

15 August 2023

Subject : Management Discussion and Analysis For the operating results of the 2Q2023

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 2Q2023 as follows:

Performance overview

In 2Q2023, PP Prime Public Company Limited (“the Company”) and its subsidiaries had total sales of Baht 374.91 million, comprising of aquatic feed business and pet food business was Baht 277.73 million and Baht 97.18 million, respectively, which accounted for 74.08% and 25.92% of total revenue from sales, respectively. Revenue from sales was increased by 55.08 % compared to the previous year.

In 2Q2023, the Company and its subsidiaries had a total net loss of Baht 46.45 million, decreased 25.66% compared to the previous year. This was mainly due to decreased of impairment loss TFRS9 and finance costs.

PP Prime Public Company Limited and its subsidiary Statement of comprehensive income (Unit: Million Baht)	Q22023	Q22022	Change increase (decrease)	Percentage
Revenue from sales	374.91	241.76	133.15	55.08
Other incomes	7.52	5.10	2.42	47.45
Total revenues	382.43	246.86	135.57	54.92
Cost of sales	(355.64)	(243.18)	112.46	46.25
Selling and administrative expenses	(62.53)	(41.91)	20.62	49.20
Expected credit loss	(6.41)	(24.26)	(17.85)	(73.58)
Other profit (loss), net	(1.25)	11.56	12.81	110.81
Finance costs	(3.32)	(16.76)	(13.44)	(80.19)
Total expenses	(429.15)	(314.55)	114.60	36.43
Profit (loss) before income tax expenses	(46.72)	(67.69)	(20.97)	(30.98)
Income (expenses) tax expenses	0.27	5.21	(4.94)	(94.82)
Profit (loss) for the period	(46.45)	(62.48)	(16.03)	(25.66)

Explanation and analysis of financial status and operating results for 2Q2023

1.1 Revenue

Aquatic business selling

In 2Q2023, the Company gained revenue from the aquaculture feed business of Baht 277.73 million with an increase of 221.19% 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 97.18 million with a decrease of 35.43%, compared to the previous year. Due to the situation of pet food, there has been a slowdown in orders since the end of 2022.

Electric Power Business

In 2023, the subsidiary has ceased to produce and distribute electricity from geothermal energy resulting in a decrease in total income.

1.2 Other incomes

Other incomes in 2Q2023 was Baht 7.52 million with an increase of 2.42 million baht, compared to the previous year, accounting for 47.45%. Mainly caused by the sale of waste materials.

1.3 Cost of Sales

Most of the Company's cost of sales is generated from the cost of raw materials in the production. In 2Q2023, the Company had a total cost of sales of Baht 355.64 million, consisting of the cost of selling aquaculture feed of Baht 261.16 million and the cost of selling pet food of Baht 93.15 million with an increase of 51.49%, 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 1.33 million with a decrease of 85.71%, compared to the previous year because in July 2022, Subsidiaries have sold 13 power plants out of 15 plants.

1.4 Gross Profit (loss)

Gross profit (loss) in 2Q2023 was Baht 19.27 million with an increase of Baht 20.69 million, compared to the previous year, accounting for 1,457.04%.

1.5 Selling and administrative expenses

Selling and management expenses in 2Q2023 were Baht 62.53 million with an increase of Baht 20.62 million or 49.20%, compared to the previous year. The increased in expenses was to boost sales.

1.6 Other profit (loss), net

Other loss, net in 2Q2023 was Baht 1.25 million with an increase of Baht 12.81 million or 110.81%, compared to the previous year. Mainly due to exchange rate of foreign companies.

1.7 Finance costs

Financial cost in 2Q2023 was Baht 3.32 million with a decrease of Baht 13.44 million or 80.19%, 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.

1.8 Net Profit (loss)

In 2Q2023, the Company and its subsidiaries experienced a net loss of Baht 46.45 million or a net loss of Baht 0.004 per share.

2. Financial status

2.1 Asset

As of 30 June 2023, the Company and its subsidiaries owned total assets of Baht 1,431.42 million with a decrease from 31 December 2022, of Baht 0.33 million or an increase of 0.02%.

2.2 Liabilities

As of 30 June 2023, the Company and its subsidiaries owned total liabilities of Baht 830.86 million with a decrease from 31 December 2022, of Baht 5.24 million, or 0.63%, primarily due to the account payable as well as the creditors are of Baht 75.03 million from the usual operation resulting and the Company's loan payments to financial institutions with an amount of Baht 85.16 million.

The ratio of debt to equity as of 30 June 2023, and 31 December 2022, was 1.38 times and 1.36 times, respectively.

2.3 Equity

As of 30 June 2023, the Company and its subsidiaries held shareholders' equity of Baht 600.56 million with a decrease from 31 December 2022, of Baht 5.57 million or 0.92%, primarily due to the capital increase of Baht 98.91 million and due to total operating losses in 2Q 2023 with an amount of Baht 140.43 million.

Liquidity

In 2Q2023, the Company and its subsidiaries owned a net cash flow used in operating activities of Baht 93.73 million, cash flows used in investing activities of Baht 0.34 million, cash flows generated from financing activities of Baht 49.87 million, and the impact from exchange rates increased by Baht 38.82 million. Therefore, the Company's cash and cash equivalents decreased by Baht 5.37 million. As of 30 June 2023, the Company and its subsidiaries held cash and cash equivalents at the end of Baht 39.95 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 payments for the construction of wind power plants to Aura Green Energy Co., Ltd. Currently, it is in the process of examination of evidence relating to the payments. The court scheduled for the next hearing on 18 August 2023.

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

Loan from Aulux Power Co., Ltd. amount of THB 0.25 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 73.69 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 2Q2023

The number of baby shrimp raised in the farm in Q2/2023 was 8,530 million units with a decrease of 9.9%, compared to Q1/2023 and a decrease of 5.78%, compared to the same period last year whereas the production of shrimp from farms in Q2/2023 was 811,536.85 tons with an increase of 64.14%, compared to Q1 and an increase of 24.81%, compared to the same period last year.

Regarding the trend of the shrimp industry in 3Q/2023, the increased production in Q2 resulted in a decrease in domestic shrimp prices. Moreover, the world's shrimp price and the export volume decreased of Thai shrimp to the main importers, namely the US and Japan by 39.26 and 16.47%, respectively. Consequently, farmers are expected to delay the release of new shrimp from the end of Q2 to Q3 to control the output to balance export demand and domestic consumption, hoping that the price of shrimp will go up in line with the current increasing farming costs. Although the survival rate and disease resistance of the well-raised baby shrimp increased productivity, most farmers still experienced the problem of cost management and therefore delayed the release of new babies to assess the situation.

Summary of Fish Industry Situation in 2Q2023

The farming situation's yield and yield per rai are expected to decrease. Since the price of ready-made pellets and energy costs have been adjusted to increase, farmers experienced higher production costs. Therefore, farmers delayed the release of baby fish. The price of fish tends to increase from Q1, including Red Tilapia fish and catfish while Nile Tilapia and Snapper tend to decrease. All kinds of fish prices tend to stabilize in Q3. The overall farming and fish prices in 2023 are better than in 2022.

Summary of Pet Industry Situation in 2Q2023

As for the pet food value, which has enlarged in double-digit growth in the 3 6 months, COVID-19 influenced consumers to stay at home. Therefore, they chose to raise dogs, cats, and other animals. After the spread of COVID-19, many people stopped working from home, and the value of pet food began to be back to normal conditions. With the economy that began to slow down, the pet food value in Thailand began to decrease since October 2022 and during the first 5 months of 2023. From Q3 onwards, the trend starts to improve gradually. The growth of the pet food market in 2023 consisted of 2 main factors. People raised more cats in Thailand. In addition, cats are cute and more convenient to raise in terms of the place. As a result, cat food grows more than dog food. Regarding exports in the first 4 months (Jan to Apr in 2023), Thailand exported pet food products to the world market for 750 million dollars, namely to the FTA for 432 million US dollars accounting for 58% of all pet food exports. Markets that continued to expand included the Philippines at 12%, Cambodia at 56%, Myanmar at 8%, and Peru at 64%. In the second half of the year, it is expected that Thai exports of pet food products will expand more. Therefore, this is an opportunity for Thai entrepreneurs to take advantage of the FTA to enhance exports and add value to the products.

Yours sincerely,

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