



บริษัท ปาโตเคมีอุตสาหกรรม จำกัด (มหาชน)

PATO CHEMICAL INDUSTRY PUBLIC CO., LTD.

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President

The Stock Exchange of Thailand

The consolidated financial statement of Pato Chemical Industry Plc. and its subsidiary for yearly ended December 31, 2019 operational performance are as follows:

Unit : Million

	Comparison 2019 and 2018		
	Amount	Increase(Decrease)	% Change
Total sales	568.24	(248.46)	(30.42)
Cost of Sales	397.71	(143.31)	(26.49)
Gross Profit	170.52	(105.16)	(38.15)

Main reasons for the above performance are as follows:

1. Situation of insufficient rainfalls and shortage of water in irrigation dams led to drought crisis, affecting the agricultural products to decrease, the income of farmers to decrease, farmers' purchasing power to decrease, therefore, demand for products 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 coupled with the consideration to ban Paraquat, Glyphosate, and Chlorpyrifos.

The above factors result in total sales and gross profit of 2019 decreased. Even though the cost of sales decreased but the rate of decrease is lower than the rate of decrease in sales, so gross profit margin decreased by 38.15%.



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Unit : Million Baht

	Comparison 2019 and 2018		
	Amount	Increase (Decrease)	% Change
Gain from Investment	6.25	1.51	31.71
Forex Gain (Loss)	4.24	4.42	2544.26
Other Revenue	2.36	0.91	62.15

Income from investments decreased in 2019 due to volatile stock market condition with increasing SET index during the first half and decreasing SET index during the second half of the year. SET index as of December 30, 2019 is 1,579.84. 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 in forex gain. Other income increased from the selling of obsolete vehicles, and land for sale with net profit after deducting the ownership transfer fee for 657 square wah, at Bang Phli Subdistrict, Bang Phli District, Samut Prakan and trade in expired product packaging materials.

Unit: Million Baht

	Comparison 2019 and 2018		
	Amount	Increase(Decrease)	% Change
Cost of sales	32.41	(10.56)	(24.57)
Administrative Cost	41.84	1.27	3.14
Financial Cost	1.69	0.02	1.18
Income Tax	20.70	(17.79)	(46.21)

Selling Expenses in 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 a lower rate than the decrease in sales such as sales promotion, commission, transportation expenses, and registration fee. Administrative expenses sees an increase on salary 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



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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 of 2019 shows an increase 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 longer T/R payoff period and the increase of T/R interest rate, led to the increase in interest expenses.

Income Tax in 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 ended December 2019 of 86.73 million baht, a decrease of 71.28 million baht or a difference of 45.11% y-o-y.

Unit: Million Baht

	Comparison Ended December 31, 2019 and 2018		
	Amount	Increase (Decrease)	% Change
Total Assets	642.12	(149.20)	(18.85)
Total Liabilities	114.67	(89.65)	(43.88)
Shareholders' Equity	527.45	(59.55)	(10.14)

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. In addition, available-for-sales investment shows the gain from the difference of fair value and resulting in the increase in deferred tax. There was the purchase of a new car to replace a retired one. Product registration slightly increased. The selling of land for sale led to the decrease in non-current assets.

Liabilities show a decrease of short-term loan from financial institutions (T/R) due to the volatility of forex led to a strong baht. The company cover the exposure with forward contract to mitigate the impact of forex. The interest rate increased during 2019. 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 employee benefit obligations



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which are non-current assets increased from 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 led to the decrease in total liabilities.

The decrease in Shareholders' equity are from dividend payment and the operational result of the Company and its subsidiary that gave less net profit decreased, Other items are the increase in unrealized gain on securities available-for-sales due to risen stock prices by the year end.

The company has a strong financial structure with a current ratio of 5.56 and debt-to-equity ratio of 0.22

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.

On November 27, 2019, the Hazardous Substance Committee came to a consensus to postpone the termination of the use of Paraquat and Chlorpyrifos for another 6 months, or the use of the 2 products will end on June 1, 2020. For Glyphosate, it will go back to the limit of use according to the resolution of the Hazardous Substance Committee on May 23, 2018. The Committee assigned the Department of Agriculture, Ministry of Agriculture and Cooperatives to find the product substitutes and find measures to reduce the impact and report to the Hazardous Substances Committee for consideration within 4 months.

However, the management of the company has not yet been able to evaluate the impact on the value of such inventories. As there is still uncertainty about the timing and condition of the legislative process and the company is still being able to sell the said products.

Yours faithfully,

(Metha Trillit)

President

