



EQUATION CORP LIMITED

(Company Registration No. 197501110N)

MEMORANDUM OF UNDERSTANDING - ACQUISITION OF INTEREST IN GRANITE

1. Introduction

The Board of Directors of Equation Corp Limited (the "**Company**") wishes to announce that Equation Resources Pte Ltd ("**ERPL**"), a 70% owned subsidiary of the Company, has today entered into a memorandum of understanding (the "**Granite MOU**") with **PT KAWASAN DINAMIKA HARMONITAMA ("KDH")** for the acquisition of rights to granite on a land in Jalan Penerbangan No. 62 RT 01, RW 02, Pamak, Tebing-Tanjung Balai, Indonesia (the "**Land**") owned by KDH.

2. Rationale for the Proposed Transaction

As part of the efforts to enhance the value of the Company, the management is constantly looking for suitable new business opportunities for the Company to pursue for its viability and growth.

In this regard, the Company's management is considering the acquisition described above, which it believes will expand the Company's business areas.

3. Background of KDH

KDH is a company incorporated in Indonesia which principally owns and operates the Land which has an area of 91 hectare (about 224.9 acres). The granite quarry is equipped with primary, secondary and tertiary crushers, power generating systems, vehicles and machines such as loaders and crawler drills.

4. Key terms of the Granite MOU

4.1 Under the terms of the Granite MOU, it is proposed that ERPL will pay S\$10,000,000 (the "**Consideration**") to acquire the following:-

- a) the right to and ownership of 51% of the granite on the Land;
- b) a 51% interest in the plant and equipment currently owned by KDH (the "**Plant and Machinery**").

4.2 The Consideration will be satisfied by way of the following:-

- a) S\$2 million by the issue of ordinary shares in the issued share capital of the Company to KDH and/or its nominees at the issue price per share based on the weighted average price of the shares of the Company on the Singapore Exchange Securities Trading Limited on the market day preceding the date of the Definitive Agreement (defined below) or such other date as the Singapore Exchange Securities Trading Limited may require.
- b) S\$8 million by way of cash to KDH and/or its nominees to be paid on or before completion.

4.3 Based on the terms of the MOU, ERPL will work with and cooperate with KDH to extract granite from the Land, process the granite and sell the granite.

4.4 The cost of extraction, processing and selling the granite (excluding the sum payable to ERPL in Paragraph 4.5 below) will be shared by ERPL (51%) and KDH (49%). The profit from the sale of the granite will be shared in the same proportion.

4.5 The extraction and processing of the granite will be carried out by KDH while the sale of the granite will be arranged and carried out by ERPL. For its efforts, ERPL will be paid a sum of S\$1.00 for each ton of granite sold.

4.6 Conditions Precedent

The proposed transaction is conditional upon, *inter alia*,:-

- a) The execution by the parties of the Definitive Agreement.
- b) The approval, if required, of the shareholders of the Company and the Singapore Exchange Securities Trading Limited;
- c) The completion of the due diligence by ERPL into the affairs of KDH and the Plant and Machinery and the result of such due diligence being satisfactory to ERPL;
- d) ERPL obtaining all necessary licences, permits, and approvals for the transactions contemplated by the Granite MOU; and where any such licences, permits and approvals are subject to any conditions, such conditions are satisfactory to ERPL;
- e) KDH obtaining all necessary licences, permits, and approvals for the transactions contemplated by Granite MOU; and where any such licences, permits and approvals are subject to any conditions, such conditions being satisfied by KDH.

4.7 Representation on Profit

As part of the terms of the transaction, Mr Tay Juhari, the shareholder of KDH, shall warrant that in the 24 months after the signing of the definitive agreement, the profit (taking into account the cost of granite) for each 12 month period shall not be less than S\$2 million.

4.8 Warranties and Undertakings

- a) KDH will warrant and undertake that the Land will be able to produce 60,000 to 80,000 tons of granite per month (after processing) for sale.
- b) KDH will warrant that it has obtained all necessary licences, permits and approvals for the transactions being contemplated and will provide such other representations that are usual in a transaction of this nature, such representations to be in form and substance satisfactory to ERPL.
- c) KDH will, *inter alia*, undertake
 - i) not carry out any other business activities other than the extraction and processing contemplated in the Granite MOU;
 - ii) sell any material asset, grant any security over its assets, or incur any financial indebtedness, without the prior consent of ERPL.

4.9 The parties will in good faith negotiate and enter into a definitive agreement (the "**Definitive Agreement**") in relation to the proposed transaction, which shall contain the terms set out in the Granite MOU and terms that are usual in such transactions.

- 4.10 ERPL has upon the signing of the Granite MOU paid a deposit of S\$2 million. If the transaction is completed, the S\$2 million will be applied in discharge of the Consideration. In the event the transaction cannot be completed (eg. if the conditions precedent cannot be satisfied or are not waived), the deposit shall be returned.

5. Financial effects of the Proposed Transaction

The effect of the proposed transaction on the net tangible assets per share of the Company for the most recently completed financial year ending 30 June 2008, assuming that the proposed transaction had been effected at the end of that financial year is an increase of 0.02 cents to 3.54 cents, representing an increase of 0.57% over the actual 3.52 cents.

The effect of the proposed transaction on the earnings per share of the Company for the most recently completed financial year ending 30 June 2008, assuming that the transaction had been effected at the beginning of that financial year is not applicable as no profit is applicable to the assets.

The Consideration will be funded by the shareholders of ERPL. The Company will fund its portion of the Consideration by the issue of shares in the Company and the proceeds from the Rights Issue which the Company completed in February 2008.

6. Rule 1006 test

A) Rule 1006(a) – Net asset comparison

Not applicable for the acquisition of assets.

B) Rule 1006(b) – Net profit comparison

Not applicable as there are no profits attributable to the assets proposed to be acquired.

C) Rule 1006(c) – Consideration comparison

| | |
|---|--|
| Company's share price as at 9/10/08 | = S\$0.04 |
| No. of Company's shares in issue | = 1,256,351,254 |
| Company's market capitalisation as at 9/10/08 | = S\$50,254,050 |
| Consideration for 70% of the assets | = S\$7,000,000 |
| Relative figure | = S\$7,000,000/S\$50,254,050 = 13.9% |

D) Rule 1006(d) – Equities in issue comparison

| | |
|---|------------------------|
| No. of shares in the Company in issue | = 1,256,351,254 shares |
| Portion of the Consideration to be satisfied by the issue of Company's shares | = S\$2,000,000 |
| Issue price of Company's shares ¹ | = S\$0.04 |

¹ The agreed issue price is the weighted average price of the shares in the Company on the market day preceding the date of the Definitive Agreement or such other date as SGX-ST may specify. For illustration purpose only, the weighted average price of the shares in the Company on 9 October 2008, being the market day prior to the date of the Granite MOU is used.

| | |
|---|----------------------------|
| No. of shares in the Company to be issued | = 50,000,000 |
| Relative figure | = 50,000,000/1,256,351,254 |
| | = 4.0% |

Based on preliminary assessment of Rule 1006 computed above, the above transaction is a discloseable transaction.

7. Interests of directors or controlling shareholders

None of the Directors of the Company or the Controlling Shareholder has any interest, direct or indirect, in the proposed transaction save for their interest (if any) in the share capital of the Company

8. Miscellaneous

The Company will provide further updates on the proposed transaction in due course and update on the financial effects of the proposed transaction in the event that any Definitive Agreement is entered into.

A copy of the executed Granite MOU is available for inspection during normal business hours at the registered office of the Company at 8 Cross Street #11-00 PWC Building Singapore 048424, for a period of three months from the date of this Announcement.

By Order of the Board

Chng Weng Wah
Director
10 October 2008