

Company No. 63611 - U

PELIKAN INTERNATIONAL CORPORATION BERHAD
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT

31 MARCH 2019

PELIKAN INTERNATIONAL CORPORATION BERHAD (63611-U)
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Interim report for the financial period ended 31 March 2019
The figures have not been audited.

	Note	Individual Quarter 3 months ended		Cumulative Quarter Financial period ended	
		31/03/2019 RM' 000	31/03/2018 RM' 000	31/03/2019 RM' 000	31/03/2018 RM' 000
Revenue		217,633	243,391	217,633	243,391
Other operating income		6,566	7,849	6,566	7,849
Expenses excluding finance costs and tax		(213,432)	(239,786)	(213,432)	(239,786)
Finance costs		<u>(4,587)</u>	<u>(5,606)</u>	<u>(4,587)</u>	<u>(5,606)</u>
Profit before tax		6,180	5,848	6,180	5,848
Tax expense	B1	<u>(4,620)</u>	<u>(3,197)</u>	<u>(4,620)</u>	<u>(3,197)</u>
Profit for the financial period		1,560	2,651	1,560	2,651
Other comprehensive loss:					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations		<u>(11,994)</u>	<u>(1,518)</u>	<u>(11,994)</u>	<u>(1,518)</u>
Total comprehensive (loss)/income for the financial period		<u><u>(10,434)</u></u>	<u><u>1,133</u></u>	<u><u>(10,434)</u></u>	<u><u>1,133</u></u>
Total profit/(loss) attributable to:					
Owners of the parent		1,901	2,739	1,901	2,739
Non-controlling interests		<u>(341)</u>	<u>(88)</u>	<u>(341)</u>	<u>(88)</u>
		<u><u>1,560</u></u>	<u><u>2,651</u></u>	<u><u>1,560</u></u>	<u><u>2,651</u></u>
Total comprehensive (loss)/income attributable to:					
Owners of the parent		(9,951)	1,040	(9,951)	1,040
Non-controlling interests		<u>(483)</u>	<u>93</u>	<u>(483)</u>	<u>93</u>
		<u><u>(10,434)</u></u>	<u><u>1,133</u></u>	<u><u>(10,434)</u></u>	<u><u>1,133</u></u>
		sen	sen	sen	sen
Basic earnings per ordinary share attributable to equity holders of the parent	B11	0.35	0.50	0.35	0.50

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 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 2019
The figures have not been audited.

	Note	31/03/2019 RM'000	31/12/2018 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		398,226	380,379
Trademarks		16,695	17,257
Development costs		2,403	2,583
Goodwill		129,652	133,136
Computer software licence		4,144	4,694
Investment in associates		23	24
Available-for-sale financial assets		2,308	2,342
Pension Trust Fund		135,995	135,995
Deferred tax assets		108,032	110,973
		<u>797,478</u>	<u>787,383</u>
Current assets			
Inventories		269,041	239,891
Receivables, deposits & prepayments		258,738	253,016
Tax recoverable		13,021	14,375
Pension Trust Fund		14,869	14,869
Deposits, cash and bank balances		33,048	45,608
		<u>588,717</u>	<u>567,759</u>
TOTAL ASSETS		<u>1,386,195</u>	<u>1,355,142</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		618,887	618,887
Foreign currency translation reserves		(90,352)	(78,500)
Equity-settled employee benefits		-	-
Accumulated losses		(94,762)	(96,663)
Treasury shares, at cost		(5,150)	(5,150)
		<u>428,623</u>	<u>438,574</u>
Non-controlling interests		(19)	464
Total equity		<u>428,604</u>	<u>439,038</u>
Non-current liabilities			
Post employment benefit obligations	B4		
- Removable pension liabilities		152,185	160,668
- Others		109,076	109,554
Borrowings	B2	103,695	96,638
Deferred tax liabilities		15,634	15,255
		<u>380,590</u>	<u>382,115</u>
Current liabilities			
Payables		206,604	184,892
Borrowings	B2	326,181	302,999
Current tax liabilities		44,216	46,098
		<u>577,001</u>	<u>533,989</u>
Total liabilities		<u>957,591</u>	<u>916,104</u>
TOTAL EQUITY AND LIABILITIES		<u>1,386,195</u>	<u>1,355,142</u>
Net assets per share attributable to owners of the parent (RM)		0.77	0.79

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 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 2019
 The figures have not been audited.

	Share Capital	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
At 1 January 2019	618,887	(78,500)	-	(96,663)	(5,150)	438,574	464	439,038
Profit/(Loss) for the financial period	-	-	-	1,901	-	1,901	(341)	1,560
Other comprehensive loss	-	(11,852)	-	-	-	(11,852)	(142)	(11,994)
Total comprehensive (loss)/income	-	(11,852)	-	1,901	-	(9,951)	(483)	(10,434)
At 31 March 2019	618,887	(90,352)	-	(94,762)	(5,150)	428,623	(19)	428,604
At 1 January 2018	618,887	(62,043)	226	(105,080)	(5,150)	446,840	284	447,124
Profit/(loss) for the financial period	-	-	-	2,739	-	2,739	(88)	2,651
Other comprehensive (loss)/income	-	(1,699)	-	-	-	(1,699)	181	(1,518)
Total comprehensive (loss)/income	-	(1,699)	-	2,739	-	1,040	93	1,133
Transaction with owners: ESOS lapsed	-	-	(226)	226	-	-	-	-
At 31 March 2018	618,887	(63,742)	-	(102,115)	(5,150)	447,880	377	448,257

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 2018 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 2019
The figures have not been audited.

	Financial period ended	
	31/03/2019	31/03/2018
	RM' 000	RM' 000
Cash Flows From Operating Activities		
Cash receipts from customers	212,231	260,017
Cash paid to suppliers and employees	<u>(223,876)</u>	<u>(274,602)</u>
	(11,645)	(14,585)
Interest received	57	49
Interest paid	(3,486)	(5,107)
Taxation paid	<u>(3,918)</u>	<u>(3,860)</u>
Net cash used in operating activities	<u>(18,992)</u>	<u>(23,503)</u>
Cash Flows From Investing Activities		
Interest paid	(835)	(609)
Purchase of property, plant and equipment	(5,251)	(297)
Proceeds from disposal of property, plant and equipment	42	255
Purchase of intangible assets	<u>(37)</u>	<u>(158)</u>
Net cash used in investing activities	<u>(6,081)</u>	<u>(809)</u>
Cash Flows From Financing Activities		
Drawdowns of bank borrowings	76,242	89,486
Repayments of bank borrowings	(66,123)	(83,478)
Repayments of lease payables	<u>(2,151)</u>	<u>(1,270)</u>
Net cash from financing activities	<u>7,968</u>	<u>4,738</u>
Net decrease in cash and cash equivalents during the financial period	(17,105)	(19,574)
Effects of exchange rate changes on cash and cash equivalents	834	750
Cash and cash equivalents at beginning of the financial period	<u>39,593</u>	<u>42,461</u>
Cash and cash equivalents at end of the financial period	<u><u>23,322</u></u>	<u><u>23,637</u></u>
Cash and cash equivalents comprise :		
Deposits, cash and bank balances	33,048	33,947
Bank overdrafts	<u>(9,208)</u>	<u>(9,294)</u>
	23,840	24,653
Less: Deposits pledged to licensed banks	<u>(518)</u>	<u>(1,016)</u>
	<u><u>23,322</u></u>	<u><u>23,637</u></u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 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 2019

A1. Basis of Preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 31 March 2019 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 2018.

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 2018.

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 2019.

MFRSs, Amendments to MFRSs and IC Interpretations

Amendments to MFRS 9	Prepayment Features with Negative Compensation
MFRS 16	Leases
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement
Amendments to MFRS 128	Long-Term Interests in Associates and Joint Ventures
IC Interpretation 23	Uncertainty Over Income Tax Treatments
Amendments to MFRSs	Annual Improvements to MFRSs 2015-2017 Cycle
	<ul style="list-style-type: none">• Amendments to MFRS 3 Business Combinations• Amendments to MFRS 112 Income Taxes• Amendments To MFRS 123 Borrowing Costs

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 2019, with the practical expedients permitted under the standards. Comparatives for 2018 are not restated.

A. Notes to the Interim Financial Report
For the first quarter and financial period ended 31 March 2019

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 2018 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 Cyclicity 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 31 March 2019.

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 31 March 2019.

A8. Dividends

No dividends have been paid during the current quarter ended 31 March 2019.

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
31 March 2019						
External revenue	111,806	41,215	52,720	11,892	-	217,633
Intersegment revenue	76,387	6,333	4,018	31,290	(118,028)	-
	<u>188,193</u>	<u>47,548</u>	<u>56,738</u>	<u>43,182</u>	<u>(118,028)</u>	<u>217,633</u>
Segment result	<u>1,057</u>	<u>(1,372)</u>	<u>10,583</u>	<u>3,408</u>	<u>(2,909)</u>	<u>10,767</u>

A. Notes to the Interim Financial Report
For the first quarter and financial period ended 31 March 2019

A9. Segment Information (cont'd)

Germany

The German segment which represents 51.4% of the Group's revenue showed a decrease in revenue of RM17.1 million (13.2%) as compared to the previous year's corresponding quarter. The decrease in sales were mainly due to the weakened RM/EUR foreign exchange by 3.3%, which resulted in lower translated sales in the current quarter and lower services revenue of RM5.1 million due to the disposed IT services business as compared to the previous year's corresponding quarter.

Nevertheless, the segment results improved as compared to the previous year's corresponding quarter mainly due to better operating results of the stationery production plant.

Rest of Europe

The contribution in revenue from all other European countries, except Germany, represents 18.9% of the Group's total revenue. In the current quarter, the effects of cessation of sales in Spain, coupled with the weakening of the Euro currency against RM by 3.3% as compared to previous year's corresponding quarter has resulted in the overall decrease in the translated revenues.

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 lower segment loss in the current quarter.

Americas

Americas, which comprise 24.2% of the Group's revenue are represented by Mexico, Colombia and Argentina. This segment continued to achieve revenue growth in the current quarter. Export market in Colombia achieved growth of approximately 16.0% as compared to previous year's corresponding quarter, which contributes to the increased sales. Positive sales growth in Mexico were evident mainly from the growth in local markets.

The segment results improved from RM4.9 million in previous year's corresponding quarter to RM10.6 million in the current quarter mainly due to the improved sales and normalisation of translation loss on foreign exchange in previous year's corresponding quarter from the strengthening of Mexican Peso against United States Dollar ("USD").

A. Notes to the Interim Financial Report
For the first quarter and financial period ended 31 March 2019

A9. Segment Information (cont'd)

Rest of World

Rest of World which comprise 5.5% 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 as the regional issues faced continued to prolong and delay in product launches in Japan.

The effects of foreign exchange were unfavourable in the current quarter due to the weakened RM against USD, wherein the Company incurred additional translation loss for its USD denominated borrowings in the current quarter. As a consequence, the region achieved a lower segment result of RM3.4 million in the current quarter.

A10. Valuation of Property, Plant and Equipment

There were no valuations of property, plant and equipment during the current quarter ended 31 March 2019.

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 2019.

A12. Events Subsequent to the End of the Reporting Period

There were no event subsequent to the financial period ended 31 March 2019.

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 (RM11.4 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	
	31/03/19	31/03/18	31/03/19	31/03/18
	RM'000	RM'000	RM'000	RM'000
Tax expense charged in respect of current financial period				
- income tax	(4,436)	(3,197)	(4,436)	(3,197)
- deferred tax	(184)	-	(184)	-
	<u>(4,620)</u>	<u>(3,197)</u>	<u>(4,620)</u>	<u>(3,197)</u>

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 2019 are as set out below:

Currency	Short Term		Long Term		Total
	Secured	Unsecured	Secured	Unsecured	
	RM'000	RM'000	RM'000	RM'000	RM'000
Euro	189,655	1,748	90,846	-	282,249
Hungarian Forint	92	-	-	-	92
Japanese Yen	-	1,840	-	-	1,840
Mexican Peso	-	22,590	-	-	22,590
Polish Zloty	526	3,583	3,849	-	7,958
Ringgit Malaysia	5,412	-	9,000	-	14,412
US Dollar	78,008	22,727	-	-	100,735
Total	<u>273,693</u>	<u>52,488</u>	<u>103,695</u>	<u>-</u>	<u>429,876</u>

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 (RM11.4 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	87,098
Liabilities assumed by the Company	65,087
	152,185
Other post-employment benefit obligations of the Group	109,076
	261,261

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 2019 were as follows:

	RM'000
Authorised and contracted for:	
Property, plant and equipment	<u>7,739</u>
Authorised but not contracted for:	
Property, plant and equipment	<u>183</u>

B6. Review of Performance

The Group achieved revenue of RM217.6 million in the current quarter as opposed to RM243.4 million in the previous year's corresponding quarter, a decrease of 10.6%. The decrease was mainly contributed by the Group's main revenue currency i.e. the Euro which depreciated by 3.3% against RM as compared to the previous year's corresponding quarter. The decrease was partially offset by the steady growth in the Americas' region, mainly from the increased in local sales in Mexico and export sales in Colombia which generated higher sales as compared to the previous year's corresponding quarter.

The Group recorded a profit before tax of RM6.2 million in the current quarter as compared to profit before tax of RM5.8 million in the previous year's corresponding quarter. Despite a drop in sales, the Group was able to maintain the aforesaid profits on the back of better operating results of the Americas' region and the stationery production plant in Germany.

B7. Variation of Results Against Preceding Quarter

	Current Quarter 31/03/19 RM'000	Immediate Preceding Quarter 31/12/18 RM'000	Changes %
Revenue	217,633	222,802	-2.3
Profit/(Loss) before interest and tax	10,767	(2,179)	+>100.0
Profit/(Loss) before tax	6,180	(7,074)	+>100.0
Profit/(Loss) for the financial period	<u>1,560</u>	<u>(13,190)</u>	+>100.0

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 revenue decreased to RM217.6 million in the current quarter as compared to RM222.8 million in the preceding quarter. The improvement in results of the Americas' region was offset for the slower first quarter sales in the rest of the regions.

The Group recorded a profit before tax of RM6.2 million in the current quarter as compared to loss before tax of RM7.1 million in the preceding quarter. In the previous quarter, the results were mainly affected by the provisions for redundancies.

B8. Prospects

The global uncertainty in the markets remains the key challenge for the Group despite having clear target focus on having a good product mix, brand building, channel management activities and continuous cost measures. Nevertheless, the Group is stepping up efforts to develop new innovating products and also concentrating its effort at untapped markets such as China which can compensate any short-term reduction and provide long-term sustained growth.

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 Per Ordinary Share

Basic earnings per ordinary share:	3 months ended		Financial period ended	
	31/03/19	31/03/18	31/03/19	31/03/18
Profit attributable to owners of the parent (RM'000)	<u>1,901</u>	<u>2,739</u>	<u>1,901</u>	<u>2,739</u>
Weighted average number of ordinary shares in issue ('000)	<u>548,368</u>	<u>548,368</u>	<u>548,368</u>	<u>548,368</u>
Basic earnings per ordinary share (sen)	<u>0.35</u>	<u>0.50</u>	<u>0.35</u>	<u>0.50</u>

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

B12. Additional Notes to the Statement of Comprehensive Income

	3 months ended		Financial period ended	
	31/03/19	31/03/18	31/03/19	31/03/18
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at after charging/(crediting):				
Interest income	(57)	(49)	(57)	(49)
Interest expense	4,587	5,606	4,587	5,606
Depreciation and amortisation	7,320	6,907	7,320	6,907
Impairment loss on receivables	255	225	255	225
Inventories write down	19	19	19	19
Gain on disposal of property, plant and equipment	(10)	(135)	(10)	(135)
Foreign exchange gain	(2,369)	(3,327)	(2,369)	(3,327)