



(Company Registration No. 197501110N)  
(the "Company")

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**ANNOUNCEMENT MADE BY CENTILLION ENVIRONMENT & RECYCLING LIMITED  
("Centillion") ON 12 OCTOBER 2009**

Equation Corp Limited (the "Company") wishes to announce that Centillion, its associated company, has on 12 October 2009 broadcasted an Announcement No.00005 to summarise and update its shareholders on the current status of the group.

A copy of the aforesaid announcement made by Centillion on 12 October 2009 is attached to this announcement.

By Order of the Board

Chng Weng Wah  
Director  
13 October 2009



**CENTILLION ENVIRONMENT & RECYCLING LIMITED**  
(the "Company")  
(Company Registration No. 199206445M)

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**UPDATE**

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1. The Company refers to its previous announcements relating to:
  - (a) the acquisition of its subsidiaries, Metech International, Inc ("Metech") and Computer & Electronics Recycling, LLC (trading under the names of guaranteed Recycling Xperts and GRX) ("GRX"), the internal restructuring of those subsidiaries and the status of their banking facilities; and
  - (b) its proposed renounceable and non-underwritten rights issue of up to 1,871,860,939 new ordinary shares in the issued share capital of the company (the "Rights Shares") at an issue price of S\$0.005 for each rights share on the basis of three (3) rights shares for every ten (10) existing shares in the issued share capital of the company held as at the books closure date, fractional entitlements to be disregarded (the "Rights Issue"); and
  - (c) the shareholder's advances made by Equation Corp Ltd ("ECL"); and
  - (d) its auditor's indication that its audit opinion will contain an emphasis of matter on going concern.

The announcement serves to summarise and update shareholders on the current status of the group ("Group").

**2. Acquisition of Metech and GRX and Merger**

- 2.1 The Company acquired Metech, which is in the business of recycling electronic waste, by the execution of a sale and purchase agreement dated 28 October 2007 ("Metech SPA"). The acquisition gave the Group a presence in the US market where the Group did not have any penetration. For the immediately preceding financial year of Metech at that time, its revenues were in the region of US\$44 million with after-tax profits of US\$1.4 million. The initial consideration was US\$12 million, subject to certain adjustments ("Metech Consideration"). This initial consideration of US\$12 million was paid in cash on 23 October 2007. The Group has since accrued US\$1,815,880 as additional consideration as a result of the said adjustments (as Metech achieved the relevant EBITDA for the period 1 June 2007 to 30 June 2008).
- 2.2 The Company acquired GRX by the execution of a sale and purchase agreement dated 15 August 2008 (the "GRX SPA"). GRX was in principally the same business and constituted an expansion of the Group's business in the US. GRX's revenue in the then preceding financial year was US\$2.7 million with after-profits of US\$613,000. The consideration, subject to adjustment, was US\$4 million (the "GRX Consideration"). US\$3 million of the GRX Consideration was paid in August 2008 with the remaining US\$1 million due and payable subject to the finalisation of the audited report of GRX before 31 December 2008.



- 2.3 The Company decided to streamline and rationalise the Group's operation in the US through the merger of the business of GRX into Metech (the "**Merger**").
- 2.4 As at April 2009, an aggregate of US\$1,815,880 of the Metech Consideration was due and payable to the vendors of Metech ("**Metech Vendors**") and an aggregate of US\$1,000,000 was due and payable to the vendors of GRX ("**GRX Vendors**"). The Company separately negotiated with the Metech Vendors and GRX Vendors to defer the payment terms of the Metech Consideration still outstanding and the GRX Consideration still outstanding. Further, in consideration for GRX Vendors agreeing to waive their rights to any upward adjustment payments under the GRX SPA for the financial year ended 30 June 2009, the Company agreed to pay GRX Vendors a sum of US\$375,000 by 31 December 2009. This sum of US\$375,000 and the abovementioned Metech Consideration still outstanding and GRX Consideration still outstanding shall hereinafter collectively be known as the "**Debt**". Under the revised repayment schedule, the Company will make partial payment of the Debt on 30 June 2009 and the remaining payment will be made on 31 December 2009.

As part of the revised terms of the payment of the Metech Consideration and GRX Consideration, the upward adjustment payments to Metech Vendors and GRX Vendors for FY2010 and FY2011 shall be based on the merged entity for the relevant year. The aggregate maximum amounts of upward adjustments for FY2009, FY2010 and FY2011 is US\$4 million (after taking into account of the waiver of the upward adjustment payments for FY2009). Previously, aggregate maximum amounts of upward adjustments for FY2009, FY2010 and FY2011 was US\$8 million.

- 2.5 In consideration of the Metech Vendors and the GRX Vendors agreeing to delay their receipt of the payment of the Debt owing to them, the Company had assigned its entire equity interest in Metech to its wholly owned subsidiary, Centillion Investments USA Pte Ltd ("**CI-USA**"), and to procure that CI-USA deliver a debenture in favour of the Metech Vendors and GRX Vendors to secure the repayment of the Debt and all payables under the revised payment terms of the Metech Consideration and GRX Consideration. This debenture would be discharged and released when the Debt and all payables (including any other potential upward adjustments which may arise in the future) are settled in full.
- 2.6 The Company has paid US\$381,588 (S\$555,821) in cash to certain Metech Vendors and GRX Vendors, other than Sameer Advani, New Heritage Finance, Ltd, Advani Family Trust and Michael Wright (collectively, the "**Settlement Vendors**"), in discharge of the Debt, and will pay approximately another US\$75,000 (S\$110,000) in cash to them on or before 31 December 2009. For the Settlement Vendors, the Company entered into a settlement agreement dated 2 July 2009 (the "**Settlement Agreement**") with them, under which the Company would issue 44,252,997 ordinary shares (the "**Settlement Shares**") to them at the issue price of S\$0.018 per Settlement Share in settlement of 20% of the Debt owing by the Company to the Settlement Vendors (being the sum of US\$546,858 or S\$796,554). The issue price of S\$0.018 per Settlement Share represents 90% of the weighted average price of the Company's shares the market day prior to the date of the Settlement Agreement. The balance 80% of the Debt owing to the Settlement Vendors (being the sum of US\$2,187,434 or S\$3,186,216) (the "**Balance Sum**") will be paid after the completion of the Rights Issue. The Settlement Shares were allotted and issued on 12 August 2009 and subsequently listed and quoted on the SGX-ST with effect from 13 August 2009.

### 3. Operations of Metech and GRX and Merged Entity

#### 3.1 Services and income

- 3.1.1 Metech is an integrated electronics recycling service provider within a framework of value added recycling services such as collecting, dismantling, sampling, assaying



and recovery. As part of these recycling services, Metech provides sampling, assaying and recovery of metals primarily copper and precious metals to supplier of manufacturing scraps. The other services, such as collecting and dismantling were principally for customers with end-of-life electronics ("EOL").

- 3.1.2 GRX is also an electronics recycling service provider but it specialises in the collecting and dismantling services for EOL instead.
- 3.1.3 In the recovery of metals, particularly precious metals, Metech earned processing fees and a small trading margin on the underlying metals. However, as there is a significant lag in out turn by refineries from which Metech had sent its semi-processed materials for ultimate refining, it is required to finance this lag.
- 3.1.4 Being recyclers for EOL customers, both Metech and GRX derived their income from service fees and sales of recovered commodities such as plastics, scrap metals and returns from recovered components such as circuit boards. Components such as circuit boards were processed as part of Metech's recovery of metals services.

### 3.2 Largest geographic coverage

- 3.2.1 Metech originally operated out of its plants in Worcester, Massachusetts, and Gilroy, California. Whereas, GRX was primarily operating in Mountain Region and had plants in Denver and Colorado Springs, Colorado, and Salt Lake City, Utah.
- 3.2.2 Additionally in the current financial year, Metech and GRX each opened additional facilities in Durham, North Carolina, and Omaha, Nebraska, respectively.
- 3.2.3 As a combined merged entity, Metech is now an electronic recycler with the largest geographic coverage in USA and therefore well placed to service customers of EOL electronics that typically demand good and effective collection coverage.

### 3.3 Slow down of US economy in 2008

- 3.3.1 Although signs of US economy slowing down were visible in early 2008, there was no significant impact on Metech's collection of manufacturing scraps in the first half of the calendar year. Conversely, Metech had benefited from a consistent and steadied increase in commodity prices across the board.
- 3.3.2 Commodity markets were not significantly affected until in quarter beginning July 2008 when high volatilities in commodity prices within short period were observed across the board. For example, gold and platinum prices dropped by more than 10% and 15% during the month Aug 2008 and 5% and 51% during the quarter. The high degree of volatility in a very short period of time limited the Group's ability to mitigate its exposure to commodity price risk effectively.
- 3.3.3 The slow down of economy and contraction of credit in US had seen the drastic drop in manufacturing demand and in turn manufacturing scraps available for recovery. Metech's collection of manufacturing scraps decreased, abate lagging behind the drop in manufacturing demand.
- 3.3.4 Consequently, revenue of Metech from recovery of metals reduced significantly. Metech's revenue for the quarter ended 30 December 2008 was lower by 30% as compared to the preceding quarter. The Group's US Operation recorded an operating loss of S\$3.6 million before impairment of goodwill for December quarter.



### 3.4 Merger and Restructuring of US Operation

- 3.4.1 Following the announcement of the Group's unaudited financial results for quarter ended 31 December 2008, the Group also announced its group restructuring plan, including the Merger and transfer of its CRT processing line from UK to US.
- 3.4.2 As part this restructuring effort, Metech reviewed its strategic plan in light of the uncertainties in US economy, related risks in recovery of precious metals and the environmental policy focus advocated by a new US Administration.
- 3.4.3 Metech proposed to reduce its reliance on recovery of precious metals and to accelerate the expansion into recycling of EOL electronics, capitalising on its geographic coverage, dismantling expertise and potentially a favourable environmental protection legislative framework under the new US Administration.
- 3.4.4 Under this proposal, Metech will move away from the financing and trading of precious metals and focus on the provision of sampling and assaying service for a fee from the customers in recovery of precious metal business. Consequently, Metech expects to reduce its revenues from trading of metals but retained a share in processing fees.
- 3.4.5 While its revenue base will significantly reduce, this strategy allows Metech to retain its capability to process and prepare its own and customers' materials for metal recovery without undertaking commodity price and financing risks.
- 3.4.6 For the year ended 30 June 2009, the revenue related to Metech's recovery of precious metals business was approximately US\$41.1 million (S\$50.3 million) with a corresponding operating loss before tax of approximately US\$6.9 million (S\$10.1 million).
- 3.4.7 The exit of Metech from trading and recovery of precious metals does not by itself eliminate all its future revenue from precious metals as Metech will continue to recover precious metals from its recycling of EOL electronics.

For the financial year ended 30 June 2009, Metech's revenue and operating profit before tax from recycling of EOL electronics were US\$8.48 million (S\$12.4 million) and US\$1.61 million (S\$2.4 million) respectively.

### 3.5 RZB

As a result of the change in the business direction of Metech, RZB Finance LLC, who principally provided Metech a revolving line of credit for trading of precious metals indicated that they would not be able to continue to make available the banking facilities under the new business model. As announced on 9 October 2009, Metech has since, managed to secure alternative financing from Golden Business Enterprise Corp, a British Virgin island Corporation to pay the outstanding loan balance owing to RZB. On 8 October 2009, Metech had repaid RZB its outstanding loan balance with the loan from Golden Enterprise Corp. The loan from Golden Enterprise Corp is secured by approximately US\$2 million of inventories and receivables. Metech is currently already in discussions with other banks to refinance the loan in December. If not, the company will negotiate with Golden Enterprise Corp for an extension.

### 3.6 RBS

- 3.6.1 On 30 September 2009, the Company made an announcement that it has been notified by RBS of a breach of a covenant under a loan agreement dated 31 July 2008 executed between Metech and RBS whereby RBS grants Metech a loan of the principal amount of US\$2,880,000 (the "RBS Loan") for the purpose of re-financing its real estate in California (the "RBS Loan Agreement"). The real estate has also been mortgaged to RBS. Pursuant to the RBS Loan Agreement, Metech is obliged to maintain a specified debt service coverage ratio. The ratio was breached due to a decrease in Metech's earnings for FY 2009.
- 3.6.2 Metech has also executed other security documents (including a mortgage note, a deed of trust, security agreement and an assignment of leases) to secure the RBS Loan. All security instruments and all other instruments and documents executed by Metech in connection with the RBS Loan and the RBS Loan Agreement shall hereinafter collectively, be known as the "RBS Loan Documents".
- 3.6.3 It is a term in the RBS Loan Agreement that a default under the RBS Loan Agreement will also constitute a default under the RBS Loan Documents as well. RBS has since, reserved all of its rights and remedies under the RBS Loan Agreement and RBS Loan Documents arising from the default including, the acceleration of all amounts under the RBS Loan Agreement and RBS Loan Documents and the option to increase the interest rate applicable thereunder.
- 3.6.4 Metech had also previously on 2 separate occasions entered into an agreement to grant security with Citizens Asset Finance on 13 July 2006 and a loan and security agreement with Citizens Bank of Rhode Island on 7 June 2008. Both Citizens Asset Finance and Citizens Bank of Rhode Island are affiliates of RBS. Both the above-mentioned documents shall hereinafter be known as the "RBS Affiliate Documents". Under the terms of the RBS Affiliate Documents, a breach under the RBS Loan Agreement will also trigger a default under each of the RBS Affiliate Documents.
- 3.6.5 As a result of the covenant breach, total borrowings of US\$3.7 million (approximately S\$5.4 million) as at 30 June 2009 could be called for repayment at any time upon notification by the bank, of which S\$4.5 million will be reclassified to current liabilities as at 30 June 2009. Accordingly, the working capital deficit of the Group as at 30 June 2009 will increase by S\$4.5 million to S\$14.2 million.
- 3.6.6 Metech's outstanding balances with RBS as at 30 Sep 2009 are as follow:

	Balances as at 30 June 2009	Balances as at 30 Sep 2009
RBS Citizen Mortgage Note	2,774,400	2,745,600
RBS Assets Finance Term Loans	643,518	597,787
RBS Citizen Revolving LOC	296,902	349,207
Total	3,714,820	3,692,594

If Metech is successful in its negotiations with RBS, so that the repayment terms are maintained at the original terms, Metech is confident that it will be able to generate sufficient operating net cash inflows for the next twelve months to fulfil its loan repayment obligations.

If however, Metech is unsuccessful in its existing negotiations with its bank to waive the covenant breach, Metech may be called upon to fully repay its existing bank loans. In that situation, if the Group is unable to raise financing from other

**sources or does not obtain further funding from its shareholders, it would be unable to meet its cash flow requirements.**

- 3.6.7 The Company wishes to highlight however that the said loan is collateralised and that the value of the security is in excess of the loan quantum. The assessed value of mortgaged property as at 26 June 2009 by the County Government Centre of Santa Clara, California, USA, is in excess of the RBS Loan by approximately US\$898,000. In addition to the said property, the Asset Finance Term Loans and Revolving Line of Credit are secured by all equipment of Metech, at approximately US\$1.4 million (based on the audited net book value of the equipment as at 30 June 2009).
- 3.6.8 Metech is currently in negotiations and is confident of reaching an agreement with RBS to waive the covenant breach and maintain the original repayment terms as the total collateral value far exceeds the outstanding loan amounts.
- 3.6.9 To date, the bank has not demanded for immediate repayment of the loan and is reviewing Metech's request to execute a written waiver.
- 3.6.10 **The directors wish to highlight to Shareholders that they cannot assure Shareholders the written waiver will be subsequently obtained.**
- 3.7 Following the full repayment of credit line with RZB, RBS remains the only bank that Metech has outstanding borrowings from. Comerica and Chase are its other banks for current accounts and Metech does not have any loans from those banks.
- 3.8 Following the restructuring and decision not to finance trading of precious metals, Metech has been in negotiations with certain trade creditors of its precious metal recovery business for a restructuring of the payment terms due to such trade creditors.
- As a result of these proceedings, one of the trade creditors had filed a suit in the Santa Clara County in California against Metech for the sum of US\$501,255.72 owed by Metech. Metech and this creditor had since reached a settlement whereby Metech will repay a reduced sum in three tranches. The creditor will dismiss the action after Metech has completed the payments. The sums have been completely provided for in the Group's accounts as at 30 June 2009.
- 3.9 For the financial year ended 30 June 2009, Metech contributed 94% of the Group's revenue and 57% of the Group's operating loss and as at 30 June 2009, comprises of 54% of the Group's net asset. The Directors are of the opinion that Metech is a principal subsidiary of the Group and Metech's ability to function as an operating entity is crucial to the financial performance and financial position of the Group.

#### **4. Rights Issue**

- 4.1 On 30 June 2009, the Company announced that is proposing to undertake the Rights Issue. Assuming all the Shareholders subscribe for their rights entitlements, the net proceeds of approximately S\$9.0 million from the Rights Issue will be used for the following:-
- 4.1.1 approximately S\$1.9 million to make payments of the respective Balance Sum payable to the relevant Metech Vendors pursuant to the terms of the Settlement Agreement;
- 4.1.2 approximately S\$1.3 million to make payments of the respective Balance Sum payable to the relevant GRX Vendors pursuant to the terms of the Settlement Agreement;
- 4.1.3 approximately S\$2.0 million to repay the ECL Loan;



- 4.1.4 approximately S\$1.7 million to make balance payments under a settlement agreement with nTan Corporate Advisory Pte Ltd dated 19 April 2009 (as amended by an amendment agreement dated 8 August 2008) in settlement of all professional fees and expenses due to nTan Corporate Advisory Service; and
- 4.1.5 approximately S\$2.1 million to provide funds for the general working capital of the Company.

As announced on 8 October 2009, the Books Closure Date for the Rights Issue is 20 October 2009.

#### 4.2 Undertakings

- 4.2.1 Oei Hong Leong Foundation Pte Ltd, a substantial shareholder of the Company has given an irrevocable undertaking to the Company to subscribe and pay for 263,234,503 Rights Shares pursuant to the terms of the Rights Issue;
  - 4.2.2 Upon the issue of the Settlement Shares, the Settlement Vendors will be entitled to participate in the Rights Issue and will (based on the terms of the Rights Issue) be entitled to subscribe for an aggregate of 13,275,897 Rights Shares (the "**Settlement Rights Shares**"). Pursuant to the terms of the Settlement Agreement, the Settlement Vendors have each given an irrevocable undertaking to the Company to subscribe and pay for their respective entitlements of the Settlement Rights Shares in accordance to the terms of the Rights Issue and apply and pay for up to 623,967,259 Rights Shares in excess of the Settlement Rights Shares (the "**Settlement Excess Rights Shares**");
  - 4.2.3 ECL has on given an irrevocable undertaking to the Company to subscribe and pay for 400,000,000 Rights Shares in accordance to the terms of the Rights Issue. See paragraph 4.4 below for more details.
- 4.3 As set out above in paragraph 2.6, the Company continues to owe the Settlement Vendors a sum of S\$3,186,215.78 as consideration for the acquisition of Metech and GRX. This sum was required, under the Metech SPA and the GRX SPA, to be paid in cash but the Company, facing cash flow difficulties, has not been able to make such payments. As such, it has requested, and the vendors have agreed, to settle the outstanding amount by way of the issuance of the Settlement Shares, Settlement Rights Shares and Settlement Excess Rights Shares to them under the Rights Issue (that is, the vendors would subscribe for Settlement Rights Shares and Settlement Excess Rights Shares, to offset the amount due to them in cash from the Company).
- 4.4 In June 2009, ECL being a substantial shareholder of the Company made a shareholders' loan of S\$500,000 in favour of the Company to help the Company with its cashflow difficulties. This amount is repayable, at the latest, on 31 December 2009. The intention was to give the Company a bridging loan until it could raise cash via the Rights Issue. In September 2009, ECL agreed to undertake to subscribe for S\$2 million worth of Rights Shares in the Rights Issue (for 400,000,000 Rights Shares). As the Company could not wait, again due to its pressing financial difficulties, for the Rights Issue to be completed, it requested that the funds be advanced to the Company first for its working capital. ECL then made a further cash advance to the Company of S\$1.5 million (amounting to a total advance of S\$2 million). ECL has given an undertaking to take up its rights entitlements for 400,000,000 rights shares (a total of S\$2 million in subscription funds). The S\$2 million cash advance that has been given by ECL to the Company is an advance payment for the said Rights Shares. Accordingly, upon the Rights Issue being completed, the loan would be repaid in full as the monies would be applied towards ECL's subscription and payment for the Rights Shares.



4.5 As the above issuances of Rights Shares are to settle outstanding amounts due to (a) the Settlement Vendors and (b) ECL, which amounts are payable in cash, they are not prejudicial to the other creditors of the Company and do not constitute an unfair preference in favour of the Settlement Vendors and ECL.

## 5. Going Concern and Potential Risks

5.1 In light the Company's announcement dated 27 August 2009 on its auditors' indication that its audit opinion would contain an emphasis of matter on going concern, the directors wish to update on this matter.

5.2 In analysing whether the Company is able to operate as a going concern and whether the Company is able to meet its cash flow obligations in the foreseeable future, the directors of the Company have considered the following factors:

5.2.1 Metech is confident of reaching an agreement with RBS to waive the covenant breach and maintain the original repayment terms as stated in paragraph 3.6.8 and 3.6.9.

If Metech is successful in its negotiations with RBS, so that the repayment terms are maintained at the original terms, Metech is confident that it will be able to generate sufficient operating net cash inflows for the next twelve months to fulfil its loan repayment obligations.

If however, Metech is unsuccessful in its existing negotiations with its bank to waive the covenant breach, Metech may be called upon to fully repay its existing bank loans. **In that situation, if the Group is unable to raise financing from other sources or does not obtain further funding from its shareholders, it would be unable to meet its cash flow requirements.**

5.2.2 The Rights Issue is expected to raise approximately S\$9 million in net proceeds for the Company, in the event of a full subscription. Proceeds from the rights issue would be used towards settlement of amounts due to major creditors of S\$6.9 million and the remaining S\$2.1 million as additional working capital.

5.2.3 On 30 June 2009, ECL extended a shareholder's loan of S\$500,000 to the Company to meet its payment obligations. In relation to the Rights Issue, ECL agreed to take up a part of its overall entitlement (amounting to S\$2 million). However as the Company needed the funds urgently, ECL agreed to extend the balance of the ECL Loan of S\$1.5 million as a bridging loan, with the intention that it would all be applied towards the subscription of its rights entitlements.

5.2.4 The Company had also reached an agreement with the Settlement Vendors in the settlement of liabilities amounting to S\$3.99 million, in the form of shares amounting to S\$0.8 million in the Company and payment of and/or set off against the remaining liabilities of S\$3.19 million against the Settlement Vendors subscription of the Settlement Right Shares and Settlement Excess Rights Shares.

5.2.5 If the Rights Issue is unsuccessful or the proceeds raised from the Rights Issue is insufficient, the Company would have to conduct further fund raising in order to meet its payment obligations.

**This material uncertainty may cast significant doubt on the ability of the Group and the Company to continue to operate as a going concern. If the Company is unable to operate as a going concern, the Company's shares may be suspended in accordance with Rule 1303 of the SGX-ST Listing Manual.**



- 5.3 Subject to the satisfactory fulfillment of the factors set out in Paragraph 5.2.1 to 5.2.5 above, the Directors are of the opinion that the Company is still a going concern.
- 5.4 Subject to the satisfactory fulfillment of the factors set out in Paragraph 5.2.1 to 5.2.5 above, the Directors are of the opinion that the Company is able to meet its cash flow obligations in the foreseeable future.
- 5.5 Subject to the satisfactory fulfillment of the factors set out in Paragraph 5.2.1 to 5.2.5 above, the Directors are of the opinion that the cash proceeds from the Rights Issue is sufficient to meet its short term obligations and working capital requirements.

**Shareholders and investors are advised to exercise caution in their dealing with the Company's shares. Further announcements will be made as and when appropriate in a timely manner.**

By Order of the Board

Richard Basil Jacob  
Director  
10 October 2009