Company No. 63611 - U

PELIKAN INTERNATIONAL CORPORATION BERHAD
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT

30 SEPTEMBER 2018

PELIKAN INTERNATIONAL CORPORATION BERHAD (63611-U)
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Interim report for the financial period ended 30 September 2018
The figures have not been audited.

	Note	Individual Quarter 3 months ended		Cumulative Quarter Financial period ended	
		30/09/2018 RM' 000	30/09/2017 RM' 000	30/09/2018 RM' 000	30/09/2017 RM' 000
Revenue		321,021	374,609	901,192	980,515
Other operating income		3,908	(122)	19,233	13,648
Expenses excluding finance costs and tax		(312,333)	(349,275)	(865,318)	(912,127)
Finance costs		(6,567)	(7,983)	(18,773)	(19,794)
Profit before tax		6,029	17,229	36,334	62,242
Tax expense	B1	(4,278)	(5,847)	(15,132)	(14,836)
Profit from continuing operations		1,751	11,382	21,202	47,406
Discontinued operations:					
Loss from discontinued operations, net of tax		-	(2,541)	-	(20,896)
Profit for the financial period		1,751	8,841	21,202	26,510
Other comprehensive income/(loss):					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations		11,228	440	(724)	6,197
Total comprehensive income for the financial period		12,979	9,281	20,478	32,707
Total profit/(loss) attributable to:					
Owners of the parent					
- from continuing operations		1,690	10,066	20,854	46,282
- from discontinued operations		-	(2,541)	-	(20,896)
		1,690	7,525	20,854	25,386
Non-controlling interests		61	1,316	348	1,124
		1,751	8,841	21,202	26,510
Total comprehensive income/(loss) attributable to:					
Owners of the parent		13,535	8,365	21,466	32,717
Non-controlling interests		(556)	916	(988)	(10)
		12,979	9,281	20,478	32,707
		sen	sen	sen	sen
Basic earnings per ordinary share attributable to equity holders of the parent	B11	0.31	1.37	3.80	4.63

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 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 30 September 2018
The figures have not been audited.

	Note	30/09/2018 RM'000	31/12/2017 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		385,872	400,982
Trademarks		17,508	17,748
Development costs		2,721	3,099
Goodwill		133,813	133,656
Computer software licence		3,661	4,928
Investment in associates		-	-
Available-for-sale financial assets		2,411	2,467
Pension Trust Fund		134,608	134,608
Deferred tax assets		114,658	116,905
		795,252	814,393
Current assets			
Inventories		246,065	250,654
Receivables, deposits & prepayments		302,295	322,264
Tax recoverable		6,746	7,703
Pension Trust Fund		16,256	16,256
Deposits, cash and bank balances		79,231	52,414
		650,593	649,291
TOTAL ASSETS		**1,445,845**	**1,463,684**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		618,887	618,887
Foreign currency translation reserves		(61,431)	(62,043)
Equity-settled employee benefits		-	226
Accumulated losses		(84,000)	(105,080)
Treasury shares, at cost		(5,150)	(5,150)
		468,306	446,840
Non-controlling interests		(704)	284
Total equity		467,602	447,124
Non-current liabilities			
Post employment benefit obligations	B4		
- Removable pension liabilities		168,274	181,526
- Others		103,502	129,704
Borrowings	B2	101,261	49,684
Deferred tax liabilities		17,170	17,042
		390,207	377,956
Current liabilities			
Payables		215,660	209,516
Borrowings	B2	330,088	388,954
Current tax liabilities		42,288	40,134
		588,036	638,604
Total liabilities		978,243	1,016,560
TOTAL EQUITY AND LIABILITIES		**1,445,845**	**1,463,684**
Net assets per share attributable to owners of the parent (RM)		0.85	0.81

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 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 30 September 2018
The figures have not been audited.

	Share Capital	Share premium (non distributable)	Foreign currency translation reserves (non distributable)	Equity-settled employee benefits (non distributable)	Accumulated losses	Treasury shares, at cost	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 2018	618,887	-	(62,043)	226	(105,080)	(5,150)	446,840	284	447,124
Profit for the financial period	-	-	-	-	20,854	-	20,854	348	21,202
Other comprehensive income/(loss)	-	-	612	-	-	-	612	(1,336)	(724)
Total comprehensive income/(loss)	-	-	612	-	20,854	-	21,466	(988)	20,478
Transaction with owners:									
ESOS lapsed	-	-	-	(226)	226	-	-	-	-
At 30 September 2018	618,887	-	(61,431)	-	(84,000)	(5,150)	468,306	(704)	467,602
At 1 January 2017	553,296	65,591	(76,829)	226	(116,426)	(5,150)	420,708	3,621	424,329
Adjustments of effects of Companies Act 2016 (Note a)	65,591	(65,591)	-	-	-	-	-	-	-
Profit/(Loss) for the financial period	-	-	-	-	25,386	-	25,386	1,124	26,510
Other comprehensive income/(loss)	-	-	7,331	-	-	-	7,331	(1,134)	6,197
Total comprehensive income/(loss)	-	-	7,331	-	25,386	-	32,717	(10)	32,707
At 30 September 2017	618,887	-	(69,498)	226	(91,040)	(5,150)	453,425	3,611	457,036

Note a
With the introduction of the Companies Act 2016 effective 31 January 2017, the concepts of authorised share capital and par value of share capital have been abolished. Consequently, balance within the share premium account of RM65,590,691 has been transferred to the share capital account pursuant to the transitional provisions set out in Section 618(2) of the Companies Act 2016. Notwithstanding this provision, the Company may utilise its share premium account for purposes stipulated in Section 618(3) of the Companies Act 2016 for a transitional period of 24 months from 31 January 2017.

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 2017 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 30 September 2018
The figures have not been audited.

	Financial period ended	
	30/09/2018	**30/09/2017**
	RM' 000	**RM' 000**
Cash Flows From Operating Activities		
Cash receipts from customers	949,998	1,039,485
Cash paid to suppliers and employees	(879,759)	(1,012,699)
	70,239	26,786
Interest received	177	813
Interest paid	(17,527)	(18,818)
Taxation paid	(8,923)	(50,903)
Net cash from/(used in) operating activities	43,966	(42,122)
Cash Flows From Investing Activities		
Interest paid	(1,326)	(505)
Purchase of property, plant and equipment	(7,164)	(12,061)
Proceeds from disposal of property, plant and equipment	1,193	4,311
Purchase of intangible assets	(613)	(1,014)
Proceeds from disposal of intangible assets	143	10,891
Net cash (used in)/from investing activities	(7,767)	1,622
Cash Flows From Financing Activities		
Drawdowns of bank borrowings	441,926	402,349
Repayments of bank borrowings	(450,735)	(347,871)
Repayments of hire purchase and lease payables	(1,231)	(251)
Net cash (used in)/from financing activities	(10,040)	54,227
Net increase in cash and cash equivalents during the financial period	26,159	13,727
Effects of exchange rate changes on cash and cash equivalents	281	(2,612)
Cash and cash equivalents at beginning of the financial period	42,461	50,786
Cash and cash equivalents at end of the financial period	68,901	61,901
Cash and cash equivalents comprise :		
Deposits, cash and bank balances	79,231	70,774
Bank overdrafts	(9,314)	(8,593)
	69,917	62,181
Less: Deposits pledged to licensed banks	(1,016)	(280)
	68,901	61,901

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

A. Notes to the Interim Financial Report
For the third quarter and financial period ended 30 September 2018

A1. Basis of Preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30 September 2018 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 2017.

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 2017.

In the current financial period, the Group has applied a number of new and revised MFRSs issued by the Malaysian Accounting Standards Board ("MASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

MFRSs, Amendments to MFRSs and IC Interpretations

Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4	Insurance Contracts - Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
MFRS 9	Financial Instruments (IFRS 9 as issued by IASB)
MFRS 15	Revenue from Contracts with Customers (and the related Clarifications)
Amendments to MFRS 128	Investments in Associates and Joint Ventures (Annual Improvements to MFRSs 2014 - 2016 Cycle)
Amendments to MFRS 140	Transfers of Investment Property
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration

The adoption of the above did not have any significant effect on the interim financial report upon their initial application. The Group has adopted the standards retrospectively from 1 January 2018, with the practical expedients permitted under the standards. Comparatives for 2017 are not restated.

A. Notes to the Interim Financial Report
For the third quarter and financial period ended 30 September 2018

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 2017 was not subject to any qualification and did not include any adverse comments made under subsection (3) of Section 266 of the Companies Act 2016.

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.

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 30 September 2018.

A6. Material Changes in Estimates

There were no material changes in estimates of amounts reported in prior interim periods of the current financial period or prior financial years.

A7. Debt and Equity Securities

There were no issuances, cancellations, repurchases, resales and repayments of debt and equity securities during the current quarter ended 30 September 2018.

A8. Dividends

No dividends have been paid during the current quarter ended 30 September 2018.

A9. Segment Information

	Germany RM'000	Rest of Europe RM'000	Americas RM'000	Rest of World RM'000	Elimination RM'000	Group RM'000
9 months ended 30 September 2018						
External revenue	508,895	202,908	143,228	46,161	-	901,192
Intersegment revenue	300,293	26,908	10,313	101,193	(438,707)	-
	809,188	229,816	153,541	147,354	(438,707)	901,192
Segment result	32,668	7,842	18,096	6,343	(9,842)	55,107

A. Notes to the Interim Financial Report
For the third quarter and financial period ended 30 September 2018

A9. Segment Information (cont'd)

	Germany RM'000	Rest of Europe RM'000	Americas RM'000	Rest of World RM'000	Elimination RM'000	Group RM'000
3 months ended 30 September 2018						
External revenue	172,549	90,727	42,429	15,316	-	321,021
Intersegment revenue	92,678	7,666	2,209	22,476	(125,029)	-
	265,227	98,393	44,638	37,792	(125,029)	321,021
Segment result	9,056	5,177	1,137	(794)	(1,980)	12,596

Germany

The German segment which represents 56.5% of the Group's revenue showed a decrease in revenue of RM39.2 million (18.5%) as compared to the previous year's corresponding quarter (adjusted for discontinued business). Sales for the month of September was particularly slow as the back to school season comes to an end. The segment results reduced by RM2.3 million as compared to previous year's corresponding quarter.

Rest of Europe

The contribution in revenue from all other European countries, except Germany, represents 22.5% of the Group's total revenue.

While economic momentum remained solid bolstered by accommodative monetary policy and a tightening labor market, growth has nearly halved from 2017's stellar pace due to a less favourable external environment and softer economic sentiment. The segment sales had thus decreased by 3.5% as compared to previous year's corresponding quarter.

The unfavourable effects of the foreign exchange in previous year's corresponding quarter due to the weakened of Swiss Franc against Euro, were normalised in the current quarter, which resulted in a better segment results in the current quarter.

Americas

Americas, which comprise 15.9% 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 reduction of export sales in Colombia, the slowing down of domestic consumption as a result of political problems in Central America and recession in Argentina which resulted in sales being stopped for several weeks to protect against the steep currency devaluation. Nevertheless, the region's sales decline was cushioned by the positive sales growth of 15.9% in Colombia's local market.

A. Notes to the Interim Financial Report
For the third quarter and financial period ended 30 September 2018

A9. Segment Information (cont'd)

Americas (cont'd)

The segment result of RM1.1 million, as a consequence, was lower than the previous year's corresponding quarter. In addition, the segment's results were also affected by the foreign exchange loss of translation in the current quarter and also higher material costs in Mexico's plant.

Rest of World

Rest of World which comprise 5.1% of the Group's revenue consist mainly countries such as Japan, Taiwan/China, South East Asia and Middle East. Sales for the quarter was generally lower for markets in Middle East and China.

The effects of foreign exchange were unfavourable in the current quarter due to the weakened Ringgit Malaysia against USD, wherein the Company incurred additional translation loss for its USD denominated borrowings in the current quarter. For the current quarter, the region achieved a negative segment result of RM0.8 million.

A10. Valuation of Property, Plant and Equipment

There were no valuations of property, plant and equipment during the current quarter ended 30 September 2018.

A11. Changes in the Composition of the Group

There were no changes in the composition of the Group during the current quarter ended 30 September 2018.

A12. Events Subsequent to the End of the Reporting Period

There were no event subsequent to the financial period ended 30 September 2018.

A. Notes to the Interim Financial Report
For the third quarter and financial period ended 30 September 2018

A13. Contingent Liabilities

The Group still has several legal claims brought by Original Equipment Manufacturers ("OEM") for perceived breach of patents related to the discontinued printer consumable business with an assessed potential maximum exposure of EUR2.5 million (RM12.0 million). 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 be successfully defended, especially when it has now exited the printer consumable business. 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. Additional Information Required by the Bursa Malaysia Securities Berhad's Listing Requirements

B1. Tax Expense

	3 months ended		Financial period ended	
	30/09/18	30/09/17	30/09/18	30/09/17
	RM'000	RM'000	RM'000	RM'000
Tax expense charged in respect of current financial period				
- income tax	(3,477)	(5,546)	(13,911)	(15,460)
- deferred tax	(801)	(323)	(1,221)	403
	(4,278)	(5,869)	(15,132)	(15,057)
Tax expense on				
- continuing operations	(4,278)	(5,846)	(15,132)	(14,835)
- discontinued operations	-	(23)	-	(222)
	(4,278)	(5,869)	(15,132)	(15,057)

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 30 September 2018 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	3,989	646	-	-	4,635
Euro	167,253	7,995	90,261	-	265,509
Hungarian Forint	474	-	-	-	474
Mexican Peso	-	11,039	-	-	11,039
Polish Zloty	345	-	-	-	345
Ringgit Malaysia	17,774	750	11,000	-	29,524
US Dollar	94,544	25,279	-	-	119,823
Total	284,379	45,709	101,261	-	431,349

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

B3. Material Litigation

The Group still has several legal claims brought by Original Equipment Manufacturers ("OEM") for perceived breach of patents related to the discontinued printer consumable business with an assessed potential maximum exposure of EUR2.5 million (RM12.0 million). 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 be successfully defended, especially when it has now exited the printer consumable business. 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 Obligations

	RM'000
Removable Pension Liabilities:	
Liabilities funded by Pension Trust Fund	103,187
Liabilities assumed by the Company	65,087
	168,274
Other post-employment benefit obligations of the Group	103,502
	271,776

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 30 September 2018 were as follows:

	RM'000
Authorised and contracted for:	
Property, plant and equipment	12,037
Authorised but not contracted for:	
Property, plant and equipment	192

B6. Review of Performance

The Group achieved a continuing revenue of RM321.0 million in the current quarter as opposed to RM374.6 million in the previous year's corresponding quarter. The "back to school" season sales for Germany was stronger in the second quarter as opposed to in this quarter resulting in a shift of sales between quarters. The reduction in sales were also due to the reduction of export sales in Colombia, the slowing down of domestic consumption as a result of political problems in Central America and recession in Argentina. Nevertheless, positive sales growth was evident in Colombia's local market and Japan's fine writing business segment.

The Group recorded a profit before tax of RM6.0 million in the current quarter. The lower results were mainly attributable to the lower sales contribution achieved from the reduced sales and foreign exchange loss of translation in the current quarter mainly attributable to the unrealised loss on USD denominated borrowings.

B7. Variation of Results Against Preceding Quarter

	Current Quarter 30/09/18 RM'000	Immediate Preceding Quarter 30/06/18 RM'000	Changes %
Revenue	321,021	336,780	-4.7
Profit before interest and tax	12,596	31,057	-59.4
Profit before tax	6,029	24,457	-75.3
Profit from continuing operations	1,751	16,800	-89.6

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

B7. Variation of Results Against Preceding Quarter (cont'd)

The Group's continued revenue decreased to RM321.0 million in the current quarter as compared to RM336.8 million in the preceding quarter. The second quarter is normally a stronger quarter for the Group's school products due to the "back to school" season in Europe.

As a result of the lower sales, the Group recorded a profit before tax of RM6.0 million in the current quarter as compared to a profit before tax of RM24.4 million in the preceding quarter. In addition, as the BTS season ends at the end of the current quarter, the production volume for the German plant are lower as compared to the previous quarter, thus lowering the cost absorption and profitability of the plant.

B8. Prospects

According to the European Commission's summer 2018 (interim) forecast, as a result of the slowdown of European economic activity, the outlook for GDP growth in the euro area and the EU in 2018 has been revised to 2.1% down by 0.2% compared to the spring forecast, and remains unchanged at 2.0% in 2019. As for the German economy, which is the largest market for the Group, real GDP is now expected to increase by 1.9% in 2018 and 2019, a downward revision compared to the spring forecast.

Based on the World Economic Outlook Update ("WEO"), October 2018, published by the International Monetary Fund, growth in Americas' region is projected to decrease from 1.3% in 2017 to 1.2% in 2018 and to rise to 2.2% in 2019, a more subdued recovery than envisaged in the April WEO. As published in the WEO October 2018, Mexico's growth is projected to increase from 2.0% in 2017 to 2.2% and 2.5% in 2018 and 2019 respectively, supported by higher US growth. The growth forecast is however lower than the initial forecast in April reflecting the impact on investment and domestic demand of prolonged uncertainty related to trade. Argentina is expected to contract by 2.6% in 2018, a large downward revision relative to the April WEO, reflecting recent financial market disruptions, high interest rate and the faster fiscal consolidation under the exceptional access Stand-By Arrangement approved in June.

Apart from the challenging economic outlook, the current negative development of the Americas' region currencies and the strengthening of the USD against Ringgit Malaysia will result in lower translated profit for the Group.

The remaining quarter are expected to be a challenging quarter for the Group as the main markets such as Germany and European markets slows down after the back to school season and into the holiday seasons towards the year end. The Mexican and Argentinian markets remain competitive amidst the markets' political changes and currency devaluation. However, positive development in the Colombian market is expected somewhat to cushion these negative effects. Efforts are still taken to expand into underrepresented markets in particular China to look for new growth opportunities.

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

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.

B11. Earnings/(Loss) Per Ordinary Share

Basic earnings/(loss) per ordinary share:	**3 months ended**		**Financial period ended**	
	30/09/18	**30/09/17**	**30/09/18**	**30/09/17**
Profit attributable to owners of the parent (RM'000)	1,690	7,525	20,854	25,386
from continuing operations (RM'000)	1,690	10,066	20,854	46,282
from discontinued operations (RM'000)	-	(2,541)	-	(20,896)
Weighted average number of ordinary shares in issue ('000)	548,368	548,368	548,368	548,368
Basic earnings/(loss) per ordinary share (sen)	0.31	1.37	3.80	4.63
from continuing operations (sen)	0.31	1.83	3.80	8.44
from discontinued operations (sen)	-	(0.46)	-	(3.81)

B12. Additional Notes to the Statement of Comprehensive Income

	3 months ended		**Financial period ended**	
	30/09/18	**30/09/17**	**30/09/18**	**30/09/17**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit before tax is arrived at after charging/(crediting):				
Interest income	(73)	(128)	(177)	(813)
Interest expense	6,567	7,983	18,773	19,794
Depreciation and amortisation	7,131	7,098	21,052	20,846
Impairment loss on receivables	306	96	970	566
(Reversal of)/Inventories write down	(937)	(18)	(899)	801
(Gain)/Loss on disposal of property, plant and equipment	(70)	(172)	(57)	(2,268)
Foreign exchange loss/(gain)	5,321	197	5,292	(3,905)