

CHOW 250/ 2022

15 August 2022

Subject : Management’s Discussion and Analysis for the three-month and six-month periods ended 30 June 2022

Attention : Committee and Manager, The Stock Exchange of Thailand

Refer to : The Regulation of the Stock Exchange of Thailand in regards with the preparation and submission of the financial Statements and reports on financial condition and results of operations of the Company Act 2001

Chow Steel Industries Public Company Limited (“the Company”) would like to declare its operating results for the three-month and six-month periods ended 30 June 2022. The analysis topics are as follows;

1. Management Discussion & Analysis
2. Company performance analysis
 - 2.1 Analysis for the three-month period ended 30 June 2022
 - 2.2 Analysis for the six-month period ended 30 June 2022
3. Consolidated statement of financial position analysis
4. Consolidated statement of cash flows analysis

1. Management Discussion & Analysis

In the second quarter of 2022, Chow Steel Industries Public Company Limited and its subsidiaries (the Group) have expanded their business to new businesses that support the existing business, i.e., trading various types of steel products. The Group leverages management experience, relationships and trust building with customers of steel business both local and overseas. The Group is also exploring the other opportunity to expand into a new business to maximize profit for shareholders, i.e., the cryptocurrency mining business. In addition, the Group is increasingly focusing on the renewable solar energy business in Thailand, such as private PPA investment and solar panel installation (EPC) for large and small customers in various business sectors. The Group generated more sales and profit margin in the same period compared to the previous year (continuing operations), reflecting the operational strategic plan. Overall, the Group's revenue was 394 million baht and net operating result was positive. The overall business can be described as follows:

Steel business: The general outlook for the steel business in the current quarter has improved in terms of demand and steel prices, the Group has received production orders in the reporting period, but the order volume was lower than the expected volume. It is expected that the Group will receive more orders in the third quarter. In addition, the Group has expanded its business activities to include trading in a wide range of steel-related products, which can generate additional profits from normal operations.

Cryptocurrency mining business: It is a profitable opportunity and learned how to mine cryptocurrencies. The Group invested in installing cryptocurrency mining machine and began to test the service system for the mining pool operators until the completion of the mining pool in June 2022. The Company received cryptocurrency coins as a reward for participating in the processing for verification and verification blockchain transaction. As a participant, the Group receives crypto coins as a reward for participating in the process to verify and confirm transactions in the blockchain system. The performance in this business has only started to perform at full capacity in June 2022 and therefore does not materially affect the overall financial statements. The Company has invested in the mining machine totaling 58 mBaht.

Energy business: The Group is continue on the expansion of the solar power plant projects both in Thailand and oversea. In 2Q2022, the Group has completed the installation of solar power plants with a total capacity of 25.2 MWh and is currently in the approval process by the authorities. The Group expects to gradually COD and be able to recognize revenue from electricity sales in 3Q2022. As a result, the group will have solar power plant with COD status total of 31.8 MWh by Q3 2022.

The Group is continuing to development of solar power plant projects in Thailand and aboard, especially in countries where there is a need for renewable electricity e.g. Japan and Australia. In addition, the Company seek opportunities to invested in solar power plant project in Thailand by utilized their knowledge skill, ability and experience to develop power plant project to generate more revenue and profit

With reference to the above key events, the Group will generate revenues of 392 million and net income of 15.66 million Baht for the period.

2. The Group Performance Analysis

2.1) Analysis for the 3-month period ended 30 June 2022 and 2021

Significant financial information (Unit: mBaht)	2Q 2022			2Q 2021			Changes	
	Steel Business and Others	Energy Business	Total	Steel Business and Others	Energy Business	Total	Mb	%
Revenue from sale and services	354.33	38.01	392.34	10.07	270.58	280.65	111.69	39.8%
Gain on sale of investment in subsidiaries and powe	-	1.82	1.82	-	67.55	67.55	(65.73)	100.0%
Other income	8.68	9.68	18.36	0.19	5.35	5.54	12.82	231.4%
Gain on foreign exchange rate, net	(3.91)	12.53	8.62	0.02	(28.00)	(27.98)	36.60	-130.8%
Total revenue	359.10	62.04	421.14	14.68	315.48	325.76	95.38	29.3%
Cost of sale and services	348.64	26.59	375.23	14.54	138.81	153.35	221.88	144.7%
Selling & administrative expenses	15.49	27.19	42.69	10.64	27.28	37.92	4.77	12.6%
Reversal of allowance for expected credit loss	(16.72)	-	(16.71)	-	-	-	(16.71)	100.0%
Total expenses	347.41	53.78	401.21	25.18	165.89	191.27	209.94	109.8%
Loss sharing from investment in Joint Ventures	-	0.04	0.04	-	0.04	0.04	-	100.0%
Finance cost	23.26	0.89	24.15	23.78	69.14	92.92	(68.77)	-74.0%
Income expenses	1.55	(1.44)	0.11	2.29	7.40	9.69	(9.58)	-98.9%
Net profit (loss)	(13.12)	8.77	(4.37)	(36.57)	73.01	31.83	(36.20)	-113.7%
Profit from dis-continued operation	-	20.00	20.00	-	-	-	20.00	100%
Net profit (loss) for the period	(13.12)	28.77	15.65	(36.57)	73.01	31.83	(16.18)	-51%
Earnings (losses) per share (THB per share)			0.02			0.03		

Revenue from sales and services

In current quarter, total revenue from sales and services amounted to Baht 392.34 million, an increase of Baht 111.69 million or 39.8% YoY. The decreasing of total revenue significantly derived from Steel business total of Baht 344.26 million due to additional activities for trading unit generate revenue total amount of Baht 273.66 million. The remaining was revenue from OEM services which partially placed order from customer to the Group in current period.

For Energy business, the revenue was decreased from prior year in line with the transfer of solar power plants in Japan to the buyer in 1Q2022. The revenue in current period was comprise of i) sale of electricity for “Residential Rooftop at 6.62 MWh” and ii) revenue from installation of solar power system (EPC) total of 25.3 mBaht (2Q 2021: EPC revenue was 9.87 million Baht)

Gain on sale of investment and solar power plant: The Group sold investment with 1 solar power plants under construction to a buyer in Japan. The Company recognize gain on divestment at 1.82 mBaht in current period. In prior year, the Group also divestment a subsidiary with 1 solar power plant, Nihonmatsu 3, and recognize gain on sale total of Baht 67.55 million. The sale of power plant project is in accordance with the strategic plan of the Group. Cash proceed from sales were utilised as working capital and development of new solar power plant project in the future.

Cost and profit margin

Key Financial Information [Unit: mB]	3M - 2Q 2022			3M - 2Q 2021			Changes	
	Steel Business and others	Energy Business	Total	Steel Business and others	Energy Business	Total	Mb	%
Revenue from sale and service	354.33	38.01	392.34	10.07	270.58	280.65	111.69	39.8%
Cost of sale and service	348.64	26.59	375.23	14.54	138.81	153.35	221.88	144.7%
Profit margin	5.69	11.42	17.11	(4.47)	131.77	127.30	(110.19)	-86.6%
% GP	1.6%	30.0%	4.4%	-44.4%	48.7%	45.4%	-41.0%	

Total profit margin from sales and service activities was Baht 17.11 million and Baht 127.30 million, respectively, a decrease of Baht 110.19 million from the previous year. Total gross margin was 4.4% compared to 45.4%, a decrease of 41% year-on-year. The difference in profit margin and gross margin is due to the different sales mix in both periods, which can be described as follows:

Steel business and others

- In current period, profit margin of Steel business was 5.69 million Baht or 1.6% equivalent due to
 - There were trading of steel in Q2 2022 with revenue at Baht 273.66 million (2021 : nil). The trading business contribute margin at Baht 4.37 million with 1.6% gross profit margin.
 - The Group received production orders from a customer in the current period, which resulted in the recognition of an OEM service fee calculated and collected based on actual production.
 - Allowance for net realisable value of cryptocurrencies of 3 million was recorded in 2Q2022. The accounting standard requires inventories to be measured at the lower of cost and net realisable value, with the net realisable value as of June 30, 2022 being lower than the cost of the cryptocurrency.

Energy business

- Sales and service costs in 2Q 2022 was Baht 26.59 million which comprise of i) directly cost amounting to 6.66 million Baht related to the solar power plant for residential rooftop in Thailand (capacity at 6.62 MWh) and ii) direct cost related to installation of solar power system (EPC) total of Baht 19.93 million. In 2Q 2021, cost of sale and service mostly were related to cost of operate 8 solar power plants in Japan which were sold to the buyer in 2Q2021 – Nihonmatsu 3, 3Q2021 – Goryo, 4Q2021 – Nogata and Shibushi and 1Q2022 – 4 Solar Power Plants. Therefore, the cost of solar power operation in Japan during 2Q 2022 was nil.
- However, the average gross profit margin of solar power plants was about 40% - 60% (depending on the season and power generation capacity). Therefore, the total gross profit margin decreased compared to the previous year due to no operation in Japan in current period.
- In Q2 2022, the Group provide OM and AM service for 4 solar power plants in which transferred to the buyer in 1Q 2022. Resulting of the group recognize revenue for 10 mBaht with profit margin of Baht 3 million.

Reversal of expected credit loss

During the current period, the Group received payments from a customer amounting to Baht 182 million, in which allowance for expected credit losses totaling Baht 16.7 million were recognized in accordance with the accounting standard. Once the Group is able to collect the outstanding receivables, it was not necessary to leave the allowance in the financial statements.

Finance cost

The Group’s finance cost decreased by Baht 68.77 million or 74%, which mainly came from:

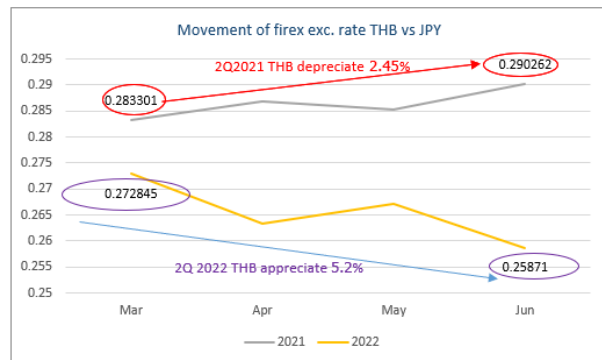
Energy business:

- Finance costs decreased by Baht 68.25 million due to the loan repayment to financial institutions, who supported on construction of solar power plant project, in oversea and domestic. According to the loan principles were reduced, the interest expenses were decreased.

Gain/ (loss) on foreign exchange rate

Unrealised gain (loss) on foreign exchange rate mainly derived from energy business. In 2Q 2022, the Group recognized unrealized gain from exchange rate total of Baht 8.62 million meanwhile unrealized loss on foreign exchange rate of Baht 27.98 million were recognized in prior year the same period. The difference of balances came from fluctuation of exchange rate in the money market which were used for conversion of outstanding loan from financial institutions in Japanese Yen to Thai Baht currency according to accounting standard. The fluctuation of exchange rate was presented as follow:

- As at 30 Jun 2022 THB currency was appreciate against JPY currency from 31 Mar 2022 by 5.2%. The Company converted loan from financial institution which denominated in JPY currency into THB currency, as a result the company derecognized loan liabilities against unrealized gain on exchange rate.
- On the other hand, the exchange rate at 30 Jun 2021 THB currency was depreciated against JPY currency from 31 Mar 2021 by 2.45%. As a result, the Company had more outstanding loan, which was converted from JPY into THB currency, more than the outstanding balance at 31 Mar 20 by 4.6% and recognized loss on forex exchange rate.



2.2) Analysis for the 6-month period ended 30 June 2022 and 2021

Significant financial information (Unit: mBaht)	[6M] YTD 30 Jun 22			[6M] 30 Jun 21			Changes	
	Steel Business and Others	Energy Business	Total	Steel Business and	Energy Business	Total	Mb	%
Revenue from sale and services	540.98	161.92	702.90	20.62	451.59	472.21	230.69	48.9%
Gain on sale of investment in subsidiaries and power plants	-	1,425.28	1,425.28	-	67.55	67.55	1,357.73	100.0%
Other income	9.48	10.00	19.48	4.29	8.02	12.31	7.17	58.3%
Gain on foreign exchange rate, net	(3.65)	64.81	61.16	0.04	1.61	1.65	59.51	3606.7%
Total revenue	546.81	1,662.01	2,208.82	24.95	528.77	553.72	1,655.10	298.9%
Cost of sale and services	533.10	127.84	660.94	29.63	276.75	306.38	354.56	115.7%
Selling & administrative expenses	25.93	243.43	269.36	21.66	57.87	79.53	189.83	238.7%
Reversal of allowance for expected credit loss	(16.72)	-	(16.72)	-	-	-	(16.72)	100.0%
Total expenses	542.31	371.27	913.58	51.29	334.62	385.91	527.67	136.7%
Loss sharing from investment in Joint Ventures	-	0.25	0.25	-	0.09	0.09	0.16	100.0%
Finance cost	47.98	53.26	101.24	47.45	138.66	186.11	(84.87)	-45.6%
Income expenses	3.34	(10.59)	(7.25)	4.55	10.42	14.97	(22.22)	-148.4%
Net profit (loss)	(46.82)	1,247.82	1,201.00	(78.34)	44.98	(33.36)	1,234.36	3700.1%
Profit from dis-continued operation	-	20.00	20.00	-	-	-	20.00	100%
Net profit (loss) for the period	(46.82)	1,267.82	1,221.00	(78.34)	44.98	(33.36)	1,254.36	3760%
Earnings (losses) per share (THB per share)			1.33			(0.05)		

Revenue from sales and services

For the six-month period ended 30 June 2022, total revenue from sales and services amounted to Baht 702.60 million, an increase of Baht 230.69 million or 48.9% YoY, which can be described as follow:

Steel business and others:

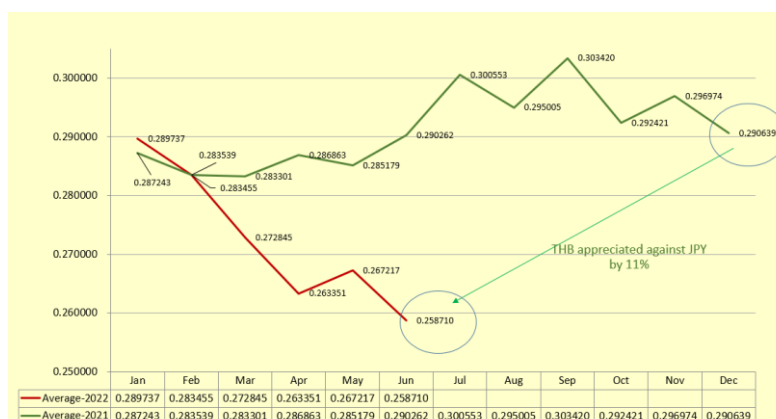
Revenue from steel and other operations increased by a total of 511.5 million baht as the trading division expanded in the current period. The Group utilized the knowledge, expertise and experience of management by achieving sales volume from customers at home and abroad totaling Baht 407 million. The improvement of steel business in terms of higher demand and billet price after the Covid 19 situation eased resulted in one customer placing a production order in the current period (6M 2021: no production), resulting in additional revenue from OEM amounting to 104.5 million YoY.

Energy business:

Total revenue decreased by Baht 289.67 million compared to the previous year as revenue from the sale of electricity from solar power plants in Japan in 2021 was recognised for a full period of 6 months compared to 67 days in the current period as 4 solar power plants were transferred to the buyer on March 9, 2022. Revenues from the sale of electricity from solar power plants in Thailand performed well, with power generation operating as expected and in line with the climate in Thailand.

Gain on sale of investment and solar power plant: The Group further divestment and transfer 4 solar power plant in Japan according to the agreement during Q1 2022. The Group recognized gain on sale of investment and solar power plant total of Baht 1,425.28 million (2Q 2021: sold investment and transfer 1 solar power plant).

Gain on exchange rate: The exchange gains are mainly from the loan liabilities of a foreign subsidiary, which are dominated in Japanese yen currency. Accounting rules require this loan to be translated into THB currency at the closing rate on June 30, 2022, and the THB currency appreciated against the JPY currency by THB 0.031929 per JPY, or 11%, resulting in an unrealized foreign exchange gain and decreased loan payable balance.



Cost and profit margin

Key Financial Information [Unit: mB]	YTD 6 M - 30 June 2022			YTD 6 M - 30 June 2021			Changes	
	Steel Business and others	Energy Business	Total	Steel Business and others	Energy Business	Total	Mb	%
Revenue from sale and service	540.98	161.92	702.90	20.62	451.59	472.21	230.69	48.9%
Cost of sale and service	533.10	127.84	660.94	29.63	276.75	306.38	354.56	115.7%
Profit margin	7.88	34.08	41.96	(9.01)	174.84	165.83	(123.87)	-74.7%
% GP	1.5%	21.0%	6.0%	-43.7%	38.7%	35.1%	-29.1%	

Total profit margin from sales and service activities was Baht 41.96 million and Baht 165.83 million, respectively, a decrease of Baht 123.87 million from the previous year. Total gross margin was 6% compared to 35.1%, a decrease of 29.1% year-on-year. The difference in profit margin and gross margin is due to the different sales mix in both periods, which can be described as follows:

Steel business and others

- In current period, profit margin of Steel business was 7.88 million Baht or 1.5% equivalent due to
 - There were trading of steel in Q1 and Q2 2022 (2021 : nil). The trading business contribute margin at Baht 5.5 million or 1.5% gross profit margin.
 - The Group received production order from a customer during current period, resulting of collection on OEM service fee which was calculation and collect base on actual production.
 - Allowance for net realisable value of cryptocurrencies of 3 million was recorded in 2Q2022. The accounting standard requires inventories to be measured at the lower of cost and net realisable value, with the net realisable value as of June 30, 2022 being lower than the cost of the cryptocurrency.

Energy business

- Sales and service costs decreased by 149.75 million baht. The Group sold 4 solar power plants in Japan to the buyer in early March 2022 according to the agreement. This resulted in the cost of goods sold being recorded for only 2 months in the current period, while the full 6-month period was recorded for 8 solar power plants in Japan in the comparative period. However, the average gross profit margin of solar power plants was about 40% - 60% (depending on the season and power generation capacity). Therefore, the total gross profit margin decreased compared to the previous year.

Administrative Expense

Overall administrative expenses increased by Baht 189.83 million year-on-year. The increase mainly came from the energy business, where total expenses of Baht 243.43 million increased by Baht 185.56 million year-on-year. The significant increase was due to the payment of fees to financial advisors of Baht 100.72 million due after the sale of solar power plants in Japan in March 2022 and other direct expenses related to the transfer of four solar power plants in Japan.

Reversal of expected credit loss

During the current period, the Group received payments from a customer amounting to Baht 182 million, in which allowance for expected credit losses totaling Baht 16.7 million were recognized in accordance with the accounting standard. Once the Group is able to collect the outstanding receivables, it was not necessary to leave the allowance in the financial statements.

Finance cost

Finance costs decreased by Baht 84.87 million due to the loan repayment to a financial institution in 1Q2022 and the early repayment of debentures in 2Q2022 totaling Baht 2,531 million. As a result, the Group saves more financing cost in the current period. However, financing costs in the comparative period also included interest expenses for project financing that covered a period of six months, while only 67 days were included in the current period due to the disposal of the solar power plant in 1Q2022.

3. The Group Statement of Financial Position

Assets

Unit : million Baht

ASSETS	30 Jun. 2022	% common size	31 Dec. 2021	% common size	Change	%
Assets						
Cash and cash equivalents and bank deposits pledged as collateral	1,404.19	28.0%	817.43	8.3%	586.75	71.8%
Trade and other receivables	787.03	15.7%	425.42	4.3%	361.61	85.0%
Inventories	103.75	2.1%	98.13	1.0%	5.62	5.7%
Receivables from the Revenue Department	164.03	3.3%	119.57	1.2%	44.46	37.2%
Other current assets	72.38	1.4%	85.04	0.9%	(12.66)	-14.9%
Assets held for sale	203.17	4.0%	6,223.04	62.9%	(6,019.87)	-96.7%
Property, plant, equipment and intangible assets	2,137.05	42.5%	1,956.97	19.8%	180.09	9.2%
Other non-current assets	151.42	3.0%	173.40	1.8%	(21.98)	-12.7%
Total assets	5,023.01	100.0%	9,898.99	100.0%	(4,875.98)	-49.3%

As at 30 June 2022, The Group's total assets was Baht 5,023.01 million, a decreased from prior year amounting to Baht 4,875.98 million or 49.3%. The decreasing can be analyzed as follow:

- **Assets held for sale:** decreased by Baht 6,019.87 million due to the Group transfer 4 solar power plants to the buyer according to the agreement in 1Q2022.
- **Cash and cash equivalents and bank deposits pledged as collateral:** increased by 586.75 million Baht due to cash generation from operation and cash proceed from sale of investment in 4 subsidiaries and solar power plants in Japan. Some amount of deposit at bank were pledged against credit facilities granted by a financial institution.
- **Property plant and equipment:** increased by Baht 180.09 million which mainly from construction solar power plant in domestic to operate Private PPA for Energy Business and CAPEX cost for cryptocurrency mining business.

Liabilities

Unit : million Baht

LIABILITIES AND SHAREHOLDERS' EQUITY	30 Jun. 2022	% common size	31 Dec. 2021	% common size	Change	%
Liabilities and Equity						
Bank overdraft and short-term loans from financial institutions and unrelated party	1,555.42	31.0%	536.85	5.4%	1,018.57	189.7%
Trade and other payables	520.46	10.4%	294.86	3.0%	225.60	76.5%
Loan from financial institutions and un-related parties	747.57	14.9%	3,209.30	32.4%	(2,461.73)	-76.7%
Liabilities under Leasing	25.19	0.5%	24.85	0.3%	0.35	1.4%
Other current liabilities	124.90	2.5%	94.47	1.0%	30.44	32.2%
Liabilities classified as held for sale	-	0.0%	4,824.51	48.7%	(4,824.51)	-100.0%
Deferred tax liabilities	32.95	0.7%	60.44	0.6%	(27.49)	-45.5%
Other non-current liabilities	35.04	0.7%	37.73	0.4%	(2.68)	-7.1%
Total liabilities	3,041.53	60.6%	9,083.00	91.8%	(6,041.47)	-66.5%

As 30 June 2022, the Group's liabilities amounted to Baht 3,041.53 million, decreased by Baht 6,041.47 million or 66.5% from the previous year. The decrease can be analysed as follows:

- **Liabilities held for sale:** decreased by Baht 4,824.51 million, due to the Group transfer 4 solar power plants to the buyer according to the agreement in 1Q2022.
- **Bank overdrafts and short-term loans from financial institutions and third parties:** increased by Baht 1,018.57 million due to additional loans were made during the period for working capital and construction of solar power plants. The outstanding balance of short-term loan as of 30 June 2022 amounting to Baht 1,555.42 million was pledged by bank deposit of the Group at the amount of 1,301 million Baht.
- **Current portion of long-term loans:** decreased by Baht 2,461.73 million due to loan repayment to a financial institution in 1Q2022 and bond redemption in 2Q2022.

Total Equity

Unit : million Baht

Shareholders' equity	30 Jun. 2022	% common size	31 Dec. 2021	% common size	Change	%
Shareholders' equity						
Share capital	800.00	15.9%	800.00	8.1%	-	0.0%
Share premium	380.85	7.6%	380.85	3.8%	-	0.0%
Differences from changes in the ownership interests in subsidiaries	(5.52)	-0.1%	(5.52)	-0.1%	-	0.0%
Retained earnings (deficit)	688.98	13.7%	(405.10)	-4.1%	1,094.08	-270.1%
Other component of shareholders' equity	(136.89)	-2.7%	(53.67)	-0.5%	(83.22)	155.1%
Equity attributable to owners of the Company	1,727.42	34.4%	716.56	7.2%	1,010.86	141.1%
Non-controlling interests of the subsidiaries	254.18	5.1%	99.43	1.0%	154.75	155.6%
Total shareholders' equity	1,981.59	39.4%	815.99	8.2%	1,165.61	142.8%

Total shareholder's equity as at 30 June 2022 amounted to Baht 1,981.59 million, increased by Baht 1,165.61 million or 142.8% from the previous year. The increase can be analysed as follows:

- **Retained earnings (deficit):** the Group recognized net profit in current period total of 1,094.08 million Baht resulting from sale of solar power plant in Japan.
- **Other comprehensive income:** decreased by Baht 83.22 million, there were exchange differences on translation of financial statements in foreign currencies according to accounting standard.
- **Non-controlling interest of subsidiaries** increased by 154.75 million which derived from operating profit of energy business 158.76 million Baht and new investment for other shareholders' 4 million Baht.

4. Analysis of Cashflow Statement

Consolidation Cashflow Summary	million Baht
Cash outflow from operating activities	(630.13)
Cash inflow from investing activities	2,087.66
Cash outflow from financing activities	(1,471.18)
Foreign exchange difference	(68.39)
Cash and cash equivalent increased	(82.03)
Cash and cash equivalent - broght forward	107.04
Cash and cash equivalent - assets held for sales	6.23
Cash and cash equivalent - carry forward	31.24

Cash flow from operating activities

During the current period, the Group had cash outflow from operating activities of Baht 630.13 million, comprising cash flows from operating activities of Baht 469.22 million and interest and income tax paid of Baht 160.91 million.

Cash flow from investing activities

The Group had cash inflow from investing activities of Baht 2,087.66 million, mainly comprised of cash proceed from sale of subsidiaries and solar power plants 3,300 million Baht, increasing of bank deposit for the purpose of bank collateral against loan facilities of the group at Baht 670.97 million and cash outflow for construction of solar power plant at 533.96 million Baht.

Cash flow from financing activities

The Group had net cash outflow from financing activities of Baht 2,657 million, resulting from repayment of loans from financial institutions, bond redemption and repayment of loans from third parties. The Group had cash inflow of Baht 1,028 million and 171 million from short-term loan from financial institution and long term loan support project finance, respectively.

Yours sincerely,

(Mr. Anavin Jiratomsiri)
Chief Executive Committee