

Company No. 63611 - U

**PELIKAN INTERNATIONAL CORPORATION BERHAD**  
**(Incorporated in Malaysia)**

**INTERIM FINANCIAL REPORT**

**30 JUNE 2019**

**PELIKAN INTERNATIONAL CORPORATION BERHAD (63611-U)**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
Interim report for the financial period ended 30 June 2019  
*The figures have not been audited.*

	Note	Individual Quarter 3 months ended		Cumulative Quarter Financial period ended	
		30/06/2019 RM' 000	30/06/2018 RM' 000	30/06/2019 RM' 000	30/06/2018 RM' 000
Revenue		316,489	336,780	534,122	580,171
Other operating income		3,606	7,476	10,172	15,325
Expenses excluding finance costs and tax		(293,084)	(313,199)	(506,516)	(552,985)
Finance costs		(5,252)	(6,600)	(9,839)	(12,206)
Profit before tax		21,759	24,457	27,939	30,305
Tax expense	B1	(3,204)	(7,657)	(7,824)	(10,854)
Profit for the financial period		18,555	16,800	20,115	19,451
Other comprehensive income/(loss): Item that may be reclassified subsequently to profit or loss: Exchange differences on translation of foreign operations		2,827	(10,434)	(9,167)	(11,952)
Total comprehensive income for the financial period		21,382	6,366	10,948	7,499
Total profit/(loss) attributable to:					
Owners of the parent		18,321	16,425	20,222	19,164
Non-controlling interests		234	375	(107)	287
		18,555	16,800	20,115	19,451
Total comprehensive income/(loss) attributable to:					
Owners of the parent		21,403	6,891	11,452	7,931
Non-controlling interests		(21)	(525)	(504)	(432)
		21,382	6,366	10,948	7,499
		sen	sen	sen	sen
Basic earnings per ordinary share attributable to equity holders of the parent	B11	3.34	3.00	3.69	3.49

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 30 June 2019  
*The figures have not been audited.*

	Note	30/06/2019 RM'000	31/12/2018 RM'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		402,444	380,379
Trademarks		17,126	17,257
Development costs		2,385	2,583
Goodwill		133,170	133,136
Computer software license		3,766	4,694
Investments in associates		28	24
Other financial assets		2,406	2,342
Pension Trust Fund		135,995	135,995
Deferred tax assets		110,102	110,973
		<u>807,422</u>	<u>787,383</u>
<b>Current assets</b>			
Inventories		276,392	239,891
Receivables, deposits & prepayments		332,248	253,016
Tax recoverable		7,592	14,375
Pension Trust Fund		14,869	14,869
Deposits, cash and bank balances		41,720	45,608
		<u>672,821</u>	<u>567,759</u>
		<u><b>1,480,243</b></u>	<u><b>1,355,142</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital		618,887	618,887
Foreign currency translation reserves		(87,270)	(78,500)
Accumulated losses		(76,441)	(96,663)
Treasury shares, at cost		(5,150)	(5,150)
		<u>450,026</u>	<u>438,574</u>
Non-controlling interests		(40)	464
		<u>449,986</u>	<u>439,038</u>
<b>Non-current liabilities</b>			
Post-employment benefit obligations	B4	262,980	270,222
Borrowings	B2	102,614	96,638
Deferred tax liabilities		15,203	15,255
		<u>380,797</u>	<u>382,115</u>
<b>Current liabilities</b>			
Payables		236,899	184,892
Borrowings	B2	374,260	302,999
Current tax liabilities		38,301	46,098
		<u>649,460</u>	<u>533,989</u>
		<u>1,030,257</u>	<u>916,104</u>
		<u><b>1,480,243</b></u>	<u><b>1,355,142</b></u>
Net assets per share attributable to owners of the parent (RM)		0.81	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 30 June 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
<b>At 1 January 2019</b>	618,887	(78,500)	-	(96,663)	(5,150)	438,574	464	439,038
Profit/(Loss) for the financial period	-	-	-	20,222	-	20,222	(107)	20,115
Other comprehensive loss	-	(8,770)	-	-	-	(8,770)	(397)	(9,167)
Total comprehensive (loss)/income	-	(8,770)	-	20,222	-	11,452	(504)	10,948
<b>At 30 June 2019</b>	<b>618,887</b>	<b>(87,270)</b>	<b>-</b>	<b>(76,441)</b>	<b>(5,150)</b>	<b>450,026</b>	<b>(40)</b>	<b>449,986</b>
<b>At 1 January 2018</b>	618,887	(62,043)	226	(105,080)	(5,150)	446,840	284	447,124
Profit for the financial period	-	-	-	19,164	-	19,164	287	19,451
Other comprehensive loss	-	(11,233)	-	-	-	(11,233)	(719)	(11,952)
Total comprehensive (loss)/income	-	(11,233)	-	19,164	-	7,931	(432)	7,499
Transaction with owners: ESOS lapsed	-	-	(226)	226	-	-	-	-
<b>At 30 June 2018</b>	<b>618,887</b>	<b>(73,276)</b>	<b>-</b>	<b>(85,690)</b>	<b>(5,150)</b>	<b>454,771</b>	<b>(148)</b>	<b>454,623</b>

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 30 June 2019  
*The figures have not been audited.*

	Financial period ended	
	30/06/2019	30/06/2018
	RM' 000	RM' 000
<b>Cash Flows From Operating Activities</b>		
Cash receipts from customers	463,911	574,333
Cash paid to suppliers and employees	<u>(492,037)</u>	<u>(585,753)</u>
	(28,126)	(11,420)
Interest received	121	104
Interest paid	(7,731)	(11,288)
Taxation paid	<u>(8,190)</u>	<u>(9,393)</u>
<b>Net cash used in operating activities</b>	<u>(43,926)</u>	<u>(31,997)</u>
<b>Cash Flows From Investing Activities</b>		
Interest paid	(1,629)	(943)
Purchase of property, plant and equipment	(10,254)	(3,084)
Proceeds from disposal of property, plant and equipment	273	1,357
Purchase of intangible assets	(56)	(583)
Proceeds from disposal of intangible assets	<u>-</u>	<u>152</u>
<b>Net cash used in investing activities</b>	<u>(11,666)</u>	<u>(3,101)</u>
<b>Cash Flows From Financing Activities</b>		
Drawdowns of bank borrowings	200,916	373,463
Repayments of bank borrowings	(152,749)	(331,994)
Repayments of lease payables	<u>(2,371)</u>	<u>(1,360)</u>
<b>Net cash from financing activities</b>	<u>45,796</u>	<u>40,109</u>
<b>Net (decrease)/increase in cash and cash equivalents during the financial period</b>	(9,796)	5,011
<b>Effects of exchange rate changes on cash and cash equivalents</b>	269	1,311
<b>Cash and cash equivalents at beginning of the financial period</b>	<u>39,593</u>	<u>42,461</u>
<b>Cash and cash equivalents at end of the financial period</b>	<u><u>30,066</u></u>	<u><u>48,783</u></u>
<b>Cash and cash equivalents comprise :</b>		
Deposits, cash and bank balances	41,720	59,857
Bank overdrafts	<u>(11,136)</u>	<u>(10,058)</u>
	30,584	49,799
Less: Deposits pledged to licensed banks	<u>(518)</u>	<u>(1,016)</u>
	<u><u>30,066</u></u>	<u><u>48,783</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 second quarter and financial period ended 30 June 2019**

**A1. Basis of Preparation**

This interim financial report is based on the unaudited financial statements for the quarter ended 30 June 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"><li>• Amendments to MFRS 3 Business Combinations</li><li>• Amendments to MFRS 112 Income Taxes</li><li>• Amendments To MFRS 123 Borrowing Costs</li></ul>

The adoption of the above did not have any significant effect on the interim financial report upon their initial application, except for the adoption of MFRS 16 Leases. 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. As at 30 June 2019, the right-of-use assets and lease liabilities amounted to RM24,959,000 and RM24,892,000 respectively.

**A. Notes to the Interim Financial Report**  
**For the second quarter and financial period ended 30 June 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 30 June 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 30 June 2019.

**A8. Dividends**

No dividends have been paid during the current quarter ended 30 June 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
<b>6 months ended 30 June 2019</b>						
External revenue	300,140	107,011	100,944	26,027	-	534,122
Intersegment revenue	177,506	16,651	7,476	65,244	(266,877)	-
	<u>477,646</u>	<u>123,662</u>	<u>108,420</u>	<u>91,271</u>	<u>(266,877)</u>	<u>534,122</u>
Segment result	<u>14,187</u>	<u>6,350</u>	<u>18,128</u>	<u>3,903</u>	<u>(4,790)</u>	<u>37,778</u>

**A. Notes to the Interim Financial Report**  
**For the second quarter and financial period ended 30 June 2019**

**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
<b>3 months ended</b>						
<b>30 June 2019</b>						
External revenue	188,334	65,796	48,224	14,135	-	316,489
Intersegment revenue	101,119	10,318	3,458	33,954	(148,849)	-
	<u>289,453</u>	<u>76,114</u>	<u>51,682</u>	<u>48,089</u>	<u>(148,849)</u>	<u>316,489</u>
Segment result	<u>13,130</u>	<u>7,722</u>	<u>7,545</u>	<u>495</u>	<u>(1,881)</u>	<u>27,011</u>

**Germany**

The German segment which represents 56.2% of the Group's revenue showed a decrease in revenue of RM19.1 million (9.2%) as compared to the previous year's corresponding quarter. The decrease in sales in the current quarter as compared to the previous year's corresponding quarter were due to the weakened RM/EUR foreign exchange by 2.0%, which resulted in lower translated sales in the current quarter, lower services revenue of RM3.0 million due to the disposed IT services business and reduction of sales through the cash and carry channels. Sales to the cash and carry markets, supermarkets and wholesalers declined by approximately 14.8% in the current quarter. Nevertheless, the Group continues to focus on its sales strategies through drug stores in the retail segment where sales to key drug chain stores continues to grow yearly, a 7.8% increase in the current quarter as compared to the previous year's corresponding quarter.

The segment achieved a lower segment result mainly due to the lower margin contribution from lower sales and negative results of the production functions.

**Rest of Europe**

The contribution in revenue from all other European countries, except Germany, represents 20.0% of the Group's total revenue. Response to the back to school season in Greece and certain Eastern Europe countries, such as Hungary and Romania were better as compared to the previous year's corresponding quarter. The improvement in sales were partially affected by the effects of cessation of sales in Spain and the weakened RM/EUR which has resulted in lower translated revenues.

The improvement in sales and reduced losses arising from cessation of Spain had contributed to the overall improvement in the segment results as compared to previous year's corresponding quarter.



**A. Notes to the Interim Financial Report**  
**For the second quarter and financial period ended 30 June 2019**

**A9. Segment Information (cont'd)**

**Americas**

Americas, which comprise 18.9% of the Group's revenue are represented by Mexico, Colombia and Argentina. The overall segment sales were relatively around the same levels as compared to the previous year's corresponding quarter, showing a slight decrease mainly from the lower sales from the export market in Colombia in the current quarter.

The region recorded a higher segment results in the previous year's corresponding quarter due to the normalisation of translation loss on foreign exchange from the strengthening of Mexican Peso against United States Dollar ("USD"). Nevertheless, the region still continues to achieve a segment result of RM7.5 million in the current quarter.

**Rest of World**

Rest of World which comprise 4.9% 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 unfavourable effects of foreign exchange in previous year's corresponding quarter due to the weakened Ringgit Malaysia against USD were normalised in the current quarter, which resulted in a better segment results 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 30 June 2019.

**A11. Changes in the Composition of the Group**

There were no changes in the composition of the Group during the current quarter ended 30 June 2019.

**A12. Events Subsequent to the End of the Reporting Period**

There were no event subsequent to the financial period ended 30 June 2019.

**A. Notes to the Interim Financial Report**  
**For the second quarter and financial period ended 30 June 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 (RM11.7 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.

**A14. Status of Corporate Proposal**

On 29 August 2019, the Company had announced to undertake a private placement of 54,836,800 new ordinary shares in the Company to Merit Plus Ventures Limited (“MPVL”) at an issue price of RM0.39 per share (“Proposed Private Placement”). The Proposed Private Placement is currently being implemented and expected to be completed by the third quarter of 2019.

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

**B1. Tax Expense**

	3 months ended		Financial period ended	
	30/06/19	30/06/18	30/06/19	30/06/18
	RM'000	RM'000	RM'000	RM'000
Tax expense charged in respect of current financial period				
- income tax	(3,224)	(7,237)	(7,660)	(10,434)
- deferred tax	20	(420)	(164)	(420)
	<u>(3,204)</u>	<u>(7,657)</u>	<u>(7,824)</u>	<u>(10,854)</u>

On a cumulative basis, 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 June 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	231,793	4,755	89,220	-	325,768
Hungarian Forint	1,467	-	-	-	1,467
Japanese Yen	-	3,251	-	-	3,251
Mexican Peso	-	37,549	-	-	37,549
Polish Zloty	772	6,368	4,394	-	11,534
Ringgit Malaysia	5,665	-	9,000	-	14,665
US Dollar	60,803	21,837	-	-	82,640
Total	<u>300,500</u>	<u>73,760</u>	<u>102,614</u>	<u>-</u>	<u>476,874</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 (RM11.7 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**

	<b>RM'000</b>
<b>Removable Pension Liabilities:</b>	
Liabilities funded by Pension Trust Fund	87,707
Liabilities assumed by the Company	65,087
	152,794
Other post-employment benefit obligations of the Group	110,186
	262,980

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.

**B5. Capital Commitments**

Capital commitments not provided for in the financial statements as at 30 June 2019 were as follows:

	<b>RM'000</b>
Authorised and contracted for:	
Property, plant and equipment	5,512

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

**B6. Review of Performance**

The Group achieved revenue of RM316.5 million in the current quarter as opposed to RM336.8 million in the previous year's corresponding quarter, a decrease of 6.0%. The decrease was mainly contributed by the Group's main revenue currency i.e. the Euro which depreciated by 2.0% against RM, lower services revenue of RM3.0 million due to the disposed IT services business and reduction of sales through the German region's cash and carry channels. Sales to the cash and carry markets, supermarkets and wholesalers declined by approximately 14.8% in the current quarter. Nevertheless, the Group continues to focus on its sales strategies through drug stores in the retail segment where sales to key drug chain stores continues to grow yearly, a 7.8% increase in the current quarter as compared to the previous year's corresponding quarter.

The Group recorded a profit before tax of RM21.8 million in the current quarter as compared to profit before tax of RM24.5 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 reduced losses arising from cessation of Spain, better operating results of certain Eastern Europe sales and distribution and lower finance costs during the current quarter.

**B7. Variation of Results Against Preceding Quarter**

	<b>Current Quarter 30/06/19 RM'000</b>	<b>Immediate Preceding Quarter 31/03/19 RM'000</b>	<b>Changes %</b>
Revenue	316,489	217,633	+45.4
Profit before interest and tax	27,011	10,767	+>100.0
Profit before tax	21,759	6,180	+>100.0
Profit for the financial period	18,555	1,560	+>100.0

The Group's revenue increased to RM316.5 million in the current quarter as compared to RM217.6 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 higher sales, the Group recorded a profit before tax of RM21.8 million in the current quarter as compared to a profit before tax of RM6.2 million in the preceding quarter.

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

**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 and ASEAN region which can compensate any short-term reduction and provide long-term sustained growth. The Group started to implement sales of new school stationery sales into China market in addition to the fine writing instruments.

**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	
	30/06/19	30/06/18	30/06/19	30/06/18
Profit attributable to owners of the parent (RM'000)	<u>18,321</u>	<u>16,425</u>	<u>20,222</u>	<u>19,164</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>3.34</u>	<u>3.00</u>	<u>3.69</u>	<u>3.49</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	
	30/06/19	30/06/18	30/06/19	30/06/18
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at after charging/(crediting):				
Interest income	(64)	(55)	(121)	(104)
Interest expense	5,252	6,600	9,839	12,206
Depreciation and amortisation	7,563	7,014	14,883	13,921
Impairment loss on receivables	197	439	452	664
Inventories write down	18	19	37	38
(Gain)/loss on disposal of property, plant and equipment	(87)	148	(97)	13
Foreign exchange loss/(gain)	1,604	3,298	(765)	(29)