



Ref. STARK030/2023

June 16, 2023

Subject: Management Discussion and Analysis of Financial Statements for the Year 2022 (Revised)

Attention: Director and Manager

The Stock Exchange of Thailand

Stark Corporation Public Company Limited (the "Group") has submitted its financial statements for the year 2022, which ended on 31 December 2022. The auditor has reviewed and certified these financial statements without commenting on factors affecting the Group's Going Concern. As of 31 December 2022, the Group had total current liabilities exceeding the total current assets, amounting to THB 6,628 million. Additionally, the Group had negative shareholders' equity of THB 4,404 million. The majority of the current liabilities comprised trade payables, short-term loans, long-term loans, and debentures that were due for repayment within 1 year. Some of these short-term liabilities are the result from reclassifying long-term loans as short-term loans because certain financial ratios did not meet the conditions outlined in the long-term loan agreement and debenture prospectus. Also, in May 2023, the debenture holders' meetings for STARK239A and STARK249A debentures, which had a total outstanding principal of THB 944 million, resolved to immediately call for repayment of both the principal and interest for all debentures. This substantially impacted the use of working capital and the acquisition of additional sources of funding from financial institutions. The Group is currently negotiating with financial institution creditors to address the Group's debt issues. These factors caused material uncertainties, which could lead to doubt about the Group's going concern.

The Group acknowledges the investors' and stakeholders' concerns about the delayed preparation and multiple rescheduling of the Group's 2022 financial statements. Therefore, in April 2023, the Group implemented changes of its management and board of directors. This was done to ensure the financial reports accurately reflect the Group's financial position and operating results, as well as to update relevant financial accounting entries to reflect reality. Additionally, these changes were to facilitate independent auditing and the expression of opinions on the financial statements. The new management and board of directors have actively collaborated in the auditing of accounts and conducting special audits to rectify the delayed submission of financial statements. Their efforts aim to comply with the schedule for submitting the 2022 financial statements, which falls between May and June 2023. This new timeline to submit 2022 financial statements was communicated to the Stock Exchange of Thailand on 28 April 2023.

The Group is working with the auditors to thoroughly examine facts to respond to the auditor's additional observations in the special audit. This includes expanding the audit scope to comply with the SEC's letter, dated 17 May 2023. The process is not yet completed, and the outcomes of the special audit may lead

to the revision to the Company's financial statements. These limitations have caused uncertainty regarding the potential outcomes of the special audit conducted on the Company's financial statements, particularly concerning the cash flow transactions. Therefore, if any additional adjustments are identified as a result of special audit, the Group will rectify them based on the actual findings in a direct and straightforward manner.

In preparing the 2022 financial statements, the Company's new management identified multiple errors in the 2021 financial statements, dated 23 February 2022 related to several accounts in the financial statements. These errors represented a significant amount. They included sales revenue, cost of sales, revenue from services, service costs, inventory, receivables, credit loss allowance, and related expenses. These items are considered abnormal and have prompted the Company's management to adjust the comparative analysis for the year 2021 in the upcoming 2022 consolidated financial statements to ensure accuracy based on the currently available information.

1. Balance sheet

(in THB million)

As of 1 st January (Beginning of the Period)	2021 (Original)	2021 (Revised)
Current assets		
Trade receivables and other receivables	6,014.7	5,431.4
Current liabilities		
Trade payables and other payables	10,247.5	10,289.2
Shareholders' equity	3,675.8	3,023.9

(in THB million)

As of 31 st December (End of the period)	2021 (Original)	2021 (Revised)
Current assets		
Trade receivables and other receivables	15,570.8	6,306.2
Current liabilities		
Trade payables and other payables	17,092.5	17,264.1
Shareholders' equity	6,591.2	(2,844.9)

2. Comprehensive Income Statement

(in THB million)

For the year ended 31 December	2021 (Original)	2021 (Revised)
Revenue from sales	25,217.2	17,486.6
Service income	1,828.8	1,568.4
Cost of service	(1,471.6)	(1,450.8)
Other expenses	-	(85.0)
Expected credit losses	173.9	(555.0)
Net profit (loss) for the year	2,794.9	(5,989.3)
Equity attributable to owners of the parent	2,783.1	(5,965.4)
Non-controlling interest	11.8	23.8
Earnings (loss) per share	0.2338	(0.5270)

Below is the management discussion and analysis of the Group's operating results for the year ended 31 December 2022.

(in THB million)

Operating Results	For the year		Changes	
	2022	2021 (Revised)	Amount	(%)
Revenue from sales and services	25,213.1	19,055.0	6,158.1	32.31
Total revenue	25,725.3	19,116.3	6,609.0	34.57
Cost of sales and services	25,097.2	21,645.2	3,452.0	15.94
Total expenses	30,113.2	23,450.5	6,663.2	28.41
Profit (loss) from operations	(4,837.6)	(4,334.1)	(503.5)	11.61
Financial costs	1,427.7	943.0	484.7	51.39
Net profit (loss) for the year	(6,651.1)	(5,989.3)	(661.8)	11.04
Comprehensive net profit (loss) for the year	(7,138.7)	(5,888.7)	(1,250.0)	21.22

Earnings (loss) per share (THB/Share)	(0.5393)	(0.5010)	(0.0383)	7.64
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A) Operating Results

In 2022, the Group generated revenue from sales and services amounting to THB 25,213 million, reflecting an increase by THB 6,158 million, or a 32.31% increase compared to 2021. The total revenue was THB 25,725 million, representing an increase by THB 6,609 million, or a 34.57% increase compared to 2021. In 2022, the Group incurred a loss of THB 6,651 million, representing an increase by THB 662 million, or a 11.04% increase compared to 2021. This loss includes expenses and anticipated credit losses totalling THB 3,473 million. This was primarily due to the changes discussed below.

1) Revenue from sales and services

The sales revenue for the year 2022 amounted to THB 23,289 million, representing an increase by THB 5,802 million, or a 33% increase compared to 2021, when the sales revenue was THB 17,486 million. In 2022, the Group's service income was THB 1,923 million, representing an increase by THB 355 million, or a 22% increase compared to 2021. Factors contributing to the increase in sales include higher selling prices and a significant increase in both domestic and international orders.

2) Cost of sales and services

The total cost of sales for 2022 amounted to THB 23,367 million, representing an increase by THB 3,173 million, or a 15% increase compared to 2021, when the total cost of sales was THB 20,194 million. This was primarily due to increased consumption of key raw materials, such as copper and aluminium, in line with the higher sales volume. Meanwhile, the total cost of services for 2022 was THB 1,730 million, representing an increase by THB 280 million, or a 19 percent decrease compared to 2021, when the cost of services was THB 1,450 million. This is consistent with the growth in revenue from services.

3) Total expenses

The total expenses were THB 30,113 million, representing an increase by THB 6,663 million, or a 28% increase compared to 2021, when the total expenses were THB 23,450 million. In 2022, the cost of sales and service accounted for the highest proportion of total expenses, amounting to 83%. Meanwhile, in the subsequent category, expenses and expected credit loss were THB 3,472 million, representing an increase by THB 2,832 million, or an 81% increase compared to 2021. This was due to the impairment provisions for investments in subsidiaries in Thailand and Vietnam, as well as an extended debt collection period.

4) Profit (loss) from operations

In 2021 and 2022, the Group incurred operating losses of THB 4,334 million and THB 4,837 million, respectively. The losses were caused by continuous fluctuation in the cost of major raw materials. The increased costs as a result of changes in the purchase price of raw materials over time cannot be fully passed on to all customers, particularly for products made to stock. The Company has not made hedging contracts to mitigate the risk of price fluctuations in key raw materials, which significantly impacted the profitability of each customer order. This practice differs from the general approach in the electrical wire manufacturing industry. Therefore, when the price of key raw materials fluctuates or increases, it becomes challenging to efficiently control the procurement costs, leading to operational losses in the end.

5) Financial costs

In 2022, the Group incurred financial costs of THB 1,427 million, representing an increase by THB 484 million, or a 51 percent increase compared to 2021, where the financial costs were THB 943 million. The majority of these costs were attributable to interest payments on debentures, loans from financial institutions, and increased trust receipts creditors. The increase in loss from financial costs related to the significant increase in the burden of debt arising from the issuance of debentures by the Group in 2022.

6) Net profit (loss) for the year

The net loss for 2022 was THB 6,651 million, representing an increase by THB 662 million, or an 11% increase compared to the net loss of THB 5,989 million in 2021. This was due to operating losses, impairment of assets and investments, credit losses from both customers and related party loans, as well as losses from lost goods. The Group's net loss for the year 2021 will differ from the net profit stated in the financial statements for 2021, dated 23 February 2022. This is because the Group needs to undertake accounting adjustments to rectify the accounting errors that occurred in the past year, 2021.

B) Financial position

(in THB million)

	Consolidated Financial Statements			Changes	
	As of 31 December 2022	As of 31 December 2021 (Revised)	As of 1 January 2021 (Revised)	As of 31 December 2021 (Revised)	As of 31 December 2021 (Revised)
Current assets	24,093	18,697	15,720	5,396	2,977
Non-current assets	10,069	11,180	11,027	(1,111)	153
Total assets	34,162	29,877	26,747	4,285	3,130

Current liabilities	30,721	23,719	19,090	7,002	4,629
Non-current liabilities	7,844	9,002	4,033	(1,358)	4,969
Total liabilities	38,566	32,722	23,724	5,844	8,998
Paid-up registered capital	13,406	11,906	11,906	1,502	-
Retained earnings (loss)	(10,378)	(3,766)	2,196	(6,612)	(5,962)
Total shareholders' equity	(4,403)	(2,844)	3,023	(1,559)	(5,867)
Total liabilities and shareholders' equity	34,162	29,877	26,747	4,285	3,130

1. Assets

As of 31 December 2022, the Group's total assets were THB 34,162 million, representing a 14 % increase from THB 29,877 million at the end of 2021. The increase was primarily due to the increase in current assets by THB 5,396 million, which resulted from the additional cash received from the sale of newly issued shares in private placement and trade receivables.

2. Liabilities

As of 31 December 2022, the Company's and its subsidiaries' total liabilities were THB 38,566 million, representing a 17.8 % increase from THB 32,722 million at the end of 2021. This was primarily due to an increase in trade payables resulting from an increase in raw material prices, trust receipts creditors, and debentures issued in 2022. Some long-term bank loans have decreased as they were repaid when they became due.

3. The Company's shareholders' equity

As of 31 December 2022, the Group had negative equity of THB 4,403 million, representing a 54% increase from the negative shareholders' equity of THB 2,844 million at the end of 2021. The negative equity in 2022 and 2021 was due to operating losses and adjustments to correct errors in each year. However, for the standalone financial statements in 2022, the shareholders' equity was THB 2,492 million, representing a decrease of THB 9,554 million compared to the shareholders' equity in 2021 of THB 12,046 million. This decrease was due to the impairment of investments in subsidiaries and a significant amount of loans granted in 2022.

The Group recognises the significant impact from facts disclosed in the financial statements to all stakeholders, especially debenture holders, creditors, and shareholders. The Group's new board of directors and the Group's new management are actively collaborating with financial institution creditors to promptly find solutions that will enable the Group to sustain its going concern. Additionally, we are swiftly addressing the

primary causes of the issues that have caused substantial losses for the Group. This includes enhancing risk management and internal control measures to prevent any reoccurrence of the problems.

Please be informed accordingly.

Sincerely yours,

- Mr. Vonnarat Tangkaravakoon -

(Mr. Vonnarat Tangkaravakoon)

Director