

NOVA EMPIRE PUBLIC COMPANY LIMITED

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



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Date 13 November 2023

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

Summary of Significant Events for the nine-month period ended 30 September 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 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 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. In addition, the second objective of issuing and offering bonds is for business expansion. The expected spending is approximately Baht 165 million. Currently, the Company is in the process of considering business expansion. Therefore, the Company has yet to use this amount of money. The final objective of issuing and offering bonds is to use them as working capital and support the company's and its subsidiaries' operations. The estimated amount used is Baht 70 million. As at 30 September 2023, the company has outstanding of such working capital in the amount of Baht 49 million.

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	
	2023	2022	Increase/(Decrease)	%
Sale of electricity	683.74	427.14	256.60	60%
Gross profit	447.28	210.19	237.09	113%

Summary of Operating Result

Unit: Million Baht

for the nine-month periods ended 30 September	Consolidated financial statements		Change	
	2023	2022	Increase/(Decrease)	%
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	0.18	7.29	(7.11)	(98%)
Other income	3.88	7.97	(4.09)	(51%)
Administrative expenses	(39.74)	(47.01)	(7.27)	(15%)
Operating profit	411.60	244.37	167.23	68%
Share of profit from investment in associate	-	9.69	(9.69)	(100%)
Finance costs	(117.05)	(85.15)	31.90	37%
Income tax benefit (expenses)	0.24	(0.10)	0.34	340%
Profit for the period	294.79	168.81	125.98	75%
Total comprehensive income for the period	290.43	164.43	126.00	77%
Profit attributable to:				
Equity holders of the Company	210.72	105.62	105.10	100%
Non-controlling interests of the subsidiaries	84.07	63.19	20.88	33%
Comprehensive income attributable to:				
Equity holders of the Company	207.45	101.25	106.20	105%
Non-controlling interests of the subsidiaries	82.98	63.18	19.80	31%
Key Financial Ratio				
Gross Profit Margin (%)	65	49		
Operating Profit Margin (%)	60	57		
Net Profit Margin (%)	43	40		
Return on assets (%)	5.07	3.04		
Return on equity (%)	11.45	5.49		

Basic Earnings per Share

Unit: Baht

for the nine-month periods ended 30 September	Consolidated financial statements		Change	
	2023	2022	Increase/(Decrease)	%
Net profit per share attributable to equity holders of the Company	1.24	0.63	0.61	97%

Revenue and Cost from the operation – by business segment

The Group has consolidated revenue from sales of electricity for the nine-month period ended 30 September 2023 of Baht 683.74 million, which increased by Baht 256.60 million or 60% compared with the same period of last year, which had revenue of Baht 427.14 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>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revenue from operation	44.24	41.28	639.50	385.86	683.74	427.14
Gross profit	15.74	14.22	431.54	195.97	447.28	210.19
Gross Profit Margin (%)	36	34	67	51	65	49

In consideration of revenue for the nine-month period ended 30 September 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 44.24 million and Baht 639.50 million, respectively, which increased by Baht 2.96 million or 7% and Baht 253.64 million or 66%, 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, electrical power production volume for the nine-month period ended 30 September 2023 increased 23% compared to the same period of last year, which is caused by natural factors. Also, the average selling price of electricity for the nine-month period ended 30 September 2023 was Baht 7.36 per unit, which increased by Baht 1.04 per unit or 17% from the same period of last year, which caused a significant increase in the Group's total revenue.

For the nine-month period ended 30 September 2023, the Group has a cost of sales of electricity of Baht 236.46 million which increased by Baht 19.51 million or 9% 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.

However, the change portion in revenue was greater than the change portion in cost of sales as mentioned results in the gross profit margin for the nine-month period ended 30 September 2023 of 65%, which is higher than the gross profit margin of the last period, which represents 49%.

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 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, 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 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 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.

Discontinued hedge accounting

During the 3rd quarter of 2022, the subsidiary repaid its long-term loan from a financial institution before its maturity by refinancing 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 a gain on interest rate swap contracts in the statement of income from 3 transactions as follows:

1. The cumulative gain on cash flow hedges amounting to Baht 5.84 million represented a gain on fair value of interest rate swap contracts due to discontinuation of hedge accounting for the nine-month period ended 30 September 2022.
2. Gain on fair value of interest rate swap contracts for the nine-month period ended 30 September 2023 and the same period of last year amounting to Baht 7.70 million and Baht 2.60 million, respectively, which increased by Baht 5.10 million or 196%.
3. Loss on cash settlements of interest rate swap contracts for the nine-month period ended 30 September 2023 and the same period of last year amounting to Baht 7.52 million and Baht 1.15 million, respectively, which increased by Baht 6.37 million or 554%.

Other income

The Group has other income for the nine-month period ended 30 September 2023 and the same period of last year amounting to Baht 3.88 million and Baht 7.97 million, respectively, which decreased by Baht 4.09 million or 51% due to the subsidiary recognized income from indemnity from Business Interruption Insurance amounting to Baht 5.45 million during the 3rd quarter of 2022 from the damage to the subsidiary's insured properties. The subsidiary received such indemnity during the 2nd quarter of 2023.

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 of assets in accordance with Thai Financial Reporting Standard No. 16 "Leases". The main reason of significant increase in finance costs from 3rd quarter of 2022 is entering into long-term loan agreement between Winchai and a financial institution resulting to increase of loan balance. And also, the loan interest rates specified in the loan agreement with the financial institution increased from the average for the nine months ended 30 September 2023 by 4.7% p.a. while the average loan interest rate for the nine months ending 30 September 2022 was 3.1% p.a., increased finance costs related to Winchai's long-term loans from financial institutions increased to Baht 31.37 million.

Comprehensive income attributable to non-controlling interests of the subsidiaries

For the nine-month period ended 30 September 2023, comprehensive income attributable to non-controlling interests of the subsidiaries amounting to Baht 82.98 million resulting from 2 transactions as below described:

1. Winchai's net profit for the nine-month period ended 30 September 2023 in a proportion that other invests in Winchai amounting to Baht 84.07 million
2. Net loss on the cost of hedging reserve from capped cross currency swap contract and cross currency swap contract amounting to Baht 1.09 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 September 2023	31 December 2022	Increase/(Decrease)	%
Current assets	607.45	454.71	152.74	34%
Non-current assets	5,209.31	5,218.82	(9.51)	0%
Total assets	5,816.76	5,673.53	143.23	3%
Current liabilities	449.91	621.00	(171.09)	(28%)
Non-current liabilities	2,792.66	2,678.15	114.51	4%
Total liabilities	3,242.57	3,299.15	(56.58)	(2%)
Total shareholder's equity	2,574.19	2,374.38	199.81	8%
Key Financial Ratio				
Liquidity ratio (time)	1.35	0.73		

As of 30 September 2023, the Group has current assets of Baht 607.45 million, which increased by Baht 152.74 million or 34% 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 3rd 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 3rd quarter of 2023 decreased by Baht 172.75 million compared to the 4th quarter of 2022. In addition, 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.

As of 30 September 2023, the Group has current liabilities of Baht 449.91 million, which decreased by Baht 171.09 million or 28% 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. on 20 March 2023. Therefore, the liquidity ratio as of 30 September 2023 presented 1.35 times increase compared to 0.73 times as of 31 December 2022.

The Group's shareholders' equity amounting to Baht 2,574.19 million as of 30 September 2023 increased by Baht 199.81 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 nine-month period ended 30 September 2023.

Summary of Cash Flow

Unit: Million Baht

for the nine-month periods ended 30 September	Consolidated financial statements	
	2023	2022
Net cash flows from operating activities	643.73	333.08
Net cash flows used in investing activities	(352.82)	(329.77)
Net cash flows from (used in) financing activities	24.80	(8.43)
Cash and cash equivalents at the beginning of the period	129.40	37.44
Net increase (decrease) in cash and cash equivalents	315.71	(5.12)
Cash and cash equivalents at the end of the period	445.11	32.32

For the nine-month period ended 30 September 2023, the Group has a net cash flow from operating activities of Baht 643.73 million compared to the nine-month period ended 30 September 2022, amounting to Baht 333.08 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 nine-month period ended 30 September 2023 in the amount of Baht 352.82 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 184.33 million.

The Group has a net cash flow from financing activities for the nine-month period ended 30 September 2023 in the amount of Baht 24.80 million, which mainly resulted from repayment of long-term loans to financial institution net amounting to Baht 269.79 million. 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