

Company No. 63611 - U

PELIKAN INTERNATIONAL CORPORATION BERHAD
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT

31 DECEMBER 2019

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

	Note	Individual Quarter 3 months ended		Cumulative Quarter Financial year ended	
		31/12/2019 RM' 000	31/12/2018 RM' 000	31/12/2019 RM' 000	31/12/2018 RM' 000
Revenue		223,266	222,802	1,060,698	1,123,994
Other operating income		9,468	14,925	25,825	34,158
Expenses excluding finance costs and tax		(244,990)	(239,906)	(1,045,793)	(1,105,224)
Finance costs		(5,030)	(4,895)	(20,312)	(23,668)
(Loss)/Profit before tax		(17,286)	(7,074)	20,418	29,260
Tax expense	B1	(248)	(6,116)	(11,312)	(21,248)
(Loss)/Profit for the financial period		(17,534)	(13,190)	9,106	8,012
Other comprehensive income/(loss):					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations		13,825	(12,928)	(9,838)	(13,652)
Reclassification adjustments relating to foreign currency translations of foreign operations deconsolidated		(2,707)	(3,853)	(2,707)	(3,853)
Item that will not be reclassified subsequently to profit or loss:					
Actuarial (loss)/gain on defined benefit plans		(12,173)	1,321	(12,173)	1,321
Income tax		800	86	800	86
		(255)	(15,374)	(23,918)	(16,098)
Total comprehensive loss for the financial period		(17,789)	(28,564)	(14,812)	(8,086)
Total (loss)/profit attributable to:					
Owners of the parent		(17,418)	(14,039)	7,694	6,815
Non-controlling interests		(116)	849	1,412	1,197
		(17,534)	(13,190)	9,106	8,012
Total comprehensive (loss)/income attributable to:					
Owners of the parent		(17,445)	(29,732)	(15,602)	(8,266)
Non-controlling interests		(344)	1,168	790	180
		(17,789)	(28,564)	(14,812)	(8,086)
		sen	sen	sen	sen
Basic (loss)/earnings per ordinary share attributable to equity holders of the parent	B10	(2.89)	(2.56)	1.36	1.24

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 December 2019
The figures have not been audited.

	Note	31/12/2019 RM'000	31/12/2018 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		396,446	380,379
Trademarks		16,710	17,257
Development costs		2,249	2,583
Goodwill		131,400	133,136
Computer software license		3,042	4,694
Investments in associates		55	24
Other financial assets		2,327	2,342
Pension Trust Fund		137,146	135,995
Deferred tax assets		107,676	110,973
		<u>797,051</u>	<u>787,383</u>
Current assets			
Inventories		228,785	239,891
Receivables, deposits & prepayments		255,003	253,016
Tax recoverable		9,396	14,375
Pension Trust Fund		13,718	14,869
Deposits, cash and bank balances		32,545	45,608
		<u>539,447</u>	<u>567,759</u>
		<u>1,336,498</u>	<u>1,355,142</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		640,273	618,887
Foreign currency translation reserves		(90,133)	(78,500)
Accumulated losses		(101,686)	(96,663)
Treasury shares, at cost		(5,150)	(5,150)
		<u>443,304</u>	<u>438,574</u>
Non-controlling interests		1,254	464
		<u>444,558</u>	<u>439,038</u>
Non-current liabilities			
Post-employment benefit obligations	B3	259,832	270,222
Borrowings	B2	84,923	96,638
Lease liabilities		19,960	-
Deferred tax liabilities		13,156	15,255
		<u>377,871</u>	<u>382,115</u>
Current liabilities			
Payables		189,982	184,892
Borrowings	B2	276,327	302,999
Lease liabilities		9,175	-
Current tax liabilities		38,585	46,098
		<u>514,069</u>	<u>533,989</u>
		<u>891,940</u>	<u>916,104</u>
		<u>1,336,498</u>	<u>1,355,142</u>
Net assets per share attributable to owners of the parent (RM)		0.73	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 year ended 31 December 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
Effect on adoption of MFRS 16	-	-	-	(1,054)	-	(1,054)	-	(1,054)
Restated balance as at 1 January 2019	618,887	(78,500)	-	(97,717)	(5,150)	437,520	464	437,984
Profit for the financial year	-	-	-	7,694	-	7,694	1,412	9,106
Other comprehensive loss	-	(11,633)	-	(11,663)	-	(23,296)	(622)	(23,918)
Total comprehensive (loss)/income	-	(11,633)	-	(3,969)	-	(15,602)	790	(14,812)
Transaction with owners: Issue of shares	21,386	-	-	-	-	21,386	-	21,386
At 31 December 2019	640,273	(90,133)	-	(101,686)	(5,150)	443,304	1,254	444,558
At 1 January 2018	618,887	(62,043)	226	(105,080)	(5,150)	446,840	284	447,124
Profit for the financial year	-	-	-	6,815	-	6,815	1,197	8,012
Other comprehensive (loss)/income	-	(16,457)	-	1,376	-	(15,081)	(1,017)	(16,098)
Total comprehensive (loss)/income	-	(16,457)	-	8,191	-	(8,266)	180	(8,086)
Transaction with owners: ESOS lapsed	-	-	(226)	226	-	-	-	-
At 31 December 2018	618,887	(78,500)	-	(96,663)	(5,150)	438,574	464	439,038

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 year ended 31 December 2019
The figures have not been audited.

	Financial year ended	
	31/12/2019	31/12/2018
	RM' 000	RM' 000
Cash Flows From Operating Activities		
Cash receipts from customers	1,077,134	1,214,570
Cash paid to suppliers and employees	<u>(1,024,162)</u>	<u>(1,139,797)</u>
	52,972	74,773
Interest received	322	707
Interest paid	(16,136)	(19,709)
Taxation paid	<u>(14,920)</u>	<u>(20,548)</u>
Net cash from operating activities	<u>22,238</u>	<u>35,223</u>
Cash Flows From Investing Activities		
Interest paid	(3,388)	(3,949)
Purchase of property, plant and equipment	(27,531)	(11,946)
Proceeds from disposal of property, plant and equipment	5,436	1,581
Purchase of intangible assets	(180)	(1,171)
Net cash inflow arising from the disposal/deconsolidation of subsidiaries	-	4,474
Acquisition of additional interests in an associate	-	(24)
Proceeds from disposal of other financial assets	<u>-</u>	<u>24</u>
Net cash used in investing activities	<u>(25,663)</u>	<u>(11,011)</u>
Cash Flows From Financing Activities		
Proceeds from issue of shares	21,386	-
Deposits (pledged)/uplifted	(16)	498
Drawdowns of bank borrowings	367,397	461,565
Repayments of bank borrowings	(397,164)	(489,303)
Repayments of lease payables	<u>(3,810)</u>	<u>(865)</u>
Net cash used in financing activities	<u>(12,207)</u>	<u>(28,105)</u>
Net increase in cash and cash equivalents during the financial year	(15,632)	(3,893)
Effects of exchange rate changes on cash and cash equivalents	854	1,025
Cash and cash equivalents at beginning of the financial year	<u>39,593</u>	<u>42,461</u>
Cash and cash equivalents at end of the financial year	<u>24,815</u>	<u>39,593</u>
Cash and cash equivalents comprise :		
Deposits, cash and bank balances	32,545	45,608
Bank overdrafts	<u>(7,196)</u>	<u>(5,497)</u>
	25,349	40,111
Less: Deposits pledged to licensed banks	<u>(534)</u>	<u>(518)</u>
	<u>24,815</u>	<u>39,593</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 fourth quarter and financial year ended 31 December 2019

A1. Basis of Preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 31 December 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 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, except for the following:

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.

A. Notes to the Interim Financial Report
For the fourth quarter and financial year ended 31 December 2019

A2. Significant Accounting Policies (cont'd)

The impact arising from the change is summarised as follows:

	As previously reported RM'000	Effect of adoption of MFRS 16 RM'000	Restated RM'000
As at 1 January 2019			
Non-current asset			
Property, plant and equipment	380,379	27,593	407,972
Current liabilities			
Lease liabilities	-	6,480	6,480
Non-current liabilities			
Lease liabilities	-	21,732	21,732
Deferred tax liabilities	15,255	435	15,690
Equity attributable to owners of the parent			
Accumulated losses	<u>(96,663)</u>	<u>(1,054)</u>	<u>(97,717)</u>

As at 31 December 2019, the right-of-use assets and lease liabilities amounted to RM28,228,000 and RM29,135,000 respectively.

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 December 2019.

A. Notes to the Interim Financial Report
For the fourth quarter and financial year ended 31 December 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 December 2019.

A8. Dividends

No dividends have been paid during the current quarter ended 31 December 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
12 months ended						
31 December 2019						
External revenue	579,342	233,673	192,500	55,183	-	1,060,698
Intersegment revenue	310,964	27,377	12,413	104,238	(454,992)	-
	<u>890,306</u>	<u>261,050</u>	<u>204,913</u>	<u>159,421</u>	<u>(454,992)</u>	<u>1,060,698</u>
Segment result	<u>6,491</u>	<u>15,074</u>	<u>27,369</u>	<u>6,617</u>	<u>(14,821)</u>	<u>40,730</u>
3 months ended						
31 December 2019						
External revenue	111,911	43,900	49,750	17,705	-	223,266
Intersegment revenue	57,319	5,101	2,300	22,612	(87,332)	-
	<u>169,230</u>	<u>49,001</u>	<u>52,050</u>	<u>40,317</u>	<u>(87,332)</u>	<u>223,266</u>
Segment result	<u>(18,791)</u>	<u>85</u>	<u>6,164</u>	<u>3,960</u>	<u>(3,674)</u>	<u>(12,256)</u>

Germany

The German segment which represents 54.6% of the Group's revenue showed a decrease in revenue of RM5.5 million (4.7%) as compared to the previous year's corresponding quarter. The decrease was mainly attributed to the weakened translation rates of RM/EUR by 2.6%. The growth in channels such as drugstores and online distribution continues to be positive during the quarter.

A. Notes to the Interim Financial Report
For the fourth quarter and financial year ended 31 December 2019

A9. Segment Information (cont'd)

Germany (cont'd)

The region's segment result improved by RM13.1 million as compared to the previous year's corresponding quarter due to better margin contribution from the focus on the development of high margin assortments, better customer mix and lower cost base during the current financial period. In addition, in the previous year's corresponding quarter, the Group made provisions of RM13.6 million related to staff redundancies.

Rest of Europe

The contribution in revenue from all other European countries, except Germany, represents 22.0% of the Group's total revenue. Back to school sales in the current quarter tapered down, coupled with the weakened RM/EUR and the effects of cessation in Spain has resulted in lower translated revenues.

The region achieved better segment results of RM1.6 million as compared to the previous year's corresponding quarter as a result of reduced losses arising from cessation of Spain and improved overall results in certain European sales organisations.

Americas

Americas, which comprise 18.2% of the Group's revenue are represented by Mexico, Colombia and Argentina. This segment achieved revenue growth in the current quarter. Colombia achieved growth of approximately 8.1% as compared to previous year's corresponding quarter. Mexico's sales were slightly lower in the current quarter which resulted from the negative impact from the local economic situation, but, on a full year basis, the Mexico market achieved a sales growth of approximately 2.9%.

The effects of foreign exchange were more favourable in the previous year's corresponding quarter. The segment result of RM6.2 million, as a consequence, were lower than the previous year's corresponding quarter.

Rest of World

Rest of World which comprise 5.2% of the Group's revenue consist mainly countries such as Japan, Taiwan/China, South East Asia and Middle East. Introduction of special editions of fine writing instruments in Japan had resulted in improvement of the segment revenue as compared to the previous year's corresponding quarter. In the current quarter, the Group has started to implement new stationery assortments to the China markets.

The region achieved a segment result of RM4.0 million in the current quarter.

**A. Notes to the Interim Financial Report
For the fourth quarter and financial year ended 31 December 2019**

A10. Valuation of Property, Plant and Equipment

There were no valuations of property, plant and equipment during the current quarter ended 31 December 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 December 2019 apart from the liquidation of Pelikan S.A. and Pelikan Nederland B.V.

A12. Events Subsequent to the End of the Reporting Period

There was no event subsequent to the financial year ended 31 December 2019.

A13. Contingent Liabilities

There was no material contingent liabilities as at 31 December 2019.

A14. Status of Corporate Proposal

On 29 August 2019, the Company had announced 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 ("Private Placement"). The Private Placement was completed on 12 September 2019.

A15. Status of Utilisation of Proceeds

The status of utilisation of the proceeds from the Private Placement as at 31 December 2019 are as follows:

Purpose	Proposed Utilisation RM'000	Amount Utilised RM'000	Amount Unutilised RM'000
Working capital requirements	11,246	(11,246)	-
Partial repayment of bank borrowings	10,000	(10,000)	-
Estimated expenses in relation to the Private Placement	140	(140)	-
Total	21,386	(21,386)	-

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

B1. Tax Expense

	3 months ended		Financial year ended	
	31/12/19	31/12/18	31/12/19	31/12/18
	RM'000	RM'000	RM'000	RM'000
Tax expense charged in respect of current financial period				
- income tax	(1,932)	(6,469)	(13,090)	(20,380)
- deferred tax	1,684	353	1,778	(868)
	<u>(248)</u>	<u>(6,116)</u>	<u>(11,312)</u>	<u>(21,248)</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 31 December 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	182,808	4,003	74,981	-	261,792
Japanese Yen	-	2,443	-	-	2,443
Mexican Peso	-	19,222	-	-	19,222
Polish Zloty	1,093	529	3,942	-	5,564
Ringgit Malaysia	5,117	-	6,000	-	11,117
US Dollar	45,535	15,577	-	-	61,112
Total	<u>234,553</u>	<u>41,774</u>	<u>84,923</u>	<u>-</u>	<u>361,250</u>

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

B3. Post-Employment Benefit Obligations

The Group operates both funded and unfunded defined benefit plans for its employees. The defined benefit plans, calculated using the projected unit credit method, is determined by independent actuaries, considering the estimated future cash outflows using market yields, at the end of each reporting period, of government securities which have currency and terms to maturity approximating the terms of the related liability. Judgement and estimates had been used to determine the valuation of the plans and the latest actuarial valuations of the plans were carried out in 2019.

B4. Capital Commitments

Capital commitments not provided for in the financial statements as at 31 December 2019 were as follows:

	RM'000
Authorised and contracted for:	
Property, plant and equipment	<u>1,131</u>

B5. Review of Performance

The Group achieved revenue of RM223.3 million in the current quarter as opposed to RM222.8 million in the previous year's corresponding quarter. The increase in sales was mainly attributable to the positive sales in Latin America, mainly in Colombia and Asia regions in the current quarter. The positive sales were partially offset by the effects of lower revenue translation resulting from the weaken Euro against RM was around 2.6%.

On a full year basis, the Group achieved revenue of RM1,060.7 million against a revenue of 1,124.0 million. The effects of lower revenue translation resulting from the weaken Euro against RM was around 2.6%. The lower sales from the Colombia market and certain German channels, particularly, in the cash and carry markets, supermarkets and wholesalers, coupled with the effects of cessation in Spain had also contributed to the decreased sales. Nevertheless, the decreased in sales was compensated by the real sales growth in the certain German channels, particularly, sales to drugstores and online customers.

The Group achieved a profit before tax of RM9.1 million as opposed to RM8.0 million in the previous year. The global uncertainty in the markets still remain the key challenge for the Group despite having clear target focus on having a good product mix, brand building and channel management activities. Nevertheless, the Group still believes that having a lean and flexible operating structure, it can persevere over the tough economic conditions faced and capitalise on emerging growth opportunities once they present themselves.

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

B6. Variation of Results Against Preceding Quarter

	Current Quarter 31/12/19 RM'000	Immediate Preceding Quarter 30/09/19 RM'000	Changes %
Revenue	223,266	303,310	-26.4
(Loss)/Profit before interest and tax	(12,256)	15,208	->100.0
(Loss)/Profit before tax	(17,286)	9,765	->100.0
(Loss)/Profit for the financial period	<u>(17,534)</u>	<u>6,525</u>	->100.0

The Group's revenue decreased to RM223.3 million in the current quarter as compared to RM303.3 million in the preceding quarter. The final quarter is a weak quarter for the Group's school products due to the holiday season in particular the European region.

The Group recorded a loss before tax of RM17.3 million in the current quarter. The losses were mainly attributable to the lower sales contribution achieved from the reduced sales of RM80.0 million as compared to the preceding quarter.

B7. 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 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 implementation of new stationery assortments for the China market has started and more activities have been planned to penetrate the brand and products in this market going forward. The Group is actively monitoring the development activities within the market amidst the COVID-19 outbreak in China as it may affect consumer spending if prolonged.

B8. Dividend

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

B9. Variance on Profit Forecast / Shortfall in Profit Guarantee

Not applicable.

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

B10. (Loss)/Earnings Per Ordinary Share

Basic (loss)/earnings per ordinary share:	3 months ended		Financial year ended	
	31/12/19	31/12/18	31/12/19	31/12/18
(Loss)/Profit attributable to owners of the parent (RM'000)	<u>(17,418)</u>	<u>(14,039)</u>	<u>7,694</u>	<u>6,815</u>
Weighted average number of ordinary shares in issue ('000)	<u>603,205</u>	<u>548,368</u>	<u>566,647</u>	<u>548,368</u>
Basic (loss)/earnings per ordinary share (sen)	<u>(2.89)</u>	<u>(2.56)</u>	<u>1.36</u>	<u>1.24</u>

B11. Additional Notes to the Statement of Comprehensive Income

	3 months ended		Financial year ended	
	31/12/19 RM'000	31/12/18 RM'000	31/12/19 RM'000	31/12/18 RM'000
(Loss)/Profit before tax is arrived at after charging/(crediting):				
Interest income	(109)	(530)	(322)	(707)
Interest expense	5,030	4,895	20,312	23,668
Depreciation and amortisation	8,354	5,041	31,107	26,093
Impairment loss on receivables	303	1,084	1,402	2,054
Inventories write down/(Reversal of inventories write down)	36	(241)	87	(1,140)
(Gain)/loss on disposal of property, plant and equipment	(3,649)	433	(3,752)	376
Foreign exchange loss/(gain)	199	(9,355)	(3,655)	(4,063)