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## **TERM SHEETS ("TERM SHEETS") FOR THE PROPOSED EXCHANGEABLE LOANS TO BE GRANTED BY WANG YU HUEI (NRIC S2560187D) AND TEO KHIAM CHONG (NRIC S1749285C) (COLLECTIVELY, "INVESTORS" AND EACH AN "INVESTOR") TO THE COMPANY ("PROPOSED INVESTMENTS")**

### **Introduction**

1. The Board of Directors of Equation Corp Limited ("**Company**" or "**Group**") wishes to announce that the Company has on 29 July 2010, signed two separate Term Sheets pursuant to which the Company and each of the Investors (collectively, "**Parties**") will enter into separate definitive agreements ("**Definitive Agreements**") for each of the Proposed Investments, on substantially the same terms and conditions as set out in the respective Term Sheets, for an exchangeable loan each to be granted separately to the Company by Wang Yu Huei in the amount of S\$3.5 million and by Teo Khiam Chong in the amount of S\$1 million.

### **Principal Terms of the Proposed Investments**

2. Exchangeable Loans. The Proposed Investments are exchangeable loans for the separate sums of S\$3.5 million and S\$1 million (each a "**Quantum**") from the respective Investor for terms commencing from the dates of completion of the respective Definitive Agreements up to and including 31 December 2012 ("**Term**"), with interest payable every 6 months in cash by the Company to the respective Investor at a rate of 6% per annum ("**Interest**"), such exchangeable loans to be separately exchangeable at the individual option of each of the respective Investors, each in either one but not more, of the following ways:
  - (i.) at any time during the respective Term, and in any number of times provided that the amounts to be exchanged each time shall be S\$500,000 or multiples thereof not exceeding the respective Quantum, but with 14 business days' written notice ("**ECL Exchange Notice**") to the Company, into new ordinary shares of the Company to be issued and allotted to the respective Investor ("**Exchange Shares**") at an exchange price per Exchange Share of the lower of (a.) S\$0.05 or (b.) 90% of the volume weighted average price of the Company's traded shares for the full market day on which the Term Sheets are signed or on trades done on the preceding market day up to the time the Term Sheets are signed if trading in the Company's shares is not available for a full market day<sup>1</sup>, upon which, the Company shall deliver to the respective Investor within 14 business days from the date the Company receives such ECL Exchange Notice, confirmation that the Exchange Shares have been credited into such securities' account as each of the Investors may respectively notify the Company in writing,

**or**

<sup>1</sup> The exchange price per share was determined to be S\$0.04932 based on 90% of the volume weighted average price per share of S\$0.0548 on 28 July 2010, being the preceding full market day up to the time the Term Sheets are signed.

(ii.) in the event of a proposed listing of the Company's wholly-owned subsidiary, Disa Digital Safety Pte. Ltd. ("**Disa**"), upon submission ("**Submission**") of a pre-admission notification to the Singapore Exchange Securities Trading Limited ("**SGX-ST**") by such Catalyst sponsor as may be appointed by the Company for the listing of Disa's ordinary shares on Catalist or listing application to the relevant regulators/authority for the listing of Disa's ordinary shares on any other reputable stock exchange ("**Disa Listing**") and with 14 business days' written notice to the Company ("**Disa Shares Exchange Notice**"), by way of a transfer from the Company to the respective Investor, such number of ordinary shares in Disa ("**Disa Shares**") legally and beneficially owned by the Company as shall constitute:

**(I) in relation to Wang Yu Huei,**

- (a.) 10.6% of the existing share capital of Disa as at the Submission, if the proposed initial public offering valuation of Disa as assessed by the issue manager or underwriter for the Disa Listing ("**IPOV**") is equal to or more than S\$33 million at the time of Submission;
- (b.) up to a maximum of 15.48% of the existing share capital of Disa as at the Submission, if the IPOV is S\$22.61 million or less at the time of Submission, or
- (c.) between 10.6% and 15.48% of the existing share capital of Disa as at the Submission, adjusted proportionately, if the IPOV is above S\$22.61 million and below S\$33 million at the time of Submission.

**(II) and in relation to Teo Khiam Chong,**

- (a.) 3.03% of the existing share capital of Disa as at the Submission, if IPOV is equal to or more than S\$33 million at the time of Submission;
- (b.) up to a maximum of 4.42% of the existing share capital of Disa as at the Submission, if the IPOV is S\$22.61 million or less at the time of Submission, or
- (c.) between 3.03% and 4.42% of the existing share capital of Disa as at the Submission, adjusted proportionately, if the IPOV is above S\$22.61 million and below S\$33 million at the time of Submission.

PROVIDED ALWAYS THAT where the Investors opt to issue the Disa Shares Exchange Notice, the entire Quantum for each respective Investor may be exchanged for Disa Shares only once; the Disa Shares shall be transferred to and registered in the Investors' names as late as practicable in the Disa Listing, and in the event that the Disa Listing does not proceed for any reason whatsoever and the Disa Shares have not been transferred to and registered in the Investors' names, the respective Investors shall be entitled to withdraw their Disa Shares Exchange Notices and instead separately opt to exchange the respective Quantum for Exchange Shares under paragraph 2(i.) above or to redeem the respective Quantum in accordance with the provisions for Redemption as set out in the Term Sheets and Definitive Agreements.

3. Adjustments. The Definitive Agreements shall provide for adjustments to the Exchange Price or the number of Exchange Shares to be issued and allotted to each of the Investors in the event of capitalisation issues or other changes to the capital structure of the Company announced by the Company after the Completion Date (eg. bonds, rights or warrants issues, share buy-back, capital reduction, bonus issues, options including employees' stock options, sub-division or consolidation of shares or distribution) excluding such issues or changes that have been disclosed to the Investors prior to the signing of the Term Sheet, or (as the case may be) adjustments to the number of Disa Shares to be transferred to the Investors in the event there are unexercised options including employees' stock options exercisable into shares of Disa at the time of Submission.

4. **Redemption.** Each of the Investors may, where they have not exchanged any part of the Quantum for Exchange Shares, at any time within the period of 1 January 2012 and 31 December 2012 (both dates inclusive) ("**Redemption Period**"), at their separate option but with 30 business days' written notice to the Company, redeem the entire Quantum, respectively, and any accrued Interest as at the date of such redemption ("**Redemption**"), and upon such redemption by the Company, each of the Proposed Investments, Definitive Agreements and all rights, liabilities and obligations of the respective Parties thereunder shall terminate from the date of Redemption, save in respect of existing breaches of the Definitive Agreements (if any). For the avoidance of doubt, each of the Investors' right of redemption may only be exercised for Redemption within the Redemption Period, and not before or after, PROVIDED THAT each of the Investors may redeem the entire Quantum, respectively, at any time outside the Redemption Period, but with 14 business days' written notice to the Company, upon the occurrence of the following events:
- (a) If any order is made or an effective resolution is passed for winding-up the Company;
  - (b) If an encumbrancer takes possession or a receiver is appointed of any part of the assets of the Company;
  - (c) If any distress, execution, sequestration or other process is levied or enforced upon or sued out against the property of the Company and is not discharged within 14 days;
  - (d) If the Company commits any breach of the Definitive Agreements;
  - (e) If the Company ceases or threatens to cease to carry on its business or substantially the whole of its business, or
  - (f) If the Company is unable to pay its debts as they fall due.
5. **Trade Sale.** Where the Investors have not exchanged any part of the respective Quantum for Exchange Shares and in the event of a trade sale of Disa where the Disa Listing does not proceed, each of the Investors shall have the right to tag along and sell their respective shares in Disa on a "as converted" basis in accordance with the percentages set out under paragraphs 2.(ii.) above and on such other terms as the Parties may agree.
6. **Completion Date.** Completion of the Proposed Investments shall take place, subject to fulfilment and satisfaction of the Conditions Precedent, no later than 15 September 2010 or such other date as may be agreed to in writing by the Parties.
7. **Moratorium.** Each of the Investors agree to furnish and abide by such moratorium undertaking on the sale and/or disposal of the Disa Shares as may be prescribed under the Listing Manual of the SGX-ST and/or the listing rules of the relevant stock exchange as the case may be.

#### **Conditions Precedent**

8. Completion of each of the Proposed Investments shall be subject to the fulfilment and satisfaction (or waiver by the respective entitled Party) of, *inter alia*, the conditions set out below and such other conditions as may be agreed to by the Parties in the Definitive Agreements, on or prior to the Completion Date:
- (i.) **Representations and Warranties.** The representations and warranties of the respective Parties contained in the Definitive Agreements shall be true in all material respects on and as of the Completion Date with the same force and effect as though made on and as of the Completion Date. The Parties shall have performed and complied with all their respective undertakings, covenants and agreements set out in the Definitive Agreements on or prior to the Completion Date.
  - (ii.) **Consents and Approvals.** All required consents and approvals shall have been obtained, without restrictions or limitations whatsoever that are unacceptable to the Parties, and be in full force and effect, in particular, and without limitation:

- (a.) the approval of the Company's board of directors and shareholders (as required) of the Proposed Investments and the entering into of the Definitive Agreements, and the approval of Disa's board of directors (as the case may be) and any related transactions as may be required in relation thereto;
- (b.) a valid general share issue mandate from the Company's shareholders being available and sufficient for the issue of the Exchange Shares throughout the Term;
- (c.) the approval of the SGX-ST for, among other things, the issuance, listing and quotation of the Exchange Shares on Catalist having been obtained by the Company and such approval not having been withdrawn, revoked or amended and where such approval is subject to conditions, such conditions being reasonably acceptable to the Parties and, to the extent that any conditions for the listing and quotation of the Exchange Shares on Catalist are required to be fulfilled, they are so fulfilled prior to Completion, and
- (d.) all consents and/or permits and/or waivers and/or approvals from, and/or notifications to and/or registrations with the Company's Catalist Sponsor and all relevant third parties or governmental, regulatory and administrative departments, authorities and bodies having jurisdiction or rights in respect of the transactions contemplated under the Proposed Investments and/or the Definitive Agreements having been obtained, and not having been withdrawn, revoked or amended and if subject to any conditions, such conditions being reasonably acceptable to the Parties and are fulfilled on or before Completion Date.

#### **Authority for Issue and Allotment of Exchange Shares**

9. The Exchange Shares (as the case may be) will be issued and allotted to the respective Investor pursuant to the general mandate granted by the Company's shareholders at the last Annual General Meeting of the Company held on 30 October 2009 ("**AGM**"), authorising the Directors to issue shares and convertible securities other than on a *pro-rata* basis to existing shareholders, of up to 50% of the issued share capital of the Company as at the AGM.

#### **Use of Proceeds**

10. The proceeds of the Proposed Investments shall be used for Group's general working capital purposes and to fund business growth and investment opportunities as and when they arise.

#### **Financial Effects**

11. The financial effects of the Proposed Investment are for illustrative purposes only and are therefore, not indicative of the actual financial performance or position of the enlarged group immediately after the completion. The objective of presenting the proforma financial effects of the Proposed Investment as shown below is to illustrate what the historical financial information might have been had the Proposed Investment been completed as at 30 June 2009 ("FY2009"). However, such financial information is not necessarily indicative of the results of the operations or the related effects in the financial position that would have been attained had the Proposed Investment been completed at the earlier date.

The financial effects of the Proposed Investment were prepared using the audited consolidated accounts of the Company for the financial year ended 30 June 2009 based on the assumption that the Exchange Shares were issued at S\$0.04932 per share.

## 11.1 Earnings

The effects of the Proposed Investment on the earnings per share of the Company for FY2009 on the assumption that the Proposed Investment had been completed on 1 July 2008 are as follows:

	<b>Before the Proposed Investment</b>	<b>After the Proposed Investment</b>
Profit attributable to Shareholders (S\$'000)	(17,574)	(17,844)
Number of shares ('000)	1,806,716	1,897,957
Earnings per share (cents)	(0.97)	(0.94)

## 11.2 Net Tangible Assets ("NTA")

The effects of the Proposed Investment on the net tangible assets per share of the Company for FY2009 on the assumption that the Proposed Investment had been completed on 30 June 2009 are as follows:

	<b>Before the Proposed Investment</b>	<b>After the Proposed Investment</b>
NTA (S\$'000)	38,286	42,516
Number of shares ('000)	1,806,716	1,897,957
NTA per share (cents)	2.12	2.24

## **Definitive Agreements**

12. The Parties shall use their best endeavours to enter into the Definitive Agreements within forty-five (45) days from the date of the Term Sheets or such other period as may be mutually agreed between the Parties.

## **Directors', Controlling Shareholders' and Substantial Shareholders' Interests**

13. Save for their respective interests in the issued shares in the capital of the Company (as the case may be), none of the Directors, controlling shareholders or substantial shareholders of the Company has any interest, direct, or indirect in the Proposed Investments.

## **Further Announcements**

14. The Company will make further announcements on the Proposed Investments and Definitive Agreements at the appropriate time.

By Order of the Board

Toh Hock Ghim  
Director

29 July 2010