

Registration No.: 198001009827 (63611 - U)

PELIKAN INTERNATIONAL CORPORATION BERHAD
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT

31 MARCH 2020

PELIKAN INTERNATIONAL CORPORATION BERHAD (Registration No.: 198001009827 (63611-U))
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Interim report for the financial period ended 31 March 2020
The figures have not been audited.

	Note	Individual Quarter 3 months ended		Cumulative Quarter Financial period ended	
		31/03/2020 RM'000	31/03/2019 RM'000	31/03/2020 RM'000	31/03/2019 RM'000
Revenue		207,278	217,633	207,278	217,633
Other operating income		9,270	6,566	9,270	6,566
Expenses excluding finance costs and tax		(218,574)	(213,432)	(218,574)	(213,432)
Finance costs		(4,260)	(4,587)	(4,260)	(4,587)
(Loss)/Profit before tax		(6,286)	6,180	(6,286)	6,180
Tax expense	B1	(2,569)	(4,620)	(2,569)	(4,620)
(Loss)/Profit for the financial period		(8,855)	1,560	(8,855)	1,560
Other comprehensive loss: Item that may be reclassified subsequently to profit or loss: Exchange differences on translation of foreign operations		(13,393)	(11,994)	(13,393)	(11,994)
Total comprehensive loss for the financial period		(22,248)	(10,434)	(22,248)	(10,434)
Total (loss)/profit attributable to:					
Owners of the parent		(8,334)	1,901	(8,334)	1,901
Non-controlling interests		(521)	(341)	(521)	(341)
		(8,855)	1,560	(8,855)	1,560
Total comprehensive loss attributable to:					
Owners of the parent		(21,982)	(9,951)	(21,982)	(9,951)
Non-controlling interests		(266)	(483)	(266)	(483)
		(22,248)	(10,434)	(22,248)	(10,434)
		sen	sen	sen	sen
Basic (loss)/earnings per ordinary share attributable to equity holders of the parent	B10	(1.38)	0.35	(1.38)	0.35

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes attached to the interim financial statements.

PELIKAN INTERNATIONAL CORPORATION BERHAD (Registration No.: 198001009827 (63611-U))
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Interim report as at 31 March 2020
The figures have not been audited.

	Note	31/03/2020 RM'000	31/12/2019 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		391,399	396,766
Trademarks		17,301	16,710
Development costs		2,291	2,249
Goodwill		137,785	131,400
Computer software license		2,999	3,042
Investments in associates		57	55
Other financial assets		2,392	2,327
Pension Trust Fund		137,146	137,146
Deferred tax assets		111,725	108,952
		<u>803,095</u>	<u>798,647</u>
Current assets			
Inventories		245,726	228,778
Receivables, deposits and prepayments		243,788	255,038
Tax recoverable		6,694	9,396
Pension Trust Fund		13,718	13,718
Deposits, cash and bank balances		27,209	32,545
		<u>537,135</u>	<u>539,475</u>
		<u>1,340,230</u>	<u>1,338,122</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		640,273	640,273
Foreign currency translation reserves		(103,779)	(90,131)
Accumulated losses		(110,048)	(101,714)
Treasury shares, at cost		(5,150)	(5,150)
		<u>421,296</u>	<u>443,278</u>
Non-controlling interests		977	1,243
		<u>422,273</u>	<u>444,521</u>
Non-current liabilities			
Post-employment benefit obligations	B3	261,777	259,714
Borrowings	B2	94,860	84,923
Lease liabilities		21,733	20,187
Deferred tax liabilities		13,776	14,432
		<u>392,146</u>	<u>379,256</u>
Current liabilities			
Payables		177,223	190,258
Borrowings	B2	303,475	276,327
Lease liabilities		5,840	9,175
Current tax liabilities		39,273	38,585
		<u>525,811</u>	<u>514,345</u>
		<u>917,957</u>	<u>893,601</u>
		<u>1,340,230</u>	<u>1,338,122</u>
Net assets per share attributable to owners of the parent (RM)		0.69	0.73

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes attached to the interim financial statements.

PELIKAN INTERNATIONAL CORPORATION BERHAD (Registration No.: 198001009827 (63611-U))
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Interim report for the financial period ended 31 March 2020
The figures have not been audited.

	Share Capital	Foreign currency translation reserves (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
At 1 January 2020	640,273	(90,131)	(101,714)	(5,150)	443,278	1,243	444,521
Loss for the financial period	-	-	(8,334)	-	(8,334)	(521)	(8,855)
Other comprehensive (loss)/income	-	(13,648)	-	-	(13,648)	255	(13,393)
Total comprehensive loss	-	(13,648)	(8,334)	-	(21,982)	(266)	(22,248)
At 31 March 2020	640,273	(103,779)	(110,048)	(5,150)	421,296	977	422,273
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

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 2019 and the accompanying explanatory notes attached to the interim financial statements.

PELIKAN INTERNATIONAL CORPORATION BERHAD (Registration No.: 198001009827 (63611-U))
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Interim report for the financial period ended 31 March 2020
The figures have not been audited.

	Financial period ended	
	31/03/2020	31/03/2019
	RM'000	RM'000
Cash Flows From Operating Activities		
Cash receipts from customers	233,558	212,231
Cash paid to suppliers and employees	<u>(257,720)</u>	<u>(223,876)</u>
	(24,162)	(11,645)
Interest received	54	57
Interest paid	(3,457)	(3,486)
Taxation paid	<u>(2,004)</u>	<u>(3,918)</u>
Net cash used in operating activities	<u>(29,569)</u>	<u>(18,992)</u>
Cash Flows From Investing Activities		
Interest paid	(750)	(835)
Purchase of property, plant and equipment	(2,156)	(5,251)
Proceeds from disposal of property, plant and equipment	638	42
Purchase of intangible assets	<u>(70)</u>	<u>(37)</u>
Net cash used in investing activities	<u>(2,338)</u>	<u>(6,081)</u>
Cash Flows From Financing Activities		
Drawdowns of bank borrowings	96,201	76,242
Repayments of bank borrowings	(68,677)	(66,123)
Repayments of lease payables	<u>(2,677)</u>	<u>(2,151)</u>
Net cash from financing activities	<u>24,847</u>	<u>7,968</u>
Net decrease in cash and cash equivalents during the financial period	(7,060)	(17,105)
Effects of exchange rate changes on cash and cash equivalents	(513)	834
Cash and cash equivalents at beginning of the financial period	<u>22,373</u>	<u>39,593</u>
Cash and cash equivalents at end of the financial period	<u><u>14,800</u></u>	<u><u>23,322</u></u>
Cash and cash equivalents comprise :		
Deposits, cash and bank balances	27,209	33,048
Bank overdrafts	<u>(11,875)</u>	<u>(9,208)</u>
	15,334	23,840
Less: Deposits pledged to licensed banks	<u>(534)</u>	<u>(518)</u>
	<u><u>14,800</u></u>	<u><u>23,322</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 2019 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 2020

A1. Basis of Preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 31 March 2020 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 2019.

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 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 2019 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 2020.

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 2020.

A. Notes to the Interim Financial Report
For the first quarter and financial period ended 31 March 2020

A8. Dividends

No dividends have been paid during the current quarter ended 31 March 2020.

A9. Segment Information

	Germany RM'000	Rest of Europe RM'000	Americas RM'000	Rest of the World RM'000	Elimination RM'000	Group RM'000
31 March 2020						
External revenue	111,687	38,720	45,986	10,885	-	207,278
Intersegment revenue	57,170	6,108	3,600	21,144	(88,022)	-
	<u>168,857</u>	<u>44,828</u>	<u>49,586</u>	<u>32,029</u>	<u>(88,022)</u>	<u>207,278</u>
Segment result	<u>(9,075)</u>	<u>1,905</u>	<u>7,429</u>	<u>909</u>	<u>(3,194)</u>	<u>(2,026)</u>

Germany

The German segment's revenue represents 53.9% of the Group's revenue. Sales development till February was better than last year but in March, the sales was affected when the coronavirus ("COVID-19") outbreak started to worsen in more countries in Europe, including Germany.

The segment suffered additional losses as compared to the previous year's corresponding quarter mainly due to lower production output resulting in higher cost absorption for the plant in the current quarter.

Rest of Europe

The contribution in revenue from all other European countries, except Germany, represents 18.7% of the Group's total revenue. Higher sales were achieved in the earlier months of the quarter as compared to the previous year's corresponding quarter, but, the performance was later affected in the month of March, in particular countries such as Italy and Poland when the COVID-19 outbreak worsens in the European countries.

The region achieved a segment result of RM1.9 million in the current quarter, mainly from the positive effects of foreign exchange on translation.

A. Notes to the Interim Financial Report
For the first quarter and financial period ended 31 March 2020

A9. Segment Information (cont'd)

Americas

Americas, which comprise 22.2% of the Group's revenue are represented by Mexico, Colombia and Argentina. The COVID-19 outbreak had negatively impacted the region's sales in the current quarter, in particular in the month of March. Sales in these countries contracted between the range of 2.3% to 24.0% as compared to previous year's corresponding quarter.

The segment result of RM7.4 million, as a consequence, was lower than the previous year's corresponding quarter.

Rest of the World

Rest of the World which comprise 5.2% of the Group's revenue consist mainly countries such as Japan, Taiwan/China, South East Asia and Middle East. Sales were delayed in China in February due to COVID-19 and partially in March for Malaysia.

The segment result of RM0.9 million, as a consequence, was lower than the previous year's corresponding quarter.

A10. Valuation of Property, Plant and Equipment

There were no valuations of property, plant and equipment during the current quarter ended 31 March 2020.

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 2020.

A12. Events Subsequent to the End of the Reporting Period

There was no event subsequent to the financial period ended 31 March 2020.

A13. Contingent Liabilities

There was no material contingent liabilities as at 31 March 2020.

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

B1. Tax Expense

	3 months ended		Financial period ended	
	31/03/20 RM'000	31/03/19 RM'000	31/03/20 RM'000	31/03/19 RM'000
Tax expense charged in respect of current financial period				
- income tax	(2,895)	(4,436)	(2,895)	(4,436)
- deferred tax	326	(184)	326	(184)
	<u>(2,569)</u>	<u>(4,620)</u>	<u>(2,569)</u>	<u>(4,620)</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 March 2020 are as set out below:

Currency	Short Term		Long Term		Total RM'000
	Secured RM'000	Unsecured RM'000	Secured RM'000	Unsecured RM'000	
Euro	196,362	1,969	85,404	-	283,735
Japanese Yen	-	1,994	-	-	1,994
Mexican Peso	-	19,984	-	-	19,984
Polish Zloty	4,444	-	3,456	-	7,900
Ringgit Malaysia	14,989	-	6,000	-	20,989
US Dollar	39,367	24,366	-	-	63,733
Total	<u>255,162</u>	<u>48,313</u>	<u>94,860</u>	<u>-</u>	<u>398,335</u>

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.

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

B4. Capital Commitments

Capital commitments not provided for in the financial statements as at 31 March 2020 were as follows:

	RM'000
Authorised and contracted for:	
Property, plant and equipment	<u>868</u>

B5. Review of Performance

The Group achieved revenue of RM207.3 million in the current quarter as opposed to RM217.6 million in the previous year's corresponding quarter. The COVID-19 outbreak had negatively impacted sales in countries where we operate in the current quarter, in particular in the month of March. Higher sales were achieved in the earlier months of the quarter for the German and other European countries as compared to the previous year's corresponding quarter, but, the performance was later affected in the month of March when the COVID-19 outbreak worsens.

The Group recorded a loss before tax of RM6.3 million in the current quarter as opposed to profit before tax of RM6.2 million in the previous year's corresponding quarter. The lower results were mainly attributable to the lower sales contribution achieved from reduced sales and lower production output resulting in higher cost absorption for the plants in the current quarter.

B6. Variation of Results Against Preceding Quarter

	Current Quarter 31/03/20 RM'000	Immediate Preceding Quarter 31/12/19 RM'000	Changes %
Revenue	207,278	223,266	-7.2
Loss before interest and tax	(2,026)	(12,314)	+83.5
Loss before tax	(6,286)	(17,366)	+63.8
Loss for the financial period	<u>(8,855)</u>	<u>(17,614)</u>	+49.7

The Group's revenue decreased to RM207.3 million in the current quarter as compared to RM223.3 million in the preceding quarter. Generally, the first quarter is a weak quarter for the Group as the major "back to school" season are between the second and third quarters of the year. In addition, the COVID-19 outbreak had also negatively impacted the Group's sales in the current quarter, in particular in the month of March.

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

B6. Variation of Results Against Preceding Quarter (cont'd)

The Group recorded a loss before tax of RM6.3 million in the current quarter as compared to loss before tax of RM17.4 million in the preceding quarter as a result of foreign exchange gain and no impairment of property, plant and equipment or one-off additional cost being incurred as compared to the preceding quarter. In the preceding quarter, the reorganisation of Czech Republic sales organisation to internalise logistic operations resulted in one off additional cost of approximately RM1.9 million incurred in the preceding quarter.

B7. Prospects

The Group's operations are affected by the COVID-19 pandemic as countries are on locked down and non-essential business, schools and shops are closed. Some of the countries where the Group operates continued to regulate business and public closures up till May although some countries like Germany had relaxed operating rules. The prolonged closures will affect the business of the Group and we expect that the economic conditions to be slow for the rest of the year if the COVID-19 situation continues. In order to address the slower expected sales, the Group has implemented measures to reduce operating costs and budgeted investments; and also take on any opportunity from government fiscal policies and assistance where available. Online sales efforts are also stepped up in countries where physical stores are not open or when customer visits to stores becomes less.

B8. Dividend

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

B9. Variance on Profit Forecast / Shortfall in Profit Guarantee

Not applicable.

B10. (Loss)/Earnings Per Ordinary Share

Basic (loss)/earnings per ordinary share:	3 months ended		Financial period ended	
	31/03/20	31/03/19	31/03/20	31/03/19
(Loss)/Profit attributable to owners of the parent (RM'000)	<u>(8,334)</u>	<u>1,901</u>	<u>(8,334)</u>	<u>1,901</u>
Weighted average number of ordinary shares in issue ('000)	<u>603,205</u>	<u>548,368</u>	<u>603,205</u>	<u>548,368</u>
Basic (loss)/earnings per ordinary share (sen)	<u>(1.38)</u>	<u>0.35</u>	<u>(1.38)</u>	<u>0.35</u>

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

B11. Additional Notes to the Statement of Comprehensive Income

	3 months ended		Financial period ended	
	31/03/20 RM'000	31/03/19 RM'000	31/03/20 RM'000	31/03/19 RM'000
(Loss)/Profit before tax is arrived at after charging/(crediting):				
Interest income	(54)	(57)	(54)	(57)
Interest expense	4,260	4,587	4,260	4,587
Depreciation and amortisation	7,230	7,320	7,230	7,320
Impairment loss on receivables	94	255	94	255
Inventories write down	9	19	9	19
Gain on disposal of property, plant and equipment	(568)	(10)	(568)	(10)
Foreign exchange gain	(4,980)	(2,369)	(4,980)	(2,369)