

EQUATION CORP LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 197501110N)

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PROPOSED ACQUISITION OF TERNARY TECHNOLOGIES PTE. LTD.
(THE "PROPOSED ACQUISITION")
AND INTERESTED PERSON TRANSACTION

1. Introduction

The Board of Directors of Equation Corp Limited ("ECL" or the "Company") wishes to announce that the Company has on 18 May 2009 entered into a non-legally binding Memorandum of Understanding (the "MOU") with the following individuals and entity for the acquisition of Ternary Technologies Pte. Ltd. ("TTPL"):

Hianto Dharmaputra Sunardy
Tay Beng Wee
Tan Soon Hoon
Tan Hong Kiat
Cheng Kwee Kiang
Tan Hui Song
Chow Sou Chian Larry
Charles Leck Tin Hong
Chng Weng Wah ("Mr. Chng")
Wong Cheah Wei Eugene
Tay Kim Kee
Lin Jian Nan
Tan Boon Hwee
Han Yang Kwang
Iparla Overseas Limited
Fine Able Investments Limited

(each a "Vendor" and collectively, the "Vendors")

2. Background

TTPL, a company incorporated in the Republic of Singapore, is engaged in the Electronic Manufacturing Services (“EMS Business”), which include the manufacture of electronic equipments and components, mini-fridges, air-care products, Optoelectronics solution products (“LED”), design & distribution of digital products, as well as research and development. TTPL has subsidiaries and/or offices in Malaysia and China (the “TTPL Group”).

TTPL has acquired exclusive, worldwide licence rights to exploit certain patents relating to anti-theft technology for digital electronic products (“Anti-Theft Technology”) from Mr. Chng, pursuant to the terms of a written licence agreement dated 17 April 2009. The Anti-Theft Technology primarily serves to safeguard retailers and manufacturers of digital electronic products against robbery and theft and facilitates lower packaging costs in connection with the production, sales, transportation and storage of these products.

The current shareholding of TTPL as at the date of the MOU is as follows:

<u>Shareholders</u>	<u>No. of Shares</u>	<u>Percentage shareholding %</u>
Hianto Dharmaputra Sunardy	88,000	2.33%
Tay Beng Wee	88,000	2.33%
Tan Soon Hoon	22,000	0.58%
Tan Hong Kiat	389,334	10.31%
Cheng Kwee Kiang	176,000	4.66%
Tan Hui Song	88,000	2.33%
Chow Sou Chian Larry	213,334	5.65%
Charles Leck Tin Hong	352,000	9.32%
Chng Weng Wah (“Mr. Chng”)	1,134,665	30.04%
Wong Cheah Wei Eugene	36,667	0.97%
Tan Boon Hwee	370,000	9.80%
Han Yang Kwang	213,334	5.65%
Iparla Overseas Limited	46,000	1.22%
Tay Kim Kee	88,000	2.33%
Lin Jian Nan	88,000	2.33%
Fine Able Investments Limited	383,333	10.15%
TOTAL	3,776,667	100%

3. Details of the Proposed Acquisition

3.1 Proposed Acquisition

The Company shall acquire 100% of the issued and paid up share capital of TTPL as at the completion date as stated in the MOU (the “Sale Shares”).

3.2 Consideration

The purchase consideration for the Sale Shares shall be the lower of:

- (i) S\$6.5 million, being the net tangible asset value ("NTA") of TTPL based on its unaudited management accounts for the 9 months' period ended 31 March 2009; or
- (ii) the NTA of TTPL based on the audited accounts of TTPL for the financial year ended 30 June 2009

(the "Purchase Consideration").

The Purchase Consideration will be satisfied by way of an issue to the Vendors of new ordinary shares in the capital of the Company (the "Consideration Shares"), at an issue price per share of S\$0.0352, being the average closing price of the Company's shares over the 30 day period immediately preceding the date of this MOU ("Issue Price").

The Consideration Shares, when allotted and issued, will rank pari passu in all respects with the existing ordinary shares in the capital of the Company.

The Consideration Shares shall be allotted and issued to the Vendors in proportion to their respective shareholdings in TTPL immediately preceding the completion date as specified in the Sale and Purchase Agreement to be entered into (the "S&P Agreement") ("Completion Date") in exchange for the transfer of the whole of the Sale Shares by the Vendors to the Company.

3.3 Earn Out Payment

Subject to TTPL's performance over the financial period from 1 July 2009 to 30 June 2010 ("Earn Out Period"), the Vendors shall be entitled to receive an additional payment from the Company ("Earn Out Payment"), to be calculated based on the following formula:

$$\text{Earn Out Payment} = 10 \text{ times NPAT less Purchase Consideration}$$

where "NPAT" shall mean TTPL's net profit after tax based on its audited accounts for the Earn Out Period; provided always that the aggregate of the Purchase Consideration and the Earn Out Payment shall not exceed S\$30 million.

The Earn Out Payment will be satisfied by way of an issue to the Vendors of new ordinary shares in the capital of the Company, at the Issue Price ("Earn Out Shares"). The Earn Out Shares, when allotted and issued, will rank pari passu in all respects with the existing ordinary shares in the capital of the Company.

The Earn Out Shares shall be allotted and issued to the Vendors in proportion to their respective shareholdings in TTPL as at the Completion Date.

3.4 Basis for Payment

The Purchase Consideration and Earn Out Payment were arrived at on a willing buyer and willing seller basis taking into account the following factors:

- (a) the NAV of TTPL, of approximately S\$6.5 million, based on the unaudited management accounts of TTPL for the nine months period ended 31 March 2009;

- (b) the forecasted net profit after tax of TTPL for the Earn Out Period of approximately S\$3 million; and
- (c) the projected revenue to be generated from TTPL's existing EMS Business and from the future exploitation of the licence of the Anti-Theft Technology granted by Mr. Chng to TTPL pursuant to a written agreement dated 17 April 2009 ("Licence Agreement").

3.5 Completion

Completion of the S&P Agreement shall not be later than 31 December 2009, subject to such extension of time as may be agreed in writing between the parties hereto. Notwithstanding, the parties hereto shall use their best endeavours to achieve Completion as soon as practicably possible.

3.6 Conditions Precedent

Completion of the S&P Agreement shall be subject to the satisfaction of all the conditions precedent stipulated below:

(a) in respect of the Vendors, all consents or approvals being granted by third parties (including all pre-emption rights/waivers with respect to the Sale Shares, and all regulatory/governmental approvals and filings having been obtained and made), and where such consents, approvals or filings are subject to any conditions, such conditions being acceptable to the Company and are fulfilled by the Completion Date;

(b) in respect of the Company, approval of its Sponsor being duly obtain and shareholders' approval being obtained at an Extraordinary General Meeting for the Proposed Acquisition;

(c) all legal, financial and technical due diligence exercises conducted on TTPL and on the TTPL, being satisfactory to the Company;

(d) all applicable representations and warranties being true and accurate and not misleading on completion of the Proposed Acquisition;

(e) no material adverse change (as determined by the Company in its sole and absolute discretion) affecting the prospects, operations or financial condition of TTPL and/or its subsidiaries having occurred on or before the Completion Date:

(f) TTPL and/or the Vendors having performed all of the covenants and agreement required to be performed or caused to be performed by them on or before the Completion Date;

(g) approval in-principle for the listing and quotation of any new shares to be issued in conjunction with payment of the Purchase Consideration and Earn Out Payment on SGX Catalist being obtained from the SGX-ST and, where such approval is subject to conditions (which are not normally imposed by the SGX-ST for a transaction of a similar nature), such conditions being acceptable to the Company and, if any such condition is required to be fulfilled before Completion, the due fulfilment of such condition before Completion;

(h) if applicable:

(i) the receipt and non-withdrawal of approval by the Securities Industry Council (“SIC”) in favour of Mr. Chng and/or his concert parties (“Relevant Parties”) to dispense with the requirements of Rule 14 of the Singapore Code on Takeovers and Mergers (“Code”) to make an offer to the shareholders of the Company arising from the receipt of their respective entitlements (if any) to the Consideration Shares and/or Earn Out Shares in connection with the Proposed Acquisition, subject to the conditions set out in the said SIC approval, provided always that if the SIC shall impose any conditions on the Relevant Parties or the Company, such conditions shall not be onerous and shall be reasonably acceptable to the Relevant Parties or the Company (as the case may be) and, if any such condition is required to be fulfilled before Completion, the fulfilment of such condition before Completion; and

(ii) the approval of the independent shareholders of the Company, at a general meeting, in respect of any proposed resolution agreeing to waive their right to receive a mandatory take-over offer from the Relevant Parties arising from the receipt of their respective entitlements (if any) to the Consideration Shares and Earn Out Shares in connection with the Proposed Acquisition;

(i) the trading of the shares of the Company on the SGX Catalist not being suspended by the SGX-ST for a period of not less than 5 consecutive days at any time prior to Completion due to whatsoever reason;

(j) the Licence Agreement between TTPL and Mr. Chng having been duly and validly executed and remaining in full force and effect; and

(k) the due fulfillment of such other terms and conditions as are customary for transactions of this nature and/or as may otherwise be reasonably requested by the Company in conjunction with the Proposed Acquisition.

3.7 Exclusivity

In consideration of the Company’s commitment of time and personnel and of the Company’s expense incurred in instructing advisers in relation to the Proposed Acquisition, the Vendors and TTPL agree during the period (the “Exclusive Period”) from the date of the MOU to the date of execution of the S&P Agreement (the “Cut Off Date”)

- (i) to provide the Company with an exclusive right to negotiate the proposed transactions contemplated herein for the Exclusive Period and in addition, shall not enter into, participate in or continue any discussions (the “**Prohibited Discussions**”) with any person (other than the Company) relating to any investment in TTPL or the acquisition of any of TTPL’s shares, business or assets;
- (ii) not to seek, encourage, entertain, solicit, consider or respond to any approach or inquiry or proposal that might lead to the Prohibited Discussions;
- (iii) not to enter into any letter of intent, agreement or arrangement pursuant to any Prohibited Discussions; and
- (iv) not to disclose, provide or otherwise make available any information about TTPL to a party who wishes to enter into, participate in or continue any Prohibited Discussions.

- (v) to carry on business only in the ordinary course that is consistent with best practice; and
- (vi) not to sell, transfer, dispose of or encumber in any way any of its assets other than in the ordinary course of business or other than as disclosed to the Company in writing prior to the execution of this MOU, unless the prior written consent of the Company is obtained, such consent not to be unreasonably withheld.

3.8 Provision of Information

The Vendors shall provide to the Company, all information, or access to all information, written or oral, which the Company or any of its representatives may reasonably request in order to evaluate the Proposed Acquisition, subject to provisions of the "Confidentiality" in the MOU.

3.9 Subject to the S&P Agreement

The above are subject to parties hereto entering into the S&P Agreement within 45 calendar days of the date of the MOU, unless otherwise extended by the parties. The S&P Agreement shall contain, amongst other things, appropriate representations and warranties by the Vendors and TTPL and, covenants of the Vendors and TTPL reflecting the provisions herein, and appropriate conditions to Completion. The parties shall exert their best efforts to enter into the S&P Agreement earlier.

The MOU represents an outline of the Proposed Acquisition contemplated between the parties and the absence of any term or condition shall not be interpreted as any agreement that such term or condition will not form part of the S&P Agreement.

4. Rationale for the Proposed Acquisition

ECL is entering into the Proposed Acquisition:

- (a) to enable the group to venture into TTPL's existing EMS business, which shows growth potential in the near future, and will help generate new revenue streams and provide greater insulation against adverse economic conditions;
- (b) as a strategic acquisition to create new growth drivers and diversify its earnings base through the exploitation of the rights to the Anti-Theft Technology; and
- (c) to enable the group to leverage off and benefit from economies of scale by making use of the group's subsidiaries' established retailing network in Europe, to market and promote the EMS business, as well as Anti-Theft Technology.

5. Requirements of the Listing Manual in Relation to the Proposed Acquisition

5.1 Interested Person Transaction

Mr. Chng is a director and shareholder of the Company and he is also a director of TTPL and holds 30.04% of the issued share capital of TTPL. As such, Mr. Chng is an “interested person” within the meaning of Chapter 9 of the Singapore Exchange Securities Limited Catalist Listing Manual (the “SGX Catalist Listing Manual”).

Should the Proposed Acquisition materialise, Mr. Chng will receive approximately S\$9 million from the Proposed Acquisition (assuming the earn-out portion is met as discussed above). Accordingly, the Proposed Acquisition will amount to an Interested Person Transaction under Chapter 9 of the SGX Catalist Listing Manual (the “Interested Person Transaction”) and will require specific shareholders' approval.

5.2 Discloseable Transaction

The relative figures for the Proposed Acquisition computed on the bases set out in Rule 1006 of the SGX-ST Catalist Listing Manual are as follows:

(a) Net asset value of the assets to be disposed of, compared with the Group's net asset value	Not applicable
(b) The net profits attributable to the assets acquired or disposed of, compared with the Group's net profit	(0.6%)
(c) Aggregate value of the consideration given or received, compared with the Group's market capitalization on 15 May 2009 being the market day preceding the date of the MOU*	43.7%
(d) The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue*	49.6%

**Based on the assumption that the maximum consideration for the Proposed Acquisition is S\$30 million*

The Proposed Acquisition, constitutes a discloseable transaction pursuant to Rule 1010 read together with Rule 1006 of the SGX Catalist Listing Manual and requires the Company to immediately announce the same.

The Company shall make further announcements on the developments and details of the Proposed Acquisition and the S&P Agreement in due course.

6. Independent Financial Adviser

The Directors of the Company have not appointed an Independent Financial Adviser as of date but will do so in due course. The Independent Financial Adviser so appointed will be independent of the Proposed Acquisition to advise the Independent Directors on whether the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its independent shareholders.

7. Total Value of All Interested Person Transactions

Save as disclosed above, the Company has not entered into any discloseable interested person transactions with Mr. Chng or any of his associates in the current financial year up to the date of MOU.

8. Interests of Directors and Substantial Shareholders

Save as disclosed above, none of the Directors or Substantial Shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition. However, as the case is an Interested Person Transaction, Mr. Chng will abstain from making any recommendation and from voting on the Proposed Acquisition.

9. Shareholders' Caution

At this stage, the shareholders of the Company should be cautioned that there is no assurance that the Proposed Acquisition as contemplated under the MOU will actually occur as the MOU is non-legally binding with respect to the terms of the Proposed Acquisition.

10. Documents Available for Inspection

A copy of the MOU is available for the inspection by the Company's shareholders' during normal business hours at the Company's registered office at 8 Cross Street #11-00 PwC Building Singapore 048424 for a period of 3 months from the date of this announcement.

By Order of the Board

Heng Lee Seng
Director
18 May 2009