

NOVA EMPIRE PUBLIC COMPANY LIMITED

Management Discussion and Analysis of Financial Statements
for the year ended 31 December 2022
and Clarification on the Change of Operational Performance Exceeding 20%



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Date 23 February 2023

Subject: Management Discussion and Analysis of Financial Statements for the year ended 31 December 2022

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 year ended 31 December 2022 and clarify on the change of operational performance exceeding 20%.

The success rising of revenue was a result of the execution of the 2022 strategy and action plan that emphasizes the three-dimensional connection of Governance, Risk Management, and Compliance for both operational and financial aspects. Due to Thailand’s harsh climate in terms of the severe fluctuation between heat and humidity, resulting in a more rapid-degrade- than-usual of solar panels, which is considered a significant risk to be concerned.. Hence, the Company has devised a strategic plan to upgrade all solar panels by 2022. In addition, the Board requested a specific operation report to monitor such performance as well as imposed a dedicated key performance indicator (KPI) to evaluate the effectiveness of the implementation by the management. Moreover, a report of the audit result for this matter prepared by the external auditor had also been reported to the Audit Committee quarterly The Board of Directors also monitored the financial status of the Company and its subsidiaries, including the status of all existing debt covenants., and requested close communication with financial institutions to ensure that they understand the Company’s strategic direction and growth business plan, which is considered as one of key contributor that leads to the successful refinance of all Winchai’s loan, enabling the Company to access additional funding to secure additional shares of Winchai, which has a strong and consistent performance.

A Summary of Significant Events for the year ended 31 December 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 to the significant increase in financial position and an operating result of the Group’s consolidated financial statements for the year ended 31 December 2022 from 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 credit facilities 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 interest and exchange rate risks of the loan.

On 27 December 2022, the Extraordinary General Meeting of the Company's shareholders no.1/2022 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 715 million through an entire business transfer transaction from The Planet Y Holding Co., Ltd. On 27 December 2022, the Company has entered into the transaction. As a result, the Company held 7,425,000 shares of Winchai, representing 75% of the total registered and paid-up share capital.

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

Summary of Operating Result

Unit: Million Baht

for the year ended 31 December	Consolidated financial statements		Change	
	2022	2021	Increase/(Decrease)	%
Sale of electricity	833.61	44.02	789.59	1,794%
Gross Profit	536.91	7.38	529.53	7,175%
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	6.25	-	6.25	100%
Other income	10.69	6.34	4.35	69%
Administrative expenses	(65.41)	(46.14)	19.27	42%
Operating profit (loss)	554.37	(32.42)	586.79	1,810%
Share of profit from investment in associate	9.69	144.08	(134.39)	(93%)
Finance cost	(119.23)	(12.49)	(106.74)	855%
Income tax benefit (expenses)	0.22	(0.78)	1.00	128%
Profit for the year from continued operation	445.05	98.39	346.66	352%
Profit for the period from discontinued operation	-	69.73	(69.73)	(100%)
Profit for the year	445.05	168.12	276.93	165%
Total comprehensive income for the year	431.73	172.49	259.24	150%

for the year ended 31 December	Consolidated financial statements		Change	
	2022	2021	Increase/(Decrease)	%
Profit attributable to:				
Equity holders of the Company	240.30	168.11	72.19	43%
Non-controlling interests of the subsidiaries	204.75	-	204.75	100%
Key Financial Ratio				
Gross Profit Margin (%)	64	17		
Operating Profit (loss) Margin (%)	67	(74)		
Net Profit Margin (%)	53	224		

Basic Earnings per Share

Unit: Baht

for the year ended 31 December	Consolidated financial statements		Change	
	2022	2021	Increase/(Decrease)	%
Earnings per share from continued operation	1.43	0.72	0.71	99%
Earnings per share from discontinued operation	-	0.51	(0.51)	(100%)
Total profit attributable to equity holders of the Company	1.43	1.23	0.20	16%

Revenue and Cost from continued operation – by business segment

The Group has consolidated revenue from sales of electricity for the year ended 31 December 2022 of Baht 833.61 million, which increased by Baht 789.59 million or 1,794% compared with last year, which had revenue of Baht 44.02 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	
	2022	2021	2022	2021*	2022	2021
Production Capacity	7.825 Megawatts		45.00 Megawatts		52.825 Megawatts	
for the year ended 31 December						
Revenue from continued operation	54.94	44.02	778.67	-	833.61	44.02
Gross profit	19.19	7.38	517.72	-	536.91	7.38
Gross Profit Margin	35%	17%	66%	-	64%	17%

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

In consideration of revenue for the year ended 31 December 2022, the Group has revenue from producing and selling electricity separated into 2 segments which are producing and selling electricity from solar power and wind power. Both revenue is the continued operation that generates revenue to the Group amounting to Baht 54.94 million and Baht 778.67 million, respectively. The significant increase mainly results from the consolidation of Winchai's operating results to the Group since 24 January 2022, which caused the 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 producing and selling electricity from wind power with a capacity of 45 Megawatts, results to 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 54.94 million for the year of 2022 which increased by Baht 10.92 million or 24.81% from last year as the Group has improved an efficiency of power plants to maximize its capacity in early of 2022.

For the year ended 31 December 2022, the Group has a cost of sales of electricity of Baht 296.70 million which increased by Baht 260.06 million or 710% from last year due to 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 year ended 31 December 2022, the gross profit margin is 64%, which is higher than the gross profit margin of the last year, which represents 17%. The operating profit margin is 67% compared with last year representing an operating loss margin of 74%.

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 during 1 January 2022 – 23 January 2022 in accordance with 26.25% shareholding proportion. In 2022, the Company completed its assessment of the fair value of the identifiable assets and liabilities of Winchai, which the Company has invested in 26.25% shareholding proportion of Winchai on 21 April 2021.

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 status of investment of Baht 59.89 million in the statement of income for the year ended 31 December 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.

Furthermore, Winchai's financial position and operating result 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 year ended 31 December 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.

On 27 December 2022, the Extraordinary General Meeting of the Company's shareholders no.1/2022 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 715 million through an entire business transfer transaction from The Planet Y Holding Co., Ltd. On 27 December 2022, the Company has entered into the transaction. As a result, the Company held 7,425,000 shares of Winchai, representing 75% of the total registered and paid-up share capital.

Hence, the Company's total investment in subsidiaries is Baht 2,367 million as of 31 December 2022, while the Company's investment in subsidiaries was Baht 234 million as of 31 December 2021, which increased significantly during 2022 to Baht 1,367 million as mentioned above.

Gain on the fair value of derivative

Gain on the fair value of derivative mainly came from a gain on 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 interest rate swap agreement which hedges against the interest rate risk of such 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 year ended 31 December 2022, and the subsidiary subsequently recognized gain from fair value measurement of interest rate swap with amounting to Baht 0.41 million in profit or loss as from the date of the discontinuation of hedge accounting. Therefore, the Group's consolidation reflects a gain on the fair value of the derivative instrument of Baht 6.25 million in the statements of comprehensive income.

Administrative expenses

The Group has administrative expenses for the year ended 31 December 2022 and last year amounting to Baht 65.41 million and Baht 46.14 million, respectively, which increased by Baht 19.27 million or 42%, 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.

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 the long-term loan from the 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.

Profit attributable to non-controlling interests of the subsidiaries

For the year ended 31 December 2022, profit attributable to non-controlling interests of Winchai amounting to Baht 204.75 million resulting from 2 transactions as below described:

1. Winchai's net profit for the year ended 31 December 2022 in a proportion that others invest in Winchai amounting to Baht 235.91 million
2. The amortization of intangible assets acquired through a business combination in a proportion that others invest in Winchai amounting to Baht 31.16 million

Summary of Financial Position

Unit: Million Baht

	Consolidated		Change	
	31 December 2022	31 December 2021	Increase/(Decrease)	%
Current assets	454.71	47.04	407.67	867%
Non-current assets	5,218.82	1,280.46	3,938.36	308%
Total assets	5,673.53	1,327.50	4,346.03	327%
Current liabilities	621.00	55.41	565.59	1,021%
Non-current liabilities	2,678.15	214.11	2,464.04	1,151%
Total liabilities	3,299.15	269.52	3,029.63	1,124%
Total shareholder's equity	2,374.38	1,057.98	1,316.40	124%
Key Financial Ratio				
Return on assets (%)	7.84	7.41		
Return on equity (%)	18.74	9.30		
Liquidity ratio (time)	0.73	0.85		

As of 31 December 2022, the Group has current assets of Baht 454.71 million, which increased by Baht 407.67 million or 867% from 31 December 2021, and has non-current assets of Baht 5,218.82 which increased by Baht 3,938.36 million or 308% 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 the subsidiary and consolidation of Winchai's financial position and the operating result to the consolidated financial statements. Also, the return on assets for 2022 is 7.84% increasing when compared with 7.41% in 2021.

The Group has current liabilities of Baht 621 million, which increased by Baht 565.59 million or 1,021% from 31 December 2021, and has non-current liabilities of Baht 2,678.15 million, which increased by Baht 2,464.04 million or 1,151% from 31 December 2021. This mainly resulted from the consolidation of Winchai's financial position into the consolidated financial statements. As of 31 December 2022, the Group has increased the long-term loan from the financial institution to Baht 2,269.12 million (including the increase in the current portion of Baht 373.27 million) and including provision for decommissioning costs of Baht 93 million and deferred tax liabilities of Baht 193.57 that resulted from the recognition of intangible assets from a business combination. Therefore, the liquidity ratio as of 31 December 2022 presented a 0.73 time decrease when compared with 0.85 time as of 31 December 2021.

The shareholders' equity of Baht 2,374.38 million as of 31 December 2022 increased by Baht 1,316.40 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 75% of the issued and paid-up share capital, and the non-controlling interests of the subsidiaries were increased accordingly. The return on equity for 2022 is 18.74% increase when compared with 9.30% in 2021.

Summary of Cash Flow

Unit: Million Baht

for the year ended 31 December	Consolidated financial statements	
	2022	2021
Net cash flows from operating activities	483.24	96.16
Net cash flows used in investing activities	(791.01)	(710.83)
Net cash flows from financing activities	399.73	(0.95)
Cash and cash equivalents at beginning of year	37.44	653.05
Net increase (decrease) in cash and cash equivalents	91.96	(615.62)
Cash and cash equivalents at end of year	129.40	37.43

For the year ended 31 December 2022, the Group has a net cash flow from operating activities of Baht 483.24 million compared with the year ended 31 December 2021, amounting to Baht 96.16 million. The increase mainly resulted from consolidating Winchai's financial position and operating results into the consolidated financial statements.

In addition, the Group has a net cash flow used in investing activities for the year ended 31 December 2022 in the amount of Baht 791.01 million, which mainly resulted from the net cash paid for additional investment in Winchai of Baht 1,163.50 million and an increase of restricted bank deposits in the amount of Baht 400 million.

The Group has a net cash flow used in financing activities for the year ended 31 December 2022 in the amount of Baht 399.73 million, which mainly resulted from net cash paid of Baht 2,793 million by the subsidiary for repayment of the long-term loan from a financial institution. Then the subsidiary refinanced with another financial institution, resulting in the receipt of Baht 3,142 million in cash from long-term loans from financial institutions. Hence, the subsidiary has net cash received from refinancing in the total amount of Baht 348.01 million. In addition, the Company acquired the payment from the right offering of increasing share capital offered

to the existing shareholders and an increasing share capital from private placement offering, in a total of Baht 309.98 million. In December 2022, the subsidiary declared an interim dividend payment to shareholders of Baht 1,004 million. However, the Company received a dividend payment of Baht 753 million, whereas a subsidiary paid a dividend of Baht 251 million to the non-controlling interests of the subsidiaries.

Forwarded for your information,

Yours faithfully,

Ms. Sukanya Tipmanee
Director