



บริษัท ปาโตเคมีอุตสาหกรรม จำกัด (มหาชน)

PATO CHEMICAL INDUSTRY PUBLIC CO., LTD.

Pato Building, 3388 New Petchburi Road, Huaykwang, Bangkok 10310, Thailand.
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November 14, 2019

President

The Stock Exchange of Thailand

The consolidated financial statement of Pato Chemical Industry Plc. and its subsidiary for Q3 and 9-month 2019 ended September 30, 2019 operational performance are as follows:

Unit : Million

| | Comparison Q3/2019 and Q3/2018 | | | Comparison 9-Month Period 2019 and 2018 | | |
|---------------|--------------------------------|------------------------|-------------|---|------------------------|-------------|
| | Amount | Increase (Decrease) | % Change | Amount | Increase (Decrease) | % Change |
| Total sales | 155.62 | (34.50) | (18.15) | 453.41 | (139.51) | (23.53) |
| Cost of Sales | 06.29 | (20.03) | (15.86) | 313.97 | (75.97) | (19.48) |
| Gross Profit | 49.33 | (14.47) | (22.68) | 139.44 | (63.54) | (31.30) |

Main reasons for the above performance are as follows:

1. Drought situation with insufficient rainfalls and shortage of water in irrigation dams led to drought crisis. In addition, from the end of August to September, the effect of storm causing flood in some areas, demand for products therefore reduced.
2. Generally low infestation of insects, weeds, as well as fungus-based diseases, and mite.
3. Shortage of raw material and agrochemical products due to strict enforcement of environmental laws in China. Some Chinese raw materials manufacturers' production capacity is limited, while some are forced to shut down. Production capacity is thus reduced.
4. Intense price competition in the market causing the Company to lower selling prices of several products in order to maintain market share.

The above factors result in total sales and gross profit of Q3/2019 and 9-month period of 2019 decreased. Even though the cost of sales decreased for both Q3/2019 and 9 month period of 2019, but the rate of decrease is lower than the rate of decrease in sales, so gross profit margin decreased by 22.68% and 31.30% respectively.



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Unit : Million Baht

| | Comparison Q3/2019 and Q3/2018 | | | Comparison 9-Month Period 2019 and 2018 | | |
|----------------------|--------------------------------|------------------------|-------------|---|------------------------|-------------|
| | Amount | Increase (Decrease) | % Change | Amount | Increase (Decrease) | % Change |
| Gain from Investment | 1.11 | (2.58) | (69.85) | 6.04 | 0.12 | 2.02 |
| Forex Gain (Loss) | 0.49 | (0.87) | 63.99 | 3.19 | 4.39 | 367.00 |
| Other Revenue | 0.04 | (0.07) | (66.90) | 0.35 | (0.86) | (70.71) |

Income from investments decreased in Q3/2019. Due to volatile stock market condition with decreasing SET index, net investment income, mainly from profit from sales of investments, unrealized capital gain from equity investments decreased but saw an increase in dividend received. Though the Company has the policy to minimize forex risk exposure from fluctuations with forward contracts, but still resulting in a decrease of forex gain. Other income increased from trading in expired product packaging materials.

Income from investments decreased for 9-month period of 2019. Due to volatile stock market condition with decreasing SET index for the period, net investment income, mainly from profit from sales of investments decreased but saw an increase in unrealized capital gain and 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 old vehicle and sales of office supplies and expired product packaging materials.

Unit: Million Baht

| | Comparison Q3/2019 and Q3/2018 | | | Comparison 9-Month Period 2019 and 2018 | | |
|---------------------|--------------------------------|------------------------|-------------|---|------------------------|-------------|
| | Amount | Increase (Decrease) | % Change | Amount | Increase (Decrease) | % Change |
| Cost of sales | 8.53 | (2.71) | (24.11) | 23.96 | (8.66) | (26.54) |
| Administrative Cost | 9.90 | (0.06) | (0.59) | 32.61 | 1.73 | 5.59 |
| Financial Cost | 0.36 | (0.29) | (44.25) | 1.47 | 0.26 | 21.06 |
| Income Tax | 6.08 | (3.19) | (34.39) | 17.63 | (10.44) | (37.19) |



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Selling Expenses in Q3/2019 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, selling expenses decreased at higher rate than the decrease in sales such as sales promotion, commission, transportation expenses, and registration fee. Administrative expenses sees a decrease on employee benefits.

Similarly, the selling expenses for 9-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, selling expenses decreased at the higher rate than the decrease in sales such as sales promotion, commission, transportation expenses, and registration fees. 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.

Financial Cost for Q3/2019 shows a decrease due to the slight lengthen T/R payoff period awaiting for favorable time and opportunity to cover forex risk exposure with forward contracts to avoid impact from the currency exchange. From the situation, the company decided to shorten T/R payoff period due to the increase of T/R interest rate, led to the decrease in interest expenses.

Financial Cost for 9-month of 2019 shows an 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 Q3 and 9-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 Q3 and 9-month period ended September 2019 of 26.10 million baht and 73.36 million baht, a decrease of 11.74 million baht and 43.03 million baht or a difference of 31.02% and 36.97% y-o-y respectively.



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Unit: Million Baht

| | Comparison Ended September 30, 2019 with December 30, 2018 | | |
|----------------------|--|---------------------|----------|
| | Amount | Increase (Decrease) | % Change |
| Total Assets | 620.13 | (171.18) | (21.63) |
| Total Liabilities | 101.68 | (102.64) | (50.23) |
| Shareholders' Equity | 518.45 | (68.54) | (11.68) |

Total assets decreased from the change in cash, cash equivalents increased while short-term investments decreased. Account receivables, other receivables, and inventories from the purchase of raw materials decreased at appropriate quantity for 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 a retired one.

Liabilities show a decrease 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 lower import of raw materials led to a decrease in liabilities.

The decrease 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.

The company has a strong financial structure with a current ratio of 6.00 and debt-to-equity ratio of 0.20

Regarding the case that the Department of Agriculture is proceeding with the draft of Ministry Announcement about the Type 4 Hazardous Substance List on October 22, 2019, the Hazardous Substance Committee came to a mutual agreement to banning the use of Paraquat, Chlorpyrifos, and glyphosate proposed by the Ministry of Agriculture and Cooperatives to adjust the said pesticides from Type 3 Hazardous Substance into Type 4 Hazardous Substances (Hazardous Substances that are forbidden to be produced, imported, exported or possessed) with immediate enforcement from December 1, 2019. However, the management of the company has not yet been able to evaluate the impact on the value of such inventories.



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As there is still uncertainty about the timing of the legislative process, including public hearings. In addition, the company is being able to sell the said products after the the meeting passed a resolution to cancel the 3 pesticides.

Thailand is able to produce enough food for domestic consumption and is one of the world's top exporters. Pesticides share as part of this success. As long as humans and animals still need chemicals (phamacutical), which are used to treat diseases, plants also have insects, weeds, mites, and fungal diseases as their enemies. They need pesticide to make them strong and fruitful resulting in worthwhile crop yield per area. Every chemical substance, if it is used correctly will be beneficial, while incorrectly used will be harmful to health even salt or herbal medicine. The company is therefore confident that agricultural chemicals are still necessary for farmers and create food security for the country. The company absolutely agree with the project to educate farmers on the correct and proper use of the 3 substances and stand up for the limit of use as the Department of Agriculture had resolved and proceeded to educate farmers previously.

The banning of the use of 3 substances will affect not only the agricultural sector where the productivity will decrease and can be no longer competitive as happened in Sri Lanka and Malaysia, in which the decision to ban was later reversed. Currently, there are many sectors that are concerned and submitting letters to the government to review the resolution such as The Association of Animal Feed Manufacturers, importers of soybean, soybean meal and wheat from countries that glyphosate is used, National Academy of Sciences, Federation of Safe Agriculture which contain Oil Palm Planters Association of Thailand, Thailand Durian and Mangosteen Exporter Association, Chumphon Oil Palm Planters Association, Lime Growers Society of Thailand, Klong River Sugar Coordination Center, Sweet Corn Collecting Farmer Group, Crop for Forage Business Promotion Association, Cassava Farmer Association of Thailand, The Network Council for Rubber Planters Institute of Thailand, The Cane and Sugar Academic Association of Thailand, announced of cooperation opposing the cancellation of the 3 substances. Network of Volunteers for the Mae Klong Lovers and Federation of Safe Agriculture, prepare to file a complaint to the Administrative Court for temporary protection when the relevant law comes to effect.

In the company's opinoin, the adjustment of Type 3 Hazardous Substances to Type 4 should be done in accordance with the international standard, which is to handle step by step from Phase 1 prohibiting import, Phase 2 prohibiting production and distribution and Phase 3 prohibiting possession. Each phase should allow an appropriate time for operators who legally import the said substances to release the products



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to the market. This way will help avoid the impact on the economy and create the burden of inceration, which aside from the budget waste, will also cause toxic pollution to the environment.



Yours faithfully,

(Metha Trillit)

President