



บริษัท ปาโตเคมีอุตสาหกรรม จำกัด (มหาชน)

PATO CHEMICAL INDUSTRY PUBLIC CO., LTD.

Pato Building, 3388 New Petchburi Road, Huaykwang, Bangkok 10310, Thailand.  
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President

The Stock Exchange of Thailand

The consolidated financial statement of Pato Chemical Industry Plc. and its subsidiary for Q2 ended June 30, 2019 operational performance are as follows:

Unit : Million

	Comparison Q2/2019 and Q2/2018			Comparison 6-Month Period 2019 and 2018		
	Amount	Increase (Decrease)	% Change	Amount	Increase (Decrease)	% Change
Total sales	181.80	(76.13)	(29.51)	297.79	(105.01)	(26.07)
Cost of Sales	125.90	(44.42)	(26.08)	207.68	(55.94)	(21.22)
Gross Profit	55.90	(31.71)	(36.19)	90.11	(49.07)	(35.26)

Main reasons for the above performance are as follows:

1. Drought situation with insufficient rainfalls and irrigation water causing shortage of water for cultivation. Prices of agricultural products in many crops has fallen significantly, such as palm oil, cassava, maize, etc. Average price of rice paddy increases slightly, but still not up to the level that would be considered good. Therefore, purchasing power of farmers decreased, and demand for agrochemical product decreased as well.
2. Low infestation of insects, weeds, as well as fungus-based diseases except for the infestation of Fall Armyworm in maize and mite in fruit crops.
3. Shortage of raw material and agrochemical products due to strict enforcement of environmental laws in China. Production capacity is limited while some manufacturers of raw materials are forced to shut down. Production capacity is reduced. Prices of raw material increase consequently.
4. Intense price competition in the market causing the company to lower selling prices of products in order to maintain market share.



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The above factors result in total sales and gross profit of Q2/2019 and 6-month period of 2019 decreased. Even though the cost of sales decreased for both Q2/2019 and 6 month period of 2019, but the rate of decrease is lower than the rate of decrease in sales, so gross profit margin decreased by 36.19% and 35.26% respectively.

Unit : Million Baht

	Comparison Q2/2019 and Q2/2018			Comparison 6-Month Period 2019 and 2018		
	Amount	Increase (Decrease)	% Change	Amount	Increase (Decrease)	% Change
Gain from Investment	1.62	1.20	292.02	4.92	2.45	99.07
Forex Gain (Loss)	1.95	4.80	168.54	2.70	5.25	194.23
Other Revenue	0.02	(0.006)	(29.42)	0.32	(0.78)	(71.08)

Income from investments increased in Q2/2019. Due to volatile stock market condition with increasing SET index, net investment income, mainly from profit from sales of investments, unrealized capital gain from equity investments increased but saw a decrease in dividend received. The Company has the policy to minimize forex risk exposure from fluctuations with forward contracts resulting in an increase of forex gain. Other income increased from trading in expired product packaging materials.

Income from investments decreased for 6-month period of 2019. Due to volatile stock market condition with increasing SET index for the period, net investment income, mainly from profit from sales of investments, dividends and unrealized capital gain from equity investments increased but saw a decrease in dividend received. The Company has the policy to minimize forex risk exposure from fluctuations with forward contracts, but still resulting in an increase of forex gain. Other income increased from trading in old vehicle and sales of office supplies and expired product packaging materials.



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Unit: Million Baht

	Comparison Q2/2019 and Q2/2018			Comparison 6-Month Period 2019 and 2018		
	Amount	Increase (Decrease)	% Change	Amount	Increase (Decrease)	% Change
Cost of sales	8.38	(4.52)	(35.03)	15.42	(5.95)	(27.82)
Administrative Cost	13.36	2.12	18.84	22.72	1.78	8.52
Financial Cost	0.59	0.25	72.95	1.11	0.55	96.56
Income Tax	7.27	(4.50)	(38.26)	11.55	(7.25)	(38.57)

Selling Expenses in Q2/2019 sees a decrease. The decrease in sales is from the decline in market demand. Price competition intensifies under tough market condition. To maintain market share, the company need to spend in accordance with current situation to create the most economical and effective expenses. Selling expenses decreased at higher rate than the decrease in sales such as sales promotion, commission, transportation expenses, and registration fee. Administrative expenses sees an increase on employee benefits. During Q2/2019, the company booked the retirement benefit amount of 4.10 million baht to reflect the effectiveness of the current Labor Protection Law regarding retirement compensation for employees who have completed 20 years or more. The compensation benefit calculated will be 400 days compared with the previous law that employees who have completed 10 years or more received the compensation benefit of 300 days.

Similarly, the selling expenses for 6-month period of 2019 decreased. The decrease in sales was from the decrease in market demand. Price competition intensifies as market players struggle to maintain market share under tough market condition. To maintain market share, the company need to spend in accordance with current situation to create the most economical and effective expenses. Selling expenses decreased at the higher rate than the decrease in sales such as sales promotion, commission, transportation expenses, and registration fee. Administrative expenses sees an increase on employee benefits. During Q2/2019, the company booked the retirement benefit amount of 3.95 million baht to reflect the effectiveness of the current Labor Protection Law regarding retirement compensation for employees who have completed 20 years or more. The compensation benefit calculated will be 400 days compared with the previous law that employees who have completed 10 years or more received the compensation benefit of 300 days.



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Financial Cost for Q2 and 6-month of 2019 show significant increase due to longer T/R payoff period awaiting for favorable timing and opportunity to cover forex risk exposure with forward contracts and turn the US dollar based T/R to Thai Baht T/R to avoid impact from the currency exchange and led to the increase longer T/R payoff. In addition, the rising interest rate also increased the financial cost.

Income Tax in Q2 and 6-month period of 2019 decreased due to the decrease in sales revenue and led to the decrease in income before tax.

From the reasons mentioned above, the company sees a net profit in Q2 and 6-month period ended June 2019 of 29.89 million baht and 47.26 million baht, a decrease of 19.05 million baht and 31.29 million baht or a difference of 38.93% and 39.84% y-o-y respectively.

Unit: Million Baht

	Comparison Ended June 30, 2019 with December 30, 2018		
	Amount	Increase (Decrease)	% Change
Total Assets	697.29	(94.03)	(11.88)
Total Liabilities	202.65	(1.67)	(0.82)
Shareholders' Equity	494.63	(92.36)	(15.73)

Total assets decreased from the change in cash, cash equivalents, and short-term investments. Account receivables, other receivables, and inventories increased from the purchase of raw materials especially in Q2 to fulfill production to meet market demand for the next quarter. In addition, available-for-sales investment show the gain from the difference of fair value during the fluctuated and risen of the stock market and resulting in the increase in deferred tax. There was the purchase of a new car to replace the old one.

Liabilities show an increase of short-term loan from financial institutions (T/R) due to the volatility of the forward contract done to mitigate the impact of forex, the increase of interest rate led to the change of US dollar based T/R to Thai baht T/R. The longer T/R payoff was from the waiting for favorable timing and opportunity to cover the exposure in order to minimize impact from the currency exchange. Besides, the import of raw materials increased the liabilities.

The increase in Shareholders' equity are from operational result of the Company and its subsidiary, and other items including the decrease in unrealized loss on securities available-for-sales due to risen stock prices by the quarter end.



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The company has a strong financial structure with a current ratio of 3.04 and debt-to-equity ratio of 0.41



Yours faithfully,

  
(Metha Trillit)

President