Company No. 63611 - U

PELIKAN INTERNATIONAL CORPORATION BERHAD
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT

31 March 2016

PELIKAN INTERNATIONAL CORPORATION BERHAD (63611-U)
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Interim report for the financial period ended 31 March 2016
The figures have not been audited.

		Individual Quarter 3 months ended		Cumulative Quarter Financial period ended	
	Note	**31/3/2016 RM' 000**	**31/3/2015 RM' 000**	**31/3/2016 RM' 000**	**31/3/2015 RM' 000**
Revenue		284,718	282,006	284,718	282,006
Other operating income		9,627	5,714	9,627	5,714
Expenses excluding finance cost and tax		(280,668)	(290,939)	(280,668)	(290,939)
Finance cost		(5,111)	(5,437)	(5,111)	(5,437)
Profit/(Loss) before taxation		8,566	(8,656)	8,566	(8,656)
Taxation	B1	(5,311)	(4,672)	(5,311)	(4,672)
Profit/(Loss) for the financial period		3,255	(13,328)	3,255	(13,328)
Other comprehensive loss:					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations		(30,593)	(32,013)	(30,593)	(32,013)
Total comprehensive loss for the financial period		(27,338)	(45,341)	(27,338)	(45,341)
Total profit/(loss) attributable to:					
Owners of the parent		3,621	(10,716)	3,621	(10,716)
Non-controlling interests		(366)	(2,612)	(366)	(2,612)
		3,255	(13,328)	3,255	(13,328)
Total comprehensive loss attributable to:					
Owners of the parent		(26,663)	(41,059)	(26,663)	(41,059)
Non-controlling interests		(675)	(4,282)	(675)	(4,282)
		(27,338)	(45,341)	(27,338)	(45,341)
		sen	sen	sen	sen
Earnings/(Loss) per share attributable to equity holders of the parent	B11	0.66	(1.95)	0.66	(1.95)

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.

PELIKAN INTERNATIONAL CORPORATION BERHAD (63611-U)
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Interim report as at 31 March 2016
The figures have not been audited.

	Note	31/3/2016 RM'000	31/12/2015 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		424,225	449,941
Trademarks		16,238	17,094
Development costs		4,301	4,788
Goodwill		126,704	133,960
Computer software licence		5,345	5,640
Investment in associates		-	-
Available-for-sale financial assets		2,701	2,807
Pension Trust Fund		138,184	138,184
Deferred tax assets		95,088	99,083
		812,786	851,497
Current assets			
Inventories		286,215	274,978
Receivables, deposits & prepayments		319,449	324,622
Tax recoverable		4,120	3,642
Pension Trust Fund		12,680	12,680
Deposits, cash and bank balances		50,712	71,224
		673,176	687,146
TOTAL ASSETS		**1,485,962**	**1,538,643**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		553,296	553,296
Share premium		65,591	65,591
Foreign currency translation reserves		(120,389)	(90,105)
Equity-settled employee benefits		226	226
Accumulated losses		(60,091)	(63,712)
Treasury shares, at cost		(5,150)	(5,150)
		433,483	460,146
Non-controlling interests		2,637	3,312
Total equity		436,120	463,458
Non-current liabilities			
Post employment benefit obligations	B4		
- Removable pension liabilities		165,946	178,320
- others		107,831	118,439
Borrowings	B2	48,861	37,432
Tax liabilities		-	36,081
Deferred tax liabilities		19,723	19,970
		342,361	390,242
Current liabilities			
Payables		260,148	237,270
Post employment benefit obligations	B4		
- Removable pension liabilities		15,345	16,157
- others		9,235	9,724
Derivative liabilities	B13	1,518	1,963
Borrowings	B2	350,042	379,077
Current tax liabilities		71,193	40,752
		707,481	684,943
Total liabilities		1,049,842	1,075,185
TOTAL EQUITY AND LIABILITIES		**1,485,962**	**1,538,643**
Net assets per share attributable to owners of the parent (RM)		0.78	0.83

This Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.

PELIKAN INTERNATIONAL CORPORATION BERHAD (63611-U)
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Interim report for the financial period ended 31 March 2016
The figures have not been audited.

	Share Capital	Share premium	Foreign currency translation reserves (non distributable)	Equity-settled employee benefits (non distributable)	Accumulated losses Retained profits (distributable)	Treasury shares, at cost (distributable)	Equity attributable to owners of the parent	Non-controlling interests	Total equity
	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000
At 1 January 2016	553,296	65,591	(90,105)	226	(63,712)	(5,150)	460,146	3,312	463,458
Profit/(Loss) for the financial year	-	-	-	-	3,621	-	3,621	(366)	3,255
Other comprehensive loss	-	-	(30,284)	-	-	-	(30,284)	(309)	(30,593)
Total comprehensive (loss)/income	-	-	(30,284)	-	3,621	-	(26,663)	(675)	(27,338)
At 31 March 2016	553,296	65,591	(120,389)	226	(60,091)	(5,150)	433,483	2,637	436,120
At 1 January 2015	553,296	65,591	(105,986)	226	(21,105)	(5,150)	486,872	3,982	490,854
Loss for the financial year	-	-	-	-	(10,716)	-	(10,716)	(2,612)	(13,328)
Other comprehensive loss	-	-	(30,343)	-	-	-	(30,343)	(1,670)	(32,013)
Total comprehensive loss	-	-	(30,343)	-	(10,716)	-	(41,059)	(4,282)	(45,341)
At 31 March 2015	553,296	65,591	(136,329)	226	(31,821)	(5,150)	445,813	(300)	445,513

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.

PELIKAN INTERNATIONAL CORPORATION BERHAD (63611-U)
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Interim report for the financial period ended 31 March 2016
The figures have not been audited.

	Financial year ended	
	31/3/2016	**31/3/2015**
	RM' 000	**RM' 000**
Cash Flows From Operating Activities		
Cash receipts from customers	262,123	279,414
Cash paid to suppliers and employees	(245,493)	(270,739)
	16,630	8,675
Interest received	248	251
Interest paid	(3,657)	(3,563)
Taxation paid	(9,231)	(8,379)
Net cash from/(used in) operating activities	3,990	(3,016)
Cash Flows From Investing Activities		
Interest paid	(1,445)	(1,866)
Purchase of property, plant and equipment	(3,560)	(11,122)
Proceeds from disposal of property, plant and equipment	773	429
Purchase of intangible assets	(449)	(727)
Development expenses paid	-	(142)
Net cash used in investing activities	(4,681)	(13,428)
Cash Flows From Financing Activities		
Drawdown of bank borrowings	61,679	69,988
Repayment of bank borrowings	(79,221)	(62,114)
Repayment of hire purchase and lease payables	(45)	(44)
Net cash (used in)/from financing activities	(17,587)	7,830
Net decrease in cash and cash equivalents during the financial period	(18,278)	(8,614)
Foreign currency translation	(2,174)	(13)
Cash and cash equivalents at beginning of the financial period	57,100	60,080
Cash and cash equivalents at end of the financial period	36,648	51,453
Cash and cash equivalents comprise :		
Deposits, cash and bank balances	50,712	61,682
Bank overdrafts	(7,290)	(4,962)
	43,422	56,720
Less: Deposits pledged to licensed banks	(6,774)	(5,267)
	36,648	51,453

This Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.

A. Notes to the Interim Financial Report
For the first quarter and financial period ended 31 March 2016

A1. Basis of Preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 31 March 2016 and has been prepared in accordance with applicable disclosure provisions of paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad and MFRS 134, Interim Financial Reporting in Malaysia. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of the Group as at end of the financial year ended 31 December 2015.

A2. Significant Accounting Policies

The accounting policies applied by the Group in this interim financial report are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015.

A3. Report of the Auditors to the Members

The report of the auditors on the annual financial statements for the financial year ended 31 December 2015 was not subject to any qualification and did not include any adverse comments made under subsection (3) of Section 174 of the Companies Act, 1965.

A4. Seasonality or Cyclicality of Interim Operations

The Group's traditional business dealing with stationery, especially for school and office, was affected by the "back to school" season in Europe which normally records higher sales in mid-year. Sales of the Group's printer consumable products such as inkjet and toner cartridges, thermal transfer, office media and impact cartridges, are generally not influenced by seasonal fluctuation.

A5. Exceptional and/or Extraordinary Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no exceptional and/or extraordinary items affecting assets, liabilities, equity, net income or cash flows for the current quarter ended 31 March 2016.

A6. Material Changes in Estimates

There were no material changes in estimates of amounts reported in prior financial years that have a material effect in the quarter ended 31 March 2016.

A. Notes to the Interim Financial Report
For the first quarter and financial period ended 31 March 2016

A7. Debt and Equity Securities

There were no issuances, cancellations, repurchases, resales and repayments of debt and equity securities during the current quarter ended 31 March 2016.

A8. Dividends

No dividends have been paid during the current quarter ended 31 March 2016.

A9. Segment Information

	Germany RM'000	Switzerland RM'000	Rest of Europe RM'000	Americas RM'000	Rest of world RM'000	Elimination RM'000	Group RM'000
31 March 2016							
External revenue	137,130	23,897	51,833	52,546	19,312	-	284,718
Intersegment revenue	101,750	11,430	14,875	4,614	35,413	(168,082)	-
	238,880	35,327	66,708	57,160	54,725	(168,082)	284,718
Segment result	(1,061)	(3,371)	(3,621)	11,176	15,745	(5,191)	13,677

Germany

The German segment which represents 48.2% of the Group's revenue showed an increase in revenue of RM11.0 million (8.7%) as compared to previous year's corresponding quarter. The increased sales was due to the favourable Euro exchange rate against Ringgit Malaysia. The segment results had improved by RM13.1 million as compared to the previous year's corresponding quarter. The higher production volume has also improved cost absorption for the plant in the current quarter.

Switzerland

The Swiss market concentrated mainly in printer consumables business. The cessation of the toner powder production business has resulted in a lower turnover in the current period as compared to previous year's corresponding quarter. The segment results in the current quarter were mainly influenced by unrealised foreign exchange loss on translation.

A. Notes to the Interim Financial Report
For the first quarter and financial period ended 31 March 2016

A9. Segment Information (cont'd)

Rest of Europe

The contribution in revenue from all other European countries, except Germany and Switzerland, represents 18.2% of the Group's total revenue. The overall segment sales were relatively around the same levels as compared to the previous year's corresponding quarter.

The segment loss of RM3.6 million was mainly attributable to the losses incurred on the Scotland plant.

Americas

Americas, which comprise 18.5% of the Group's revenue are represented by Mexico, Colombia and Argentina. The reduction in sales as compared to previous year's corresponding quarter were mainly due to the weakening of the local currencies against Ringgit Malaysia. Mexico and Argentina achieved growth in local currency revenue whilst Colombia had a small decline in revenue.

Notwithstanding the weaker local currencies, the region managed to maintain relatively similar segment results as compared to previous year's corresponding quarter.

Rest of the World

The segment revenue from Rest of the World, which represents Japan, Taiwan/China, South East Asia and Middle East generated higher sales by 26.6% as compared to the previous year's corresponding quarter mainly driven by the sales growth in Taiwan/China and Japan. The market in Taiwan/China continue to improve following on the success in new channels developed last year.

The improved sales coupled with the strengthening of Ringgit Malaysia against United States Dollar ("USD") has resulted in the region achieving a segment results of RM15.7 million.

**A. Notes to the Interim Financial Report
For the first quarter and financial period ended 31 March 2016**

A10. Valuation of Property, Plant and Equipment

There were no valuations of property, plant and equipment during the current quarter ended 31 March 2016.

A11. Changes in the Composition of the Group

There were no changes in the composition of the Group during the current quarter ended 31 March 2016.

A12. Events Subsequent to the End of the Reporting Period

There were no event subsequent to the financial period ended 31 March 2016.

A13. Contingent Liabilities

(a) In the ordinary course of business, the business of Pelikan Hardcopy Holding AG and German Hardcopy AG groups (dealing with manufacturing and distribution of hardcopy related products and printer consumables such as inkjet and toner cartridges, thermal transfer, office media and impact cartridges, hereinafter referred to as the "Hardcopy business") is involved in several lawsuits. In particular, the Group has several large legal claims brought by Original Equipment Manufacturers ("OEM") for perceived breach of patents with an assessed potential maximum exposure of EUR5.0 million (RM22.3 million). The Group is of the view that litigation matters are an inherent part of the Hardcopy business. Historically, the Group has been successful in defending most cases and management remains confident that the Group's exposure to these claims can be reduced or can successfully be defended. In the opinion of the management, the lawsuits, claims and proceedings which are pending against the Group will not have a material effect on the Group.

(b) Based on the latest actuaries assumptions as at 31 December 2015, Pelikan Hardcopy Scotland Limited's ("PHSL") retirement fund has GBP24.2 million (RM137.0 million) assets to meet its estimated pension liabilities of GBP36.1 million (RM204.4 million). An amount of GBP11.9 million (RM67.4 million) has been recognised as a pension liability of the Group for the financial year ended 31 December 2015 in accordance with the MFRS 119 Employee Benefits.

The Group believes that its operational cash flow and the assets in the retirement fund of PHSL are sufficient to meet the payouts of the retirement scheme in the foreseeable future.

B. Additional Information Required by the Bursa Malaysia Securities Berhad's Listing Requirements

B1. Taxation

	3 months ended		Financial period ended	
	31/03/16	31/03/15	31/03/16	31/03/15
	RM'000	RM'000	RM'000	RM'000
Taxation charged in respect of current financial period				
- income tax	(6,933)	(4,807)	(6,933)	(4,807)
- deferred tax	1,622	135	1,622	135
	(5,311)	(4,672)	(5,311)	(4,672)

The Group's effective tax rate were higher than the statutory income tax rate in Malaysia mainly due to non-availability of group relief where subsidiaries with taxable profits cannot utilise the unused tax losses of other subsidiaries.

B2. Borrowings

Details of the Group's borrowings as at 31 March 2016 are as set out below:

	Short Term		Long Term		Total
	Secured	Unsecured	Secured	Unsecured	
Currency	RM'000	RM'000	RM'000	RM'000	RM'000
Argentina Peso	6,239	-	-	-	6,239
Colombian Peso	-	22	-	-	22
Euro	56,035	14,973	6,759	-	77,767
Great Britain Pound	17	-	-	1,166	1,183
Japanese Yen	-	1,923	-	-	1,923
Mexican Peso	-	8,994	-	-	8,994
Polish Zloty	-	1,571	-	-	1,571
Ringgit Malaysia	46,632	11,793	29,133	-	87,558
Swiss Franc	6,033	-	-	-	6,033
US Dollar	81,724	114,086	11,803	-	207,613
Total	196,680	153,362	47,695	1,166	398,903

B. Additional Information Required by the Bursa Malaysia Securities Berhad's Listing Requirements

B3. Material Litigation

In the ordinary course of business, the business of Pelikan Hardcopy Holding AG and German Hardcopy AG groups (dealing with manufacturing and distribution of hardcopy related products and printer consumables such as inkjet and toner cartridges, thermal transfer, office media and impact cartridges, hereinafter referred to as the "Hardcopy business") is involved in several lawsuits. In particular, the Group has several large legal claims brought by Original Equipment Manufacturers ("OEM") for perceived breach of patents with an assessed potential maximum exposure of EUR5.0 million (RM22.3 million). The Group is of the view that litigation matters are an inherent part of the Hardcopy business. Historically, the Group has been successful in defending most cases and management remains confident that the Group's exposure to these claims can be reduced or can successfully be defended. In the opinion of the management, the lawsuits, claims and proceedings which are pending against the Group will not have a material effect on the Group.

B4. Post Employment Benefit Obligation

	RM'000
Payable within 12 months	24,580
Payable after 12 months	273,777
	298,357
Removable Pension Liabilities:	
Liabilities assumed by Pension Trust Fund	116,204
Liabilities assumed by the Company	65,087
	181,291
Other pension liabilities of the Group	117,066
	298,357

Pursuant to the acquisitions of Pelikan Holding AG group ("PHAG group") in 2005, part of the defined benefits retirement plans of the PHAG group in Germany (known as "Removable Pension Liabilities") is now funded by an external Pension Trust Fund created for this purpose, whilst the Company is assuming the balance of the said Removable Pension Liabilities fixed in Ringgit Malaysia as at the completion date of the acquisitions of PHAG group. If the assets in the Pension Trust Fund are capable of paying the entire Removable Pension Liabilities, the Removable Pension Liabilities assumed by the Company will be relinquished.

B. Additional Information Required by the Bursa Malaysia Securities Berhad's Listing Requirements

B5. Capital Commitments

Capital commitments not provided for in the financial statements as at 31 March 2016 were as follows:

	RM'000
Authorised and contracted for:	
Property, plant and equipment	1,825

B6. Review of Performance

The Group achieved revenue of RM284.7 million in the current quarter as opposed to RM282.0 million in the previous year's corresponding quarter, an increase of RM2.7 million. Overall, the sales development in the first quarter was encouraging in particular the Asian sales, whilst the key German market sales is developing steadily in preparation to the "Back to School" season in the coming quarters. Although, there were negative development in relation to the Latin America local currencies, the impact on devaluation was moderated with real increase in local currencies sales.

The operations fared better in the current quarter as compared to the previous year's corresponding quarter wherein the Group recorded a profit before tax of RM8.6 million in the current quarter as compared to loss before tax of RM8.7 million in the previous year's corresponding quarter. The exchange rate improvements in particular devaluation of USD and Euro against Ringgit Malaysia had a mixed effect but overall still positive to the Group's results. The improvement in profitability is mainly as a result of the lower cost base and improvement in contribution from better sales and product mix.

B7. Variation of Results Against Preceding Quarter

In the current quarter, the Group's revenue decrease to RM284.7 million as compared to RM310.4 million in the preceding quarter, mainly due to the decrease in sales in Europe market. Generally, the first quarter is a weak quarter for the Group as the major "back to school" season are between the second and third quarters of the year.

The higher production volume in preparation for the "Back To School" season had improved the cost absorption and profitability of the German plant. In addition, the lower operating cost base also improved results and there were no major asset write-offs in the current quarter as opposed to the preceding quarter.

B. Additional Information Required by the Bursa Malaysia Securities Berhad's Listing Requirements

B8. Prospects

According to the European Commission's winter forecast, the economic activity is expected to pick up moderately in the euro area, with growth forecasted to rise to 1.7% in 2016 and by 1.9% in 2017. The European Union economy as a whole is expected to be at 1.9% and 2.0% in 2016 and 2017 respectively. The German economy is the largest market for the Group. In Germany, economic growth is projected to continue to be supported by favourable labour market and financing conditions underpinning domestic demand, leading to GDP growth of 1.8% in both 2016 and 2017. Based on the International Monetary Fund, economic activity for Mexico is expected to pick up modestly with GDP growth projected at 2.6% for 2016 and 2.9% in 2017. The positive economic data on the Group's key region is quite encouraging for the business development as it improves overall consumer sentiments which can help bolster sales in particular in the coming "Back to School" season.

The development of the key currencies of the Group namely Euro and USD remains mixed. The strengthening of the Euro currency against RM would benefit the Group whilst the strengthening of the USD against RM will have a negative results on the Group.

The focus of the Group shall be to tap into the continued growth of the Latin America and Asian markets whilst to improve margins in its key Germany / European markets.

B9. Dividend

The Board of Directors does not recommend any dividend for the current financial period.

B10. Variance on Profit Forecast / Shortfall in Profit Guarantee

Not applicable.

B. Additional Information Required by the Bursa Malaysia Securities Berhad's Listing Requirements

B11. Earnings/(Loss) Per Share

		3 months ended		Financial period ended	
		31/03/16	**31/03/15**	**31/03/16**	**31/03/15**
Earnings/(Loss) for the financial period attributable to equity holders of the parent	(RM'000)	3,621	(10,716)	3,621	(10,716)
Weighted average number of ordinary shares in issue	('000)	553,296	553,296	553,296	533,296
Shares repurchased	('000)	(4,928)	(4,928)	(4,928)	(4,928)
		548,368	548,368	548,368	548,368
Earnings/(Loss) per share	(sen)	0.66	(1.95)	0.66	(1.95)

B12. Additional Notes to the Statement of Comprehensive Income

	3 months ended		Financial year ended	
	31/03/16	**31/03/15**	**31/03/16**	**31/03/15**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit/(Loss) for the period is arrived at after charging / (crediting):				
Interest income	(248)	(251)	(248)	(251)
Interest expense	5,111	5,437	5,111	5,437
Depreciation and amortisation	9,631	9,761	9,631	9,761
Reversal of impairment loss on receivables	(252)	(402)	(252)	(402)
(Reversal of)/Inventories write down	(50)	426	(50)	426
Gain on disposal of property, plant and equipment	(115)	(387)	(115)	(387)
Foreign exchange gain	(6,744)	(2,291)	(6,744)	(2,291)

B. Additional Information Required by the Bursa Malaysia Securities Berhad's Listing Requirements

B13. Derivative Liabilities

	Contract/ Notional amount EUR'000	Liabilities RM'000
Interest rate swap	10,000	1,518

The Group has entered into interest rate swap contract with a total of EUR10 million resulting in an exchange of floating for fixed interest rates from fiscal year 2012 to hedge exposure to movements in interest rate on a financing transaction. For a period of 5 years, the variable interest rate is exchanged on the basis of the 3-month Euribor interest at 3.15%. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

B14. Realised and Unrealised Profits/(Losses) Disclosure

	As at 31/03/16 RM'000	As at 31/12/15 RM'000
Total accumulated losses of the Company and its subsidiaries:		
- Realised loss	(118,740)	(139,703)
- Unrealised profit	66,077	81,962
	(52,663)	(57,741)
Add : Consolidation adjustments	(7,428)	(5,971)
Total accumulated losses as per Statement of Financial Position	(60,091)	(63,712)