

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately. If you have sold or transferred all your ordinary shares in RCE Capital Berhad ("RCE" or "the Company"), you should immediately send this Circular together with the enclosed Form of Proxy to the agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular. Shareholders should rely on their own evaluation to assess the merits and risks of the Proposed Acquisition (as defined herein).



RCE CAPITAL BERHAD
(Company No.: 2444-M)
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

PROPOSED ACQUISITION OF 10,000 ORDINARY SHARES OF RM1.00 EACH REPRESENTING THE REMAINING 12.5% OF THE EQUITY INTEREST IN RCE ENTERPRISE SDN. BHD. NOT OWNED BY RCE CAPITAL BERHAD FROM MERIDIAN MODE SDN. BHD. FOR A PURCHASE CONSIDERATION OF RM15,000,000 TO BE WHOLLY SATISFIED BY THE ISSUANCE OF 67,415,730 NEW ORDINARY SHARES OF RM0.10 EACH AT AN ISSUE PRICE OF RM0.2225 PER SHARE

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser



MIMB

MALAYSIAN INTERNATIONAL MERCHANT BANKERS BERHAD

(Company No. : 10209-W)
(A member of EON Bank Group)

Notice of the Extraordinary General Meeting of the Company to be held at Dewan AmBank Group, 7th Floor, Bangunan AmBank Group, 55, Jalan Raja Chulan, 50200 Kuala Lumpur on Tuesday, 17 January 2006 at 3.30 p.m. together with the Form of Proxy are enclosed in this Circular. A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint a proxy or proxies to attend and vote on his behalf. The Form of Proxy should be deposited at the Registered Office of RCE at 7th Floor, Wisma Tan Kim San, No. 518A, 3rd Mile, Jalan Ipoh, 51200 Kuala Lumpur not later than 48 hours before the time for holding the meeting or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the meeting should you subsequently wish to do so.

The last day and time for lodging the Form of Proxy is on Sunday, 15 January 2006 at 3.30 p.m.

This Circular is dated 29 December 2005

DEFINITIONS

For the purpose of this Circular, except where the context otherwise requires, the following definitions shall apply:-

“Act”	: Companies Act, 1965
“ANGKASA”	: Angkatan Koperasi Kebangsaan Malaysia Berhad
“Board”	: Board of Directors of RCE
“Bursa Securities”	: Bursa Malaysia Securities Berhad
“Consideration Shares”	: The 67,415,730 new RCE Shares to be issued pursuant to the Proposed Acquisition
“Co-operatives”	: Koperasi Belia Nasional Berhad, Koperasi Sejati Berhad and Koperasi Wawasan Pekerja-Pekerja Berhad, collectively
“EGM”	: Extraordinary general meeting
“FIC”	: Foreign Investment Committee
“FIC Guidelines”	: Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests
“FY”	: Financial year ended/ending
“Listing Requirements”	: Listing Requirements of Bursa Securities, including any amendments thereto that may be made from time to time
“MIMB”	: Malaysian International Merchant Bankers Berhad
“MMSB” or the “Vendor”	: Meridian Mode Sdn. Bhd., the vendor for the 12.5% of the equity interest in RCEE
“NRNCPS”	: Non-redeemable non-convertible non-cumulative preference shares
“NTA”	: Net tangible assets
“PAT”	: Profit after tax
“PBT”	: Profit before tax
“Proposed Acquisition”	: Proposed acquisition of 10,000 ordinary shares of RM1.00 each representing the remaining 12.5% of the equity interest in RCEE not owned by RCE from MMSB for a purchase consideration of RM15,000,000 to be wholly satisfied by the issuance of 67,415,730 new ordinary shares of RM0.10 each at an issue price of RM0.2225 per share
“RCE” or the “Company”	: RCE Capital Berhad
“RCE Group” or “the Group”	: RCE and its subsidiary companies, collectively
“RCE Share(s)” or “Share(s)”	: Ordinary share(s) of RM0.10 each in RCE
“RCEE”	: RCE Enterprise Sdn Bhd (formerly known as E-Drama Sdn Bhd)
“RCEE Group”	: RCEE and its subsidiaries (i.e. the RCEM Group)

DEFINITIONS *(Cont'd)*

“RCEM”	:	RCE Marketing Sdn Bhd
“RCEM Group”	:	RCEM and its subsidiaries
“RCNCPS”	:	Redeemable convertible non-cumulative preference shares
“RM” and “sen”	:	Ringgit Malaysia and sen, respectively
“Sale Share(s)”	:	The 10,000 RCEE shares of RM1.00 each to be acquired by RCE pursuant to the Proposed Acquisition
“SC”	:	Securities Commission
“SPA”	:	The conditional Sale and Purchase Agreement dated 11 November 2005 entered into between RCE and MMSB in relation to the Proposed Acquisition

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RCE CAPITAL BERHAD
(Company No. 2444-M)
(Incorporated in Malaysia)

Registered Office:

7th Floor, Wisma Tan Kim San
No. 518A, 3rd Mile
Jalan Ipoh
51200 Kuala Lumpur

29 December 2005

Board of Directors:

Y. Bhg. Tan Sri Dato' Azman Hashim (Non-Executive Chairman)
Y. Bhg. Major General (Rtd) Dato' Haji Fauzi Bin Hussain (Independent Non-Executive Director)
Y. Bhg. Datuk Mohd Zaman Khan @ Hassan Bin Rahim Khan (Independent Non-Executive Director)
Mr. Soo Kim Wai (Non-Executive Director)
Pn. Shalina Azman (Non-Executive Director)
Mr. Chew Keng Yong (Non-Executive Director)

To: The Shareholders of RCE

Dear Sir/Madam,

PROPOSED ACQUISITION OF 10,000 ORDINARY SHARES OF RM1.00 EACH REPRESENTING THE REMAINING 12.5% OF THE EQUITY INTEREST IN RCE ENTERPRISE SDN. BHD. NOT OWNED BY RCE CAPITAL BERHAD FROM MERIDIAN MODE SDN. BHD. FOR A PURCHASE CONSIDERATION OF RM15,000,000 TO BE WHOLLY SATISFIED BY THE ISSUANCE OF 67,415,730 NEW ORDINARY SHARES OF RM0.10 EACH AT AN ISSUE PRICE OF RM0.2225 PER SHARE

1. INTRODUCTION

On 11 November 2005, MIMB, on behalf of the Board, announced that the Company had entered into the SPA with MMSB in respect of the Proposed Acquisition. Presently, RCEE is a 87.5% owned subsidiary of RCE. Pursuant to the Proposed Acquisition, the Company proposes to acquire the remaining 12.5% equity interest in RCEE from MMSB for a purchase consideration of RM15,000,000 to be wholly satisfied by the issuance of 67,415,730 new ordinary shares of RM0.10 each in RCE at an issue price of RM0.2225 per share.

MIMB, on behalf of the Company, had on 28 November 2005 submitted the relevant applications to the SC (pursuant to the Securities Commission Act, 1993 and FIC Guidelines) in relation to the Proposed Acquisition.

The purpose of this Circular is to provide you with the relevant information on the Proposed Acquisition and to seek your approval for the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM. The notice of the EGM together with the Form of Proxy are enclosed in this Circular.

SHAREHOLDERS OF RCE ARE ADVISED TO READ THE CONTENTS OF THIS CIRCULAR CAREFULLY BEFORE VOTING ON THE ORDINARY RESOLUTION TO GIVE EFFECT TO THE PROPOSED ACQUISITION.

2. DETAILS OF THE PROPOSED ACQUISITION

2.1 Background of the Proposed Acquisition

The Proposed Acquisition involves the acquisition by RCE of the 10,000 Sale Shares representing the remaining 12.5% of the equity interest in RCEE not held by RCE from MMSB for a purchase consideration of RM15,000,000 to be wholly satisfied by the issuance of 67,415,730 Consideration Shares at an issue price of RM0.2225 per share. Presently, RCEE is a 87.5% owned subsidiary of RCE.

Prior to 21 October 2004, RCEE was a dormant company. Pursuant to an internal restructuring undertaken in 2004, RCE's effective interest in RCEM held via shares in RCEE remain unchanged but RCE's effective interest in RCEE was diluted from 100% to 87.5%.

The Sale Shares shall be acquired free from all claims, charges, liens, encumbrances and equities whatsoever together with all rights attached thereto and all dividends, rights and distributions declared paid or made in respect thereof as at the completion date of the SPA, subject to the terms and conditions contained in the SPA.

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed by the first quarter of 2006.

2.2 Brief information on RCEE

RCEE was incorporated in Malaysia on 6 December 1999 under the Act as a private limited company under the name of Channel Device Sdn Bhd. It changed its name to E-Drama Sdn Bhd on 12 June 2000 and eventually assumed its present name on 25 March 2005.

RCEE is an investment holding company and its core business is the investment of the RCEM Group. It has an authorised share capital of RM500,000, divided into 80,000 ordinary shares of RM1.00 each, 400,000 RCNCPs of RM1.00 each and 20,000 NRNCPs of RM1.00 each, of which 80,000 ordinary shares of RM1.00 each and 20,000 NRNCPs of RM1.00 each have been issued and fully paid-up.

RCE is the holding company of RCEE with 87.5% of the issued and paid-up ordinary shares of RM1.00 each and 100% of the issued and paid-up NRNCPs.

The directors of RCEE are Mr Loh Kam Chuin, Encik Shahman Azman and Mr Goh Jue Jin. RCEE has a wholly-owned subsidiary, RCEM, the information of which is detailed in the Section 2.4 below.

The existing shareholders of RCEE as at 30 November 2005 are as follows:-

Shareholders	No. of Ordinary Shares Held In RCEE	% Interest Held	No. of Preference Shares Held In RCEE	% Interest Held
RCE	70,000	87.50	20,000	100.00
MMSB	10,000	12.50	Nil	Nil
Total	80,000	100.00	20,000	100.00

Further information on RCEE is set out in Appendix I.

2.3 Salient Financial Information of RCEE

The profit after taxation and minority interest and net tangible assets of RCEE are RM8.449 million and RM38.419 million respectively, based on the audited financial statements of RCEE for the financial year ended 31 March 2005.

Further details of the audited financial information of the RCEE Group for the past five (5) financial years ended 31 March 2005 are disclosed in Appendix I of this Circular.

2.4 Brief information on RCEM, a wholly-owned subsidiary of RCEE

RCEM was incorporated in Malaysia on 16 November 1981 under the Act as a private limited company under the name of Rediffusion Consumer Electronics (Malaysia) Sdn. Bhd. RCEM assumed its present name on 18 May 2001.

RCEM's principal activities are the provision of general loan financing services and trading in electrical home appliances and other consumer durable products mainly on hire purchase terms. RCEM has an authorised share capital of RM90,000,000 divided into 20,000,000 ordinary shares of RM1.00 each and 70,000,000 RCNCPS of RM1.00 each of which 8,000,000 ordinary shares of RM1.00 each and 38,780,000 RCNCPS of RM1.00 have been issued and fully paid-up.

The directors of RCEM are Puan Shalina Azman, Mr. Loh Kam Chuin and Mr Goh Jue Jin.

The subsidiary companies of RCEM, its shareholdings in such subsidiaries and their principal activities are as follows:-

Subsidiary Company	Percentage (%) Shareholdings held by RCEM	Principal Activities
Indigenous Capital Sdn Bhd	100	Property investment and trading of securities
RCE Commerce Sdn. Bhd.	100	Provision of information technology and financial administrative services
RCE Management Sdn Bhd	100	Dormant
RCE Premier Sdn Bhd	100	A special purpose vehicle established to acquire a pool of eligible receivables from its immediate holding company and to issue private debt securities to fund the purchase of such receivables
RCE Premium Sdn Bhd (formerly known as Pasti Sergap Sdn. Bhd.)	100	Dormant
RCE Trading Sdn Bhd	100	Provision of financial administrative services

Subsidiary Company	Percentage (%) Shareholdings held by RCEM	Principal Activities
RCE Advance Sdn Bhd (formerly known as Perfect Aspiration Sdn. Bhd.)	100	A special purpose vehicle established to acquire a pool of eligible receivables from its immediate holding company and to issue private debt securities to fund the purchase of such receivables
RCE Sales Sdn Bhd [^]	100	Provision of financial administrative services
R&R Music Sdn. Bhd. [^]	100	Dormant

Note: [^] Held indirectly through RCE Trading Sdn. Bhd.

2.5 Information On MMSB

MMSB was incorporated in Malaysia on 2 July 2002 under the Act as a private limited company. MMSB is an investment holding company. It has an authorised share capital of RM100,000, divided into 100,000 ordinary shares of RM1.00 each, of which 2 ordinary shares of RM1.00 each have been issued and paid-up. Its shareholders are Mr Goh Jue Jin and Mr Ng Wan Cher @ Ng Guan Cher who each holds 50% of the issued and paid-up capital of MMSB.

The directors of MMSB are Mr Goh Jue Jin and Mr Ng Wan Cher @ Ng Guan Cher.

The date and cost of investment by MMSB in the Sale Shares are as follows:

No. of Sale Shares	Date of Investment	Cost of Investment RM
10,000	21 October 2004	1,500,000*

* Represents cost of investment for 1,000,000 shares in RCEM on 31 October 2002 which was subsequently swapped for 10,000 ordinary shares of RM1.00 each in RCEE pursuant to an internal restructuring exercise of RCE Group on 21 October 2004.

2.6 Basis Of Arriving At The Purchase Consideration And The Issue Price For The Consideration Shares To Be Issued Pursuant To The Proposed Acquisition

The purchase consideration for the Proposed Acquisition amounting to RM15,000,000 was arrived at on a “willing-buyer willing-seller” basis negotiated between RCE and MMSB after taking into consideration the following:

- (i) the proportionate audited consolidated NTA of the RCEE Group attributable to the 12.5% equity interest in RCEE of RM4,802,450.75 as at 31 March 2005 (i.e. 12.5% of RM38,419,606); and
- (ii) the audited consolidated PAT of the RCEM Group of RM15,520,721 for the financial year ended 31 March 2005 and the future earnings potential of the RCEE Group.

The issue price for the Consideration Shares to be issued pursuant to the Proposed Acquisition of RM0.2225 per RCE Share was arrived at based on the five (5) days weighted average market price of RCE Shares ended 10 November 2005 of RM0.2225.

2.7 Ranking Of The Consideration Shares

The Consideration Shares to be issued pursuant to the Proposed Acquisition shall, upon allotment and issue, rank *pari passu* in all respects with the then existing ordinary shares of RM0.10 each in RCE in issue, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid before the allotment of the Consideration Shares.

2.8 Status Of Sale Shares

The Sale Shares shall be acquired by RCE from MMSB free from all claims, charges, liens, encumbrances and equity whatsoever together with all rights attaching thereto including all dividends, rights and distribution declared, paid or made in respect thereof as at the completion date of the Proposed Acquisition.

2.9 Assumption Of Liabilities

There is no liability to be assumed by the Company arising from the Proposed Acquisition.

2.10 Salient Terms Of The SPA

The salient terms of the Proposed Acquisition as extracted from the SPA are set out below. All definitions in this section shall have the same meanings as per the SPA.

Section 3.01 Agreement to sell and purchase

Subject to the Approvals set out in Section 5.01, the Vendor hereby agrees to sell and the Purchaser hereby agrees to purchase the Sale Shares free from all claims, charges, liens, encumbrances and equities whatsoever together with all rights attached thereto and all dividends, rights and distributions declared paid or made in respect thereof as at the Completion Date, for the total purchase price of Ringgit Malaysia Fifteen Million (RM15,000,000.00) only (hereinafter referred to as "the Total Purchase Price") to be satisfied by the issue and allotment of the Consideration Shares [as referred to in Section 3.02 (a)] by the Purchaser to the Vendor upon the terms and subject to the conditions of this Agreement.

Section 3.02 Time and manner of payment

- (a) The Total Purchase Price shall be satisfied by the Purchaser issuing and allotting to the Vendor a total of Sixty Seven Million Four Hundred and Fifteen Thousand Seven Hundred and Thirty (67,415,730) fully paid up ordinary shares of Ringgit Malaysia Sen Ten (RM0.10) each only in the capital of the Purchaser (hereinafter referred to as "the Consideration Shares") or the number of the Consideration Shares so varied as hereinafter stated in Section 3.02(b) on the Completion Date (as defined in Section 3.03(i)). The Consideration Shares shall, upon allotment and issue, rank *pari passu* in all respects with the then existing RCE Capital Bhd shares in issue, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid before the allotment of the Consideration Shares.

Section 5.01 Conditions precedent

Notwithstanding anything to the contrary herein contained, the sale and purchase of the Sale Shares under this Agreement is subject to and conditional upon the following conditions precedent being fulfilled or satisfied on or before a date that is six (6) months from the date of this Agreement or within such other later date as the Vendor and the Purchaser may mutually agree (hereinafter referred to as the "Approvals Date"), namely the Purchaser obtaining the following:-

- (a) Approval by way of the Resolution(s) of the Purchaser's directors/members authorizing the purchase of the Sale Shares by the Purchaser from the Vendor for the consideration of the Total Purchase Price;

- (b) Approval of SC;
- (c) Approval of FIC, if required;
- (d) Approval of Bursa Securities, if required; and
- (e) Approval(s) of any other relevant Authorities, if necessary or required.

3. RATIONALE FOR THE PROPOSED ACQUISITION

The purpose of the Proposed Acquisition is part of RCE's ongoing strategy to maximise shareholders' value. Since the completion of the acquisition of 87.5% in RCEM by the RCE Group in year 2003, RCEM has been contributing significantly to the profitability of the RCE Group. Accordingly, the Proposed Acquisition is expected to contribute positively to the future profitability and cashflow of the RCE Group as well as the stability of its future income stream.

4. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

4.1 Share Capital

The proforma effects of the Proposed Acquisition on the issued and paid-up share capital of the Company are as follows:

	No. Of Shares	RM
Existing issued and paid-up share capital as at 30 November 2005	401,512,500	40,151,250
To be issued pursuant to the Proposed Acquisition	67,415,730	6,741,573
Enlarged issued and paid-up share capital	468,928,230	46,892,823

4.2 NTA and Gearing (Consolidated)

The proforma effects of the Proposed Acquisition on the consolidated NTA and gearing of the RCE Group based on the audited financial statements for the financial year ended 31 March 2005 (assuming that the Proposed Acquisition is implemented on 31 March 2005) are as follows:

	Audited as at 31 March 2005 RM'000	After the Proposed Acquisition RM'000
Share capital	40,151	46,893
Reserves	2,156	^10,014
Retained Profits	16,061	16,061
Shareholders' funds	58,368	72,968
Less: Goodwill	(19,002)	(30,868)
NTA	39,366	42,100
No. of ordinary shares ('000)	401,512	468,928
NTA per share(RM)	0.10	0.09
Bank borrowings (RM'000)	80,446	80,446
Gearing ratio (times)	1.38	1.10

Note: ^ After deducting an estimated expenses relating to the Proposed Acquisition of RM400,000

4.3

Major Shareholders

The proforma effects of the Proposed Acquisition on the shareholdings of the major shareholders of RCE (holding 5% equity interest or more) as at 30 November 2005 are as follows:-

Major shareholders	Existing number of shares held as at 30 November 2005			After Proposed Acquisition		
	Direct	%	Indirect	Direct	%	Indirect
Cempaka Empayar Sdn Bhd [^]	174,069,680	43.35	-	174,069,680	37.12	-
MMSB	-	-	-	-	-	-
Blue Ribbon International Limited	56,932,000	14.18	-	67,415,730	14.38	-
Charter Green Limited	32,389,750	8.07	-	56,932,000	12.14	-
Goh Jue Jin	-	-	-	32,389,750	6.91	-
Ng Wan Cher @ Ng Guan Cher	-	-	-	-	-	+67,415,730
Tan Sri Dato' Azman Hashim	-	-	@ 174,069,680	-	-	+67,415,730
AncorpGroup Berhad (formerly known as Arab-Malaysian Corporation Berhad)	-	-	@ 174,069,680	@ 174,069,680	-	@ 174,069,680
Ginagini Sdn. Bhd.	-	-	@ 174,069,680	-	-	@ 174,069,680
Slan Sdn. Berhad.	-	-	@ 174,069,680	-	-	@ 174,069,680

Notes:

* Deemed interested by virtue of his substantial shareholdings in MMSB.

@ Deemed interested by virtue of Section 6(A)4 of the Companies Act, 1965 through shareholdings in Cempaka Empayar Sdn. Bhd.

[^] A wholly-owned subsidiary of AncorpGroup Berhad (formerly known as Arab-Malaysian Corporation Berhad).

4.4 Earnings

The Proposed Acquisition is not expected to have any material effects on the earnings of the Group for the financial year ending 31 March 2006 as the Proposed Acquisition is expected to be completed by the first quarter of 2006.

Nevertheless, the Proposed Acquisition is expected to improve the profitability of the Group in the future. The effect of the earnings per share of the Company is dependent on the profitability of the Group after the Proposed Acquisition.

4.5 Dividend

The Proposed Acquisition is not expected to have any effect on the dividend policy of the Company as the future dividend is dependent on the Group's future profitability and cashflow as well as the availability of its Section 108 tax credits to frank dividend.

5. INDUSTRY OVERVIEW AND PROSPECTS

5.1 Industry Review and Growth Prospects

Lending to Households

Reflecting improved household income and consumer sentiment, the pace of private consumption increased during the year, and the banking system continued to channel a significant portion of their financing to this sector. As at end-2004, loans to the household sector represented the largest proportion of loans in the banking sector, accounting for 51.4% of total outstanding loans. In total, outstanding loans to the household sector expanded 14.4% to RM264.4 billion as at end-2004. Loan applications received from households expanded by 22.1% to RM120.2 billion in 2004, of which 72.2% were approved during the year. Total loan approvals to this sector grew by 20.5% to RM86.8 billion, whilst loan disbursements recorded a corresponding increase of 13.8% to RM130.3 billion in 2004. Despite the high disbursements, unutilised loans within this sector grew by 14.7% to RM67.8 billion as at end 2004. As in the previous years, lending activities within this sector were concentrated in mortgage financing, financing for the purchase of passenger cars and credit cards. The strong growth in loans to this sector was supported mainly by the competitive financing packages offered by banking institutions and the promotional campaigns carried out by the private sector to boost demand.

(Source: Bank Negara Malaysia, Annual Report 2004)

Financing to the household sector was sustained at a high level. Reflecting the sustained demand for bank financing by households, loan disbursements to households rose at an annual rate of 10% during the quarter (4Q 2004: 12%), and continued to be channeled towards credit card spending (29.4% of total disbursements to households), the purchase of residential properties (27.3%) and the purchase of passenger cars (25.3%). Similarly, loan applications and approvals expanded at annual rates of 14% and 13.3% respectively (4Q 2004: 15% and 14.1% respectively). Meanwhile, the growth in loans outstanding of households was higher at 15.2% at end March 2005 (end-2004: 14.4%). Similar to business loans, gross NPL ratio of household loans was slightly lower at 7.4% at end March 2005 (end 2004: 7.5%).

(Source: Bank Negara Malaysia, First Quarter 2005 Report)

Economic Growth Moderating in Malaysia

Malaysians have not tightened their belts nor have they abandoned plans to buy big-ticket items, an indication that household incomes are holding strong. Credit extended to households in Malaysia, in the form of housing loans and consumption, continues to rise. Backed by still-low interest rates, loans extended by the banking system for consumption credit grew by 16.8% in April 2005 and 17.7% in May 2005. May's growth figure was the highest since consumption credit growth averaged 17.6% in 2002.

Bank Negara, the central bank, said loans outstanding to the household sector grew at 15.4% at the end of May 2005, and smaller businesses now accounted for 41.3% of total business loans. With consumer finance strong, concern has shifted to the effect a weakening economy could eventually have on consumer spending. Business conditions for the second quarter from a year ago is down 18.1 percentage points, but still positive.

(Source: The STAR Online: Business: Asian Economic Monitor dated Saturday July 23, 2005)

Based on the above, the Directors of RCE are of the opinion that the Proposed Acquisition would allow the RCE Group to continue to benefit from the strong consumer and household spending to build a stronger foundation for RCEM to improve its performance in the future. The Directors of RCE believe that RCEM possesses a sound business model to sustain its profitability in the future.

6. RISK FACTORS

There have existed various risk factors such as competition risks, business risks, economic risks and investment risks since RCEM has been an 87.5% subsidiary company of RCE via RCEE. Following the Proposed Acquisition, the risks will be slightly higher as RCEM will be a wholly-owned subsidiary company of RCE via RCEE.

The existing various risks relating to RCEM and its business encompass the following:-

6.1 Economic, Political and Regulatory Risks

RCEM business is subject to changes in the economic, political and regulatory conditions in Malaysia. Amongst the economic, political and regulatory uncertainties are the changes of the government policies, change of consumer spending habits, changes in interest rates, methods of taxation and lending regulations. There can be no assurance that any changes to these factors will not have any material adverse effects on RCEM's business.

6.2 Business Operations Risks

RCEM's business in providing consumer loans is subject to certain inherent business risks in the retailing sector. These include, increase in the costs of labour, changes in general economic conditions such as, but not limited to, change in inflation, interest rates, taxes and duties, changes in business conditions and changes in the environment and legal framework within which the retailing sector operates and fluctuations in foreign exchange rates.

Although RCEM will seek to limit these risks through, inter-alia, implementing cost cutting measures, improving efficiency and effectiveness in its distribution channels and collections, expansion of customer base, etc, there can be no assurance that any changes to these factors will not have any material adverse effects on the business operations of RCEM in future.

6.3 Credit Risks

The nature business of RCEM in provisions of consumer loans are subject to credit risk of default in payment by its customers. As such, RCEM is subject to credit risks as major portfolios of the transactions are made on hire-purchase terms and unsecured personal loans.

The loan financing facilities are targeted at most government servants who are member of the three major Co-operatives. The credit risk factor was mitigated as the consumer loans were mainly extended to fixed income public servants where the instalments are being made via salary deductions scheme. The disbursements of the funds were only remitted to members that meet the strict eligibility credit criteria. RCEM will also contact the employer directly to enquire on the applicant's authenticity and income to further enhance their certainty.

The default risk from resignation and transfer of public servants in the government sector has been historically low. In addition, RCEM also demands for the borrower's latest pay slip and conducts a thorough review of the borrower's current and future salary deduction status through ANGKASA's real-time system for further security. Therefore, based on historical track record, the loan repayments to RCE do not exhibit volatility or risk that warrants concern to its asset quality. In any case, the net non-performing loan of RCEM is only less than 2% for the financial year ended 31 March 2005.

6.4 Competition

RCEM faces competition from retailers which provides credit on purchase and other local financial institutions which provides consumer credits. Whilst there is no absolute assurance that RCEM will be able to increase or maintain its existing market share in the future, RCEM continues to improve its services and offerings to improve its cost-competitiveness and market share.

The Directors of RCE also believe that with RCEM's vast expertise in marketing, business development and good rapport with the Co-operatives, it is able to continue to expand (or at least maintain) its market share over the foreseeable future.

6.5 Delay in Collections

The flow of the funds through third parties inherently poses a risk of delay as collections are carried out by ANGKASA and subsequently transferred to the Co-operatives' ANGKASA Collection Account before they are eventually remitted to RCEM. It is also foreseeable that human errors such as wrong data entry, may contribute to a disruption of the flow of funds although part of the transferring process would be automated.

Nevertheless, this risk is mitigated by weekly monitoring, tracking and review of the flow of funds by RCEM using an efficient business system and workflow, which enables any disruption of the flow of funds to be identified and rectified promptly.

6.6 Interest Rate Risk

RCEM utilises both debt and equity as its sources of capital. Hence, its operating costs are subject to the risk of fluctuations in interest rates. However, this risk is mitigated by the issuance of fixed-rate debt securities by RCEM.

6.7 Loss of Key Management

The loss of any key members of the management may affect RCEM's ability to manage and grow its portfolio. Nevertheless, such disruptions may be avoided as proper contingency plans for the collection of receivables and the documentation of such procedures are in place. Moreover, RCEM also has plans to undertake measures to attract and to retain skilled personnel who will be capable of succeeding the existing key management of RCEM.

7. APPROVALS REQUIRED

The Proposed Acquisition is subject to the approvals being obtained from the following authorities/parties:-

- (a) SC (pursuant to the Securities Commission Act, 1993 and FIC Guidelines);
- (b) Shareholders of RCE at the forthcoming extraordinary general meeting;
- (c) Bursa Securities for the listing of and quotation for the new RCE Shares to be issued pursuant to the Proposed Acquisition on the Second Board of the Bursa Securities; and
- (d) any other relevant authorities/parties (if required).

To date, the approvals from the SC and Bursa Securities for the Proposed Acquisition are still pending.

8. OUTSTANDING PROPOSALS ANNOUNCED BUT PENDING IMPLEMENTATION

As at 30 November 2005, there are no outstanding proposals which have been announced by the Company but pending implementation.

9. HISTORICAL SHARE PRICES

The monthly highest and lowest transacted market prices of RCE Shares on Bursa Securities for the last twelve (12) months are as follows:

2004	Highest RM	Lowest RM
December	0.2617	0.2617
2005		
January	0.260	0.260
February	0.255	0.255
March	0.255	0.255
April	0.200	0.200
May	0.190	0.190
June	0.225	0.225
July	0.225	0.225
August	0.225	0.225
September	0.245	0.245
October	0.240	0.240
November	0.215	0.215

The last transacted price of the RCE Shares on Bursa Securities on 10 November 2005 (being the last market day prior to the announcement of the Proposed Acquisition) RM0.21

The last transacted price of the RCE Shares on Bursa Securities on 23 December 2005 (being the latest practicable date prior to the printing of this Circular) RM0.215

(Source: Bloomberg)

10. DIRECTORS' AND MAJOR SHAREHOLDERS' AND/OR PERSONS CONNECTED WITH DIRECTORS' OR MAJOR SHAREHOLDERS' INTERESTS

Save as disclosed below, none of the Directors or major shareholders of RCE or persons connected to the Directors and/or major shareholders of RCE as defined in the Listing Requirements have any interest, direct or indirect, in the Proposed Acquisition:

Since MMSB is a major shareholder of RCEE with 12.5% equity interest, MMSB is deemed interested in the Proposed Acquisition.

In addition, Mr Goh Jue Jin and Mr Ng Wan Cher @ Ng Guan Cher, each holding 50% equity interest in MMSB, are also deemed major shareholders of RCEE. Mr Goh Jue Jin, who is a director of MMSB, is a director of both RCEE and RCEM. Accordingly, both Mr Goh Jue Jin and Mr Ng Wan Cher @ Ng Guan Cher are also deemed interested in the Proposed Acquisition. As at 30 November 2005, MMSB, Mr Goh Jue Jin and Mr Ng Wan Cher @ Ng Guan Cher do not have any equity interest, direct or indirect, in RCE.

Based on the above, the Proposed Acquisition is technically deemed a related party transaction under Paragraph 10.08(4) of the Listing Requirements pursuant to the interests of MMSB, Mr Goh Jue Jin and Mr Ng Wan Cher @ Ng Guan Cher therein.

The Company had on 27 September 2005 submitted an application to Bursa Securities for an exemption for the Proposed Acquisition to be regarded as a related party transaction and accordingly exempt the Company from complying with the provisions under Paragraph 10.08(4) of the Listing Requirements.

The Company had obtained the approval from Bursa Securities on 7 November 2005 for the exemption from complying with the provisions under Paragraph 10.08 of the Listing Requirements. Accordingly, an independent adviser is not required to be appointed and there will be no issuance of an independent advice letter to the shareholders of RCE.

Despite the approval from Bursa Securities, MMSB, Mr Goh Jue Jin and Mr Ng Wan Cher @ Ng Guan Cher shall abstain from voting on the resolution relating to the Proposed Acquisition in respect of their direct and/or indirect shareholdings in RCE, if any, at the forthcoming EGM. They will also undertake to ensure that persons connected to them (as defined under the Listing Requirements) shall abstain from voting on the resolution relating to the Proposed Acquisition in respect of their direct and/or indirect shareholdings in RCE, if any, at the forthcoming EGM.

11. DIRECTORS' RECOMMENDATION

After taking into consideration all aspects of the Proposed Acquisition, the Board is of the opinion that the Proposed Acquisition is fair and reasonable and is in the best interest of the RCE Group and accordingly recommends that you vote in favour of the resolution pertaining to the Proposed Acquisition.

12. EXTRAORDINARY GENERAL MEETING

An EGM, the notice of which is enclosed in this Circular, will be held at the Dewan AmBank Group, 7th Floor, Bangunan AmBank Group, 55, Jalan Raja Chulan, 50200 Kuala Lumpur on Tuesday, 17 January 2006, at 3.30 p.m. The purpose of the EGM is for shareholders to consider and if thought fit, pass the ordinary resolution set out in the Notice of EGM, with or without modifications, to give effect to the Proposed Acquisition.

Shareholders who are unable to attend the EGM and wish to appoint a proxy, should complete, sign and return the enclosed Form of Proxy in accordance with the instructions printed therein as soon as possible, so as to arrive at the Registered Office of the Company not less than forty-eight (48) hours before the time appointed for holding the EGM or any adjournment thereof. The lodgement of the Form of Proxy by a shareholder will not preclude the said shareholder from attending and voting in person at the EGM should the said shareholder subsequently wish to do so.

13. FURTHER INFORMATION

Shareholders of RCE are advised to read this Circular and the attached appendices before arriving at the decision to vote on the resolution pertaining to the Proposed Acquisition.

Yours faithfully,
For and on behalf of the Board of Directors of
RCE CAPITAL BERHAD

SOO KIM WAI
Non-Executive Director

INFORMATION ON RCEE

1. HISTORY AND BUSINESS

RCEE was incorporated in Malaysia on 6 December 1999 under the Companies Act, 1965 as a private limited company under the name of Channel Device Sdn. Bhd. On 12 June 2000, it changed its name to E-Drama Sdn. Bhd. RCEE assumed its present name on 25 March 2005. Its authorised and issued and paid-up share capital is as disclosed in Section 2 below.

RCEE was previously a dormant company since its incorporation date. It became an investment holding company since 21 October 2004 after the internal restructuring of the RCE Group. The principal activities of the subsidiary companies are as disclosed in Section 5 below.

The main contribution of RCEE Group's revenue is from RCEM. RCEM is principally involved in the trading of electrical home appliances and other consumer durable products mainly on hire purchase terms (consumer product financing) and providing personal loans financing (collectively referred to as the "Consumer Loans"). RCEM has been in co-operation with various Co-operatives, which among them have a total of 51 outlets throughout Malaysia, in providing Consumer Loans to the members of these Co-operatives who are Government employees. The repayment of the Consumer Loans is made through the Government-initiated salary deduction scheme whereby the installment payments are deducted from the salary of those participating employees on a monthly basis.

2. SHARE CAPITAL

(a) Share capital as at 30 November 2005

	Number of Shares (units)	Par Value RM	Total RM
Authorised			
Ordinary shares	80,000	1.00	80,000
NRNCPS*	20,000	1.00	20,000
RCNCPS**	400,000	1.00	400,000

			500,000

Issued and fully paid-up			
Ordinary Shares	80,000	1.00	80,000
NRNCPS *	20,000	1.00	20,000

			100,000

Notes:

* NRNCPS of RM1.00 each. The holders of NRNCPS shall not be entitled to redeem or convert all or any part of the NRNCPS.

** RCNCPS of RM1.00 each. RCEE shall at the end of 31 March 2006 have the right to either redeem the RCNCPS or roll-over the redemption period of another 3 years. The RCNCPS shall be redeemed at any

rate as may be determined by the Directors of RCEE. RCEE shall a month before 31 March 2006 notify the RCNCPS shareholders of its intention to redeem or roll-over, else the RCNCPS holders shall have the right to convert the RCNCPS at a conversion ratio to be based on the net tangible assets of the latest audited accounts.

(b) Issued And Paid-Up Share Capital as at 30 November 2005

The present issued and paid-up share capital of RCEE is RM100,000 comprising 80,000 ordinary shares of RM1.00 each and 20,000 NRNCPS of RM1.00 each. Details of the changes in the issued and paid-up share capital of RCEE since incorporation are as follows:-

Date of Allotment/ Redemption	No. of Shares Allotted/ (Redeemed)	Par Value RM	Cumulative Issued And Paid-Up Share Capital RM
<i>Ordinary shares</i>			
6.12.1999	2	1.00	2
21.10.2004	79,998	1.00	80,000
<i>RCNCPS</i>			
21.10.2004	387,800	1.00	387,800
21.10.2004	(387,800)	1.00	-
<i>NRNCPS</i>			
21.10.2004	20,000	1.00	20,000
Total			100,000

3. MAJOR SHAREHOLDERS

The major shareholders of RCEE and their equity interests in RCEE as at 30 November 2005 are as follows:-

For Ordinary Shares Held

Major Shareholders	Nationality/ Country of Incorporation	No. Of Ordinary Shares Held			
		Direct	%	Indirect	%
RCE Capital Berhad	Malaysia	70,000	87.5	-	-
Meridian Mode Sdn. Bhd.	Malaysia	10,000	12.5	-	-
Cempaka Empayar Sdn. Bhd.	Malaysia	-	-	70,000 ⁽¹⁾	87.5
AmcorpGroup Berhad (formerly known as Arab- Malaysian Corporation Berhad)	Malaysia	-	-	70,000 ⁽²⁾	87.5
Tan Sri Dato' Azman Hashim	Malaysian	-	-	70,000 ⁽²⁾	87.5

Major Shareholders	Nationality/ Country of Incorporation	No. Of Ordinary Shares Held			
		Direct	%	Indirect	%
Slan Sdn. Berhad	Malaysia	-	-	70,000 ⁽²⁾	87.5
Ginagini Sdn. Bhd.	Malaysia	-	-	70,000 ⁽²⁾	87.5
Goh Jue Jin	Malaysian	-	-	10,000 ⁽³⁾	12.5
Ng Wan Cher @ Ng Guan Cher	Malaysian	-	-	10,000 ⁽³⁾	12.5

Notes:

- (1) Deemed interest by virtue of Section 6(A)4 of the Companies Act, 1965 through shareholdings in RCE Capital Berhad.
- (2) Deemed interest by virtue of Section 6(A)4 of the Companies Act, 1965 through shareholdings in Cempaka Empayar Sdn. Bhd..
- (3) Deemed interest by virtue of Section 6(A)4 of the Companies Act, 1965 through shareholdings in Meridian Mode Sdn. Bhd.

For NRNCPS Held

Major Shareholders	Nationality/ Country of Incorporation	No. Of NRNCPS Held			
		Direct	%	Indirect	%
RCE Capital Berhad	Malaysia	20,000	100.0	-	-
Cempaka Empayar Sdn. Bhd.	Malaysia	-	-	20,000 ⁽¹⁾	100.0
AmcorpGroup Berhad (formerly known as Arab- Malaysian Corporation Berhad)	Malaysia	-	-	20,000 ⁽²⁾	100.0
Tan Sri Dato' Azman Hashim	Malaysian	-	-	20,000 ⁽²⁾	100.0
Slan Sdn. Berhad	Malaysia	-	-	20,000 ⁽²⁾	100.0
Ginagini Sdn. Bhd.	Malaysia	-	-	20,000 ⁽²⁾	100.0

Notes:-

- (1) Deemed interest by virtue of Section 6(A)4 of the Companies Act, 1965 through shareholdings in RCE Capital Berhad.
- (2) Deemed interest by virtue of Section 6(A)4 of the Companies Act, 1965 through shareholdings in Cempaka Empayar Sdn. Bhd.

4. DIRECTORS AND THEIR SHAREHOLDINGS

The particulars of the Directors of RCEE and their respective shareholdings as at 30 November 2005 are as follows:

Name	No. of Shares held							
	Direct		Indirect					
	Ordinary shares	%	NRNCPS	%	Ordinary shares	%	NRNCPS	%
Shahman bin Azman	-	-	-	-	-	-	-	-
Loh Kam Chuin	-	-	-	-	-	-	-	-
Goh Jue Jin	-	-	-	-	10,000 ⁽¹⁾	12.5	-	-

Note:

(1) Deemed interest by virtue of Section 6(A)4 of the Companies Act, 1965 through shareholdings in Meridian Mode Sdn. Bhd.

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5. SUBSIDIARY COMPANIES AS AT 30 NOVEMBER 2005

Name	Date and Place Of Incorporation	Issue and Paid-Up Capital	Effective Equity Interest %	Principal Activities
RCE Marketing Sdn. Bhd.	16.11.1981/ Malaysia	8,000,000 ordinary shares of RM1.00 each 38,780,000 redeemable convertible non-cumulative preference shares of RM1.00 each	100	Provision of general loan financing services and trading in electrical home appliances, other consumer durable products mainly on hire-purchase terms
Indigenous Capital Sdn. Bhd.*	16.07.1991/ Malaysia	1,000,000 ordinary shares of RM1.00 each	100	Property investment and trading of securities
RCE Commerce Sdn. Bhd.* (formerly known as Rediffusion.Com Sdn. Bhd.)	28.01.1948/ Malaysia	9,500,000 ordinary shares of RM1.00 each	100	Provision of information technology and financial administrative services
RCE Management Sdn. Bhd.*	16.11.1981/ Malaysia	2 ordinary shares of RM1.00 each	100	Dormant
RCE Premier Sdn. Bhd.*	27.03.2004/ Malaysia	2 ordinary shares of RM1.00 each	100	A special purpose vehicle established to acquire a pool of eligible receivables from its immediate holding company and to issue private debt securities to fund the purchase of such receivables

Name	Date and Place Of Incorporation	Issue and Paid-Up Capital	Effective Equity Interest %	Principal Activities
RCE Premium Sdn. Bhd.* (formerly known as Pasti Sergap Sdn. Bhd.)	10.09.1994/ Malaysia	100 ordinary shares of RM1.00 each	100	Dormant
RCE Trading Sdn. Bhd.*	16.11.1981/ Malaysia	3,219,171 ordinary shares of RM1.00 each	100	Provision of financial administrative services
RCE Advance Sdn. Bhd.* (formerly known as Perfect Aspiration Sdn. Bhd.)	01.06.2005/ Malaysia	2 ordinary shares RM1.00 each	100	A special purpose vehicle established to acquire a pool of eligible receivables from its immediate holding company and to issue private debt securities to fund the purchase of such receivables
RCE Sales Sdn. Bhd.^	25.01.1977/ Malaysia	500,000 ordinary shares of RM1.00 each	100	Provision of financial administrative services
R&R Music Sdn. Bhd.^	30.03.1991/ Malaysia	25,000 ordinary shares of RM1.00 each	100	Dormant

Notes:

* Held indirectly through RCE Marketing Sdn. Bhd.

^ Held indirectly through RCE Trading Sdn. Bhd.

As at 30 November 2005, RCEE does not have any associated companies.

6. FINANCIAL INFORMATION OF RCEE GROUP

Details of the audited financial information of RCEE Group for the past five (5) financial period/years ended 31 March 2005 and the unaudited six (6) months period ended 30 September 2005 are as follows:

Financial Period/Year Ended 31 March	For the 16 months period ended 31 March 2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	Unaudited 6 months period ended 30 September 2005 RM'000
Revenue	-	-	-	-	20,442	22,638
Profit/(loss) before tax and exceptional items	(0.30)	(0.30)	(0.38)	(0.30)	6,515	12,636
Exceptional items	-	-	-	-	-	-
Profit/(loss) before tax	(0.30)	(0.30)	(0.38)	(0.30)	6,515	12,636
Tax	-	-	-	-	1,934	(2,528)
Profit/(loss) after tax and minority interest before extraordinary items	(0.30)	(0.30)	(0.38)	(0.30)	8,449	10,108
Extraordinary items	-	-	-	-	-	-
Profit after tax and extraordinary items	(0.30)	(0.30)	(0.38)	(0.30)	8,449	10,108
Earnings/(loss) per share (RM)	(150)	(150)	(190)	(150)	84.49	*202.16
Dividend rate	-	-	-	-	-	-

Notes:

* Annualised

- (i) RCEE is a dormant company for the FY 2001 to FY 2004. For the FY 2005, the revenue and PBT recorded by RCEE was the result of RCEE becoming an investment holding company of the RCEM Group since 21 October 2004 after the internal restructuring of the RCE Group.

7. AUDITED ACCOUNTS OF RCEE FOR THE FINANCIAL YEAR ENDED 31 MARCH 2005

Please refer to Appendix II attached.

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