in October 2006, November 2006, January 2007 and March 2007 respectively. To date, we have added about 5,000 sq ft for new outlets that were opened in first half of 2006.

In addition to our retail expansion, we are also riding on the growing trend of online shopping with our newly launched eAuction portal, eAuction.sg, created exclusively for our members in May 2006. We aim to bring more value to our customers who are also our members and will work towards enhancing our eAuction website.

We expect to grow our retail revenue for the rest of this financial year. We believe that we would be able to achieve this given the positive Singapore retail market and the opening of more outlets in the second half of the year.

**b. Electronic signage services**

We expect the growth of this business to be coming from the Singapore operations this year. In the first half of 2006, we managed to secure a few projects from both government and commercial sectors. The Malaysian operations continue to be very price competitive. In addition, our expansion in this market has also been slowed by extensive credit terms expected from us. We will continue to operate and assess the viability of our electronic signage business in Malaysia.

**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 2006**

**11 Dividend**

**(a) Current Financial Period Reported On**

The directors recommend an interim dividend to be paid for the period ended 30.6.2006 as follows:

Name of Dividend: Interim Tax Exempt 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 30.06.2005 paid on 09.09.2005 as noted below.

Name of Dividend: Interim Tax Dividend  
Dividend type: Cash  
Dividend amount per share (in cents): 1.00  
Tax rate: 20%

**(c) Date Payable**

12 September 2006.

**(d) Books Closure Date**

Notice is hereby given that the Share Transfer Books and Register of Members will be closed on 4 September 2006 for the purpose of determining members' entitlements to the tax-exempt one-tier interim 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, 10 Collyer Quay #19-08 Ocean Building Singapore 049315, by the close of business at 5.00 pm on 1 September 2006 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 1 September 2006 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 2006 were as follows:

<b>Name of Interested Person</b>	<b>Aggregate value of all interested person transactions during the financial period under review</b>	<b>Aggregate value of all interested interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)</b>
	<b>\$'000</b>	<b>\$'000</b>
Columbia Computer Products, Inc * - Purchase of IT products	341	NIL
Total	341	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: 8 August 2006