

R&A TELECOMMUNICATION GROUP BERHAD (FORMERLY KNOWN AS KZEN SOLUTIONS BERHAD) ("R&A" OR THE "COMPANY")

- I. PROPOSED BONUS ISSUE OF 87,896,600 WARRANTS IN R&A ("WARRANT(S)") ON THE BASIS OF ONE (1) FREE WARRANT FOR EVERY TEN (10) EXISTING ORDINARY SHARES OF RM0.10 EACH IN R&A ("R&A SHARE(S)" OR "SHARE(S)") HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER ("PROPOSED BONUS ISSUE OF WARRANTS");**
- II. PROPOSED INCREASE IN THE AUTHORISED SHARE CAPITAL OF R&A FROM RM100,000,000 COMPRISING 1,000,000,000 R&A SHARES TO RM150,000,000 COMPRISING 1,500,000,000 R&A SHARES ("PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL"); AND**
- III. PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF R&A ("PROPOSED AMENDMENTS")**

(COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

1. INTRODUCTION

On behalf of the Board of Directors of R&A ("Board"), OSK Investment Bank Berhad ("OSK") wishes to announce that the Company proposes to undertake the following:-

- i. A bonus issue of 87,896,600 Warrants in R&A on the basis of one (1) free Warrant for every ten (10) existing R&A Shares held on an entitlement date to be determined later;
- ii. An increase in the authorised share capital of R&A from RM100,000,000 comprising 1,000,000,000 R&A Shares to RM150,000,000 comprising 1,500,000,000 R&A Shares; and
- iii. Amendments to the Memorandum and Articles of Association of R&A.

Further details of the Proposals are set out in the ensuing sections.

2. DETAILS OF THE PROPOSALS

2.1 Proposed Bonus Issue of Warrants

2.1.1 Basis and number of Warrants to be issued

The Proposed Bonus Issue of Warrants involves an issuance of 87,896,600 Warrants on the basis of one (1) free Warrant for every ten (10) existing R&A Shares held by the shareholders of R&A whose names appear in the Record of Depositors on an entitlement date to be determined later ("Entitlement Date").

Based on the issued and paid-up share capital of R&A as at 16 December 2011 (being the latest practicable date prior to the date of this announcement) of RM87,896,600 comprising 878,966,000 R&A Shares, a total of 87,896,600 free Warrants will be issued pursuant to the Proposed Bonus Issue of Warrants.

Fractions of entitlements arising from the Proposed Bonus Issue of Warrants, if any, shall be dealt with by the Board in such manner at their absolute discretion as they may deem fit and expedient and in the best interest of the Company.

The Proposed Bonus Issue of Warrants will not be implemented in stages over a period of time.

2.1.2 Ranking of the Warrants and new R&A Shares which may arise from the exercise of the Warrants

The holders of the Warrants will not be entitled to any voting right or participation in any form of distribution and/ or offer of further securities in R&A until and unless such holders of the Warrants exercise their Warrants into new R&A Shares.

The new R&A Shares to be issued which may arise from the exercise of the Warrants will, upon allotment and issuance, rank *pari passu* in all aspects with the then existing R&A Shares, save and except that the new R&A Shares shall not be entitled to any dividends, rights, allotment and/ or other forms of distribution ("Distribution") that may be declared, made or paid for which the entitlement date for the Distribution precedes the date of allotment and issuance of the new R&A Shares which may arise from the exercise of the Warrants. The new R&A Shares will be subject to all provisions of the Memorandum and Articles of Association of R&A and such amendments thereafter, if any.

2.1.3 Listing and quotation for the Warrants and new R&A Shares which may arise from the exercise of the Warrants

An application will be made for the admission of the Warrants to the official list of Bursa Malaysia Securities Berhad ("Bursa Securities") as well as for the listing of and quotation for the Warrants and the new R&A Shares to be issued which may arise from the exercise of the Warrants on the ACE Market of Bursa Securities.

2.1.4 Basis of determining the issue price and exercise price of the Warrants

The Warrants will be issued at no cost to the shareholders of R&A.

The exercise price of the Warrants shall be determined and fixed by the Board at a later date after receipt of all relevant approvals but before the Entitlement Date.

For illustrative purposes only, the indicative exercise price of the Warrants is assumed at RM0.15 per Warrant, which represents a premium of approximately 25.0% to the five (5)-day weighted average market price ("WAMP") of R&A Shares up to and including 16 December 2011 of RM0.12 per R&A Share.

The final exercise price of the Warrants shall be determined and fixed by the Board, after taking into consideration, amongst others, the following:-

- i. The historical price movement of R&A Shares;
- ii. The potential future earnings of R&A and its subsidiaries ("R&A Group" or "Group"); and
- iii. That the Warrants will be issued at no cost to the entitled shareholders of the Company.

2.1.5 Utilisation of proceeds

The Proposed Bonus Issue of Warrants is not expected to raise any funds as the Warrants will be issued at no cost to the entitled shareholders of R&A. However, the exact quantum of proceeds that may be raised by R&A pursuant to the exercise of the Warrants would depend upon the actual number of Warrants issued and exercised during the tenure of the Warrants. Assuming full exercise of the Warrants, the maximum proceeds to be raised by the Company is approximately RM13.18 million based on the indicative exercise price of RM0.15 per Warrant.

The proceeds arising from the exercise of the Warrants shall be utilised for the working capital requirements of R&A Group, as and when the Warrants are exercised, within the tenure of the Warrants. As such, the exact timeframe for utilisation of the proceeds is not determinable at this juncture.

The proceeds to be utilised for working capital will be used to finance the Group's day to day operations. These expenses include, amongst others, purchase of raw materials, salary, repayment of creditors and general expenses such as travelling, utilities, staff training and staff welfare. The proceeds raised is expected to improve the Group's cash flow and to fund its operating expenses.

2.1.6 Indicative salient terms of the Warrants

The indicative salient terms of the Warrants are set out below:-

Issue size	:	87,896,600 Warrants
Form	:	The Warrants will be issued in registered form and constituted by a deed poll to be executed by the Company ("Deed Poll")
Exercise period	:	The Warrants may be exercised at any time within five (5) years commencing on and including the date of issuance of the Warrants. Warrants not exercised during the exercise period will thereafter lapse and cease to be valid
Exercise price	:	The exercise price of the Warrants shall be determined and fixed by the Board at a later date after receipt of all relevant approvals but before the Entitlement Date
Exercise rights	:	Each Warrant carries the entitlement, at any time during the exercise period, to subscribe for one (1) new R&A Share at the exercise price, subject to adjustments in accordance with the provisions of the Deed Poll
Board lot	:	For the purpose of trading on Bursa Securities, one (1) board lot of Warrants shall comprise 100 Warrants carrying the right to subscribe for 100 new R&A Shares at any time during the exercise period, or such other denomination as determined by Bursa Securities

Adjustments in the exercise price and/ or number of Warrants : The exercise price and/ or number of unexercised Warrants shall be adjusted in the event of alteration to the share capital of the Company, capital distribution or issue of shares in accordance with the provisions of the Deed Poll

2.2 Proposed Increase in Authorised Share Capital

The Proposed Increase in Authorised Share Capital involves the increase in the authorised share capital of the Company from RM100,000,000 comprising 1,000,000,000 R&A Shares to RM150,000,000 comprising 1,500,000,000 R&A Shares by creation of an additional 500,000,000 new R&A Shares to facilitate the issuance of new R&A Shares which may arise from the exercise of the Warrants pursuant to the Proposed Bonus Issue of Warrants, as well as to cater for any future increases in the share capital of the Company.

2.3 Proposed Amendments

The Proposed Amendments involves the consequential amendments to the Memorandum and Articles of Association of R&A to facilitate the implementation of the Proposed Increase in Authorised Share Capital.

3. RATIONALE AND JUSTIFICATION FOR THE PROPOSALS

3.1 Proposed Bonus Issue of Warrants

After due consideration, the Board is of the view that the Proposed Bonus Issue of Warrants is the most appropriate avenue for rewarding the existing shareholders of the Company while potentially enhancing the Company's capital base as the Proposed Bonus Issue of Warrants shall:-

- i. Aim to reward the existing shareholders of the Company for their support by enabling them to participate in a derivative of the Company without incurring any cost;
- ii. Allow the existing shareholders of the Company to further participate in the future growth of the Company and any potential capital appreciation arising thereof as and when the Warrants are exercised; and
- iii. Help to strengthen the capital base and market capitalisation of the Company as and when the Warrants are exercised during the tenure of the Warrants, and potentially provide additional working capital to R&A Group as and when the Warrants are exercised.

3.2 Proposed Increase in Authorised Share Capital

The Proposed Increase in Authorised Share Capital is undertaken to accommodate the increase in the issued and paid-up share capital of R&A pursuant to the Proposed Bonus Issue of Warrants and any other future corporate exercises.

3.3 Proposed Amendments

The Proposed Amendments is undertaken to facilitate the implementation of the Proposed Increase in Authorised Share Capital.

4. FINANCIAL EFFECTS OF THE PROPOSALS

The Proposed Increase in Authorised Share Capital and Proposed Amendments will not have any material effect on the issued and paid-up share capital and substantial shareholders' shareholdings of the Company, the net assets ("NA") and gearing of R&A Group, and the earnings and earnings per Share ("EPS") of the Group.

The effects of the Proposed Bonus Issue of Warrants are set out below:-

4.1 Issued and paid-up share capital

The proforma effects of the Proposed Bonus Issue of Warrants on the issued and paid-up share capital of the Company are set out below:-

	No. of Shares	RM
Issued and paid-up share capital as at 16 December 2011	878,966,000	87,896,600
Shares to be issued assuming full exercise of the Warrants	87,896,600	8,789,660
Enlarged issued and paid-up share capital	966,862,600	96,686,260

4.2 NA per Share and gearing

R&A Group is an enlarged entity after the completion of the acquisition by KZen Solutions Berhad ("KZen") of the entire issued and paid-up share capital of R&A Telecommunication Sdn Bhd. The effects of the acquisition, offer for sale and private placement, as set out in the circular to shareholders of KZen dated 20 May 2011 ("Circular dated 20 May 2011"), was not reflected in the annual report of KZen for the financial year ended 31 December 2010.

Based on the proforma consolidated statements of financial position of R&A Group as at 31 December 2010, as disclosed in the Circular dated 20 May 2011, and adjusted as at 30 September 2011, the proforma effects of the Proposed Bonus Issue of Warrants on the NA per Share and gearing of the Group are set out below:-

	I	II
	After the Proposed Bonus Issue of Warrants RM'000	After I and assuming full exercise of the Warrants RM'000
	Proforma as at 31 December 2010 and adjusted as at 30 September 2011 ^{*1} RM'000	
Share capital	87,897 ^{*1}	96,686
Share premium	4,084 ^{*1}	8,324 ^{*4}
Consolidation reserves	(1,349)	(1,349)
Employees' share option scheme ("ESOS") reserves	-	-
Warrants reserves	3,639 ^{*3}	-
(Accumulated losses)	(4,385)	(4,385)
Shareholders' funds/ NA	86,247	99,276
Number of Shares outstanding ('000)	878,966	966,863
NA per Share (RM)	0.10	0.10
Total borrowings (RM'000)	18,669	18,669
Gearing ratio (times)	0.22	0.19

Notes:-

- ^{*1} *The proforma figures were derived based on the Group's statements of financial position as at 31 December 2010, adjusted for the acquisition, offer for sale and private placement, as set out in the Circular dated 20 May 2011, and adjusted for the share capital, share premium and ESOS reserves as at 30 September 2011 based on the latest unaudited quarterly report of the Group for the financial period ended 30 September 2011*
- ^{*2} *After deducting estimated expenses of RM155,000 incurred in relation to the Proposals and adjusting for the theoretical fair value of RM0.0414 per Warrant, which was arrived at using the Black Scholes option pricing model*
- ^{*3} *Computed based on the theoretical fair value of RM0.0414 per Warrant and based on 87,896,600 Warrants to be issued*
- ^{*4} *Consists of the transfer of approximately RM3.64 million from the Warrants reserves account to the share premium account and the increase in share premium of approximately RM4.39 million pursuant to the indicative exercise price of the Warrants at RM0.15 per Warrant*

4.3 Earnings and EPS

The Proposed Bonus Issue of Warrants is not expected to have any material effect on the earnings of R&A Group for the financial year ending 31 December 2011. However, as and when the Warrants are exercised into new R&A Shares, it will result in a corresponding reduction in the EPS of R&A Group due to the increase in the number of R&A Shares issued.

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4.4 Substantial shareholding structure

The proforma effects of the Proposed Bonus Issue of Warrants on the shareholdings of the substantial shareholders of the Company are set out below:-

Substantial shareholders	Shareholdings as at 16 December 2011				I After the Proposed Bonus Issue of Warrants				II After I and assuming full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Francis Tan Hock Leong	337,822,053	38.14	60,203,338 ^{*1}	6.80	337,822,053	38.14	60,203,338 ^{*1}	6.80	371,604,258	38.14	66,223,672 ^{*1}	6.80
Cheok Chun Lian	60,203,338	6.80	337,822,053 ^{*2}	38.14	60,203,338	6.80	337,822,053 ^{*2}	38.14	66,223,672	6.80	371,604,258 ^{*2}	38.14
Ruslan Bin Rawi	195,274,609	22.05	-	-	195,274,609	22.05	-	-	214,802,070	22.05	-	-

Notes:-

^{*1} Deemed interested by virtue of his spouse's shareholdings pursuant to Section 134(12)(c) of the Companies Act, 1965 ("Act")

^{*2} Deemed interested by virtue of her spouse's shareholdings pursuant to Section 6A of the Act

4.5 Convertible securities

As at the date of this announcement, the Company does not have any existing convertible securities.

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5. APPROVALS REQUIRED

The Proposals are subject to the following approvals:-

- i. Bursa Securities, for the following:-
 - (a) the admission of the Warrants to the official list of Bursa Securities;
 - (b) the listing of and quotation for the Warrants and the new R&A Shares to be issued which may arise from the exercise of the Warrants on the ACE Market of Bursa Securities;
- ii. Controller of Foreign Exchange (via Bank Negara Malaysia) for the allotment and issuance of the Warrants to the non-resident shareholders of R&A, if any;
- iii. the shareholders of R&A, for the Proposals at an extraordinary general meeting of the Company to be convened; and
- iv. any other relevant authority, if required.

The Proposed Bonus Issue of Warrants, Proposed Increase in Authorised Share Capital and Proposed Amendments are inter-conditional upon each other. However, the Proposals are not conditional upon any other proposals undertaken or to be undertaken by the Company.

6. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/ OR PERSONS CONNECTED TO THEM

None of the Directors, major shareholders of R&A and/ or persons connected to them have any interest, either direct or indirect, in the Proposals, apart from their respective entitlements as shareholders of the Company under the Proposed Bonus Issue of Warrants, the rights of which are also available to all other existing shareholders of the Company as at the Entitlement Date.

7. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposals, is of the opinion that the Proposals are in the best interest of the Company.

8. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposals are expected to be completed by the first quarter of 2012.

9. APPLICATION TO THE AUTHORITIES

The application to the relevant authorities for the Proposals shall be made within two (2) months from the date of this announcement.

10. ADVISER AND SPONSOR

OSK has been appointed as the Adviser for the Proposals. OSK is also the Sponsor of R&A.

This announcement is dated 20 December 2011.