

ENCORP BERHAD (“ENCORP” OR THE “COMPANY”)

PROPOSED PRIVATE PLACEMENT OF UP TO 30,608,821 NEW ORDINARY SHARES IN ENCORP REPRESENTING UP TO 10% OF THE TOTAL NUMBER OF ISSUED SHARES OF ENCORP (EXCLUDING TREASURY SHARES) (“PROPOSED PLACEMENT”)

1. INTRODUCTION

On behalf of the Board of Directors of Encorp (“**Board**”), MIDF Amanah Investment Bank Berhad (“**MIDF Investment**”) is pleased to announce that the Company proposes to undertake the Proposed Placement.

The Company had on 28 August 2020, announced that Encorp is still not in compliance with the public shareholding spread requirement pursuant to Paragraph 8.02(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) (“**Listing Requirements**”) with public shareholding spread of 22.50%. The Company had obtained several extensions from Bursa Securities to comply with the public shareholding spread requirement and Bursa Securities had granted its approval for a further extension of time until 9 October 2020 to comply with the public shareholding spread requirement. As such, the Company proposes to undertake the Proposed Placement as a measure to address the shortfall in the public shareholding spread.

Further details of the Proposed Placement are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED PLACEMENT

The Proposed Placement would entail the issuance of up to 30,608,821 new ordinary shares in Encorp (“**Encorp Shares**”) (“**Placement Shares**”), representing up to 10% of the Company’s total number of issued shares, at an issue price to be determined and announced later.

The number of 30,608,821 Placement Shares was arrived at after taking into consideration the existing number of issued shares of the Company of 306,088,217 Encorp Shares (excluding 386,000 treasury shares) as at 22 September 2020, being the latest practicable date prior to the date of this announcement (“**LPD**”).

The Board is of the view that the treasury shares retained by the Company are not likely to be resold prior to the implementation of the Proposed Placement in view that the current market price of Encorp Shares is lower than the carrying value of the treasury shares as at the LPD of RM0.846 per Encorp Share.

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The Company intends to place out the Placement Shares to third party investors to be identified at a later date under the general mandate approved by the shareholders of Encorp at the Company's 20th Annual General Meeting ("**AGM**") convened on 23 September 2020 ("**General Mandate**"). The General Mandate, which is valid until the next AGM, empowers the Board to allot and issue new Encorp Shares at any time upon such terms and conditions and for such purposes as the Board may, in its absolute discretion, deem fit provided that the aggregate number of Encorp Shares to be issued pursuant to the General Mandate does not exceed 10% of the issued and paid-up share capital of the Company.

2.1 Placement arrangement

The Placement Shares are intended to be placed out to third party investors to be identified at a later date who qualify under Schedules 6 and 7 of the Capital Markets and Services Act, 2007.

Additionally, the Placement Shares are not intended to be placed out to the following parties:

- (i) the director, major shareholder, chief executive of Encorp or interested person connected with a director, major shareholder or chief executive of Encorp; and
- (ii) nominee corporations, unless the names of the ultimate beneficiaries are disclosed.

The Proposed Placement may be implemented in tranches within 6 months from the date of approval by Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the Proposed Placement or any extended period as may be approved by Bursa Securities, subject to the prevailing market conditions and validity of the existing General Mandate or a new mandate being obtained from shareholders of Encorp, as the case may be.

The final issue price for each tranche of the Placement Shares shall be determined separately in accordance with market-based principles.

2.2 Basis and justification of arriving at the issue price of the Placement Shares

The issue price of each tranche of the Placement Shares, where applicable, shall be determined separately and fixed by the Board and announced at a later date following the receipt of all relevant approvals for the Proposed Placement ("**Price-Fixing Date**") based on the volume weighted average market price ("**VWAP**") of Encorp Shares for the 5 market days immediately prior to the Price-Fixing Date, with a discount of not more than 10%.

For illustrative purposes, the 5-day VWAP of Encorp Shares up to and including the LPD is RM0.19 per Encorp Share. The illustrative issue price of RM0.18 per Placement Share represents a discount of not more than 10% to the 5-day VWAP of Encorp Shares.

2.3 Ranking of the Placement Shares

The Placement Shares shall, upon allotment and issue, rank pari passu in all respects with the existing Encorp Shares, save and except that the holder(s) of the Placement Shares will not be entitled to any dividends, rights, allotments and/or any other distributions that may be declared, made or paid to shareholders, whereby the entitlement date of which is prior to the date of allotment of the Placement Shares, as the case may be.

2.4 Listing of and quotation for the Placement Shares

An application will be made to Bursa Securities for the listing of and quotation for the Placement Shares to be issued pursuant to the Proposed Placement on the Main Market of Bursa Securities.

2.5 Utilisation of proceeds

The quantum of proceeds to be raised by the Company pursuant to the Proposed Placement would depend on the actual number and issue price of the Placement Shares.

For illustrative purposes, assuming the Placement Shares are placed out at the indicative issue price of RM0.18, the Company is expected to raise approximately RM5.510 million. The proceeds raised is proposed to be utilised in the manner set out below:

Proposed utilisation of proceeds	Notes	RM'000	Estimated timeframe for utilisation*
Expenses for business growth activities	(a)	1,500	Within 12 months
Working capital	(b)	3,760	Within 12 months
Estimated expenses in relation to the Proposed Placement	(c)	250	Within 6 month
Total estimated proceeds		5,510	

Notes:

* From the date of completion of the Proposed Placement

- (a) Encorp may from time to time identify and evaluate investment opportunities, with a view to strengthen and grow its business. Hence, the Company may utilise the proceeds to fund their future developments and/or investments. This includes, but not limited to, preliminary expenses such as tender fees, architect fees and other planning fees. In the event that no suitable developments and/or investments are identified by Encorp and its subsidiaries ("Encorp Group"), the entire amount will be utilised for working capital purposes of the Encorp Group.
- (b) The proceeds allocated for working capital requirements are to fund the Group's day-to-day operations which include, but not limited to, promotional and marketing expenses for property development projects, rebranding and marketing for Encorp Strand Mall, staff-related costs, professional fees such as audit, tax, etc, as well as administrative expenses for the business operations of Encorp Group such as utilities, maintenance expenses, communication expenses, rental expenses, etc.
- (c) The estimated expenses relating to the Proposed Placement comprises of professional fees, placement fees, fees payable to authorities and other incidental expenses in connection with the Proposed Placement. Any shortfall or excess in funds allocated for estimated expenses will be funded from or used for the general working capital of the Encorp Group.

The actual proceeds to be raised from the Proposed Placement is dependent on the issue price and actual number of Placement Shares to be issued. Any variation between the proposed and actual net proceeds raised from the Proposed Placement will be adjusted against the amount allocated for working capital.

Pending utilisation of the net proceeds from the Proposed Placement, such net proceeds may be placed in interest bearing deposit account(s) with financial institutions or investments in short-term money market instruments and/or debt instruments as the Board may deem fit in the interest of the Company. The interest derived from the deposits with financial institutions or any gains arising from the short-term money market instruments and/or debt instruments will be used as additional working capital of the Encorp Group.

3. RATIONALE FOR THE PROPOSED PLACEMENT

The Company had on 28 August 2020, announced that Encorp is still not in compliance with the public shareholding spread requirement pursuant to Paragraph 8.02(1) of the Listing Requirements with public shareholding spread of 22.50%.

As such, the Proposed Placement is to be implemented primarily for the Company to increase its public shareholding spread.

The Proposed Placement will also enable the Company to raise the funds to further expand its existing operations without incurring interest costs as compared to other means of financing such as through bank borrowings or the issuance of debt instruments.

For information, Encorp has not undertaken any equity fundraising exercise in the past 12 months prior to this announcement.

4. INDUSTRY OVERVIEW AND OUTLOOK AND PROSPECTS OF ENCORP GROUP

4.1 Overview and outlook of the global economy

The global economy contracted in the second quarter ("2Q") of 2020. As the number of COVID-19 cases continued to rise, nationwide lockdowns and travel restrictions were implemented across major advanced and emerging economies. This significantly disrupted production activity, which resulted in a marked deterioration in labour market conditions and private sector expenditure.

In the United States, private consumption slowed sharply despite the large fiscal support from government transfers, while investment activity moderated amid heightened risk aversion and weaker demand conditions. In the euro area, output declined due to production disruptions and widespread lockdowns for most of the quarter. Similarly, economic activity in most emerging markets and developing economies moderated considerably from the adverse economic implications of lockdown measures.

In contrast, the People's Republic of China ("PRC") recorded positive growth of 3.2% in 2Q 2020. As COVID-19 cases declined following an aggressive lockdown in the first quarter ("1Q") of 2020, it was able to ease containment measures. A rebound in industrial activity and large government support through public investments resulted in the economy recording positive growth after contracting in 1Q 2020. Nevertheless, many services sectors, such as retail and tourism, remained weak as private consumption remain depressed.

Production restrictions and muted demand conditions resulted in a marked slowdown in exports. The Philippines and Korea, whose exports declined by -29.5% and -20.3%, respectively, were significantly affected. Other regional economies such as Singapore, Thailand and Indonesia also recorded weaker export growth. PRC was the only exception to this falling trend as its exports registered a marginal positive growth of 0.1%.

The International Monetary Fund revised down its projection of global growth in 2020 to -4.9% in June 2020 from its earlier estimate of -3.0% in April 2020. The slowdown in economic conditions from the containment measures and weakness in labour market conditions were deeper than expected. Although growth is expected to recover in 2021, this is conditional on the effective curbing of the COVID-19 pandemic by the end of 2020.

The projected growth contraction in 2020 across the advanced and emerging economies is expected to be deeper compared to the Global Financial Crisis 2007-2008. Overall, consumption and services output are expected to decline, as restricted mobility hampers retail sales, tourism and recreation, and transportation. Private sector expenditure and external demand conditions will remain muted as labour market weaknesses persist. Nevertheless, proactive government stimulus measures are a key support to growth, and the gradual re-opening of economic sectors will reduce the degree of the contraction.

Downside risks to global growth remain elevated. A resurgence in COVID-19 cases could necessitate economies to reinstate lockdown measures, which will further dampen growth prospects. This will also accentuate the volatility of capital flows in vulnerable emerging markets and developing economies and could trigger an unwinding of external sector imbalances.

(Source: Economic and Financial Developments in the Malaysian Economy in 2Q 2020, Bank Negara Malaysia)

4.2 Overview and outlook of the Malaysian economy

The Malaysian economy was confronted by concurrent supply and demand shocks arising from weak external demand conditions and strict containment measures in 2Q 2020. As a result, the economy registered its first contraction since the Global Financial Crisis 2007-2008 (2Q 2020: -17.1%; 3Q 2009: -1.1%). On the supply side, this was reflected in negative growth across most sectors. From the expenditure side, domestic demand declined, while exports of goods and services registered a sharper contraction. On a quarter-on-quarter seasonally adjusted basis, the economy declined by 16.5% (1Q 2020: -2.0%).

Weak growth was recorded across most economic sectors amid the imposition of the Movement Control Order ("MCO"), followed by the Conditional MCO and Recovery MCO, during 2Q 2020.

Domestic demand declined by 18.7% in 2Q 2020 (1Q 2020: 3.7%), due mainly to weaker private sector expenditure. Spending by the private sector was impacted by lower income, movement restrictions and subdued consumer and business sentiments. While net exports continued to decline, the contribution of the external sector to the economy improved due mainly to the larger contraction in imports vis-à-vis the previous quarter.

Moving forward, while initial concerns are beginning to dissipate, the outlook would still depend on evolving COVID-19 developments and the pace of economic recovery. The improvement in growth in the second half of 2020 is expected to be supported by the recovery in global growth and continued policy support. In particular, consumption and investment activities are expected to benefit from the wide range of measures in the fiscal stimulus packages, continued financial measures and low interest environment. While there is upside potential to growth, the pace and strength of the recovery remain susceptible to downside risks emanating from domestic and external factors. Growth could potentially be lifted by a larger-than-expected impact from stimulus measures. Nevertheless, the prospect of secondary COVID-19 outbreaks leading to the re-imposition of containment measures, more persistent weakness in labour market conditions, and a weaker-than-expected recovery in global growth pose downside risks to growth.

(Source: Economic and Financial Developments in the Malaysian Economy in 2Q 2020, Bank Negara Malaysia)

4.3 Overview and outlook of the property industry

The construction sector decreased significantly by 44.5% following contraction in all subsectors: civil engineering (-59.4%), residential buildings (-39.2%), non-residential buildings (-36.8%) and special trade activities (-29.8%).

(Source: Malaysian Economy Second Quarter 2020, Ministry of Finance Malaysia)

Activity in the construction sector declined by 44.5% (1Q 2020: -7.9%), as almost all activities came to a standstill particularly in the month of April 2020. Despite the partial reopening of the economy on 4 May 2020, most construction sites faced challenges restarting due to adjustments required to comply with the strict COVID-19 Standard Operating Procedures ("SOPs"). Most of the construction sites were reported to remain idle as developers faced challenges to restart, including financial constraints, initial lack of clarity over the SOPs and COVID-19 testing, and disruptions in the supply of construction materials. However, the situation improved towards the end of 2Q 2020 after the Government implemented additional measures to facilitate the revival of the economy.

(Source: Economic and Financial Developments in the Malaysian Economy in 2Q 2020, Bank Negara Malaysia)

4.4 Prospects of Encorp Group

In view that the property and retail sectors remain challenging due to declining global economic growth, which is further worsened by the outbreak of Covid-19, Encorp remains steadfastly committed to maintain focus on its strategy to strengthen its financial resilience. The Company's efforts to ensure robust business fundamentals will be borne through initiatives aimed at strengthening its balance sheet, continuous improvement of operational efficiency, improvement of financial health position by strengthening its cash flow and rebranding of the Encorp Strand Mall.

Further, Encorp will continue to explore business opportunities in property development, as well as potential landbanks in strategic locations suitable for development in the medium to long-term future by leveraging on Encorp's relationship with Felda Investment Corporation Sdn Bhd ("FIC") and Federal Land Development Authority ("FELDA").

The Encorp Group shall continue to develop and introduce attractive pricing strategies and aggressive marketing activities to improve sales of units from projects that have been launched, specifically the landed residential units at the Encorp Cahaya Alam in Shah Alam. The accessibility to the township has been improved upon the completion of several developments in the surrounding area.

In addition, Encorp will also be driving the leasing of retail space at Encorp Strand Mall. Encorp's plans are focused on intensifying marketing efforts and strengthening leasing activities in order to improve Encorp Strand Mall's occupancy rate, as well as footfall. Encorp's key strategy is to effect the transformation and rebranding of the mall, by repositioning it in line with changes in consumer preferences to unlock greater value.

The Board remain optimistic that Encorp's prudent and focused approach will result in long-term sustainable business growth.

(Source: Management of Encorp)

5. EFFECT OF THE PROPOSED PLACEMENT

The effects of the Proposed Placement on the issued share capital of the Company, net assets ("NA"), gearing, earnings and substantial shareholders shareholdings are set out in the following sections:

5.1 Issued share capital

As at the LPD, the proforma effects of the Proposed Placement on the total number of issued shares of Encorp are as follows:

	No. of shares ('000)	RM'000
Existing share capital as at the LPD (including treasury shares)	⁽¹⁾ 306,474	397,280
To be issued pursuant to the Proposed Placement	30,609	⁽²⁾ 5,510
Enlarged share capital	337,083	402,790

Note:

⁽¹⁾ Including 386,000 treasury shares.

⁽²⁾ Based on the indicative issue price of RM0.18 per Placement Share.

5.2 NA, NA per Encorp Share and gearing

For illustrative purposes, the pro forma effects of the Proposed Placement on the consolidated NA, NA per Encorp Share and gearing of the Encorp Group based on the latest audited consolidated statement of financial position of Encorp Group as at 31 December 2019:

	Audited as at 31 December 2019	After the Proposed Placement
	RM'000	RM'000
Share capital	397,280	402,790
Share premium	-	-
Treasury shares	(327)	(327)
Foreign currency translation reserve	2,902	2,902
Retained losses	(53,966)	⁽¹⁾ (54,216)
Total equity attributable to owners of Encorp	345,889	351,149
Number of Encorp Shares in issue (excluding treasury shares) ('000)	306,088	336,697
NA per Encorp Share (RM)	1.13	1.04
Total borrowings (RM'000)	900,067	900,067
Gearing (times)	2.60	2.56

Note:

⁽¹⁾ After deducting the estimated expenses relating to the Proposed Placement of approximately RM250,000.

5.3 Earnings and earnings per Encorp Share ("EPS")

The effect of the Proposed Placement on the future earnings and EPS of Encorp cannot be ascertained at this juncture as it would depend on, among others, the actual issue price of the Placement Shares and the future earnings of Encorp.

The Proposed Placement is expected to be completed by the 1st quarter of 2021 and is not expected to have any immediate material effect on consolidated earnings of Encorp for the financial year ending 31 December 2020, save for the dilution in the EPS as a result of the increase in the number of Encorp Shares to be issued pursuant to the Proposed Placement. Nevertheless, barring any unforeseen circumstances, the Proposed Placement is expected to contribute positively to the future earnings of the Group as and when the benefits from the utilization of proceeds are realised.

5.4 Convertible securities

As at the LPD, Encorp does not have any existing options, warrants or convertible securities.

5.5 Substantial shareholders' shareholdings

The pro forma effects of the Proposed Placement on the substantial shareholders' shareholdings as at the LPD are set out below:

Shareholders	As at the LPD				After the Proposed Placement			
	Direct		Indirect		Direct		Indirect	
	No. of Encorp Shares	% ⁽¹⁾	No. of Encorp Shares	% ⁽¹⁾	No. of Encorp Shares	% ⁽¹⁾	No. of Encorp Shares	% ⁽¹⁾
FIC	197,069	64.38	-	-	197,069	58.53	-	-
FELDA	-	-	⁽²⁾ 197,069	64.38	-	-	⁽²⁾ 197,069	58.53
Anjakan Masyhur Sdn. Bhd.	40,000	13.07	-	-	40,000	11.88	-	-
Azhar bin Mohd Awal	-	-	⁽³⁾ 40,000	13.07	-	-	⁽³⁾ 40,000	11.88
Azman Hanafi bin Abdullah	-	-	⁽³⁾ 40,000	13.07	-	-	⁽³⁾ 40,000	11.88

Notes:

⁽¹⁾ Excluding 386,000 treasury shares.

⁽²⁾ Deemed interest through Felda Investment Corporation Sdn. Bhd. pursuant to Section 8 of the Companies Act, 2016 ("**Act**").

⁽³⁾ Deemed interest by virtue of their substantial shareholdings in Anjakan Masyhur Sdn. Bhd.

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6. APPROVALS REQUIRED AND TIMEFRAME FOR SUBMISSION TO THE RELEVANT AUTHORITIES

The Proposed Placement is subject to the approvals being obtained from the following:

- (i) Bursa Securities for the listing of and quotation for the Placement Shares to be issued pursuant to the Proposed Placement on the Main Market of Bursa Securities; and
- (ii) any other relevant authorities and/or parties, if required.

Barring unforeseen circumstances, the application to Bursa Securities for the Proposed Placement is expected to be made within 2 months from the date of this announcement.

Approval has been obtained from the shareholders of Encorp at the AGM convened on 23 September 2020 pursuant to Sections 75 and 76 of the Act that authorizes the Board to issue new Encorp Shares from time to time upon such terms and conditions and for such purposes as the Board may deem fit provided that the aggregate number of Encorp Shares to be issued does not exceed 10% of the total number of issued shares of Encorp. The said approval is valid until the conclusion of the next AGM of Encorp, unless revoked or varied by the Company at a general meeting.

In the event that the Proposed Placement is not completed by the time of the Company's next AGM, the Company will procure the approval of its shareholders for a new general mandate pursuant to Sections 75 and 76 of the Act.

The Proposed Placement is not conditional upon any other corporate exercise undertaken or to be undertaken by the Company.

7. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND PERSONS CONNECTED

None of the Directors, major shareholders, chief executive of Encorp or persons connected to them have any interest, direct or indirect, in the Proposed Placement.

8. DIRECTORS' STATEMENT

After having considered all aspects of the Proposed Placement, the Board is of the opinion that the Proposed Placement is in the best interests of the Company and its shareholders.

9. ESTIMATED TIMEFRAME FOR COMPLETION

Subject to the relevant approvals being obtained and barring any unforeseen circumstances, the Proposed Placement is expected to be completed by the 1st quarter of 2021.

10. ADVISER AND PLACEMENT AGENT

The Board has appointed MIDF Investment as the Adviser and Placement Agent to Encorp in relation to the Proposed Placement.

This announcement is dated 23 September 2020.