

13 November 2024

Subject : Management Discussion and Analysis for the operating results of the 3Q2024

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 3Q2024 as follows:

Performance overview

PP Prime Public Company Limited and its subsidiary Statement of comprehensive income (Unit: Million Baht)	3Q2024		3Q2023		Change increase (decrease)	Percentage
Revenue from sales	202.42	100%	305.12	100%	(102.70)	34%
Cost of sales	(196.56)	(97%)	(288.34)	(94%)	(91.78)	32%
Gross profit	5.86	3%	16.79	6%	(10.93)	65%
Other incomes	5.56	3%	3.64	(1%)	1.92	53%
Selling expenses	(3.12)	(2%)	(16.19)	(5%)	(13.07)	81%
Administrative expenses	(23.29)	(12%)	(30.46)	(10%)	(7.17)	24%
Expected credit loss	(0.59)	(0.3%)	(6.29)	(2%)	(5.70)	91%
Gain on disposals of property, plant and equipment	0.48	0.2%	-	-	0.48	100%
Other gain (loss), net	(60.20)	(29%)	7.60	2%	67.80	892%
Finance costs	(1.43)	(0.7%)	(3.00)	(1%)	(1.57)	52%
Loss before income tax	(76.73)	(38%)	(27.92)	(9%)	(48.81)	175%
Income tax	(3.40)	(2%)	(0.22)	0%	3.18	1,446%
Loss for the period	(80.13)	(40%)	(28.14)	(9%)	(51.99)	185%

In the 3Q2024, PP Prime Public Company Limited (“the Company”) and its subsidiaries had revenue structure in Q3 changed due to a higher proportion of pet food production, which has a lower gross profit than aquatic feed. As a result, total sales of Baht 202.42 million, comprising of aquatic feed business and pet food business was Baht 34 million and Baht 168 million, respectively, which accounted for 17% and 83% of total revenue from sales, respectively. Revenue from sales was decreased by 34 % compared to the previous year.

In the 3Q2024, the Company and its subsidiaries had a total net loss of Baht 80 million, increase of Baht 52 million and gross profit is about 5.86 million baht, with a gross profit margin of 3% of revenue, decreased from the last year, which had a gross profit margin of 6%.

For the operating outcome in Q3, the main cause is the loss from the exchange rate of the overseas subsidiary, which was 60 million baht, mainly due to the decline of the Yen currency. If deducting the exchange rate and non-cash items such as depreciation of approximately 13 million baht, the remaining loss before tax is approximately 4 million baht. If deducting the expenses incurred in the subsidiary, the company has a loss before tax of approximately 2 million baht.

In Q3, the company decreased the selling and administrative expenses from the previous year, including Q1 and Q2, with an average of 40 million baht/quarter, to only 23 million baht.

Explanation and analysis of financial status and operating results for 3Q2024

1.1 Revenue

Aquatic business selling

In 3Q2024, the Company gained revenue from the aquaculture feed business of Baht 34.27 million with decrease of 81.38%, compared to the previous year. Since farmers continue to face the problem of low shrimp prices despite the adjustment of shrimp prices in late Q3. The situation of the aquaculture feed business was lower than the previous year. Consequently, sales revenue decreased, compared to the previous year.

Pet Food Business

The Company gained revenue from the pet food business of Baht 168.15 million with an increase of 38.87%, compared to the previous year. Since the situation of pet food continues to growth rate. As a result, more orders will come in. Consequently, sales revenue increased, compared to the previous year.

1.2 Other incomes

Other incomes in 3Q2024 was Baht 5.56 million with an increase of Baht 1.92 million, compared to the previous year, accounting for 53%. Most of it came from interest income from loans to external parties.

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 3Q2024, the Company had a total cost of sales of Baht 196.56 million with the decrease of 32%, compared to the previous year. This is in accordance with the decreased revenue from food consisting of the cost of selling aquaculture feed of Baht 36.71 million with the decrease of 78%, compared to the previous year and the cost of selling pet food of Baht 159.85 million with the increase of 40%, compared to the previous year.

1.4 Selling expenses

Selling and management expenses in 3Q2024 were Baht 3.12 million with decrease of Baht 13.07 million or 81%, compared to the previous year. The company has a policy to control excessive costs and reduce the employees, Therefore, sales expenses decreased as described earlier.

1.5 Expected credit loss

Expected credit loss in 3Q2024 were Baht 0.59 million, decrease of Baht 5.70 million or 91% compared to the previous year. It is caused by the reversal of the allowance for receivables from the payment in 2024.

1.6 Other gain (loss), net

Other loss in 3Q2024 was Baht 60.20 million, It is mostly caused by the Group's exchange rate loss in Q3.

1.7 Finance costs

Financial cost in 3Q2024 was Baht 1.43 million with decrease of Baht 1.57 million or 52%, compared to the previous year. The reason for the decreased in finance costs was mainly from repayment of loans from financial institutions and payment of debentures due in year 2024.

1.8 Net loss

In 3Q2024, the Company and its subsidiaries experienced a net loss of Baht 80.13 million or a net loss of Baht 0.113 per share.

2. Financial status

2.1 Asset

As of 30 September 2024, the Company and its subsidiaries owned total assets of Baht 930.75 million with a decrease from 31 December 2023, of Baht 203.67 million or 18%, mainly due to decrease in trade and other current receivables of Baht 135.25 million. It is due to the Company's receipt of payment for finish goods and decrease in property, plant and equipment of Baht 62.44 million from disposal on power plant in subsidiary company and depreciation.

2.2 Liabilities

As of 30 September 2024, the Company and its subsidiaries owned total liabilities of Baht 402.30 million with a decrease from 31 December 2023, of Baht 193.75 million, or 33%, Due to the sale of the power plant, the deposit received from the power plant sales agreement decreased from the previous year in the amount of Baht 95.87 million. This includes the payment of long-term loans from financial institutions by 71.23 million baht and the debentures due on 8 May 2024, by 33.99 million baht.

The ratio of debt to equity as of 30 September 2024, and 31 December 2023, was 0.76 times and 1.11 times, respectively.

2.3 Equity

As of 30 September 2024, the Company and its subsidiaries held shareholders' equity of Baht 528.45 million with decrease from 31 December 2023, of Baht 9.91 million or 2%. It is mostly due to the operation performance for the nine-month period, which had a net loss of 80.13 million baht, but during the year, ordinary shares issuance by 43.07 million baht, leading to a net decrease in shareholders' equity as described earlier.

Liquidity

In 3Q2024, the Company and its subsidiaries owned a net cash flow used in operating activities of Baht 19.67 million, cash flows generated from investing activities of Baht 4.94 million, cash flows used in financing activities of Baht 43.47 million, and the impact from exchange rates increased by Baht 62.21 million. Therefore, the Company's cash and cash equivalents increased by Baht 4.01 million. As of 30 September 2024, the Company and its subsidiaries held cash and cash equivalents at the end of Baht 17.14 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 unsold condominium units. 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 consider 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. 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 21 December 2023.

On 30 April 2024, 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. again. Currently, it is in the process of examination of evidence relating to the payments. The court scheduled for the next hearing on 3 June 2024.

On 17 June 2024, the court requested PPSN Co., Ltd. and Aura Green Energy Co., Ltd. to submit additional documents relating to the payments and delivering of the power plant. The Court scheduled the next hearing on 7 August 2024.

On 7 August 2024, the court considered the additional submitted documents and Aura Green Energy Co., Ltd. withdrew the argument relating to the memorandum of understanding. Also, the court designated the hearing for witness examination on 10 October 2024. The court scheduled for the next final hearing on 23 January 2025.

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

Loan from Aulux Power Co., Ltd. amount of THB 0.23 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 58.53 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.

Advance received from sales contract of geothermal power plants

On 21 June 2018, the Company entered a preliminary agreement on the sale of 15 geothermal power plants, which are commercially operated. The total purchase price was approximately JPY 4,800 million and was paid to Relocation House Corporation (Relocation Group), a company established under Japanese law (the buyer). The Company considered disposing the power plant projects by either selling shares in the Company's subsidiary who owned the power plant projects or disposing of the assets of the power plant projects. The Company received a deposit of JPY 200 million. According to a preliminary agreement (Memorandum of Understanding), the buyer (Relocation Group), was required to pay the remaining amount of JPY 4,600 million by February 2019.

Subsequently, in February 2019, Relocation Group transferred its rights and obligations under the preliminary agreement to Beppu Forest Power Co., Ltd. (BF Power), who shared directors with the asset seller subsidiary until 30 June 2019, and PPSN Co., Ltd. (PPSN), a subsidiary. BF Power entered a contract to purchase 15 power plant projects ("Power Plant Project") (Contract No. 1) on 25 February 2019. It was agreed that BF Power would pay a deposit of JPY 400 million and transfer 25% of BF Power's shares to PPSN on 15 March 2019. PPSN would transfer ownership of four power plants (part of the 15 plants above) to BF Power within 15 days of completing the payment.

On 5 April 2019, PPSN entered a contract to sell four power plants (Contract No. 2) to BF Power at a total price of JPY 800 million. This involved JPY 400 million to be paid within two weeks of the contract date and another JPY 400 million to be paid within one year of the contract date. PPSN has already received the deposit of JPY 400 million. The Group received a total deposit of JPY 600 million, represented as deposit received, and the transfer must be approved by the Board of Directors. The memorandum stated that BF Power has the right to terminate the contract if the transfer wasn't approved by the Board of Directors. The contract was created for four parties: BF Power, PPSN, Lena Power Station No.1 LLC (LENA) and the Company. BF Power and PPSN were the only party to sign the contract. The Company's legal advisor gave the following opinions on the second contract as follows :

1. If LENA could prove that it didn't authorise PPSN to sign the contract on its behalf, LENA wouldn't be bound to the contract.
2. If the Company could prove that it didn't authorise PPSN to sign the contract on its behalf, the Company wouldn't be bound to the contract.

The second former director at that time confirmed he didn't sign the contract, but the first former director signed it on his behalf. The legal advisor in Japan advised that this is a matter of true intention of entering a contract, according to Japanese law. If it conflicted with the intention of a signatory, this contract would be void. If it could be proven that the second former director didn't sign this contract, but the first former director signed it, this contract wouldn't be binding for PPSN.

In December 2019, the Company sent a notice requesting BF Power to pay the remaining amount of JPY 4,200 million to the Company by 31 January 2020. If BF Power failed to pay the rest of the money, the Company would exercise their right to terminate the contract and confiscate the deposit of JPY 600 million. The Company confirmed that they would sell the power plants at JPY 320 million each and didn't accept the contract that BF Power made later to buy the four power plants at JPY 200 million each.

During January 2020, PPSN and LENA were notified by the electricity buyers of subsidiaries in the electricity generating group totaling four power plants that the electricity charges paid to the subsidiaries for the period of January 2020 onwards has been placed at the Oita Legal Affairs Bureau, which currently has money deposited in the amount of JPY 11,383,944 and JPY 16,599,528.

On 18 June 2020, PPSN received a letter from BF Power referring to the second contract dated 5 April 2019 by BF Power to cancel the purchase of two power plants owned by LENA, a subsidiary of the Company. On 17 July 2020, PPSN received "a summons to report on the date of the first verbal statement and a request letter for a response letter" from BF Power. It demanded that PPSN should pay BF Power JPY 40,540,542 plus 3% of accrued interest per year, starting from 2 May 2020 until the payment was completed, and the cost of litigation. However, "the summons to report on the date of the first verbal statement and a request letter for a response letter" required PPSN to submit the testimony on 27 August 2020.

On 6 August 2020, PPSN received two copies of an order for a temporary seizure of assets from the Tokyo District Court in Japan. The orders are summarised below.

1. According to order no. 1 for the temporary seizure of assets, the court ordered the temporary seizure of two of PPSN's plots of land where one power plant is located (power plant unit B). BF Power was required to place a guarantee of JPY 300,000. If PPSN could pay a security deposit of JPY 1,404,131, PPSN could request to suspend or withdraw the order.
2. According to order No. 2 on the temporary seizure of assets, the court ordered the temporary suspension of revenue from the sale of electricity generated by power plant unit B from 17 July 2020 to 16 July 2021. It also required BF Power to pay a guarantee of JPY 7.90 million. If PPSN could pay a security deposit of JPY 39,433,306, PPSN could request to suspend or withdraw the order.

In response, the Company assigned a lawyer to the case to file a petition to counter the two orders.

On 8 June 2021, an offset of debt and expenses of JPY 40.5 million was added with the next hearing date scheduled on 26 July 2021, which BF Power didn't file a counter argument as it was in the process of settlement negotiations. The next hearing date was scheduled on 20 January 2022.

During 2023 and 2024, the Company is still in the process of settlement negotiation with BF Power for the sale of a power plant of PPSN. However, the conditions and obligation of the mentioned purchase have been continuously presented in the next court hearings and still could not be finalised.

On 10 January 2024, The Company presented the conditions and obligation of the mentioned sale agreement to BF Power for consideration. BF Power proposed to change some conditions. The settlement agreement was signed by both parties on 29 February 2024. The subsidiary has transferred power plants to BF Power in the exchange of deposit amounting to JPY 400 million, equivalent to Baht 95.88 million, that received from BF Power on 11 April 2019. According to conditions in the agreement, the Company transferred power plant at total selling price of JPY 363.64 million, equivalent to Baht 87.16 million and net book value of JPY 185.11 million, equivalent to Baht 44.37 million. As a result, the Group recognised gain on disposals of the assets of JPY 178.53 million, equivalent to Baht 42.79 million in the consolidated statements of comprehensive income during the period. The electricity charges which the electricity buyers of subsidiaries placed at the Oita Legal Affairs Bureau belong to BF Power and LENA in the amount of JPY 11,383,944 and JPY 16,599,528, respectively. The subsidiary also complied with other conditions specified in the agreement already. Consequently, BF Power has withdrawn the lawsuit relating to the power plant sale contract with the subsidiary. As a result, the dispute between the subsidiary and the buyer in the geothermal power plant sale contract in Japan finalised.

Summary of Shrimp Industry Situation in 3Q2024

Regarding shrimp farming in Q3 (white shrimp (Vannamei) and black tiger shrimp), the intensive farming in July-September had a total production of 23,068.82 tons, including the production from the assessment of the aquatic animal transport document database with the amount of Vannamei 85% and black tiger shrimp 15%.

Shrimp farming was quite delayed and production decreased as farmers assessed the market price. At the beginning of Q3, the price of Vannamei at the Talaythai Market in Samut Sakhon tended to decrease. In Q2, the price of shrimp decreased, along with increased costs of shrimp food, chemicals, and energy. However, the price of shrimp increased at the end of Q3. Farming was quite difficult and not very successful due to white feces syndrome and early mortality syndrome, causing shrimp to gradually die. The survival rate was low due to breeding which makes shrimp grow too fast, reducing disease resistance. Therefore, farmers changed to shrimp breeds that are more resistant to disease. In addition, the weather was unstable, with a lot of rain with hot weather. Some areas had White spot disease. The infection started from the hatchery. Black tiger shrimp farming decreased by about 15%, but overall, it accounted for 6.44% of total production. Due to the problem of the black tiger shrimp export market (live shrimp) to China, which has decreased in quantity, there was a market for the products by selling them as boiled shrimp in front of the manufactory. Therefore, farmers changed to white shrimp farming to avoid the problem of the market and the price of white shrimp is better than black tiger shrimp. When comparing the same size, the giant freshwater prawn farm was mixed with white shrimp in the central region. The selling price of giant freshwater prawns also decreased. Domestic consumers held less purchasing power. At the end of Q3, some areas in the central region experienced flooding, causing farming to decrease.

Shrimp Industry Trends in 4Q2024

In Q4, the number of new shrimp farming was expected to decrease due to the end of the rainy season and the beginning of winter. Due to the heavy rainfall at the end of Q3, it was expected that the cold season would arrive relatively early, which increases the risk of the outbreak of the white spot disease, which severely damages shrimp. However, it was expected that farmers would still increase the number of shrimp stocks compared to 2023. At the same time, it was expected that 30-40% of the area would be farmed since the price of white shrimp in late September 2024 increased, which is an incentive for farmers to stock more shrimp. As in Q4, cold storage rooms accepted orders for export, they need products to sell during the Christmas and New Year festivals in the European and American markets. It was expected that the price would increase, which will be in high demand during that time. As for the black tiger shrimp market, live shrimp can be exported to the Chinese and Hong Kong markets during the Chinese New Year festival, which is the best price period of the year.

Summary of Pet Industry Situation in 3Q2024

In Q3, the domestic pet food market and exports decreased by about 20% compared to Q2 due to the increased Baht value as the main barrier affecting exports, even though Thailand is a quality production base praised by foreign countries. In addition, aquatic animal feed firms increased the production of pet food and hired to create their brands, which caused quite high price competition, especially for ready-to-eat pet food in the form of economical grades, compared to standard and high-quality grades. This market segment emphasizes quality more than price and also has complete nutritional value. In particular, the high-quality grade market is specifically for groups with love, care, and affection, so they value pets as family members.

Ready-to-eat food is still popular, including dry and wet pet food, as well as animal clinics and snacks. However, in the past, wet food and cat snacks have grown significantly, in line with people raising more cats, causing the export volume to vary according to the population. The export market includes markets in Europe, Japan, the Middle East, and neighboring countries in the ASEAN, which are large markets, such as Malaysia, Indonesia, and Singapore.

Pet Industry Trends in 4Q2024

The pet market in Q4 was expected to have sales volumes similar to Q3 and domestic product consumption and export orders continued to increase by approximately 3-5% since pets are still popular and are less affected by the season or weather than aquatic animals. Therefore, from October to November 2024, stocks were ordered to close sales in 2024, and sales remained steady from the end of Q3 and decreased in December.

Yours sincerely,

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(Mr. Romsai Tandakoseya)

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