

CHOW 262/ 2023

15 August 2023

Subject : Management’s Discussion and Analysis for the three-month and six-month periods ended 30 June 2023

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 2023 and statement of financial position as of 30 June 2023. 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 2023
 - 2.2 Analysis for the six-month period ended 30 June 2023
3. Consolidated Statement of Financial Position analysis
4. Consolidated Statement of Cash Flows analysis

1. Management Discussion & Analysis

In the current period, Chow Steel Industries Public Company Limited Group expanded its business by leveraging the Group's strengths through experience, knowledge and competence of personnel together with efficiency and transparency in the work process and was able to review each transaction. The Group also promoted the management of customer satisfaction through customer service, to which the Group received very positive feedback, receiving more orders from former customers. These are good conditions for the further development of our business, which can be analyzed by business type as follows:

Steel Business:

Trading BU: Q2 2023, the company received more orders from customers for a variety of products, including steel billets, wire rod, deformed bar and scrap, resulting in sales of 573 million baht. It was the highest sales record after the relief of COVID -19 since 2022. The company's products, wire rod and deformed bar, have been certified by the Thai Industrial Standard Institution (“TIST”) which can both attract new customers and increase sales volume to existing customers.

OEM BU: The company has modern and efficient production process and can produce variety of steel products e.g. billets, wire rod, deformed bar, those products are received quality certificate by TIST. As a result, the Company has received OEM order during the 6 months 2023. However, the average order intake in the current period is still below the company's maximum production capacity. The Company has available production capability to produce more steel products according to the OEM order base on the steel market situation in Thailand.

By overall of the steel business, the company was able to increase revenue and profit margin through trading business unit and continuously received OEM order during 1H 2023. And the company has paid principal and interest on all outstanding debentures in May 2023. The company believes that in the third quarter, if the company can still sell products and receive production orders no less than in the current quarter. The company will be able to generate profits and grow in accordance with the operational strategy planned by management.

Renewable Energy Business:

Power Purchase Agreement [PPA]: As of June 30, 2023, the company has installed solar power generation equipment and was able to sell COD for a total of 31.3 MW DC. In addition, the Group has completed the expansion of its investment in the power generation plant and is now waiting for COD (Waiting for approvals from relevant authorities) not less than 4.5 MW DC. It is expected that the certificate will be gradually received in 3Q – 4Q 2023, which will enable it to recognize additional revenue and profit in those periods. At this moment, the Group also has secure projects, with PPA contracts, which are under construction not less than 100 MW DC.

Engineering, procurement, and construction [EPC]: The Group has been contracted by numerous companies, such as consumer product manufacturers, cold storage warehouses, vending machine factory etc., to install solar power systems (EPC) and also being engaged as the O&M service provider. In addition, the company has received orders for solar system installation in other factories from existing customers (repeat order), reflecting the excellent standards of system installation, diligence and troubleshooting (if any) that meet the expectations of the customers. As a result, the company has been able to increase its market share in EPC projects.

Sustainable Development: ESG

The Group has started to apply the concept of Sustainable Organizational Development: ESG in management and to make the responsibility to environment, society and corporate governance transparent. The Company believes that organizational development according to the ESG concept will lead to the Group being able to grow sustainably and coexist with society, not just doing business to bring returns to stakeholders. The implementing ESG awareness in organizational is required everyone to contribute time and expenses in order to creates a sense of responsibility for everyone in the company in terms of what the company is determined to do to achieve the goal. The Group has begun to establish an ESG working team to address each part of the Group's business activities for example carbon footprint study, participating in caring and supporting the welfare of the society around the factory, joining an anti-corruption organization, etc., and the company also plans to implement the International Standard Organization 14001 (ISO 14001), which deals with environmental management systems, in 2024.

2 The Group Performance Analysis

2.1) Analysis for the 3-month period ended 30 June 2023

Significant Financial Information - Consolidated Operating Results	For the three-month period ended				For the three-month period ended			
	2Q 2023	2Q 2022	Changes YoY		2Q 2023	1Q 2023	Changes QoQ	
	Mb	Mb	Mb	%	Mb	Mb	Mb	%
Sale and service income	840.32	392.34	447.97	114.2%	840.32	466.69	373.63	80.1%
Cost of sale and service	(793.70)	(372.01)	(421.69)	113.4%	(793.70)	(425.51)	(368.19)	86.5%
Profit margin	46.62	20.34	26.28	129.2%	46.62	41.18	5.44	13.2%
% Profit margin	5.5%	5.2%	0.4%		5.5%	8.8%	-3.3%	
Gain on sales of investments and solar power plants	-	1.82	(1.82)	-100.0%	-	-	-	0.0%
Other income	2.13	18.36	(16.23)	-88.4%	2.13	0.80	1.33	166.3%
Gain on exchange rate, net	6.54	8.62	(2.08)	-24.2%	6.54	7.16	(0.62)	-8.6%
Selling and administrative expenses	(34.84)	(29.18)	(5.66)	19.4%	(34.84)	(22.18)	(12.66)	57.1%
Profit from continued operation	20.45	19.96	486.00	2.4%	20.45	26.96	(6.51)	-24.1%
Share of loss from investments in joint ventures	(0.53)	(0.04)	(0.50)	1337.8%	(0.53)	(0.04)	(0.49)	1264.1%
Finance cost	(26.20)	(24.14)	(2.06)	8.5%	(26.20)	(27.70)	1.50	-5.4%
Income tax	(3.14)	0.12	(3.02)	2539.5%	(3.14)	(2.78)	(0.36)	12.9%
Profit (loss) for the period from continued operation	(9.42)	(4.34)	(5.09)	117.3%	(9.42)	(3.56)	(5.86)	164.7%
Loss after income tax from discontinued operation	-	20.00	- 20.00	-100.0%	-	-	-	0.0%
Profit (loss) for the period	(9.42)	15.66	(25.09)	-160.2%	(9.42)	(3.56)	(5.86)	164.7%
EPS (Baht/ share)	(0.01)	0.02	(0.03)	-150.0%	(0.01)	(0.01)	-	0.0%
Gross Profit margin includes profit from sales of projects (Mb.)	46.62	22.16			46.62	41.18		
EBITDA margin (Mb.)	49.38	36.76			49.38	55.58		

In 2Q 2023, Revenue from sales and services significantly increase from both prior year the same period and last quarter. The major development can be analyzed as follows:

Steel Business:

Trading BU: Sales of steel billets, wire rod and scrap have developed significantly in the current period compared with 2Q2022 and 1Q 2023, as the company has more steel billets with quality certificate. As a result, the company is able to expand sales volume to new customer groups.

OEM Service BU: compared to Q2 2022, there were more OEM orders from customers for both steel billets and wire rod. The demand for steel products in the local market has increased, and the company is able to produce different types of products according to customer orders. The total OEM order in the current period was 70% higher than in the previous year.

Renewable Energy Business:

PPA: In current period, the Company has additional solar system which already reached COD for 2 projects with a total capacity of electricity generation of 0.7 MW DC. To combine with the projects previously COD in 1Q 2023, the company has COD solar system

with capacity of 31.3 MW DC. However, the Company has PPA project which are awaiting for issuance of certificate by PEA/ MEA not less than 4.4 MW DC. The company expected that the certificate will gradually issue in 3Q and 4Q 2023. Compare to 2Q 2022, the revenue from sale electricity came from the project at 6.6 MW DC. The development of COD capacity, the company recognized revenue from sale amount of 42 m baht and 41 m baht in 2Q and Q1 23, respectively, meanwhile 25 m baht in 2Q 22.

EPC: The Group has received repeat orders from industrial customers for the installation of a new phase of solar power generation equipment. It may also expand the installation of power generation systems for customers in various industries. which are both medium and small in size. As a result, the Group has more revenue and profit from EPC services in the current period compared to the previous year and the previous quarter.

Profit margin and % Gross profit margin: Profit margin has been shifted up for 26.28 million baht from 2Q 2022 or 129.2% and profit margin also increase from last quarter for million 5.44 baht which came from gross profit margin on trading business in 2Q 2023. However, the overall % gross profit margin were not significant variance from 2Q 2022. However, the % gross profit margin slightly decreased from 1Q 2023 which mainly came from roof rental fee have been adjusted from fixed rate for the first 7 year to profit sharing basis after 7 years period terms. The company adjust roof rental compensation to the owner by increasing and recorded into 2Q 2023. As a result, overall % gross profit margin slightly decreased.

Selling and Administrative Expense: total of 34.84 million baht increased from prior year 5.66 mBaht which mainly derives from loss recognition on market value of financial instruments agreement of the Group i.e. Interest Rate Swap Agreement an Forward Exchange Contracts with total loss of 4.12 mBaht. Comparing to 1Q 2023, selling and admin. expenses increase by 12.6 m Baht due MTM loss recognition on financial instruments agreement and additional bank fee at 2 mBaht for new credit facilities and mortgage fee during the current period.

Finance cost: mainly derived from project finance of solar system projects and interest from bond which already paid up in May 2023.

2.2) Analysis for the 6-month period ended 30 June 2023

Significant Financial Information - Consolidated Operating Results	For the six-month period ended			
	1H 2023	1H 2022	Changes	
	Mb	Mb	Mb	%
Sale and service income	1,306.60	604.78	701.82	116.0%
Cost of sale and service	(1,219.20)	(574.51)	(644.69)	112.2%
Profit margin	87.40	30.27	57.13	188.8%
% Profit margin	6.7%	5.0%	1.7%	
Gain on sales of investments and solar power plants	-	1,425.28	(1,425.28)	-100.0%
Other income	2.93	19.33	(16.40)	-84.8%
Gain on exchange rate, net	13.69	61.16	(47.47)	-77.6%
Selling and administrative expenses	(56.62)	(176.92)	120.30	-68.0%
Profit from continued operation	47.41	1,359.13	(1,311.72)	-96.5%
Share of loss from investments in joint ventures	(0.57)	(0.25)	(0.32)	127.5%
Finance cost	(53.90)	(65.54)	11.64	-17.8%
Income tax	(5.92)	7.25	(13.17)	-181.7%
Profit (loss) for the period from continued operation	(12.98)	1,300.58	(1,313.57)	-101.0%
Loss after income tax from discontinued operation	-	(79.57)	79.57	-100.0%
Profit (loss) for the period	(12.98)	1,221.02	(1,234.00)	-101.1%
EPS (Baht/ share)	(0.02)	1.33	(1.35)	-101.5%
Gross Profit margin includes profit from sales of projects (Mb.)	87.40	1,455.55		
EBITDA margin (Mb.)	104.96	1,449.79		

Total revenue from sale and service during 1H 2023 was 1,306 mBaht which was increased from prior year at 604 mBaht. The changes mainly derived from:

Steel Business:

Trading BU: Total revenue in 1H2023 was 761 million baht compared to 407 million baht in 1H2022, and mainly came from the expansion of trading business of various types of steel products with quality certificate to meet customers’ orders. The company and employees, who have been in the steel business for more than 20 years, see this as an advantage to develop new customers in the market.

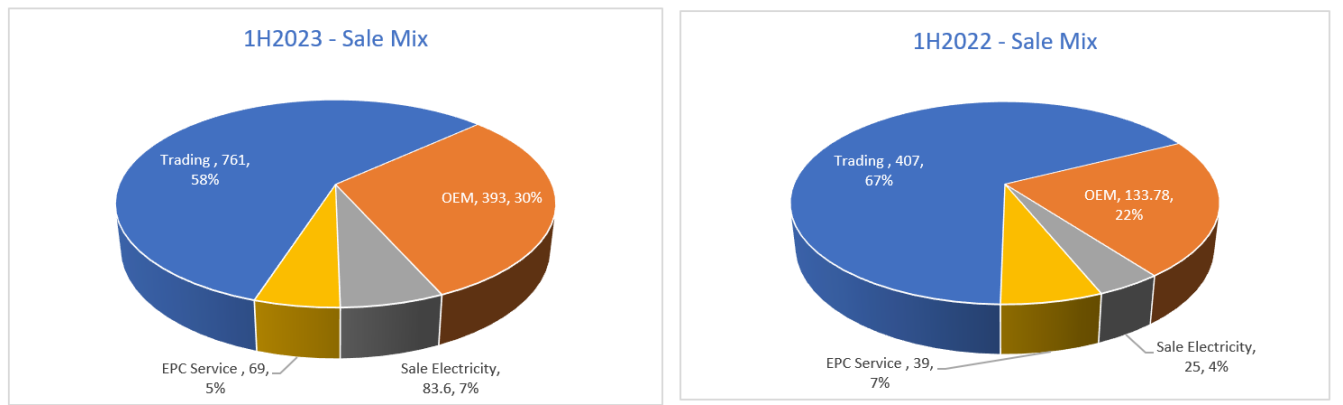
OEM Service BU: in H1 2023, there were 6 consecutive months of OEM orders from customers, compared to only 3 months in H1 2022. It is the company's capacity and capability to produce various types of steel products with certificate. The company recorded revenue from OEM service of Baht 393 million, meanwhile Baht 130 million in 1H 2022.

Sale Mix: In current period, there was no significant changes of sale mix from H12022, 60-70% of total sales contributed from Trading BU and 22-30% represented revenue from OEM service of steel business. The remaining around 11% was revenue from renewable energy for both PPA and EPC service.

Renewable Energy Business:

PPA: As of June 30, 2023 the Group has solar system of which COD total 31.3 MW DC and the Group recognize revenue from sale electricity total of Baht 83.6 Mb in current period compared to 1H 2022 of which 25 Mb from total COD project at 6.6 MW DC.

EPC: there was revenue from EPC contract amount of Baht 69 million from existing customers (repeat order on new phase of their factory) and new customers total of 2.6 MW DC. This should be confirm that the EPC service of the group was met the customer satisfaction in terms of good system performance and after sale service provided to the customer.



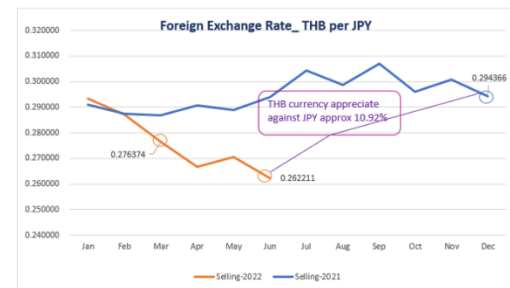
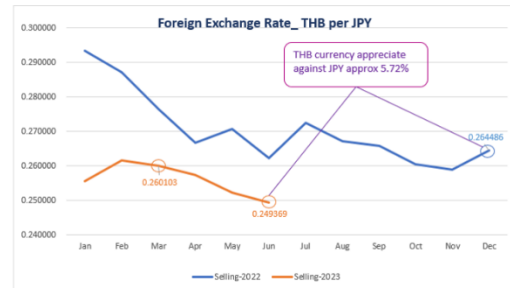
Profit margin:

Total profit margin in current period increase from 1H2022 total of Baht 57.1 million which mainly derive from expansion of revenue from sale and service for both steel and renewable energy businesses. The overall % gross profit margin was not significant changes.

Gain on foreign exchange rate

In H1 2023, the Group recognized unrealized gain from exchange rate total of Baht 13.69 million which mainly derived from energy business compared to Baht 61.69 million gain on forex in H2 2022. The variance amount came from fluctuation of exchange rate in the money market which were used for conversion of outstanding loan from related party which were denominated in JPY currency to THB currency according to financial reporting standard. The fluctuation of exchange rate was presented as follow:

- As at 30 Jun 2023 THB currency appreciated against JPY currency from 31 Dec 2022 by 5.72%. The Company converted JPY currency loan from related party 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 2022 THB currency also appreciated against JPY currency from 31 December 2021 by 10.92%. The Company converted JPY currency loan from related party into THB currency, as a result the company derecognized loan liabilities against unrealized gain on exchange rate.



Selling and Administrative Expenses: in H1 2023, the selling and administrative expenses was decreased from H1 2022 by 120.8 million Baht. The significant decrease mainly came from professional fee which directly related to divestment transactions in overseas subsidiaries.

Finance cost: Financing costs in the current reporting period were related to project financing of solar systems under the renewable energy agreement PPA and interest costs on bonds, the outstanding amounts of which the Group repaid in full in May 2023.

3. The Group Statement of Financial Position as of June 30, 2023

Statement of Financial Position	30-Jun-23	31 Dec 22	Changes	
	Mb	Mb	Mb	%
ASSETS				
Current assets	2,426.33	2,382.10	44.23	1.9%
Non-current assets	2,329.55	2,320.87	8.68	0.4%
Total Assets	4,755.88	4,702.97	52.91	1.1%
Liabilities and Equity				
Liabilities				
Current liabilities	2,252.26	2,536.35	(284.10)	-11.2%
Non-current liabilities	686.91	230.54	456.37	198.0%
Total Liabilities	2,939.17	2,766.90	172.27	6.2%
Shareholders' equity	1,816.71	1,936.08	(119.37)	-6.2%
Total Liabilities and Equity	4,755.88	4,702.97	52.91	1.1%

Total assets: As of 30 June 2023, the Group presented total assets of Baht 4,755.88 million increased from 2022 of Baht 4,702.97 million or equivalent to 1.1%. The increasing mainly came from:

- Current assets increased 44.23 million due to
 - Additional restricted bank deposits for 84 million Baht. The deposit amount was bank reserve account according to the term and condition in loan agreement for project finance. Trade and other receivable which were directly related to receivable from sale of electricity under PPA agreement, and receivable from EPC agreement also increase by 104 million baht from prior year.
 - Cash and cash equivalents and deposits pledged as collateral decreased by 119 million baht due to operations during the reporting period and the impact of the translation of the financial statements of overseas subsidiaries, of which the THB currency appreciated against the JPY currency by approximately 5.7%, resulting in bank deposits pledged as collateral denominated in the JPY currency decreasing by 96 million baht and the group has current tax assets decreased by Baht 23.4 million.
- Non-Current assets increased 8.6 million due to
 - Property, plant and equipment increased by 32.3 mB from investment in solar system according to PPA agreement of the Group and bank deposit pledged as collateral decreased by 28 mB which was replaced by additional credit facilities received from financial institutions.

Total liabilities: increase by 172.27 mB or equivalent to 6.2% from prior year which can be summarized as follow:

- There was additional loan drawdown in current period from project finance total of Baht 475.9 million
- Additional loan from unrelated parties increasing of Baht 210.0 million for working capital and capex cost for solar system
- There were trade and other payable related to capex cost and EPC agreement increased by 78.6 million baht and other liabilities increased 21 Mb

- The Group fully redemption all outstanding balance of debentures total of Baht 430.8 million and partial paid up short-term loan from financial institutions total of Baht 182.9 million

Total equity: decreased from prior year total of Baht 119.4 million which came from net loss operation during the period 14.9 mB and other component of equity decrease by 92.9 million baht from exchange difference on translation of financial statements in foreign currencies by THB currency appreciated against JPY currency approximate 5.7% from prior year resulting in loss of translation from overseas financial statements and non-controlling interest decrease by 12 mB.

4. Analysis of Cashflow Statement

Summary of statement of Cashflow: Consolidated	Mb
Net cash in-flows from operating activities	8.85
Net cash out-flow from investing activities	-29.75
Net cash in-flows from financing activities	55.6
Decrease in translation adjustments	-58.20
Net decreased in cash and cash equivalents	-23.50
Cash and cash equivalent - beginning of the period	<u>67.68</u>
Cash and cash equivalent - end of the period	<u>44.18</u>

Cash in-flow from operating activities

During the current period, the Group had cash inflow from operating activities of Baht 8.85 million, comprising cash flows from operating activities of Baht 81.87 million and cash paid out for interest and income tax of Baht 73.02 million.

Cash out-flow from investing activities

The Group had cash out-flow from investing activities of Baht 29.75 million, mainly comprised of purchase of property, plant and equipment total of Baht 68.3 million, cash used in restriction deposit for 84 Mb, decreased in bank pledged as collateral 124.4 million baht.

Cash in-flow from financing activities

The Group received loan from project finance support on solar system and short-term loan from unrelated party total of Baht 474.6 million and 203 million, respectively. The proceed from loan and operation were used for short-term loan repayment, bond redemption and paid up for lease liabilities total of Baht 622.58 million.

Yours sincerely,

(Mr. Anavin Jiratomsiri)
Chief Executive Committee