

## 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”)

*(Unless otherwise stated, all abbreviations used herein shall have the same meaning as those mentioned in the Company’s announcement dated 23 September 2020 in relation to the Proposed Placement (“Announcement”))*

Reference is made to the announcements dated 23 September 2020 and 24 September 2020 in relation to the Proposed Placement.

Pursuant thereto, on behalf of the Board of Directors of Encorp, MIDF Investment wishes to announce the following additional information in relation to the Proposed Placement:

#### 1. Current financial performance and financial position of the Encorp Group

The financial summary of the Encorp Group based on the audited consolidated results for the past 3 financial years up to the financial year ended (“FYE”) 31 December 2019 and the unaudited results for the financial period ended (“FPE”) 30 June 2020 is set out below:

	Audited FYE 31 December			Unaudited	
	2017	2018	2019	6-month period ended 30 June 2019	6-month period ended 30 June 2020
	RM’000	RM’000	RM’000	RM’000	RM’000
Revenue	242,818	249,858	165,619	63,327	51,877
Cost of sales	(136,118)	(109,435)	(58,135)	(17,902)	(13,960)
<b>Gross profit (“GP”)</b>	<b>106,700</b>	<b>140,423</b>	<b>107,484</b>	<b>45,425</b>	<b>37,917</b>
Other operating income	16,499	9,875	11,822	4,390	5,361
Selling and marketing expenses	(2,229)	(1,992)	(1,206)	(1,139)	(383)
Administrative expenses	(47,067)	(30,446)	(17,099)	(12,168)	(7,370)
Finance costs	(98,140)	(98,818)	(127,004)	(48,230)	(58,654)
Other operating expenses	(12,860)	(17,043)	(9,094)	(383)	(1,232)
(Loss)/Profit before tax	(37,097)	1,999	(35,097)	(12,105)	(24,361)
Income tax (expense)/credit	(1,977)	(13,472)	(6,728)	(456)	(881)
<b>Loss for the year</b>	<b>(39,074)</b>	<b>(11,473)</b>	<b>(41,825)</b>	<b>(12,561)</b>	<b>(25,242)</b>
PAT / (LAT) attributable to:					
- owners of the Company	(34,610)	(7,471)	(46,397)	(13,551)	(23,660)
- non-controlling interests	(4,464)	(4,002)	4,572	990	(1,582)
GP margin (%)	43.94	56.20	64.90	71.73	73.09
PAT / (LAT) margin (%)	(16.09)	(4.59)	(25.25)	(19.84)	(48.66)
Weighted average number of Encorp Shares in issue (‘000)	283,042	293,566	306,088	306,088	306,088
EPS / (Loss per Share) (sen)	(12.23)	(2.54)	(15.16)	(4.43)	(7.73)

Commentaries on the financial performance and financial position of Encorp Group are as follows:

(i) **FYE 2018 vs FYE 2017**

The revenue of the Encorp Group increased by 3% from RM242.8 million in FYE 2017 to RM249.9 million in FYE 2018 mainly due to the revenue recognition from the completion of Encorp Marina Puteri Harbour Project and the revenue contribution from higher sales recorded from the launch of Dahlia Project in Encorp Cahaya Alam.

Accordingly, gross profit of the Encorp Group increased 32% from RM106.7 million FYE 2017 to RM140.4 million FYE 2018 resulting in lower losses for the year of RM11.5 million in FYE 2018 compared to loss for the year of RM39.0 million in FYE 2017.

Other than the improvement in the revenue for the property division, the improvement in financial results in FYE 2018 is mainly due to:

- (a) decrease in the provision in liquidated and ascertained damages from RM45.8 million in the FYE 2017 to RM3 million in the FYE 2018; and
- (b) Lower impairment in land held for development of RM2.6 million in the FYE2018 as compared to RM6.6 million in the FYE 2017.

(ii) **FYE 2019 vs FYE 2018**

Encorp Group's revenue decreased by 34% from RM249.9 million in FYE 2018 to RM165.6 million in FYE 2019, mainly due to the decrease in contribution from the property development and facility management segments.

Property development segment reported a 46% reduction in revenue of RM80.9 million in FYE 2019 compared to RM150.1 million in FYE 2018. No revenue was generated in FYE 2019 by the facilities management segment as compared to the FYE 2018 revenue of RM9.0 million as the facilities management contract ended in December 2018.

Loss for the year increased by RM30.3 million from RM11.5 million in FYE 2018 to RM41.8 million in FYE 2019 mainly due to the following factors:

- (a) Accretion of interest incurred on the Bukit Katil Land amounting to RM 27.9 million, which was charged to the statement of profit or loss as opposed to the capitalisation of the interest in the preceding year, due to the soft property market and the postponement of the Kuala Lumpur-Singapore high speed rail project which impacted the development on the land in Bukit Katil, Malacca ("**Bukit Katil Land**").
- (b) Impairment of goodwill amounting to RM6 million has been recorded for FYE 2019 due to the reduction in estimated recoverable amount on the remaining parcel of land upon completion of each project development in Cahaya Alam.

(iii) **FPE 30 June 2020 vs FPE 30 June 2019**

The revenue of Encorp Group in FPE 30 June 2020 (RM51.9 million) is lower than the revenue of the comparative preceding period FPE 30 June 2019 (RM63.3 million). The lower revenue is mainly attributable to lower revenue from property development segment of RM8.2 million due to the impact of the Covid-19 outbreak on the global economy including the weak sentiment of the property industry in Malaysia. The weak sentiment on the property purchases may be due to increased job uncertainties, the buyers' hesitance on increase in commitment from property purchases, as well as tighter loan approval process by financiers.

Accordingly, Encorp Group recorded lower gross profit of RM37.9 million for the FPE 30 June 2020 compared to RM45.4 million in FPE 30 June 2019, a reduction of 17% to gross profit.

During the FPE 30 June 2020, the Encorp Group recorded a higher loss for the period of 25.2 million compared to RM12.6 million in the FPE 30 June 2019 mainly due to the accretion of interests related to Encorp Group's Bukit Katil Land over and above the decrease in revenue during the financial period.

**2. HOW THE PROPOSED PLACEMENT WILL CREATE VALUE TO THE COMPANY AND ITS SHAREHOLDERS**

The Proposed Placement is to be implemented primarily for the Company to increase its public shareholding spread. At the same time, the Proposed Placement will enable the Company to raise 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.

Part of the proceeds to be raised pursuant to the Proposed Placement is proposed to be used for business growth activities, whereby the Company will identify and evaluate investment opportunities which could potentially strengthen and grow its business. Furthermore, the Encorp Group is also planning to utilise part of the proceeds for promotional and marketing expenses of its property development projects, as well as the rebranding and marketing of the Encorp Strand Mall. The utilisation of the proceeds of the Proposed Placement towards the aforementioned is expected to contribute positively to the future earnings of the Encorp Group.

Premised on the above and the rationale of the Proposed Placement as set out in Section 3 of the Announcement, the Proposed Placement is expected to have positive effects on the future financial performance of the Encorp Group.

### 3. HOW THE PROPOSED PLACEMENT WILL IMPACT THE COMPANY AND ITS SHAREHOLDERS

The effects of the Proposed Placement on the Encorp Group's issued share capital, substantial shareholding structure, NA, gearing level and earnings and EPS are disclosed in Section 4 of the Announcement.

Based on the indicative issue price of RM0.18 per Placement Share, the Proposed Placement is expected to raise gross proceeds of RM5.510 million, which is expected to result in the following effects:

	Audited as at 31 December 2019	After the Proposed Placement <sup>(1)</sup>
<b>Issued share capital</b>	397,280	402,790 <sup>(2)</sup>
<b>No. of Encorp Shares in issue (excluding treasury shares) ('000)</b>	306,088	336,697
<b>Current assets</b>	439,641	445,151
<b>Current liabilities</b>	491,279	491,279
<b>Current ratio (times)</b>	0.89	0.91
<b>NA</b>	345,889	351,149
<b>NA per Share</b>	1.13	1.04
<b>Gearing ratio</b>	2.60	2.56

Notes:

<sup>(1)</sup> Figures shown are upon completion of the Proposed Placement and before the utilisation of proceeds of the Proposed Placement.

<sup>(2)</sup> Assuming 30,608,821 Placement Shares to be issued at an indicative issue price of RM0.18 per Placement Share.

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 Encorp Group as and when the benefits from the utilisation of proceeds are realised.

The Proposed Placement, upon completion, will enlarge the capital base of the Company hence strengthening the financial position of the Encorp Group. As illustrated above, the current ratio is expected to improve from 0.89 times to 0.91 times as the current assets of the Encorp Group increase. Further, the gearing level of the Encorp Group is expected to improve from 2.60 times to 2.56 times.

Notwithstanding the above, the Proposed Placement is expected to increase the issued share capital of Encorp and will have a dilutive effect on the percentage shareholdings and the NA per share of the Encorp Group. Further, based on the Company's audited consolidated financial statements for the FYE 2019 and the indicative issue price of RM0.18 per Placement Share, the Proposed Placement is expected to result in a decrease in the Encorp Group's NA per share from RM1.13 to RM1.04.

However, the Proposed Placement is undertaken primarily to increase Encorp's public shareholding spread, which is not in compliance with Paragraph 8.02(1) of the Listing Requirements which requires for at least 25% public shareholding spread. Upon the completion of the Proposed Placement, the public shareholding spread of Encorp is expected to increase from 22.50% to 29.59%, assuming full subscription of the Placement Shares.

#### **4. THE ADEQUACY OF THE PROPOSED PLACEMENT IN ADDRESSING THE COMPANY'S FINANCIAL CONCERNS**

The Proposed Placement is undertaken primarily to address Encorp's non-compliance with the public shareholding spread pursuant to Paragraph 8.02(1) of the Listing Requirements. Upon the completion of the Proposed Placement, the public shareholding spread of Encorp is expected to increase from 22.50% to 29.59%, assuming full subscription of the Placement Shares.

As highlighted in Section 1 of this announcement, the financial performance of the Encorp Group has further deteriorated due to the losses recorded in the preceding financial years. Losses for the year recorded in the FYE 2018 to June FPE 2020 were mainly due to soft property market particularly from high rise project, retail sector and investment assets as well as Covid-19 pandemic, which has further dampened the financial performance and the working capital of the Encorp Group.

The Proposed Placement will serve as an interim measure to address the working capital requirement and ease the current cash flow position of the Encorp Group. Further, it also enhances the Encorp Group's flexibility to explore other business growth activities. With the Proposed Placement, the Encorp Group will be able to use part of the proceeds from the Proposed Placement for potential investment opportunities. Should any of the investment opportunities materialises and if Encorp Group requires additional funding, the Group will explore other funding options, including debt and equity funding.

This announcement is dated 28 September 2020.