

NOVA EMPIRE PUBLIC COMPANY LIMITED

Management Discussion and Analysis of Financial Statements
for the 1st quarter of 2023
and Clarification on the Change of Operational Performance Exceeding 20%



No. CS009/2566

Date 15 May 2023

Subject: Management Discussion and Analysis of Financial Statements for the 1st Quarter of 2023

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 three-month period ended 31 March 2023 and clarify the change of operational performance exceeding 20%.

A Summary of Significant Events for the 1st quarter of 2023

On 24 January 2023, the Company’s Board of Directors Meeting No.1/2023 passed the resolution to approve the issuance of debentures No. 1/2023, amounting to not over Baht 400.00 million, to be offered to institutional investors and high-net-worth investors. The debentures have a tenor of 1 year and 9 months, a face value of Baht 1,000 each, which are registered, unsubordinated, and unsecured, with debenture holders’ representative and an early redemption option for the Company. Interest is payable every three months. On 7 March 2023, the issuance of debentures was approved by The Office of the Securities and Exchange Commission. The Company has issued debentures during 14-16 March 2023, totaling 400,000 units at a face value of Baht 1,000 each amounting to Baht 400.00 million. All of the debentures have been sold as offered amounting to Baht 400 million. On 20 March 2023, the Company complied with the objectives of issuing such debentures. The Company settled the final payment for ordinary shares from the investment in Winchai Co., Ltd. (“Winchai”), representing a 24.375% shareholding, totaling Baht 165 million to The Planet Y Holding Co., Ltd.

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

Summary of Operating Result

Unit: Million Baht

for the three-month periods ended 31 March	Consolidated financial statements		Change	
	2023	2022	Increase/(Decrease)	%
Sale of electricity	354.15	140.58	213.57	152%
Gross Profit	275.89	80.65	195.24	242%
Gain on change in status of investment	-	59.89	(59.89)	(100%)
Gain on bargain purchase	-	6.04	(6.04)	(100%)
Other income	0.53	1.90	(1.37)	(72%)
Administrative expenses	(11.66)	(16.99)	(5.33)	(31%)
Loss on interest rate swap contracts	(1.59)	-	1.59	100%
Operating profit	263.17	131.49	131.68	100%

Summary of Operating Result

Unit: Million Baht

for the three-month periods ended 31 March	Consolidated financial statements		Change	
	2023	2022	Increase/(Decrease)	%
Share of profit from investment in associate	-	9.69	(9.69)	(100%)
Finance cost	(33.90)	(21.03)	12.87	61%
Income tax benefit (expenses)	0.59	(0.15)	(0.74)	(493%)
Profit for the period	229.86	120.00	109.86	92%
Total comprehensive income for the period	217.15	129.41	87.74	68%
Profit attributable to:				
Equity holders of the Company	170.45	86.20	84.25	98%
Non-controlling interests of the subsidiaries	59.42	33.79	25.63	76%
Comprehensive income attributable to:				
Equity holders of the Company	160.91	91.44	69.47	76%
Non-controlling interests of the subsidiaries	56.24	37.97	18.27	48%
Key Financial Ratio				
Gross Profit Margin (%)	78	57		
Operating Profit Margin (%)	74	94		
Net Profit Margin (%)	65	85		

Basic Earnings per Share

Unit: Baht

for the three-month periods ended 31 March	Consolidated financial statements		Change	
	2023	2022	Increase/(Decrease)	%
Net profit attributable to equity holders of the Company	1.00	0.53	0.47	89%

Revenue and Cost from the operation – by business segment

The Group has consolidated revenue from sales of electricity for the 1st quarter of 2023 of Baht 354.15 million, which increased by Baht 213.57 million or 152% compared with the same period of last year, which had revenue of Baht 140.58 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	
	2023	2022	2023	2022	2023	2022
Production Capacity	7.825 Megawatts		45.00 Megawatts		52.825 Megawatts	
for the three-month period ended 31 March	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revenue from continued operation	15.90	14.34	338.25	126.24	354.15	140.58
Gross profit	5.96	5.06	269.93	75.59	275.89	80.65
Gross Profit Margin (%)	37	35	80	60	78	57

In consideration of revenue for the 1st quarter of 2023, the Group has revenue from producing and selling electricity separated into two segments: producing and selling electricity from solar power and wind power generating revenue from normal business operation to the Group amounting to Baht 15.90 million and Baht 338.25 million, respectively, which increased by Baht 1.56 million or 11% and Baht 212.01 million or 168%, respectively from the same period of last year. The increment mainly results from producing and selling electricity from wind power and also the Group has improved the efficiency of Solar power plants to maximize its capacity during the year 2022. In addition, continuing from the 4th quarter of 2022 and the 1st quarter of 2023, wind power production is supported by natural factors. Also, the average selling price of electricity in the 1st quarter of 2023 was Baht 7.62 per unit, which increased by Baht 1.44 per unit or 23% from the same period of last year, which caused a significant increase in the Group's total revenue.

For the 1st quarter of 2023, the Group has a cost of sales of electricity of Baht 78.26 million which increased by Baht 18.33 million or 31% from the same period of last year due to the change of investment status in Winchai from an associate to a subsidiary since 24 January 2022, therefore, Winchai's operating result had recognized in the consolidated financial statements since 24 January 2022.

The operating result of the Group as mentioned results in the gross profit margin for the 1st quarter of 2023 of 78%, which is higher than the gross profit margin of the last period, which represents 57%.

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 associates amounting to Baht 9.69 million from Winchai's operating result during 1 January 2022 – 23 January 2022 in accordance with 26.25% shareholding proportion. In addition, in 2022, the Company completed its assessment of the fair value of the identifiable assets and liabilities of Winchai, in which the Company 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 the status of investment of Baht 59.89 million in the statement of income for the three-month period ended 31 March 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, Winchai's financial position and the operating result was consolidated in the consolidated financial statements of the Group since 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 three-month period ended 31 March 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 acquiring 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 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 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.

Recognition of such gain on change in status of investment and gain on bargain purchase in the 1st quarter of 2022 results to an operating profit margin for the 1st quarter of 2023 of 74%, which is lower than the operating profit margin of the last period, which represents 94%.

Administrative expenses

The Group has administrative expenses for the 1st quarter of 2023 and the same period of last year amounting to Baht 11.66 million and Baht 16.99 million, respectively, which decreased by Baht 5.33 million or 31%, mainly 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.

Loss on interest rate swap contracts

During the 3rd quarter of 2022, 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 contracts, which hedges against the interest rate risk of such long-term loans. However, the subsidiary still maintains interest rate swap contracts, whereby floating interest rates were converted to fixed interest rates as stipulated in the agreement. As a result, the Group has a loss on cash settlements of interest rate swap contracts amounting to Baht 3.20 million and recognized gain from fair value measurement of interest rate swap contracts amounting to Baht 1.61 million in profit or loss. Therefore, the Group's consolidation reflects a loss on interest rate swap contracts of Baht 1.59 million in the income statements for the three-month periods ended 31 March 2023.

Finance costs

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, Winchai refinanced a long-term loan from a financial institution during the 3rd quarter of 2022 and had net cash received from refinancing in the total amount of Baht 348.01 million; as a result, interest expense of loans increased by Baht 5.28 million from such refinancing transaction. However, due to the change of investment status in Winchai from an associate to a subsidiary on 24 January 2022, Winchai's operating result has been recognized in the consolidated financial statements since 24 January 2022.

Comprehensive income attributable to non-controlling interests of the subsidiaries

For the 1st quarter of 2023, comprehensive income attributable to non-controlling interests of Winchai amounting to Baht 56.24 million resulting from 2 transactions as below described:

1. Winchai's net profit for the three-month period ended 31 March 2023 in a proportion that others invest in Winchai amounting to Baht 59.42 million
2. Net loss on the cost of hedging reserve from capped cross currency swap contract and cross currency swap contract amounting to Baht 3.18 million, resulting from entering a contract to hedge the interest and exchange rate risks of USD loan facility that Winchai entered into a credit facilities agreement of USD 74 million or equivalent to Baht 2,773 million with a financial institution on 27 July 2022.

Summary of Financial Position

Unit: Million Baht

	Consolidated		Change	
	31 March 2023	31 December 2022	Increase/(Decrease)	%
Current assets	847.99	454.71	393.28	86%
Non-current assets	5,129.60	5,218.82	(89.22)	(2%)
Total assets	5,977.59	5,673.53	304.06	5%
Current liabilities	463.30	621.00	(157.70)	(25%)
Non-current liabilities	2,922.76	2,678.15	244.61	9%
Total liabilities	3,386.06	3,299.15	86.91	3%
Total shareholder's equity	2,591.53	2,374.38	217.15	9%
Key Financial Ratio				
Return on assets (%)	3.85	7.84		
Return on equity (%)	8.87	18.74		
Liquidity ratio (time)	1.83	0.73		

As at 31 March 2023, the Group has current assets of Baht 847.99 million, which increased by Baht 393.28 million or 86% from 31 December 2022. Such a significant increase was caused by the issuance of debentures No.1/2023 amounting to Baht 400.00 million. In addition, the Group has an increase in loan to a related party in the amount of Baht 89 million. On 24 April 2023, the Group released a restricted bank deposit amounting to Baht 220.00 million to reserve for operations, therefore, such restricted bank deposit was classified as current assets. However, caused by the production and distribution of electricity from wind power in the 4th quarter is higher than the 1st quarter of each year due to natural supporting factors that are normal for Winchai's operations, as a result, accrued electricity income at the end of 1st quarter of 2023 decreased by Baht 77.28 million compared to the 4th quarter of 2022.

As of 31 March 2023, the Group has current liabilities of Baht 463.30 million, which decreased by Baht 157.70 million or 25% from 31 December 2022. Such a significant decrease was caused by settling the final payment for ordinary shares from the investment in Winchai, representing a 24.375% shareholding, totaling Baht 165 million to The Planet Y Holding Co., Ltd. Therefore, the liquidity ratio as of 31 March 2023 presented a 1.83 times increase compared to 0.73 times as of 31 December 2022.

The shareholders' equity amounting to Baht 2,591.53 million as of 31 March 2023 increased by Baht 217.15 million or 9% compared to the balance as of 31 December 2022. This mainly resulted from operating profit from the operation of the Group during the 1st quarter of 2023.

Summary of Cash Flow

Unit: Million Baht

for the three-month periods ended 31 March	Consolidated financial statements	
	2023	2022
Net cash flows from operating activities	359.67	160.92
Net cash flows used in investing activities	(469.93)	(229.29)
Net cash flows from financing activities	238.75	212.83
Cash and cash equivalents at the beginning of the period	129.40	37.44
Net increase in cash and cash equivalents	128.49	144.46
Cash and cash equivalents at the end of the period	257.89	181.90

For the 1st quarter of 2023, the Group has a net cash flow from operating activities of Baht 359.67 million compared to the 1st quarter of 2022, amounting to Baht 160.92 million. The increase mainly resulted from operating profit from the normal operation of the Group.

In addition, the Group has a net cash flow used in investing activities for the 1st quarter of 2023 in the amount of Baht 469.93 million, which mainly resulted from settling the final payment for ordinary shares from the investment in Winchai, representing a 24.375% shareholding, totaling Baht 165.00 million to The Planet Y Holding Co., Ltd. Also, a decrease of restricted bank deposits in the amount of Baht 215.01 million and an increase in loan to a related party in the amount of Baht 89 million.

The Group has a net cash flow from financing activities for the 1st quarter of 2023 in the amount of Baht 238.75 million, which mainly resulted from repayment of long-term loans to financial institution net amounting to Baht 153.87 million during the 1st quarter of 2023 compared to net amount of Baht 94.95 million during the 1st quarter of 2022. In addition, the Company has issued debentures amounting to Baht 400.00 million during the 1st quarter of 2023. Also, in 2022, 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.

Forwarded for your information,

Yours faithfully,

Ms. Sukanya Tipmanee
Director