

NOVA EMPIRE PUBLIC COMPANY LIMITED

Management Discussion and Analysis of Financial Statements
for the six-month period ended 30 June 2023
and Clarification on the Change of Operational Performance Exceeding 20%



No. CS012/2566

Date 15 August 2023

Subject: Management Discussion and Analysis of Financial Statements for the six-month period ended 30 June 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 six-month period ended 30 June 2023 and clarify the change of operational performance exceeding 20%. The details are as follows:

Summary of Significant Events for the six-month period ended 30 June 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 six-month periods ended 30 June	Consolidated financial statements		Change	
	2023	2022	Increase/(Decrease)	%
Sale of electricity	538.14	316.46	221.68	70%
Gross profit	381.33	178.72	202.61	113%
Gain on change in status of investment	-	59.89	(59.89)	(100%)
Gain on bargain purchase	-	6.04	(6.04)	(100%)
Gain on interest rate swap contracts	0.20	-	0.20	100%
Other income	3.84	2.51	1.33	53%
Administrative expenses	(25.04)	(34.83)	(9.79)	(28%)

Summary of Operating Result

Unit: Million Baht

for the six-month periods ended 30 June	Consolidated financial statements		Change	
	2023	2022	Increase/(Decrease)	%
Operating profit	360.33	212.33	148.00	70%
Share of profit from investment in associate	-	9.69	(9.69)	(100%)
Finance costs	(75.23)	(52.69)	22.54	43%
Income tax benefit (expenses)	(0.02)	0.18	0.20	111%
Profit for the period	285.08	169.51	115.57	68%
Total comprehensive income for the period	280.08	194.54	85.54	44%
Profit attributable to:				
Equity holders of the Company	208.19	96.91	111.28	115%
Non-controlling interests of the subsidiaries	76.89	72.60	4.29	6%
Comprehensive income attributable to:				
Equity holders of the Company	204.44	110.06	94.38	86%
Non-controlling interests of the subsidiaries	75.64	84.48	(8.84)	(10%)
Key Financial Ratio				
Gross Profit Margin (%)	71	56		
Operating Profit Margin (%)	67	67		
Net Profit Margin (%)	53	54		
Return on assets (%)	4.86	2.77		
Return on equity (%)	11.12	5.47		

Basic Earnings per Share

Unit: Baht

for the six-month periods ended 30 June	Consolidated financial statements		Change	
	2023	2022	Increase/(Decrease)	%
Net profit per share attributable to equity holders of the Company	1.23	0.58	0.65	112%

Revenue and Cost from the operation – by business segment

The Group has consolidated revenue from sales of electricity for the six-month period ended 30 June 2023 of Baht 538.14 million, which increased by Baht 221.68 million or 70% compared with the same period of last year, which had revenue of Baht 316.46 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 six-month periods ended 30 June	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revenue from operation	32.39	28.27	505.75	288.19	538.14	316.46
Gross profit	13.43	10.07	367.90	168.65	381.33	178.72
Gross Profit Margin (%)	41	36	73	59	71	56

In consideration of revenue for the six-month period ended 30 June 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 32.39 million and Baht 505.75 million, respectively, which increased by Baht 4.12 million or 15% and Baht 217.56 million or 75%, respectively from the same period of last year. Revenue from selling electricity is mainly increased from producing and selling electricity from wind power due to including the Winchai's operating result in the consolidated financial statements from the change of investment status in Winchai from an associate to a subsidiary since 24 January 2022, which caused an increase in revenue from producing and selling electricity from wind power. 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 for the six-month period ended 30 June 2023 was Baht 7.49 per unit, which increased by Baht 1.27 per unit or 20% from the same period of last year, which caused a significant increase in the Group's total revenue.

For the six-month period ended 30 June 2023, the Group has a cost of sales of electricity of Baht 156.81 million which increased by Baht 19.07 million or 14% 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 six-month period ended 30 June 2023 of 71%, which is higher than the gross profit margin of the last period, which represents 56%.

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 six-month period ended 30 June 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 six-month period ended 30 June 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.

Gain 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 loan. 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 recognized gain from fair value measurement of interest rate swap contracts amounting to Baht 6.02 million in profit or loss and has a loss on cash settlements of interest rate swap contracts amounting to Baht 5.82 million. Therefore, the Group's consolidation reflects a gain on interest rate swap contracts of Baht 0.20 million in the statement of income for the six-month period ended 30 June 2023.

Administrative expenses

The Group has administrative expenses for the six-month period ended 30 June 2023 and the same period of last year amounting to Baht 25.04 million and Baht 34.83 million, respectively, which decreased by Baht 9.79 million or 28%, 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.

Finance costs

The Group's finance costs mostly came from interest expense of long-term loans from financial institutions and debentures, 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, finance costs increased by Baht 12.33 million from such refinancing transaction.

Comprehensive income attributable to non-controlling interests of the subsidiaries

For the six-month period ended 30 June 2023, comprehensive income attributable to non-controlling interests of the subsidiaries amounting to Baht 75.64 million resulting from 2 transactions as below described:

1. Winchai's net profit for the six-month period ended 30 June 2023 in a proportion that others invest in Winchai amounting to Baht 76.89 million
2. Net loss on the cost of hedging reserve from capped cross currency swap contract and cross currency swap contract amounting to Baht 1.25 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	
	30 June 2023	31 December 2022	Increase/(Decrease)	%
Current assets	634.04	454.71	179.33	39%
Non-current assets	5,236.43	5,218.82	17.61	0%
Total assets	5,870.47	5,673.53	196.94	3%
Current liabilities	451.06	621.00	(169.94)	(27%)
Non-current liabilities	2,855.57	2,678.15	177.42	7%
Total liabilities	3,306.63	3,299.15	7.48	0%
Total shareholder's equity	2,563.84	2,374.38	189.46	8%
Key Financial Ratio				
Return on assets (%)	4.86 ^(a)	7.84 ^(b)		
Return on equity (%)	11.12 ^(a)	18.74 ^(b)		
Liquidity ratio (time)	1.41	0.73		

Note (a) Operating result for the six months period ended June 30 2023

(b) Operating result for the year ended 31 December 2022

As of 30 June 2023, the Group has current assets of Baht 634.04 million, which increased by Baht 179.33 million or 39% from 31 December 2022. Such a significant increase was caused by the issuance of debentures No. 1/2023 amounting to Baht 400.00 million. However, caused by the production and distribution of electricity from wind power in the 4th quarter is higher than the 2nd 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 the 2nd quarter of 2023 decreased by Baht 166.44 million compared to the 4th quarter of 2022. The return on assets as of 30 June 2023 presented 4.86% decrease compared to 7.84% as of 31 December 2022.

As of 30 June 2023, the Group has current liabilities of Baht 451.06 million, which decreased by Baht 169.94 million or 27% 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 165.00 million to The Planet Y Holding Co., Ltd. Therefore, the liquidity ratio as of 30 June 2023 presented 1.41 times increase compared to 0.73 times as of 31 December 2022.

The Group's shareholders' equity amounting to Baht 2,563.84 million as of 30 June 2023 increased by Baht 189.46 million or 8% compared to the balance as of 31 December 2022. This mainly resulted from operating profit from the operation of the Group during the six-month period ended 30 June 2023.

Summary of Cash Flow

Unit: Million Baht

for the six-month periods ended 30 June	Consolidated financial statements	
	2023	2022
Net cash flows from operating activities	568.45	289.38
Net cash flows used in investing activities	(325.94)	(709.17)
Net cash flows from financing activities	87.96	560.21
Cash and cash equivalents at the beginning of the period	129.40	37.44
Net increase in cash and cash equivalents	330.47	140.42
Cash and cash equivalents at the end of the period	459.87	177.86

For the six-month period ended 30 June 2023, the Group has a net cash flow from operating activities of Baht 568.45 million compared to the six-month period ended 30 June 2022, amounting to Baht 289.38 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 six-month period ended 30 June 2023 in the amount of Baht 325.94 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, an increase of restricted bank deposits in the amount of Baht 159.82 million.

The Group has a net cash flow from financing activities for the six-month period ended 30 June 2023 in the amount of Baht 87.96 million, which mainly resulted from repayment of long-term loans to financial institution net amounting to Baht 207.33 million compared to net amount of Baht 189.89 million for the six-month period ended 30 June 2022. In June 2023, the subsidiary declared an interim dividend payment to shareholders of Baht 362.48 million. However, the Company received a dividend payment of Baht 271.86 million, whereas a subsidiary paid a dividend of Baht 90.62 million to the non-controlling interests of the subsidiary. In addition, the Company has issued debentures amounting to Baht 400.00 million during the 1st quarter of 2023.

Forwarded for your information,

Yours faithfully,

Ms. Sukanya Tipmanee
Director