

# NOVA EMPIRE PUBLIC COMPANY LIMITED

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Management Discussion and Analysis of Financial Statements  
for the nine-month period ended 30 September 2022  
and Clarification on the Change in Operational Performance Exceeding 20%



No. CS022/2022

Date 14 November 2022

Subject: Management Discussion and Analysis of Financial Statements for the nine-month period ended 30 September 2022 and Clarification on the Change of Operational Performance Exceeding 20%

To: The President of the Stock Exchange of Thailand

We, Nova Empire Public Company Limited (“the Company”), would like to report the operating results of the Company and subsidiaries (collectively as “the Group”) for the nine-month period ended 30 September 2022 and clarify on the change of operational performance exceeding 20%. The details are as follows:

**A Summary of Significant Events for the nine-month period ended 30 September 2022**

On 17 December 2021, the Extraordinary General Meeting of the Company’s shareholders no.2/2021 passed the resolution to approve the investment of 2.4 million ordinary shares of Par Baht 100 each of Winchai Co., Ltd. (“Winchai”) representing a 24.375% shareholding, at a total compensation of Baht 700 million through an entire business transfer transaction from The Planet X Holding Co., Ltd. On 24 January 2022, the Company has entered into the transaction. As a result, the Company’s shareholding in Winchai increased from 26.25% to 50.625% of the total registered and paid-up share capital. Subsequently, the Company has control over decision-making related to policy and business strategy, including budgeting and returns. Therefore, the Company has changed the status of investment in associate to investment in subsidiary and consolidated Winchai’s financial position and operating result in the Group’s consolidation since 24 January 2022, resulting in a significant increase in financial position and operating result of the Group’s consolidated financial statements for the nine-month period ended 30 September 2022 from the same period last year.

On 12 May 2022, the Company’s Board of Directors Meeting No.3/2022 passed a resolution to approve Winchai’s refinancing of a long-term loan by entering into a loan agreement with another commercial bank. On 27 July 2022, Winchai entered into a credit facilities agreement providing total facilities of Baht 2,773 million, consisting of a USD loan facility equivalent to Baht 2,723 million and a Baht 50 million guarantee facility. On 9 September 2022, Winchai drew down loan facilities of USD 39 million, or equivalent to Baht 1,428 million. In addition, Winchai entered into Cross Currency Rate Swap agreements to hedge the exchange rate and interest rate risks of the loan.

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The analysis of operating result and financial position detail are as follow.

**Summary of Operating Result**

Unit: Million Baht

For the nine-month periods ended 30 September	Consolidated financial statements		Change	
	2022	2021	Increase/(Decrease)	%
Sale of electricity	427.14	35.44	391.70	1,105%
<b>Gross Profit</b>	<b>210.19</b>	<b>8.16</b>	<b>202.03</b>	<b>2,476%</b>
Gain on change in status of investment	59.89	-	59.89	100%
Gain on bargain purchase	6.04	-	6.04	100%
Gain on fair value of derivative instrument	7.29	-	7.29	100%
Other income	7.97	5.56	2.41	43%
Administrative expenses	(47.01)	(30.12)	16.89	56%
<b>Operating profit (loss)</b>	<b>244.37</b>	<b>(16.40)</b>	<b>260.77</b>	<b>1,590%</b>
Share of profit from investment in associate	9.69	73.70	(64.01)	(87%)
Finance cost	(85.15)	(9.72)	75.43	776%
Income tax expenses	(0.11)	(0.65)	(0.54)	(83%)
<b>Profit for the period from continued operation</b>	<b>168.80</b>	<b>46.93</b>	<b>121.87</b>	<b>260%</b>
Profit for the period from discontinued operation	-	69.99	(69.99)	(100%)
<b>Profit for the period</b>	<b>168.80</b>	<b>116.92</b>	<b>51.88</b>	<b>44%</b>
<b>Total comprehensive income for the period</b>	<b>164.43</b>	<b>118.71</b>	<b>45.72</b>	<b>39%</b>
<b>Profit attributable to:</b>				
Equity holders of the Company	105.62	116.92	(11.30)	(10%)
Non-controlling interests of the subsidiaries	63.19	-	63.19	100%
<b>Key Financial Ratio</b>				
Gross Profit Margin (%)	49	23		
Operating Profit (loss) Margin (%)	57	(46)		
Net Profit Margin (%)	40	132		

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Basic Earnings per Share

Unit: Baht

For the nine-month periods ended 30 September	Consolidated financial statements		Change	
	2022	2021	Increase/(Decrease)	%
Earnings per share from continued operation	0.63	0.35	0.28	80%
Earnings per share from discontinued operation	-	0.51	(0.51)	(100%)
<b>Total profit attributable to equity holders of the Company</b>	<b>0.63</b>	<b>0.86</b>	<b>(0.23)</b>	<b>(27%)</b>

Revenue and Cost from the continued operation – by business segment

The Group has consolidated revenue from sales of electricity for the nine-month period ended 30 September 2022 of Baht 427.14 million, which increased by Baht 391.70 million or 1,105% compared with the same period last year that, had revenue of Baht 35.44 million. The detail of the segment is as follows:

Unit: Million Baht

Operational result by business segment – Producing and selling electricity	Solar Power		Wind Power		Total	
Production Capacity	7.825 Megawatts		45.00 Megawatts		52.825 Megawatts	
For the nine-month periods ended 30 September	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021*</u>	<u>2022</u>	<u>2021</u>
Revenue from continued operation	41.29	35.44	385.85	-	427.14	35.44
<b>Gross profit</b>	<b>14.22</b>	<b>8.16</b>	<b>195.97</b>	<b>-</b>	<b>210.19</b>	<b>8.16</b>
<b>Gross Profit Margin</b>	<b>34%</b>	<b>23%</b>	<b>51%</b>	<b>-</b>	<b>49%</b>	<b>23%</b>

\*In 2021, the investment in Winchai represented as an investment in an associate and the Group only recognized a share of profit from investment in associate.

In consideration of revenue for the nine-month period ended 30 September 2022, the Group has revenue from producing and selling electricity separated into 2 segments: producing and selling electricity from solar power and wind power. Both revenues are the continued operation that generates revenue to the Group amounting to Baht 41.29 million and Baht 385.85 million, respectively. The significant increase mainly results from the consolidation of Winchai's operating results to the Group since 24 January 2022, which caused a significant increase in total revenue, especially from the segment of producing and selling electricity from wind power. The additional investment in Winchai in early 2022, in which Winchai only operates of producing and selling electricity from wind power with capacity of 45 Megawatts, results in an increase of the Group's total production capacity to 52.825 Megawatt; while the segment of producing and selling electricity from solar power generated revenue of Baht 41.29 million for the first nine-month of 2022 which increased by Baht 5.85 million or 17% from same period last year as the Group has improved an efficiency of power plants to maximize its capacity in early of 2022.

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For the nine-month period ended 30 September 2022, the Group has a cost of sales of electricity of Baht 216.95 million, which increased by Baht 189.67 million or 695% from the same period last year, which mainly came from the consolidation of Winchai in the consolidated financial statements. The cost of sales of electricity mainly consists of depreciation of power plants, plant and other equipment, technical consultation and management fee, and power plant's insurance premium.

However, for the nine-month period ended 30 September 2022, the gross profit margin is 49%, which is higher than the gross profit margin of the same period last year, which represents 23%. The operating profit margin is 57%, while the same period last year represented the operating loss margin of 46%.

#### **The investment in Winchai Co., Ltd.**

Since the Company has additionally invested in Winchai's common share of 24.375% on 24 January 2022, the Company has changed the investment status from the investment in associate to the investment in subsidiary. Before the investment status was changed, the Group recognized the share of profit from investment in associate amounting to Baht 9.69 from Winchai's operating result from 1 January 2022 – 23 January 2022 in accordance with 26.25% shareholding proportion. In 2022, the Company has completed its assessment of the fair value of the identifiable assets and liabilities of Winchai, in which the Company invested 26.25% shareholding proportion of Winchai on 21 April 2021. Therefore, the Company has restated the consolidated financial statements presented herein for comparative purposes to reflect the fair value of these identifiable assets and liabilities. The share of profit from investment in associate of Baht 73.70 million has been presented as a comparative figure in the statement of income for the nine-month period ended 30 September 2022, compared to the previously reported of Baht 15.78 million in the statement of income for the nine-month period ended 30 September 2021. The adjustment to share of profit from investment in associate amounting to Baht 57.92 million resulting from 2 transactions as below described:

1. gain on bargain purchases amounting to Baht 65.76 million
2. the amortization of intangible assets acquired through a business combination amounting to Baht 7.84 million

On 24 January 2022, the Company is holding 50.625% of Winchai's issued and paid-up share capital and has control over significant business activities. Consequently, the investment status has been changed into an investment in a subsidiary since then. The Group recognized a gain on change in the status of investment of Baht 59.89 million in the statement of income for the nine-month period ended 30 September 2022, resulting from 2 transactions as below described:

1. the difference in the amount of Baht 54.55 million between the carrying amount based on the equity method before the business combination (the investment of 26.25% of Winchai's shareholding) amounting to Baht 819.10 million and the fair value before the business combination of Baht 873.65 million; and
2. the recognition of the accumulative amount of share of other comprehensive income from an associate of Baht 5.34 million.

Furthermore, the financial position and operating result of Winchai was consolidated in the consolidated financial statements of the Group on 24 January 2022.

The Group also recognized the gain on the bargain purchase of Baht 6.04 million in the statement of income for the nine-month period ended 30 September 2022 after the Company completed the assessments of the fair values of Winchai identifiable assets acquired and assumed liabilities which the Company has invested in 24.375% shareholding proportion of Winchai on 24 January 2022. The fair value as of the acquisition date represents the net assets of Winchai in the Company's proportion of Baht 1,579.69 million, whereas the Company has the costs of the acquisition of an investment in Winchai of Baht 1,573.65 million.

#### Gain on the fair value of derivative

Gain on the fair value of derivative came from fair value measurement of interest rate swap. During the third quarter of the current year, the subsidiary repaid its long-term loan from a financial institution before its maturity and then discontinued hedge accounting applied to the interest rate swap agreement, which hedged against the interest rate risk of that long-term loan. As a result, the cumulative gain on cash flow hedge of Baht 5.84 million, which had been accumulated in other comprehensive income, was recognized in profit or loss for the nine-month period ended 30 September 2022, and the subsidiary subsequently recognized gain from fair value measurement of interest rate swap in profit or loss as from the date of the discontinuation of hedge accounting.

The cumulative gain on fair value measurement of interest rate swap was accumulated from the date that the Company has changed the status of investment in Winchai from associate to subsidiary and consolidate Winchai's operating result in the Group's consolidation from the first quarter of the current year until the date of the discontinuation of hedge accounting in the third quarter of the current year. Therefore, there was no effect to other comprehensive income for the nine-month period ended 30 September 2022, resulting from the reversal of the accumulated gain during the third quarter of the current year because it occurred in the same reporting period. However, the reversal of hedge reserve due to the discontinuation of hedge accounting of Baht 24.07 million was presented in other comprehensive income for the three-month period ended 30 September 2022 as a result of the reversal of accumulated gain, which had been recognized in other comprehensive income for the six-month period ended 30 June 2022.

#### Administrative expenses

The Group has administrative expenses for the nine-month period ended 30 September 2022 and the same period last year amounting to Baht 47.01 million and Baht 30.12 million, respectively, which increased by Baht 16.89 million or 56%, mostly consisting of the professional fee during the business restructure in conformity with the Company's strategy, financial advisory, and legal advisory for investing in the business.

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### Finance cost

Finance costs mostly came from interest expense of long-term loans from financial institutions of the Group and recognition of right-of-use assets in accordance with Thai Financial Reporting Standard No. 16 "Leases." In addition, as a result of the repayment of a long-term loan from a financial institution before its maturity during the third quarter of the current year, a prepayment fee of Baht 9.33 million was paid to that financial institution, and the prepaid financial fee of Baht 9.07 million was written-off.

### Income tax

For the nine-month period ended 30 September 2022, the Group has an income tax expense of Baht 0.11 million that came from the income tax of other income which not under the income tax promotional privileges from the Board of Investment.

### Profit attributable to non-controlling interests of the subsidiaries

For the nine-month period ended 30 September 2022, profit attributable to non-controlling interests of Winchai amounting to Baht 63.19 million resulting from 2 transactions as below described:

1. Winchai's net profit for the nine-month period ended 30 September 2022 in 49.375% shareholding proportion that others invest in Winchai or amounting to Baht 86.10 million
2. The amortization of intangible assets acquired through a business combination in 49.375% shareholding proportion that others invest in Winchai, amounting to Baht 22.91 million.

### Summary of Financial Position

Unit: Million Baht

	Consolidated		Change	
	30 September 2022	31 December 2021	Increase/(Decrease)	%
Current assets	197.92	47.04	150.88	321%
Non-current assets	5,353.97	1,280.46	4,073.51	318%
<b>Total assets</b>	<b>5,551.89</b>	<b>1,327.50</b>	<b>4,224.39</b>	<b>318%</b>
Current liabilities	263.43	55.41	208.02	375%
Non-current liabilities	2,215.38	214.11	2,001.27	935%
<b>Total liabilities</b>	<b>2,478.81</b>	<b>269.52</b>	<b>2,209.29</b>	<b>820%</b>
<b>Total shareholder's equity</b>	<b>3,073.08</b>	<b>1,057.98</b>	<b>2,015.10</b>	<b>190%</b>
<b>Key Financial Ratio</b>				
Return on assets (%)	3.04	3.54		
Return on equity (%)	5.49	4.44		
Liquidity ratio (time)	0.75	0.85		

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As of 30 September 2022, the Group has current assets of Baht 197.92 million, which increased by Baht 150.88 million or 321% from 31 December 2021, and has non-current assets of Baht 5,353.97 which increased by Baht 4,073.51 million or 318% from 31 December 2021. Such a significant increment was caused by additional investment in Winchai resulting from the change in the investment status from the investment in associate to the investment in subsidiary and consolidation of Winchai's financial position and operating result to the consolidated financial statements. Nevertheless, the return on assets for the third quarter of 2022 is 3.04% decreasing when compared with 3.54% in 2021 due to the recognition of gain on bargain purchases as part of a share of profit from investment in an associate, which is non-recurring items in 2021.

The Group has current liabilities of Baht 263.43 million, which increased by Baht 208.02 million or 375% from 31 December 2021, and has non-current liabilities of Baht 2,215.38 million, which increased by Baht 2,001.27 million or 935% from 31 December 2021. This mainly resulted from the consolidation of Winchai's financial position into the consolidated financial statements and additional long-term loan used for investment in Winchai during the period, resulting in increasing of the long-term loans from the financial institution of Baht 1,764.85 million (including the increase in the current portion of Baht 192.73 million) and including provision for decommissioning costs of Baht 92.55 million and deferred tax liabilities of Baht 193.93 that resulted from the recognition of intangible assets from a business combination. Therefore, the liquidity ratio as of 30 September 2022 presented a 0.75-time decrease when compared with 0.85 time as of 31 December 2021.

Shareholders' equity of Baht 3,073.08 million as of 30 September 2022 was increased by Baht 2,015.10 million when compared with the balance as of 31 December 2021. This resulted from increases in the share capital of the Company and investment in Winchai's shareholding in a total proportion of 50.625% of the issue and paid-up share capital, and the non-controlling interests of the subsidiaries were increased accordingly. The return on equity for the third quarter of 2022 is a 5.49% increase when compared with 4.44% in 2021.

**Summary of Cash Flow**

Unit: Million Baht

For six-month periods ended 30 June	Consolidated financial statements	
	2022	2021
Net cash flows from operating activities	333.08	99.73
Net cash flows used in investing activities	(329.77)	(711.36)
Net cash flows from (used in) financing activities	(8.43)	8.86
Cash and cash equivalents at beginning of period	37.44	653.05
Net decrease in cash and cash equivalents	(5.12)	(602.77)
Cash and cash equivalents at end of period	32.32	50.28



For the nine-month period ended 30 September 2022, the Group has a net cash flow from operating activities of Baht 333.08 million compared with the nine-month period ended 30 September 2021, amounting to Baht 99.73 million. The increase mainly resulted from the consolidation of Winchai's financial position and operating results into the consolidated financial statements. In addition, the Group has net cash flows used in investing activities for the nine-month period ended 30 September 2022 in the amount of Baht 329.77 million, which mainly resulted from the net cash paid for the investment in Winchai of Baht 613.50 million. The Group has net cash flows used in financing activities for the nine-month period ended 30 September 2022 in the amount of Baht 8.44 million, which mainly resulted from net cash paid of Baht 311.78 million for repayment of the long-term loan from a financial institution by refinancing with another financial institution. In addition, the Company received the payment from the right offering of increasing in share capital offered to the existing shareholders and an increase in share capital from the private placement offering, in a total of Baht 309.98 million.

Forwarded for your information,

Yours faithfully,

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Ms. Sukanya Tipmanee

Director