

Registration No.: 198001009827 (63611 - U)

PELIKAN INTERNATIONAL CORPORATION BERHAD
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT

30 JUNE 2020

PELIKAN INTERNATIONAL CORPORATION BERHAD (Registration No.: 198001009827 (63611-U))
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Interim report for the financial period ended 30 June 2020
The figures have not been audited.

	Note	Individual Quarter 3 months ended		Cumulative Quarter Financial period ended	
		30/06/2020 RM'000	30/06/2019 RM'000	30/06/2020 RM'000	30/06/2019 RM'000
Revenue		255,412	316,489	462,690	534,122
Other operating income		4,262	3,606	13,532	10,172
Expenses excluding finance costs and tax		(234,121)	(293,084)	(452,695)	(506,516)
Finance costs		(4,963)	(5,252)	(9,223)	(9,839)
Profit before tax		20,590	21,759	14,304	27,939
Tax expense	B1	(418)	(3,204)	(2,987)	(7,824)
Profit for the financial period		20,172	18,555	11,317	20,115
Other comprehensive income/(loss): Item that may be reclassified subsequently to profit or loss: Exchange differences on translation of foreign operations		746	2,827	(12,647)	(9,167)
Total comprehensive income/(loss) for the financial period		20,918	21,382	(1,330)	10,948
Total profit/(loss) attributable to:					
Owners of the parent		20,096	18,321	11,762	20,222
Non-controlling interests		76	234	(445)	(107)
		20,172	18,555	11,317	20,115
Total comprehensive income/(loss) attributable to:					
Owners of the parent		20,999	21,403	(983)	11,452
Non-controlling interests		(81)	(21)	(347)	(504)
		20,918	21,382	(1,330)	10,948
		sen	sen	sen	sen
Basic earnings per ordinary share attributable to equity holders of the parent	B10	3.33	3.34	1.95	3.69

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 30 June 2020
The figures have not been audited.

	Note	30/06/2020 RM'000	31/12/2019 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		391,569	396,766
Trademarks		17,536	16,710
Development costs		2,298	2,249
Goodwill		138,791	131,400
Computer software license		3,077	3,042
Investments in associates		58	55
Other financial assets		2,456	2,327
Pension Trust Fund		137,146	137,146
Deferred tax assets		113,002	108,952
		<u>805,933</u>	<u>798,647</u>
Current assets			
Inventories		259,604	228,778
Receivables, deposits and prepayments		304,801	255,038
Tax recoverable		8,354	9,396
Pension Trust Fund		13,718	13,718
Deposits, cash and bank balances		55,831	32,545
		<u>642,308</u>	<u>539,475</u>
		<u>1,448,241</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		(102,876)	(90,131)
Accumulated losses		(89,952)	(101,714)
Treasury shares, at cost		(5,150)	(5,150)
		<u>442,295</u>	<u>443,278</u>
Non-controlling interests		896	1,243
		<u>443,191</u>	<u>444,521</u>
Total equity			
Non-current liabilities			
Post-employment benefit obligations	B3	260,901	259,714
Borrowings	B2	121,502	84,923
Lease liabilities		21,377	20,187
Deferred tax liabilities		13,403	14,432
		<u>417,183</u>	<u>379,256</u>
Current liabilities			
Payables		205,699	190,258
Borrowings	B2	336,281	276,327
Lease liabilities		5,789	9,175
Current tax liabilities		40,098	38,585
		<u>587,867</u>	<u>514,345</u>
		<u>1,005,050</u>	<u>893,601</u>
Total liabilities			
TOTAL EQUITY AND LIABILITIES			
		<u>1,448,241</u>	<u>1,338,122</u>
Net assets per share attributable to owners of the parent (RM)		0.73	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 30 June 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
Profit/(loss) for the financial period	-	-	11,762	-	11,762	(445)	11,317
Other comprehensive (loss)/income	-	(12,745)	-	-	(12,745)	98	(12,647)
Total comprehensive (loss)/income	-	(12,745)	11,762	-	(983)	(347)	(1,330)
At 30 June 2020	<u>640,273</u>	<u>(102,876)</u>	<u>(89,952)</u>	<u>(5,150)</u>	<u>442,295</u>	<u>896</u>	<u>443,191</u>
At 1 January 2019	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
At 30 June 2019	<u>618,887</u>	<u>(87,270)</u>	<u>(76,441)</u>	<u>(5,150)</u>	<u>450,026</u>	<u>(40)</u>	<u>449,986</u>

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 30 June 2020
The figures have not been audited.

	Financial period ended	
	30/06/2020	30/06/2019
	RM'000	RM'000
Cash Flows From Operating Activities		
Cash receipts from customers	435,763	463,911
Cash paid to suppliers and employees	<u>(474,953)</u>	<u>(492,037)</u>
	(39,190)	(28,126)
Interest received	176	121
Interest paid	(8,590)	(7,731)
Taxation paid	<u>(3,858)</u>	<u>(8,190)</u>
Net cash used in operating activities	<u>(51,462)</u>	<u>(43,926)</u>
Cash Flows From Investing Activities		
Interest paid	(441)	(1,629)
Purchase of property, plant and equipment	(2,844)	(10,254)
Proceeds from disposal of property, plant and equipment	1,043	273
Purchase of intangible assets	(494)	(56)
Purchase of other financial assets	<u>(2)</u>	<u>-</u>
Net cash used in investing activities	<u>(2,738)</u>	<u>(11,666)</u>
Cash Flows From Financing Activities		
Drawdowns of bank borrowings	216,443	200,916
Repayments of bank borrowings	(134,991)	(152,749)
Repayments of lease payables	<u>(4,017)</u>	<u>(2,371)</u>
Net cash from financing activities	<u>77,435</u>	<u>45,796</u>
Net increase/(decrease) in cash and cash equivalents during the financial period	23,235	(9,796)
Effects of exchange rate changes on cash and cash equivalents	(1,420)	269
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>44,188</u></u>	<u><u>30,066</u></u>
Cash and cash equivalents comprise :		
Deposits, cash and bank balances	55,831	41,720
Bank overdrafts	<u>(11,109)</u>	<u>(11,136)</u>
	44,722	30,584
Less: Deposits pledged to licensed banks	<u>(534)</u>	<u>(518)</u>
	<u><u>44,188</u></u>	<u><u>30,066</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 second quarter and financial period ended 30 June 2020

A1. Basis of Preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30 June 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 30 June 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 30 June 2020.

A. Notes to the Interim Financial Report
For the second quarter and financial period ended 30 June 2020

A8. Dividends

No dividends have been paid during the current quarter ended 30 June 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
6 months ended						
30 June 2020						
External revenue	295,035	86,255	63,304	18,096	-	462,690
Intersegment revenue	137,026	15,043	6,187	60,236	(218,492)	-
	<u>432,061</u>	<u>101,298</u>	<u>69,491</u>	<u>78,332</u>	<u>(218,492)</u>	<u>462,690</u>
Segment result	<u>15,422</u>	<u>4,774</u>	<u>7,056</u>	<u>3,653</u>	<u>(7,378)</u>	<u>23,527</u>
3 months ended						
30 June 2020						
External revenue	183,348	47,535	17,318	7,211	-	255,412
Intersegment revenue	79,856	8,935	2,587	39,092	(130,470)	-
	<u>263,204</u>	<u>56,470</u>	<u>19,905</u>	<u>46,303</u>	<u>(130,470)</u>	<u>255,412</u>
Segment result	<u>24,497</u>	<u>2,869</u>	<u>(373)</u>	<u>2,744</u>	<u>(4,184)</u>	<u>25,553</u>

Germany

The German segment's revenue represents 63.8% of the Group's revenue, an increase in contribution due to the lower sales in other countries due to the COVID-19 pandemic. Lockdown and containment measures were being imposed, which resulted in slower sales in the earlier months of the current quarter, but, as Germany eases on restrictions imposed, sales in Germany spiked up in June recovering most of the earlier sales loss from March to May. On the channel side, the development of online channels during the quarter increased by more than 70% as physical stores were closed till May and as consumers went out to shop less from physical stores. Nevertheless, as and when the physical stores were opened, the customers restocked products at high level for BTS in the month of June, which resulted in an increase around 13.9% comparing to previous year's corresponding month.

Lower sales contribution was offset with positive impact from better management of expenses.

A. Notes to the Interim Financial Report
For the second quarter and financial period ended 30 June 2020

A9. Segment Information (cont'd)

Rest of Europe

The contribution in revenue from all other European countries, except Germany, represents 18.6% of the Group's total revenue. Lockdown and containment measures due to the COVID-19 outbreak lasted well into the second quarter and that the easing of containment measures has been gradual, resulting in slower sales in the current quarter as compared to previous year's corresponding quarter.

The region achieved a segment result of RM2.9 million in the current quarter, mainly from the negative effects of foreign exchange on translation and lower sales contribution.

Americas

Americas, which comprise 13.7% of the Group's revenue are represented by Mexico, Colombia and Argentina. The COVID-19 outbreak which resulted in extended quarantine periods had negatively impacted the region's sales in the current quarter. Sales in these countries contracted between the range of 20.7% to 60.8% as compared to previous year's corresponding quarter.

The region continued to take various cost control measures to mitigate the negative impact from the lower sales contribution which resulted from the prolonged quarantine periods.

Rest of the World

Rest of the World which comprise 3.9% of the Group's revenue consist mainly countries such as Japan, Taiwan/China, South East Asia and Middle East. Sales were delayed due to lockdown and containment measures in the current quarter.

The region achieved a segment result of RM2.7 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 30 June 2020.

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 2020.

A. Notes to the Interim Financial Report
For the second quarter and financial period ended 30 June 2020

A12. Events Subsequent to the End of the Reporting Period

There was no event subsequent to the financial period ended 30 June 2020.

A13. Contingent Liabilities

There was no material contingent liabilities as at 30 June 2020.

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

B1. Tax Expense

	3 months ended		Financial period ended	
	30/06/20 RM'000	30/06/19 RM'000	30/06/20 RM'000	30/06/19 RM'000
Tax expense charged in respect of current financial period				
- income tax	(610)	(3,224)	(3,505)	(7,660)
- deferred tax	192	20	518	(164)
	<u>(418)</u>	<u>(3,204)</u>	<u>(2,987)</u>	<u>(7,824)</u>

On a cumulative basis, for the financial period ended 30 June 2020, the Group's effective tax rate were lower than the statutory income tax rate in Malaysia mainly due to the utilisation of previous year's tax losses.

B2. Borrowings

Details of the Group's borrowings as at 30 June 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	
Colombian Peso	-	1,764	-	-	1,764
Czech Koruna	4,076	-	-	-	4,076
Euro	219,650	4,355	88,964	-	312,969
Hungarian Forint	385	-	-	-	385
Japanese Yen	-	3,975	-	-	3,975
Mexican Peso	-	22,314	-	-	22,314
Polish Zloty	6,009	-	3,423	3,115	12,547
Ringgit Malaysia	30,024	-	26,000	-	56,024
US Dollar	20,410	23,319	-	-	43,729
Total	<u>280,554</u>	<u>55,727</u>	<u>118,387</u>	<u>3,115</u>	<u>457,783</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 30 June 2020 were as follows:

	RM'000
Authorised and contracted for:	
Property, plant and equipment	<u>678</u>

B5. Review of Performance

The Group achieved revenue of RM255.4 million in the current quarter as opposed to RM316.5 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, especially in the Americas and certain European countries where extended quarantine periods were imposed. There were signs of rebound in June month when restrictions being imposed were eased. Germany recorded better than expected results in June, where it recouped most of the loss sales in earlier months on strong backorder deliveries in the spirit of "back to school" season.

The Group recorded a profit before tax of RM20.6 million in the current quarter as opposed to profit before tax of RM21.8 million in the previous year's corresponding quarter. The lower results were mainly attributable to the lower sales contribution achieved from reduced sales and also implementation of cost measures to mitigate COVID-19 impact and also government assistance in certain countries.

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

B6. Variation of Results Against Preceding Quarter

	Current Quarter 30/06/20 RM'000	Immediate Preceding Quarter 31/03/20 RM'000	Changes %
Revenue	255,412	207,278	+23.2
Profit/(Loss) before interest and tax	25,553	(2,026)	+>100.0
Profit/(Loss) before tax	20,590	(6,286)	+>100.0
Profit/(Loss) for the financial period	<u>20,172</u>	<u>(8,855)</u>	+>100.0

The Group's revenue increased to RM255.4 million in the current quarter as compared to RM207.3 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 and also due to easing of lockdowns and movement controls around the world. As a result of higher sales, the Group recorded a profit before tax of RM20.6 million in the current quarter as compared to loss before tax of RM6.3 million in the preceding quarter.

B7. Prospects

The global economic outlook remains uncertain as the pandemic continues to progress, with the number of daily new infections globally still increasing and many containment measures still in force. The Group's operations are affected by the pandemic as certain countries still restrict movements and non-essential business, schools and shops are closed. The prolonged closures may 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. Nevertheless, the Group started to see positive sales developments and experiencing a strong "Back To School" season for countries which have eased the movement or store opening restrictions such as Germany and many European countries. The Group has implemented measures to reduce operating costs and budgeted investments while taking on any support 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 lesser.

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.

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

B10. Earnings Per Ordinary Share

Basic earnings per ordinary share:	3 months ended		Financial period ended	
	30/06/20	30/06/19	30/06/20	30/06/19
Profit attributable to owners of the parent (RM'000)	20,096	18,321	11,762	20,222
Weighted average number of ordinary shares in issue ('000)	603,205	548,368	603,205	548,368
Basic earnings per ordinary share (sen)	3.33	3.34	1.95	3.69

B11. Additional Notes to the Statement of Comprehensive Income

	3 months ended		Financial period ended	
	30/06/20 RM'000	30/06/19 RM'000	30/06/20 RM'000	30/06/19 RM'000
Profit before tax is arrived at after charging/(crediting):				
Interest income	(122)	(64)	(176)	(121)
Interest expense	4,963	5,252	9,223	9,839
Depreciation and amortisation	8,164	7,563	15,394	14,883
Impairment loss on receivables	139	197	233	452
Inventories write down	15	18	24	37
Gain on disposal of property, plant and equipment	(11)	(87)	(579)	(97)
Foreign exchange loss/(gain)	1,131	1,604	(3,849)	(765)