

15 May 2023

Subject : Management Discussion and Analysis For the operating results of the 1Q2023

Attention : The President

The Stock Exchange of Thailand

PP Prime Public Company Limited would like to deliver the explanation and analysis of the management for the operating results of the 1Q2023 as follows:

Performance overview

In 1Q2023, PP Prime Public Company Limited (“the Company”) and its subsidiaries had total sales of Baht 354.28 million, comprising of aquatic feed business and pet food business was Baht 206.55 million and Baht 147.73 million, respectively, which accounted for 58.30% and 41.70% of total revenue from sales, respectively. Revenue from sales was increased by 62.45% compared to the previous year.

In 1Q2023, the Company and its subsidiaries had a total net loss of Baht 93.98 million, increased 28.74% compared to the previous year. This was mainly due to increased of selling and administrative expenses and the unrealized loss on exchange rate.

PP Prime Public Company Limited and its subsidiary Statement of comprehensive income (Unit: Million Baht)	Q12023	Q12022	Change increase (decrease)	Percentage
Revenue from sales	354.28	218.08	136.20	62.45
Other incomes	3.15	2.97	0.18	6.06
Total revenues	357.43	221.05	136.38	61.70
Cost of sales	351.11	216.46	134.65	62.21
Selling and administrative expenses	55.17	34.97	20.20	57.76
Loss (profit) expected credit loss	1.71	(2.07)	3.78	182.61
Other loss, net	29.62	27.73	1.89	6.82
Finance costs	3.66	15.97	(12.31)	(77.08)
Total expenses	441.27	293.06	148.21	50.57
Loss before income tax expenses	(83.84)	(72.01)	(11.83)	(16.43)
Income tax expenses	10.14	0.99	9.15	924.24
Loss for the year	(93.98)	(73.00)	(20.98)	(28.74)

Explanation and analysis of financial status and operating results for Q12023

1.1 Revenue

Aquatic business selling

In 1Q2023, the Company gained revenue from the aquaculture feed business of Baht 206.55 million with an increase of 503.95% compared to the previous year due to increased purchasing power from the Chinese market from the reopening of the country. This included fresh and frozen shrimp as well as new products such as live giant freshwater prawns (for consumption). As a result, farmers in Thailand increased the amount of shrimp farming to support such orders. The situation of the aquaculture feed business was better than the previous year. Consequently, sales revenue increased, compared to the previous year.

Pet Food Business

The Company gained revenue from the pet food business of Baht 147.73 million with a decrease of 17.10%, compared to the previous year.

Electric Power Business

Since subsidiaries in Japan have sold 13 power plants out of 15 plants, in 2023, the subsidiaries gained no revenue from the business of the production and distribution of electricity from geothermal energy.

1.2 Cost of Sales

Most of the Company's cost of sales is generated from the cost of raw materials in the production. In 1Q2023, the Company had a total cost of sales of Baht 351.11 million, consisting of the cost of selling aquaculture feed of Baht 202.28 million and the cost of selling pet food of Baht 147.43 million with an increase of 76.22%, compared to the previous year. This is in accordance with the increased revenue from pet food and the production cost of the power plant business was Baht 1.40 million with a decrease of 87.43%, compared to the previous year because there are assets for sale.

1.3 Gross Profit (loss)

Gross profit in 1Q2023 was Baht 3.17 million with an increase of 1.55 million baht, compared to the previous year, accounting for 95.68%.

1.4 Selling and administrative expenses

Selling and management expenses in 1Q2023 were Baht 55.17 million with an increase of Baht 20.20 million or 57.76%, compared to the previous year. The increased in expenses was to boost sales after the coronavirus disease 2019 (COVID-19) situation.

1.5 Other loss, net

Net loss in 1Q2023 was Baht 29.62 million with an increase of Baht 1.89 million or 6.82%, compared to the previous year. Other loss, net was mainly caused by loss on exchange rate.

1.6 Finance costs

Financial cost in 1Q2023 was Baht 3.66 million with a decrease of Baht 12.31 million or 77.08%, compared to the previous year. The reason for the decreased in finance costs was mainly from repayment of loans from financial institutions and redemption of debentures before their maturity.

1.7 Net Profit (loss)

In 1Q2023, the Company and its subsidiaries experienced a net loss of Baht 93.98 million or a net loss of Baht 0.0087 per share.

2. Financial status

2.1 Asset

As of 31 March, 2023, the Company and its subsidiaries owned total assets of Baht 1,357.30 million with a decrease from 31 December, 2022, of Baht 74.45 million or an increase of 5.20%. The difference emerged from the value of trade receivables and other receivables decreased by Baht 19.49 million, due to the company's management to expedite more debt collection and inventories decreased by Baht 20.36 million due to the Company's policy about lower inventory stock.

2.2 Liabilities

As of 31 March, 2023, the Company and its subsidiaries owned total liabilities of Baht 755.18 million with a decrease from 31 December, 2022, of Baht 70.44 million, or 8.53%, primarily due to the Company's loan payments to financial institutions with an amount of Baht 85.15 million.

The ratio of debt to equity as of 31 March, 2023, and 31 December, 2022, was 1.25 times and 1.36 times, respectively.

2.3 Equity

As of 31 March, 2023, the Company and its subsidiaries held shareholders' equity of Baht 602.12 million with a decrease from 31 December, 2022, of Baht 4.01 million or 0.66%, primarily due to the capital increase of Baht 53.35 million and due to total operating losses in 1Q 2023 with an amount of Baht 93.97 million.

Liquidity

In 1Q2023, the Company and its subsidiaries owned a net cash flow used in operating activities of Baht 37.21 million, cash flows generated from investing activities of Baht 10.50 million, cash flows used in financing activities of Baht 22.87 million, and the impact from exchange rates increased by Baht 33.36 million. Therefore, the Company's cash and cash equivalents decreased by Baht 16.21 million. As of 31 March, 2023, the Company and its subsidiaries held cash and cash equivalents at the end of Baht 29.11 million.

Other

Advance payment for construction of geothermal power plants

The advanced payment is a deposit for land to build geothermal power plants. Sumo Power Company Limited, a subsidiary of the Company, paid a deposit of JPY 103 million for land to construct two power plants to two private companies.

Then, Sumo Power Company Limited entered a land transfer agreement for a plot of land located in Beppu, Oita, Japan with the first private company. The first private company transferred the plot of land to the second private company. However, the first private company was obligated to transfer this plot of land to Sumo Power Company Limited. The total asset transfer price was JPY 300 million. Sumo Power Company Limited has already paid the private company JPY 50 million.

On 26 May 2020, Sumo Power Company Limited took legal action against the second company regarding the transfer of ownership of the land and a claim for JPY 1 million in damages from the first company.

On 5 September 2022, the Company assigned the lawyer to withdraw the case and on 14 September 2022, the court judged that the Company's claims were dismissed. Therefore, the case is finalised and completed

Advanced payment for hot spring rights

The advanced payment is a deposit for the royalties from four units of hot spring from the construction of geothermal power plants project, worth JPY 120 million. S-Power Company Limited and Otomeyama Energy Co., Ltd., the subsidiaries, paid the deposit in June 2016.

Advance payment for Riverside Project

The advanced payment is a deposit of JPY 210 million, for a joint venture in a mixed-use real estate project under the Riverside Tower Project ("Riverside Project") in Da Nang, Vietnam. The Company will invest in the amount not exceeding JPY 3,100 million, as part of a joint investment in the project. The Company would have the right to sell and receive all returns from the sale of the project's condominium units, which accounted for at least 50% of the project's total residential area. The Company would be guaranteed a minimum investment return of 6% per year of the Company's total investment. The Company would pay the rest of the investment when the conditions specified in the investment contract were met. However, if the conditions weren't completely fulfilled within the specified period, the Company would have the right to request the deposit be paid back in full.

On 2 July 2018, the Company entered a memorandum of understanding with the joint investment company's shareholders. The shareholders agreed to transfer all their shares to the Company at its par value (JPY 10 million) as collateral for the Company's JPY 210 million deposit payment. The Company has already paid JPY 10 million for the shares used as collateral.

On 30 July 2019, the Company issued a letter to cancel the investment and requested for the deposit to be refunded in full. This is due to the delay in the development of the project and the higher cost of developing such a project.

In November 2019 and May 2020, the Company received JPY 171 million and JPY 5 million of the deposit, respectively, as a refund with JPY 44 million remaining. The Company was in the process of collecting the rest of the money and would continue to take legal action.

Advanced payment for wind power plant

The advanced payment is for investment in the construction of seven units of wind power plants in Japan, with a total value of JPY 247 million. In 2017, the Group's subsidiary paid the advance payment of JPY 232 million to Aura Green Energy Co., Ltd. (a Japanese juristic person joint venture with PPSN Co., Ltd.). The seven wind power plants were in operation and have made sales revenue since 2017.

In December 2019, the Company assigned its legal advisor to send a notice to Aura Green Energy Co., Ltd. regarding the transfer of ownership in the wind power plants but Aura Green Energy Co., Ltd. opposed that the power plants had been handed over to the subsidiary, which doesn't match the facts. As at 30 May 2022, the Company filed Aura Green Energy Co., Ltd., the contracting party, to hand over the power plants and any electricity charges received earlier to the Group's subsidiary.

Subsequently, on 24 October 2022, Aura Green Energy Co., Ltd. filed a counter argument by referring to a memorandum of understanding dated 25 June 2022 which specified that PPSN Co., Ltd. does not have any claims against Aura Green Energy Co., Ltd. and will withdraw the lawsuit. However, the Company's legal advisor gave the opinion to file a counter argument for the validity of the memorandum of understanding. Currently, it is in the process of examination of evidence relating to the memorandum of understanding.

On 12 May 2023, the court considered the evidence of PPSN Co., Ltd. relating to the payment for the construction of wind power plants to Aura Green Energy Co., Ltd. The court ordered Aura Green Energy Co., Ltd. to admit or deny the evidence and file a counter argument. The court scheduled for the next hearing on 22 June 2023.

Short-term loan from and loan to Aulux Power Co., Ltd.

Loan from Aulux Power Co., Ltd. amount of THB 0.26 million, which related company bear interest at the rate of 3 percent p.a. and has maturity on January 2020. The company will not make a new contract and in the future this will be offset with loan to related company.

Loan to Aulux Power Co., Ltd. amount of THB 76.81 million, which related company bear interest at the rate of 3 percent p.a. and has maturity in 2020 - 2021. When the company has better liquidity, the company will continue to follow up by using legal counsel.

The Group's management has assessed the expected credit loss of short-term borrowings by considering the ability to pay the debt of those related parties. As a result, the Company has a risk for uncollectible borrowings in the total amount. Therefore, the loss allowance for short-term borrowings were recognized in the financial statements.

Summary of Shrimp Industry Situation in 1Q2023

The total productivity of post-larvae (PL) in 1Q2023 was Baht 9,474.90 million with an increase of 1.70%, compared to the same quarter last year (Baht 9,320.80 million), divided into a total of Baht 282.00 million baby giant tiger prawns (34.80% decrease) and Baht 8,888.20 million baby pacific white shrimps (3.40% increase).

Shrimp farm production in 1Q2023 was 49,672.80 tons in total, decreasing by 2.10% compared to the same quarter last year with a total production of 50,760.10 tons, divided into giant tiger prawns of 4,350.10 tons and baby giant tiger prawns of 45,322.70 tons, decreasing by 1.90% and 2.20%, respectively.

Trend of Shrimp Industry in 2Q2023

The end of the first quarter and the beginning of the second quarter is the season when farmers start growing shrimp owing to the incremental harvests of shrimp for sale. In the first quarter, the price of shrimp was quite good due to the limited quantity of shrimp in the market as well as most farmers experiencing unsuccessful farming caused by epidemics in the area and some farmers slowing down the shrimp production to observe the situation from various potential factors. However, the second quarter would be the season to release shrimp due to the advantageous weather conditions.

Summary of Fish Industry Situation in 1Q2023

Nile tilapia is still considered the main economic fish in the country in commercial aquaculture. According to the Fish Quarantine and Fishing Vessels Inspection Division, the Department of Fisheries, it was found that the quantity and value of Thai Nile tilapia exports in 2022 were 8,101.01 tons and Baht 504.14 million, respectively. In addition, the Department of Fisheries has bred Nile tilapia and sold them to farmers under the Working Fund of the Department of Fisheries. In the fiscal year 2022, 124,987,560 baby Nile tilapia were sold, causing a revenue of 35,618,668 baht. This indicated that Nile tilapia is still thriving as an economic marine animal and should be driven continuously. In the fiscal year 2023, the working group drove Nile Tilapia Development Action Plan along the value chain from upstream, midstream, and downstream. This includes the dissemination of knowledge in culture through the use of technology and modern innovations to produce quality Nile tilapia based on standards and to drive the economy through quality marketing channels that can support large amounts of output. This is to solve the problem of oversupply of Nile tilapia.

Sea bass tends to grow as well due to growing tourism. In most cases, the sea bass market is popularly entering various types of restaurants.

Trend of Fish Industry in 2Q2023

The second quarter as in the summer affected the slowdown in the feeding of fish in the cage and pond fish, thus leading to slower growth. Farmers needed to raise fish for longer than usual, causing the lower quantity of fish sold to the market and the increased cost of culture. Fish prices also decreased. Therefore, some farmers faced losses in profits and a delay in raising fish in the next round.

Summary of Pet Industry Situation in 1Q2023

The future of pet products in 2023 continues to expand by 8-10%. At present, consumer trends in pet care have shifted from ownership to family bonding and they want to choose good quality stuff for their pets, including food, appliances, and services. Consequently, the retail business of pets and related supplies tends to expand constantly. The growing customer group was a group of cat owners while the dog food market holds the highest market share in terms of revenue and spending portion, and this market share is likely to increase as demand for premium treats increases. They treat pets with love and bond, causing the demand for more equipment, such as other types of animal feed, which are more diverse than pellets or wet food. The most prevalent types of pets are expected to be 1. cats, 2. small animals, 3. dogs, 4. fish, and 5. birds, respectively.

Trend of Pet Industry in 2Q2023

According to predictions, the pet product industry tends to grow continuously from Q1 to Q2 and the export situation is likely to increase as well. In addition, in 2023, in Thailand, marketing activities would be more driven which can be observed through trade shows and pet fairs throughout 2016, leading to domestic consumption enhancement, and pet owners tend to increase as well.

Yours sincerely,

PP Prime Public Company Limited

(Mrs. Supattra Nakmontanakum)

Director / Chief Executive Officer

Corporate Secretary Division

Tel. 02-029-1480