



Pelikan International Corporation Berhad
(Company No. 63611-U)

BUILDING MOMENTUM

ANNUAL REPORT 2016



BACK TO SCHOOL

2016/17

- BEST FRIENDS



Best friends

BEST FRIENDS - PELIKAN BACK TO SCHOOL CAMPAIGN 2016/17

The annual Back to School (BTS) season is the busiest period in the calendar year for industries related to products used for school. This is the time when parents, students and teachers buy their school supplies for the new school term. Traditionally for Malaysia, BTS season starts from November until the end of January, taking place at the same time of the year-end school holiday.

To take advantage of the BTS season every year, Pelikan Group comes up with a global marketing campaign to push its products to the market. For 2016, 'Best Friends' was chosen as the theme for the campaign. The 'Best Friends' theme featured a similar style to the previous themes by featuring children having fun while focusing on friendship and adventure.

The BTS 2016/17 'Best Friends' theme campaign featured fun activities for the holiday and great new products for the new school year. Among the new products introduced to the market under this campaign were the Brush Marker 12 colours set and the Best Friends set which consists of a brush marker and a coloured pencil together in an attractive packaging. The products were made available through major channels and partners such as Mydin, AEON BIG, Times bookstores, MPH Bookstores and our very own the Pelikan Store at The Gardens Mall.





BEST FRIENDS COLOURING CONTEST

As part of the Best Friends BTS campaign, Pelikan Malaysia organised the exciting 'Best Friends Colouring Contest' which started from 1 November 2016 until 31 January 2017. A colouring contest during the BTS campaign is a norm but what made this season's contest fresh and different was the fact that the colouring contest was extended to three different age groups with two contest stages. Stage One was the qualifying round which took place from 1 November 2016 until 31 January 2017, when contestants sent their artworks through postal mail. Stage Two was the final round where 20 shortlisted participants from each age group battled it out in a live colouring session.

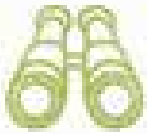
Another factor that made the Best Friends Colouring Contest exciting was the prizes offered to the winners. In addition to the cash prizes and Pelikan products that were offered in the previous contests, many popular and latest gadgets were also included in 2016 like the Iphone, Ipad, GoPro Hero 4, Nintendo 3DS and Ricoh Theta 360 Camera.

The contest was promoted on all major advertising channels including online through the Pelikan website, Facebook and Instagram advertising and print media including magazines such as Nanyang's Mingguan Pelajar, Kuntum, Time Out Kids/KL and Expatriate Lifestyle. The contest was also promoted at all Pelikan BTS point of sales by making the contest form and colouring sheet available at selected outlets of Mydin, AEON BIG, Times bookstores and MPH Bookstores.

PELIKAN KIDS WEBSITE

Pelikan has a website solely dedicated to its BTS campaign, known as Pelikan Kids website at www.pelikan.com/kids. Each country gets its own localised version of the website including Malaysia. Pelikan Kids website features all you need to know about the Pelikan BTS campaign, from its theme to the BTS products and the BTS contest. The contest form and colouring sheet for the Best Friends Colouring Contest were also made available for download there. The website is the perfect promotional tool for the Pelikan BTS campaign and will continue to promote BTS campaigns in the coming years.





VISION

- To be a successful, profitable and brand focused company operating worldwide.
- We create products desired and loved by our consumers.
- We are a culturally diverse international family of talented and motivated people who share one vision and strive towards the same goals.



MISSION

- Our trusted brands are daily companions.
- We are an internationally operating company with German roots.
- With passion and expertise we create products and solutions that fulfil consumers needs.
- We are committed to create value for our shareholders and customers.

OUR GUIDING PRINCIPLES



BUILDING MOMENTUM

Operating in an environment of constant change, Pelikan has now adapted its business structure to achieve sustainable balance and growth. Having set the right strategies in motion, the Group has achieved a new momentum and focus aligned to identified market demands and risks. The cover depicts our steadfast passion and commitment to creativity even as we move in new corporate directions.





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PELIKAN HUBS 2016

109 HUBS IN 37 COUNTRIES WITH 2,300 PEOPLE!

On 16 September 2016, at 6.30PM local time, we invited our fans to meet at several Pelikan Hubs all over the world. The event was organised by fans for fans, a unique concept that no other brand has ever realised!

2016 is the 3rd edition of Pelikan Hubs. There were 109 Hubs in 37 different

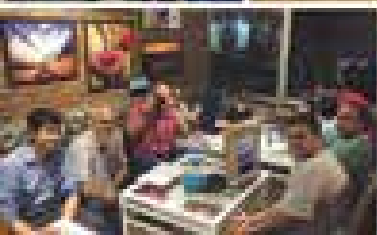
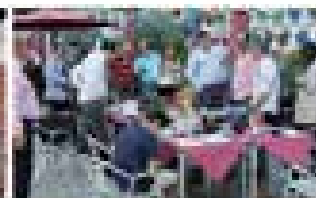
countries with roughly 2,300 people in attendance. The biggest hub took place in Taipei, Taiwan with approximately 300 participants!

Participants received a bottle of Edelstein® of the Year 2016 Ink Aquamarine, an exclusive paper pad as well as a pen pouch in the colour of Aquamarine each.

The cities that were chosen as hub locations were;

Canada • London Ontario, Sherbrooke, Toronto, Vancouver, Winnipeg
USA • Atlanta, Austin, Baltimore, Boston, Boulder, Chicago, Cincinnati, Dallas, Denver, Detroit, Fresno, Los Angeles, Minneapolis, Nashville, New Orleans, New York City, Philadelphia, Pittsburgh, Portland, Raleigh, San Antonio, San Diego, San Francisco, San Jose, Seattle, St Louis, Washington DC
Mexico • Mexico City, Puebla

Colombia • Bogota
Brazil • Sao Paulo
Chile • Santiago
Argentina • Buenos Aires





PELIKAN HUBS KUALA LUMPUR 2016

Pelikan Hubs Kuala Lumpur was held on 23 September 2016, one week after all the other cities in the world had their hubs event. Taking place at Italiannies Restaurant at The Gardens Mall, 11 fine writing enthusiasts gathered to share their passion, knowledge and experiences with Pelikan fountain pens and other writing instruments in general.

It was great seeing these Pelikan fans from different backgrounds all coming together to share their passion. It was a fun night, one which we will definitely want to have again for 2017!

REVENUE BY PRODUCT GROUP IN 2016



6.8%

FINE WRITING INSTRUMENTS
RM89,962,000

36.8%

SCHOOL
RM486,381,000

33.8%

OFFICE
RM446,597,000

11.4%

PRINTER CONSUMABLES
RM150,340,000

3.0%

HOBBY, ART & CRAFT
RM39,108,000

4.9%

PAPETRIE
RM64,935,000

3.3%

OTHERS
RM43,978,000

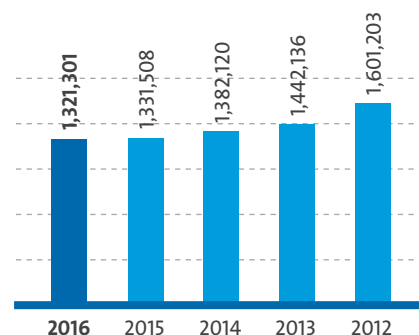


FINANCIAL HIGHLIGHTS

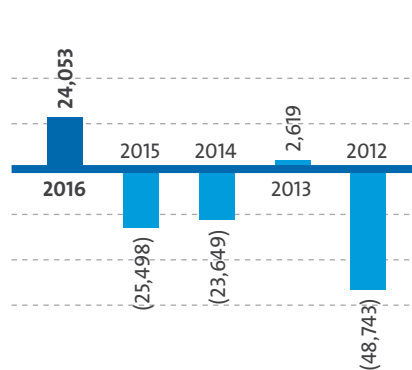
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

		2016	2015	2014	2013	2012 RESTATED
Revenue	RM'000	1,321,301	1,331,508	1,382,120	1,442,136	1,601,203
Profit/(Loss) before tax	RM'000	24,053	(25,498)	(23,649)	2,619	(48,743)
Profit/(Loss) for the financial year	RM'000	6,513	(50,027)	(36,572)	(13,660)	(65,116)
Profit/(Loss) for the financial year attributable to owners of the parent	RM'000	5,325	(48,960)	(36,459)	(5,602)	(58,044)
Equity attributable to owners of the parent	RM'000	420,708	460,146	486,872	545,244	537,607
Basic earnings/(loss) per share	sen	0.97	(8.93)	(6.90)	(1.10)	(11.46)
Fully diluted earnings/(loss) per share	sen	0.96	(8.93)	(6.90)	(1.10)	(11.46)
Net asset per share attributable to owners of the parent	sen	0.76	0.83	0.88	1.06	1.05
Dividend per share - proposed	sen	—	—	—	—	—

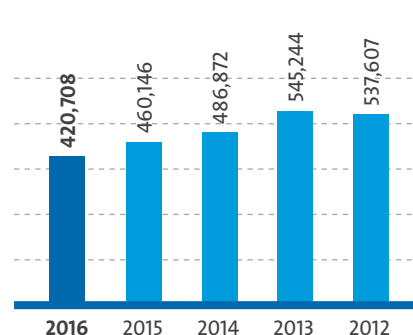
Revenue
(RM'000)



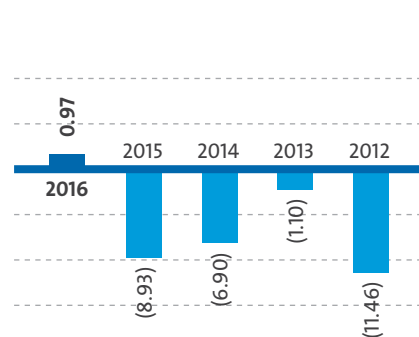
Profit/(Loss) Before Tax
(RM'000)



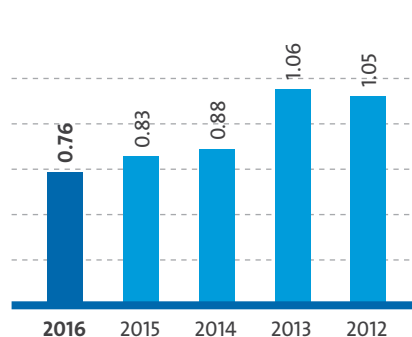
Equity Attributable
(RM'000)



Basic Earnings/(Loss) Per Share
(sen)



Net Asset Per Share
(sen)



BOARD OF DIRECTORS

**Tan Sri Dato' Sri Abi Musa Asa'ari
bin Mohamed Nor**

*Chairman & Independent
Non-Executive Director*

Loo Hooi Keat

President/Chief Executive Officer

Dato' Afifuddin bin Abdul Kadir

Independent Non-Executive Director

Dato' Lua Choon Hann

Independent Non-Executive Director

Datuk Rozaida binti Omar

Non-Independent Non-Executive Director

Datin Normimy binti Mohamed Noor

Non-Independent Non-Executive Director

AUDIT COMMITTEE

1. Dato' Lua Choon Hann
Chairman
2. Dato' Afifuddin bin Abdul Kadir
3. Datuk Rozaida binti Omar

NOMINATION COMMITTEE

1. Dato' Afifuddin bin Abdul Kadir
Chairman
2. Dato' Lua Choon Hann
3. Datin Normimy
binti Mohamed Noor

REMUNERATION COMMITTEE

1. Tan Sri Dato' Sri Abi Musa
Asa'ari bin Mohamed Nor
Chairman
2. Dato' Afifuddin bin Abdul Kadir
3. Datin Normimy binti Mohamed
Noor

**EXECUTIVES' SHARE OPTION SCHEME
COMMITTEE**

1. Tan Sri Dato' Sri Abi Musa
Asa'ari bin Mohamed Nor
Chairman
2. Loo Hooi Keat
3. Datuk Rozaida binti Omar

COMPANY SECRETARIES

Ho Ming Hon
(MICPA 3814)

Chua Siew Chuan
(MAICSA 0777689)

AUDITORS

BDO (AF 0206)
Chartered Accountants
Level 8
BDO @ Menara CentARa
360 Jalan Tuanku Abdul Rahman
50100 Kuala Lumpur
Malaysia
Tel: (+603) 2616 2888
Fax: (+603) 2616 2970

SHARE REGISTRAR

Tricor Investor & Issuing House
Services Sdn Bhd
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Malaysia
Tel: (+603) 2783 9299
Fax: (+603) 2783 9222

REGISTERED OFFICE

No. 9 Jalan Pemaju U1/15
Seksyen U1
Hicom Glenmarie Industrial Park
40150 Shah Alam
Selangor Darul Ehsan
Malaysia
Tel: (+603) 5569 5511
Fax: (+603) 5569 5500

PRINCIPAL BANKERS

AmBank (M) Berhad
CIMB Bank Berhad
HSBC Bank Malaysia Berhad
Malayan Banking Berhad

STOCK EXCHANGE LISTING

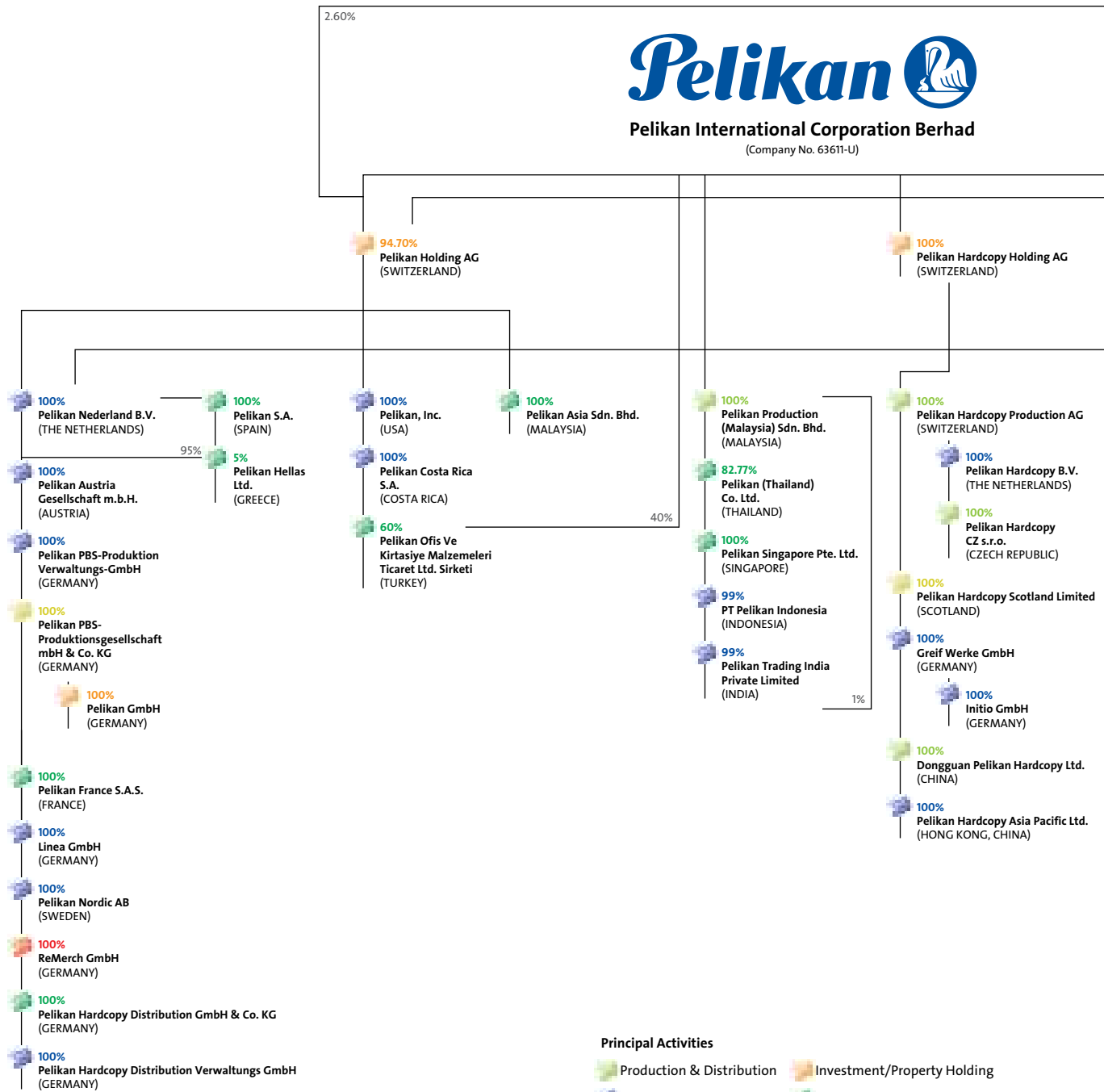
Main Market of
Bursa Malaysia Securities Berhad,
Malaysia
Stock Name : PELIKAN
Stock Code : 5231

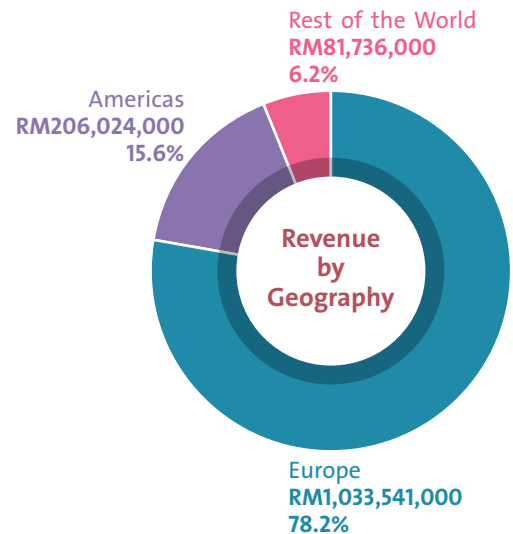
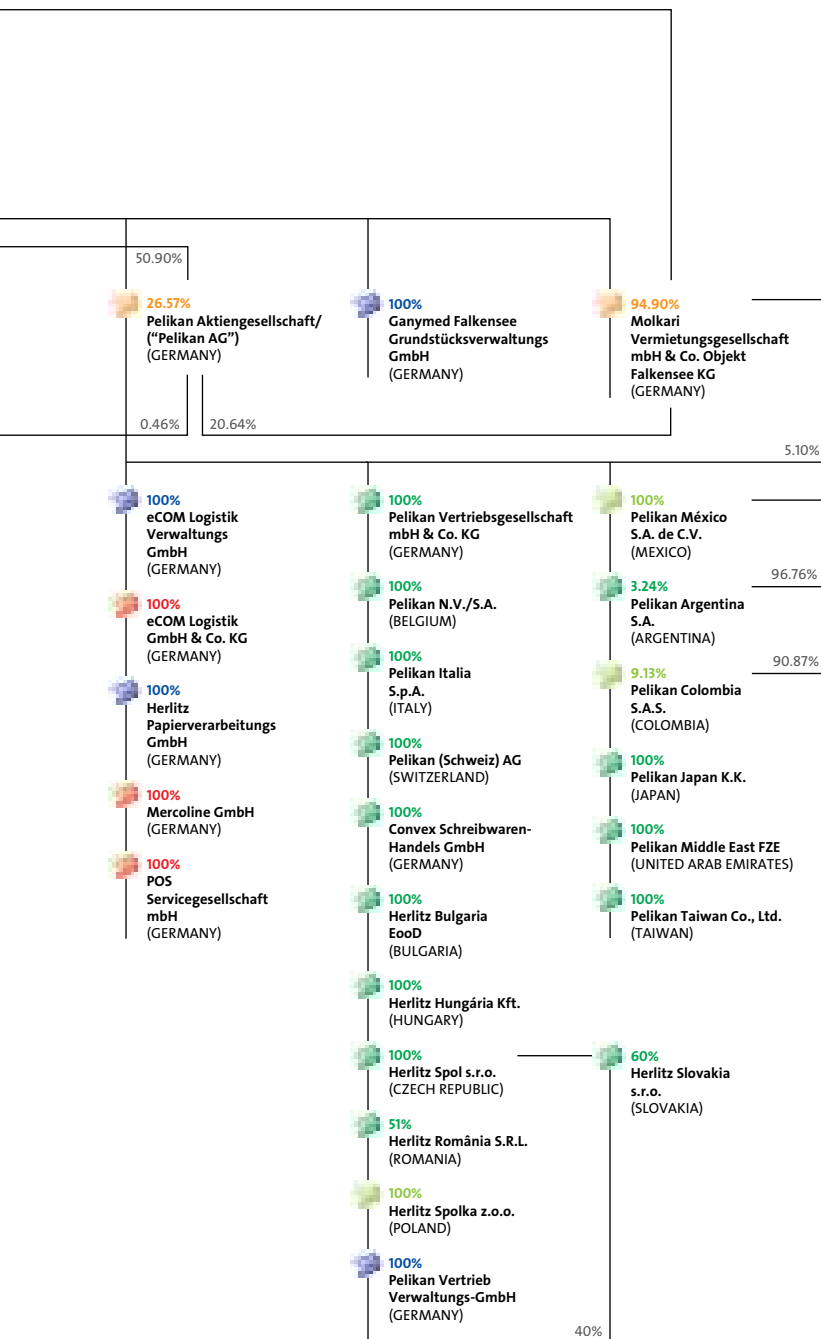
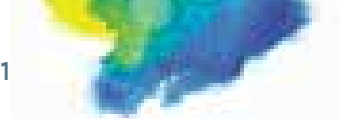
WEBSITE

www.pelikan.com

GROUP CORPORATE STRUCTURE

AS AT 31 DECEMBER 2016





1. EUROPE

Sales & Marketing organisations:

Austria, Belgium, Bulgaria, Czech Republic, France, Germany, Greece, Hungary, Italy, Poland, Romania, Slovakia, Sweden, Switzerland, Spain, The Netherlands, Turkey

Revenue: RM1,033,541,000
78.2% of total revenue
(2015: 78.3%)

Employees: 1,724 (2015: 1,791)

Plants: 5

2. AMERICAS

Sales & Marketing organisations:

Argentina, Colombia, Mexico

Revenue: RM206,024,000
15.6% of total revenue
(2015: 16.2%)

Employees: 564 (2015: 627)

Plants: 2

3. REST OF THE WORLD

Sales & Marketing organisations:

Malaysia, China, India, Japan, Singapore, Taiwan, Thailand, United Arab Emirates

Revenue: RM81,736,000
6.2% of total revenue
(2015: 5.5%)

Employees: 149 (2015: 198)

Plants: 2

CHAIRMAN & CEO'S STATEMENT 2016

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the annual report of Pelikan International Corporation Berhad (“Pelikan International”) for the financial year ended 31 December 2016.

Left

**Tan Sri Dato’ Sri Abi Musa Asa’ari
bin Mohamed Nor**
Chairman

Right

Loo Hooi Keat
President/Chief Executive Officer



BUILDING MOMENTUM

Since the streamlining of the Group and consolidation of the key stationery and fine writing instruments businesses into Pelikan AG, we have strategically focused our operations, resources and initiatives on the core brands and businesses of the Group which gave us better yield and opportunities for growth. Our unwavering focus on reducing structural and operating costs, while reinvesting synergies and cost savings into brand building, research and development (“R&D”), and improving distribution channels have contributed positively to performance, despite facing strong headwinds including the negative impact of the strengthening United States Dollar (“USD”) on our global business operations. In 2016, Pelikan Group managed to turn

around the business and recorded a profit before taxation after reporting losses in the past years. We had foreseen that the global business, with its complexities and high overhead and operating costs, would have been negatively affected and decelerated in today’s economic environment, hence the Group took drastic steps and difficult decisions to reorganise in the last years to reposition the Group’s businesses for profitable growth and brand development.

We are building momentum to gain back market shares and accelerate expansion to be on track with sales expectations and growth. By streamlining our organisation, we will continue to transform into a leaner and more productive Group without comprising on our core values, our brands, our customers and our

commitment to product innovation. Despite the slow global growth projections for 2017 and beyond, we are certain that our continuous efforts to reduce costs, investment in strong product portfolio, increase brand awareness and drive productivity will pay off and enable a sustainable and profitable growth for the Group.

DEVELOP AND DELIVER

With a clear vision and business plan in place, the Group intends to develop our strong business segments with high growth potentials, sustain and expand market shares for leader product groups, and deliver our plans and results in the marketplace. Going back to basics, with strong emphasis on R&D to create new, innovative and appealing products while strengthening the marketing

CHAIRMAN & CEO'S STATEMENT 2016



campaigns and promotional activities to distinguish our brands, the Group aims to accelerate the product to market and optimise the full commercial value. There are many opportunities ahead to grow and strategically allocate resources towards business segments of growth.

One of the product groups that delivered strong results was fine writing instruments ("FWI") which increased by 10% in sales last year compared to 2015. The global market for FWI grew in 2016 despite slowdown in global economic growth and flat luxury global sales. According to Bloomberg news, fountain pens particularly were in demand and recorded a surge in global retail sales of 2.1% last year to a market size of USD1.04 billion. Pelikan, being a manufacturer of the patented

piston mechanism fountain pen since 1929, was one of the most sought out brand names for fountain pens, and the Group capitalised on our expertise and experience in producing high quality fountain pens to create beautiful and valuable editions. Not only did FWI performed well, the business segment also created many new customers and distributors, marketing and promotional activities as well as brand visibility for the Group. We expect the FWI business to continue this upward trend for 2017 as fountain pens are expected to attract a wider consumer base beyond the niche market.

MORE TO COME

The Group continues to invest into R&D and product innovation despite the challenging economic



CHAIRMAN & CEO'S STATEMENT 2016

circumstances and uncertain currency volatilities. Last year, the Group spent RM15.1 million into R&D related investments though we have reduced the production of printer supplies and toner powder, and channeled funds to the growing business segments such as school stationery and FWI. The stationery business continues to deliver solid performance with high gross margins, and to improve on the business, the Group initiated the introduction of a 'Youth' business segment for students between the ages 13-17 years old which covers a wide range of stationery and writing instruments for schools based on the youth trends, styles and tastes. These were supported by consumer

insights and market research to fundamentally understand the youth behaviour and buying patterns in order to create a strong product portfolio and marketing campaign. For Youth 2017, the Group launched 'Pelikano® Up', an upgrade of the Pelikano® writing instrument family with a new aluminium body and cap in trendy colours anthracite and champagne. The Group also expanded on the Twist® writing instruments with new trendy colour combinations – "apple-blue" and "neon-plum" – to further capture the market shares of this target group. Apart from that, the Group will also introduce notebooks and stationery products under the Pelikan brand to target the youth students.



CHAIRMAN & CEO'S STATEMENT 2016



With Pelikan AG working and performing, the Group continues to simplify the business structure, improve on processes, operations and technology, and develop new markets and channels for further sales growth as we move into 2017. The Group plans to reinvest into brand building to drive market share and build up consumer awareness of our brands. We hope that with the stronger innovation product portfolio and better quality marketing campaigns such as the global Back to School marketing approach, we are able to achieve higher sales performance and significantly positive results.

IN APPRECIATION

We would like to thank our dedicated staff and management for their commitment, determination and teamwork. Our path towards growth and progress will not be possible without the strong partnerships with our customers, business associates, employees, investors and suppliers, as well as the continuous support from our shareholders.

**Tan Sri Dato' Sri Abi Musa Asa'ari
bin Mohamed Nor**
Chairman

Loo Hooi Keat
President/Chief Executive Officer



BOARD OF DIRECTORS' PROFILE



TAN SRI DATO' SRI ABI MUSA ASA'ARI BIN MOHAMED NOR

Chairman & Independent Non-Executive Director

Chairman of Remuneration Committee

Chairman of ESOS Committee

Tan Sri Dato' Sri Abi Musa Asa'ari Bin Mohamed Nor, a Malaysian, male, aged 67, was appointed as a Non-Independent Non-Executive Chairman of Pelikan on 27 July 2012 and redesignated to Independent Non-Executive Chairman on 30 July 2013.

He started his career with the Malaysian Government as a Civil Service Officer in 1973 holding the post of Assistant Director in the Public Service Department. In 1977, he was seconded to the National Bureau of Investigation (now the Malaysian Anti Corruption Commission), and later to INTAN as Programme Coordinator for Public Enterprises Training before serving as Deputy Director of Petroleum Development in the Prime Minister's Department.

He also served as Deputy Director of Budget in the Ministry of Finance from 1995 to 1998, following which he was appointed Director General of FAMA in the Ministry of Agriculture. In 2001, he was appointed Secretary General of the Ministry of Agriculture and Agrobased Industry, a post he held until his retirement in 2006.

Currently, he is the Chairman of MCT Bhd and a Director of Heitech Padu Bhd, public companies listed on the Main Market of Bursa Malaysia Securities Berhad and the Chairman of Pelikan AG Supervisory Board, a subsidiary of Pelikan listed on the Frankfurt Stock Exchange.

He does not have any family relationship with any Director and/or major shareholder, nor any conflict of interest with Pelikan. He has no convictions for any offence within the past 5 years, other than traffic offences, if any and has not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2016.

BOARD OF DIRECTORS' PROFILE

**LOO HOOI KEAT**

President/Chief Executive Officer

Member of ESOS Committee

Loo Hooi Keat, a Malaysian, male, aged 62, was appointed as an Executive Director of Pelikan on 22 April 2005 and thereafter as an Executive Chairman on 26 April 2005. Subsequently, he was re-designated as President/Chief Executive Officer of Pelikan on 14 November 2007.

He is a certified Public Accountant and a member of the Malaysian Institute of Certified Public Accountants (MICPA). He received his training in accountancy from a reputable international accounting firm where he obtained his Certified Public Accountant accreditation. Since then, he has gained experience in various international companies in Malaysia, namely as Group Accountant for the Sime Darby group of companies from 1982 to 1985 and Lion group of companies from 1986 to 1989. He was the Group General Manager for Business Management of United Engineers (Malaysia) Berhad from 1990 to 1992. He then joined Konsortium Logistik Berhad, a logistics service provider company as an Executive Director until 2010.

Currently, he is the President and Board Member of Pelikan Holding AG, a subsidiary of Pelikan and is also a Board Member of Pelikan AG, a subsidiary of Pelikan listed on the Frankfurt Stock Exchange.

He does not have any family relationship with any Director and/or major shareholder, nor any conflict of interest with Pelikan. He has no convictions for any offence within the past 5 years, other than traffic offences, if any and has not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2016.

**DATUK ROZAIDA BINTI OMAR**

Non-Independent Non-Executive Director

Member of Audit Committee

Member of ESOS Committee

Datuk Rozaida binti Omar, a Malaysian, female, aged 54, was appointed as a Non-Independent Non-Executive Director of Pelikan on 21 November 2008.

She is a Chartered Accountant of the Malaysian Institute of Accountants (MIA) and a Fellow of the Association of Chartered Certified Accountants (ACCA).

She started her career as a Financial Accountant at FELDA in 1986. From 1990 to 1991, she was a Credit Manager at Citibank Berhad. She then joined Guthrie Trading Sdn Bhd as a Finance Manager until 1993. In 1994, she joined Glaxo SmithKline Consumer Healthcare Sdn Bhd as Finance Director until 2003.

Currently, she sits on the Board of BIMB Holdings Berhad and Syarikat Takaful Malaysia Berhad, public companies listed on the Main Market of Bursa Malaysia Securities Berhad and a member of Pelikan AG Supervisory Board, a subsidiary of Pelikan listed on the Frankfurt Stock Exchange. She is also the Group Chief Financial Officer of Lembaga Tabung Haji.

She does not have any family relationship with any Director and/or major shareholder, nor any conflict of interest with Pelikan. She has no convictions for any offence within the past 5 years, other than traffic offences, if any and has not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2016.

BOARD OF DIRECTORS' PROFILE



DATO' AFIFUDDIN BIN ABDUL KADIR

Independent Non-Executive Director

Member of Audit Committee

Chairman of Nomination Committee

Member of Remuneration Committee

Dato' Afifuddin bin Abdul Kadir, a Malaysian, male, aged 63, was appointed as an Independent Non-Executive Director of Pelikan on 1 August 2012.

He joined the Malaysian Industrial Development Authority (MIDA) in 1979 as a Technical Professional Officer in the Industrial Studies Division. He was attached to MIDA Sabah from 1982 to 1985.

From 1986 to 1990 he served as Deputy Director in MIDA's branch in London. Later he was attached to the Transport and Machinery Industries Division as a Deputy Director. From 1996 to 2001 he served as a Director in MIDA's branch in Paris, following which he served as the Director in MIDA's branch in London.

In early 2005, he was posted back to MIDA's Head office as Director of the Electronics Industries Division. In late 2005, he was given the task to head the Foreign Investment Promotion Division in MIDA's Head office. His responsibilities included overseeing the overall planning, implementation and co-ordination of investment promotion strategies to attract foreign direct investments into Malaysia.

In March 2007, he was promoted to Senior Director, Investment Promotion and responsible for the overall investment promotional activities particularly with regard to promoting foreign and domestic investments as well as cross border investments.

In April 2008, he was promoted to the post of the Deputy Director General II and subsequently to the Deputy Director General I of MIDA in June 2008, a post he held until his retirement on 14 September 2011.

He currently sits on the Board of UMW Oil & Gas Corporation Berhad and Power Root Berhad, public listed companies on the main market of Bursa Malaysia Securities Berhad and two other public companies, Lam Soon (M) Berhad and Lion Corporation Berhad.

He does not have any family relationship with any Director and/or major shareholder, nor any conflict of interest with Pelikan. He has no convictions for any offence within the past 5 years, other than traffic offences, if any and has not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2016.

BOARD OF DIRECTORS' PROFILE

**DATIN NORMIMY BINTI MOHAMED NOOR**

Non-Independent Non-Executive Director

Member of Nomination Committee
Member of Remuneration Committee

Datin Normimy binti Mohamed Noor, a Malaysian, female, aged 47, was appointed as a Non-Independent Non-Executive Director of Pelikan on 12 September 2011.

She is presently the General Manager in the Office of the Group Managing Director and Chief Executive Officer of Lembaga Tabung Haji, a position she has held since 2009. Prior to that, she was the Assistant General Manager of Bank Islam Malaysia Berhad, Director of Private Banking/Financial Services, Societe Generale Bank & Trust, Singapore and was responsible for the acquisition and management of High Net Worth Individuals (HNWI) and institutions, providing advisory services to HNWI clients in estate planning, trust and investment services as well as providing total financial solutions to HNWI through offshore offerings.

Datin Normimy has also served as Vice President of Private Banking/Financial Services, at Clariden Leu, Credit Suisse Group Singapore and was with the Maybank Group for 14 years.

She does not have any family relationship with any Director and/or major shareholder, nor any conflict of interest with Pelikan. She has no convictions for any offence within the past 5 years, other than traffic offences, if any and has not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2016.

**DATO' LUA CHOON HANN**

Independent Non-Executive Director

Chairman of Audit Committee
Member of Nomination Committee

Dato' Lua Choon Hann, a Malaysian, male, aged 41, was appointed as an Independent Non-Executive Director of Pelikan on 1 April 2013.

He obtained his Bachelor of Law degree from the University of Cardiff, United Kingdom and started his professional career in the legal practice with the Attorney General's Chambers as a Prosecutor in the Republic of Singapore.

With his years in practice, he gained a substantial and broad expertise, knowledge and experience in advising on legal matters, amongst others, pertaining to corporate affairs, finance and commercial matters. With his professional legal experience, business acumen and commercial know-how, Dato' Lua became an entrepreneur in 2003 through various business ventures in Malaysia involving various sectors, including the provision of corporate consultancy and solution services, property development and other related businesses.

Currently, he is the Group Managing Director of PRG Holdings Berhad, a public listed company on the Main Market of Bursa Malaysia Securities Berhad.

He does not have any family relationship with any Director and/or major shareholder, nor any conflict of interest with Pelikan. He has no convictions for any offence within the past 5 years, other than traffic offences, if any and has not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2016.

GROUP MANAGEMENT TEAM



PELIKAN INTERNATIONAL CORPORATION BERHAD

1. LOO HOOI KEAT

Malaysian, Male, 62
President/Chief Executive Officer,
since 2005

- Certified Public Accountant
- Over 30 years of experience
- Group Accountant, Sime Darby Group of Companies (1982-1985)
- Group Accountant, Lion Group of Companies (1986-1989)
- Group General Manager, United Engineers (Malaysia) (1990-1992)
- Executive Director, Konsortium Logistik Berhad (1992-2010)

2. HO MING HON

Malaysian, Male, 42
Senior Vice President, Head of
Group Finance and Corporate Services/
Company Secretary, since 2011

- Certified Public Accountant
- Practised in a big four audit firm
- Specialised in corporate finance in an investment bank

3. LOO SEOW BENG

Malaysian, Male, 59
Head of Procurement, since 2006

- BSc in Business
- Over 20 years of experience with Pelikan Group
- Pelikan Singapore-Malaysia Pte Ltd (1995)
- Pelikan Holding AG

4. FLAVIO MONTI (Printer Consumables)

Swiss, Male, 57
Managing Director, Pelikan Hardcopy
Production AG (PHPAG), since 2012

- Technical education, BA in Business Economics
- Over 25 years of experience in production operations
- International production transfer projects
- Plant Manager of PHPAG
- Joined Pelikan in 1987

5. WILLIAM LIU (CHINA & TAIWAN)

Chinese, Male, 59
Head of Sales and Marketing
People's Republic of China, Hong Kong
and Taiwan, since 2005

- BA in Agriculture (National Chung Hsing University, Taiwan)
- Over 20 years of experience in the Taiwan consumer market
- Pelikan Taiwan Co. Ltd. (2007)

PELIKAN AG MANAGEMENT

6. CLAUDIO ESTEBAN SELEGUAN

Argentinean, Male, 54
CEO, Pelikan AG
Managing Director, Pelikan Mexico,
since 1992

- BA in Business Administration
- Over 26 years of experience with Pelikan Group
- Manager of Pelikan Costa Rica (1989)

7. FRAUKE WANDREY

German, Female, 48
Board Member of Pelikan AG, since 2013

- Degree in Law (State Exam)
- Attorney in an international law firm
- Joined Pelikan Group as Head of Legal Department in March 2000
- Appointed Company Secretary and General Counsel Pelikan Holding AG in 2004
- Appointed Board Member of Pelikan Holding AG in June 2011
- Appointed Board Member of Pelikan AG in January 2014

GROUP MANAGEMENT TEAM

**8. TORSTEN JAHN**

*German, Male, 42
Board Member of Pelikan AG, since 2014*

- Diploma in Economics
- Certified German Tax Consultant
- Certified Valuation Analyst (CVA)
- Member of International Association of Consultants, Valuators and Analysts Germany
- Joined Pelikan in 2003

9. JENS KOLLECKER

*German, Male, 41
Finance Director of Pelikan AG, since 2014*

- Graduate in IT and information management
- Diploma in Economics
- Joined Pelikan Group in 1998 and held several positions in Controlling and Finance (1998-2011)
- Manager of manufacturing plant at Vöhrum, Germany (2011-2014)
- Appointed Finance Director of Pelikan AG in February 2014

10. SVEN VERGAUWEN

*Belgian, Male, 45
European Sales Director
(ex Germany & Austria), since 2014*

- Masters in Marketing Management
- Product Manager, Key Accounts Manager, and Marketing Manager at Geha Benelux N.V. (1996-1999)
- International Sales and Marketing Manager at Agfa-Gevaert N.V. (1999-2002)

- Joined Pelikan Benelux N.V. as Business Development Manager in 2002
- Managing Director of Pelikan Benelux N.V. (2004)

11. PATRICK VULTO

*Dutch, Male, 46
Head of European Marketing, since 2015*

- BA in Business Administration
- Masters in Marketing
- Over 20 years of Marketing and Business Development experience in leading FMCG companies
- Joined Pelikan Group in 2015

12. MATHIAS SHAW

*Argentinean, Male, 41
Managing Director, Pelikan Argentina, since 2010
Senior Vice President, International Sales and Marketing, since 2016*

- Degree in Marketing (UCES Business School)
- Marketing Manager of Pelikan Mexico (2002)

13. YAMIL VALENCIA

*Colombian, Male, 48
Managing Director, Pelikan Colombia SAS, since 2009*

- BA in Industrial Engineering
- Diploma in International Business (University of California at Berkeley)
- Over 10 years of experience with The Coca-Cola company in Central America
- Joined Pelikan in 2009

14. AZUMA IKEDA

*Japanese, Male, 63
Head of Sales and Marketing
Japan and South Korea, since 1993*

- BA in Commerce
- Masters of Business Administration
- Finance Manager, Pelikan Japan K.K. (1990)
- Managing Director, Pelikan Japan K.K. (1995)
- Board member of Japan Imported Pen Association

15. NASSER AL ATRASH

*Jordanian, Male, 50
Head of Sales and Marketing
Middle East and Africa, since 2006*

- BSc in Business Administration (Yarmouk University)
- Over 23 years of experience in strategic business planning, finance, operations, sales and marketing

Save as disclosed, the above group management team members:

- have no directorship in public companies and listed issuers, apart from Loo Hooi Keat, Claudio Esteban Seleguan, Frauke Wandrey and Torsten Jahn who are board members of Pelikan AG, a company listed on the Frankfurt Stock Exchange;
- have no family relationship with any Director and/or major shareholder, nor any conflict of interest with Pelikan; and
- have no convictions for any offense within the past 5 years, other than traffic offences, if any and have not been imposed any public sanction or penalty by the relevant regulatory bodies during the financial year 2016.

MANAGEMENT DISCUSSION AND ANALYSIS



The following Management Discussion and Analysis (“MD&A”) is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Pelikan International Corporation Berhad and its subsidiaries, referred to herein as “Pelikan”, “The Group”, “we”, “us”, or “our”. This MD&A is provided as a supplement to and should be read in conjunction with our consolidated financial statements and the accompanying notes as presented on pages 70 to 135 of this Annual Report. Unless otherwise indicated, all amounts are expressed in Ringgit Malaysia (“RM”).

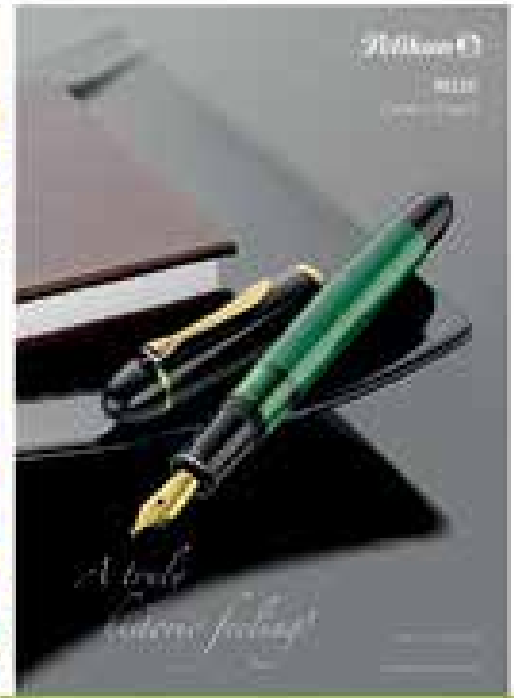


OVERVIEW OF GROUP'S BUSINESS AND OPERATIONS

Pelikan is one of the market leaders and pioneers in writing instruments and stationery industry worldwide. The Group is globally renowned for the diversity of its stationery supplies and offers high quality products from high-valued writing instruments, hobby paints, office stationery, school supplies

and printer consumables for use by children, students, parents, teachers, office workers and pen collectors. We strive to maintain the brand's good reputation that stands for high quality, innovation, reliability, diversity and creativity in our product offerings. The Group is proud of its German tradition, heritage, technology and craftsmanship and aims to continuously improve on its quality standards across all its product

MANAGEMENT DISCUSSION AND ANALYSIS



categories. In addition, we aim to create products that inspire creativity and imagination, encouraging people to express themselves in diverse ways, be it through painting, writing or drawing.

Today the Group owns the brands “Pelikan”, “herlitz”, “Susy Card” and “Geha”. “Pelikan” is known as a global premium brand with focus on fine writing instruments (“FWI”), school and office stationeries (including printer consumables). “herlitz” is well known in Germany and Eastern Europe as a brand focused on school (backpacks and school notebooks) and office stationeries (writing pads and files). “Susy Card” is primarily focused in the greeting cards, gifts, decorations and napkins business. Lastly “Geha” is a technical office brand focused mainly on office equipment such as laminators and shredders.

The business of the Group spans worldwide with subsidiaries present in 28 countries to serve each local market and also exports to the surrounding countries where local subsidiaries are not present. The Group’s products requirements are fulfilled via its internally owned manufacturing facilities situated in Germany, Poland, Scotland, Czech Republic, Mexico, Colombia, China and also through Malaysia via the international procurement center. The respective plants have their own research and development team to develop new products and also to improve the quality of existing products.

In addition, to support its product businesses in particular in Germany and Europe, the Group is also running service operations that provide logistics, merchandising and

IT solutions to internal and external customers.

Our markets are highly competitive and involve global brand players, regional brands and also local competitors. In most of our core markets, we compete against the global brands and we strive to compete with our quality, innovation as well as attractive pricing strategies. In Germany and Europe, Pelikan has strong market positions in its products such as FWI, school colours (opaque paint box) and school writing instruments. In Americas, the brand focus is on office stationeries while in Asia its on FWI and office stationeries. Placement of products are all encompassing through most channels such as departmental stores, pharmacies, hypermarkets, wholesale, specialist stores, office and electronics superstores, business to business channels and also online channels.

MANAGEMENT DISCUSSION AND ANALYSIS

STRATEGIC FOCUS

We are focussed on strategies that will promote long-term growth of the Group which will deliver total shareholders return. The Group has in the past years undergone a very tedious internal corporate reorganisation which it expects to deliver long-term growth, in particular through its stationery business under Pelikan AG.

The Group strives to achieve this within our corporate principles through our Vision, Mission and Guiding Principles:

Vision

- To be a successful, profitable and brand focused company operating worldwide.
- We create products desired and loved by our consumers.
- We are a culturally diverse international family of talented and motivated people who share one vision and strive towards the same goals.

Mission

- Our trusted brands are daily companions.
- We are an internationally operating company with German roots.
- With passion and expertise we create products and solutions that fulfil consumers needs.
- We are committed to create value for our shareholders and customers.

Guiding Principles

- Quality
- Innovation
- Commitment
- Integrity
- Teamwork

ORGANISATIONAL STRUCTURE

The Group has in April 2015 completed its asset streamlining exercise wherein the majority of its global stationery business is placed under Pelikan AG, Germany. The remaining units outside Pelikan AG are the printer consumable factories and sales organisations, production services organisation, procurement services and smaller sales subsidiaries.

Pelikan AG Group

This is the first full financial year for the Pelikan AG group, after the Group's asset streamlining exercise in 2015. The Pelikan AG Group has since then initiated a global strategy to drive and strengthen its core market positions in DACH (Germany, Austria and Switzerland), Europe (ex-DACH), Americas and Asia. The strategy is based on four pillars: **"Strengthen"**, **"Globalise"**, **"Focus"** and **"Simplify"** the Group's business.

The Group's core competitiveness lies in its Brands and it is imperative to adopt a strategy to continually **"Strengthen"** the brand positioning, in particular on the "Pelikan" brand, which is known worldwide. Importance is placed on cultivating brand awareness amongst users, right from the start at a young age, when children start to learn to colour and write (crayons, pencils, painting). This follows through other age groups to adulthood, i.e. teenage schooling (writing instruments and colours) and adulthood (office stationeries and fine writing instruments). Within this strategy, "Pelikan", particularly in Germany, has garnered a 95% brand awareness whilst "herlitz" a 80% brand awareness. Adaption of local

strategies to improve and build brands is employed to customise local brand positioning and product dominance.

"Globalise" is another pillar of the strategy, wherein the business potential is to have an international and multinational distribution approach for all products. The Pelikan Group has set-up a global distribution network through international subsidiaries. It is capable of distributing the products through various sales channels at the lowest possible costs. New products are continuously being introduced into the global distribution network and the Group is always striving to develop the next "innovation" or "specialty" to capture new sales growth. The current focus is to have harmonisation and a global product platform, which results in higher product volume, clearer distribution and higher profitability.

"Focus" is a priority within the Group to concentrate its resources to promote core product assortments ("School and Fine Writing Instruments") with high growth potential and market acceptance. Continuous efforts are being put into developing products with unique selling points ("USP") and focus on meeting customers' needs.

"Simplify" is the fourth pillar of the strategy. We strive to simplify and standardise processes to provide operational efficiency and improve ability to support and meet future market needs and changes. This pillar involves all aspects from corporate and management structure, product development, procurement functions, product assortments, information technology and others. The Group continuously reviews the current best practices, to establish whether improvements can be made to have



a simpler, or more customer-centric view and at the end, a more cost efficient business and operating structure.

The Pelikan AG Group is supported directly via its manufacturing units in Falkensee: Germany, Puebla: Mexico, Bogota: Colombia and Poznan: Poland.

Printer Consumables Group

The printer consumable business within Pelikan Group is mainly driven via its sales operating unit in Switzerland via Pelikan Hardcopy Production AG, Pelikan Hardcopy Distribution GmbH & Co. KG, Pelikan France S.A.S. and Pelikan Hardcopy Scotland Limited and supported by production plants in Czech Republic, China, Scotland and Malaysia (integrated to Czech Republic in January 2017). The core product

segment remains in remanufactured toner and inkjet cartridges marketed via “Pelikan”, “Geha” and other in house and external private label brands. The Group also supplies OEM Industrial Thermal Transfer Ribbons and Nylon Ribbon cartridges.

The Group had undertaken a significant change in its business strategy over the past years mainly due to the market and consumer changes within the printer consumable business, remanufactured toners and inkjet cartridges. The focus is now more marketing and customer-centric wherein the aim is to deliver trusted and reliable products which fits to the market and customer needs. The focus of the printer consumable business is still strongly on the “Pelikan” branded products which the Group is actively marketing through both

traditional channels and also new online channels in collaboration with both traditional resellers and online resellers. The continuous marketing and promotional efforts undertaken by the Group on its printer consumable products also assist significantly the sell-outs at all its customers’ channels and also increase in repeat business.

The private labels and OEM segment of the business also plays an important role in fulfilling the different customer needs which still requires reliable and quality products but with less stringent requirement for services, support, distribution, packaging and product placements. The Group strives to capture each customers’ products or service requirement through its Branded or Private label or white box products offering to maximise the sales potential of each customer.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Production Services, International Procurement Centre (IPC) and sales organisation

The remaining key sub-organisations within Pelikan Group is the FWI and stationery plant in Vohrum, Germany, IPC, Malaysia and sales organisation in Malaysia, Singapore, Thailand, Greece and Spain.

The stationery plant in Vohrum supplies both the FWI and stationeries products for the global markets. The Group prides on its traditional German heritage to be a specialist in producing high quality pens with craftsmanship and design of highest standards. The stationeries produced in the plant are high grade and high volume stationeries such as school writing instruments, opaque paint boxes, wax crayons and ink cartridges. The plant also houses the R&D team which continues to develop new products, ink formulations and also technical processes.

The IPC function serves to support the Group with new products which are not internally available via its plants from suppliers worldwide. IPC is tasked to procure and develop with its suppliers new products which are key to support the ongoing customer requirements for its global markets. To date, IPC has worked with over 100 suppliers who are required to abide by the Group's "Code of Ethics" and conformity with international laws akin to stationery products, such as "EN71" the European Union Toy Safety Directive.

The remaining sales units are from smaller sales organisation which the Company is still taking a direct interest to groom and/or to reorganise to profitability. The subsidiaries in countries such as Malaysia, Singapore, Thailand, Spain and Greece are of smaller size and need to be built to a larger size to achieve better profitability in the longer term.

GROUP SERVICES

Corporate Planning

Corporate Planning Department provides the Group with corporate support functions such as group corporate strategy, corporate transaction support including internal reorganisations and external acquisitions/divestments, fund raising, investor relations and listing governance and compliance.

In 2016, the corporate planning oversaw the divestment of the investment in non-core assets mainly land related assets in the amount of EUR2.8 million. The alignment of financing arrangements within the Group was also undertaken following the completion of the asset streamlining exercise. In early March 2017, the Company announced its intention to undertake a squeeze-out of the remaining 1.38% minority interest in Pelikan AG to allow better operating flexibility which will also reduce the Group's cost burden on maintaining listed status of the said subsidiary.

Human Resource and Employees

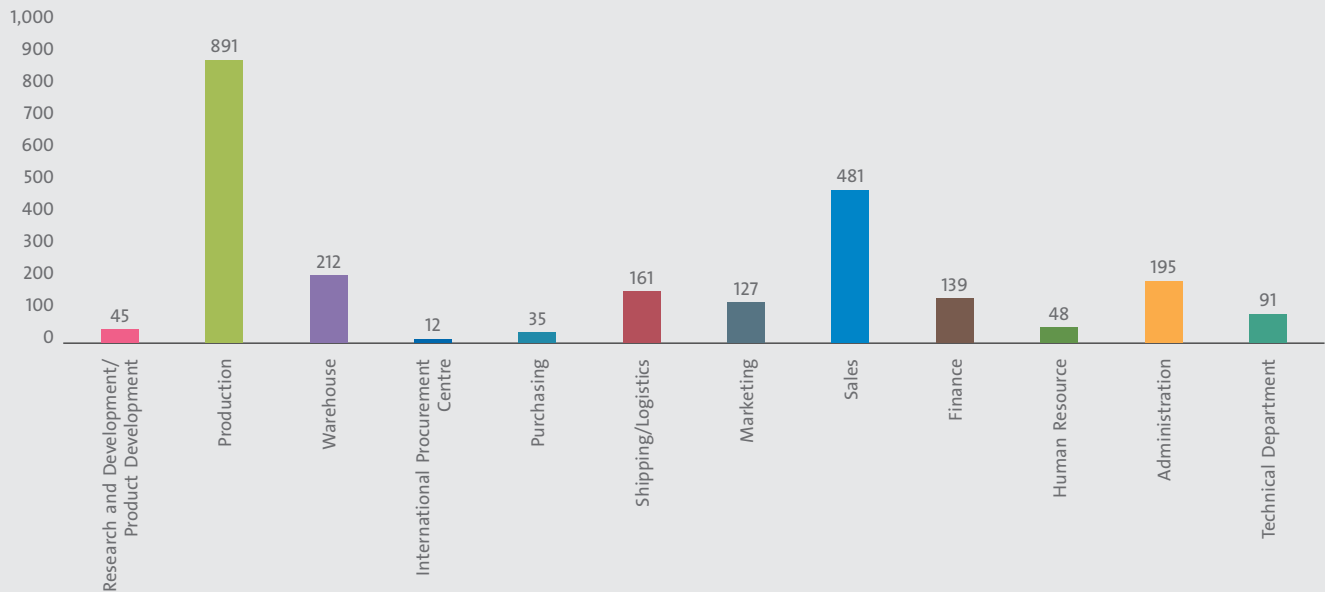
As of 31 December 2016, the Group had a total headcount of 2,437 employees (2015: 2,616), a decline of 6.8% from 2015 as the Group continued to streamline the organisations, phase out unprofitable businesses, and reduce overhead costs in order to maintain and improve efficiency throughout the Group. Out of the total workforce, 1,724 (70.8%) of the Group's employees were based in Europe, 564 (23.1%) from offices in Americas, and 149 (6.1%) were based in Rest of the World regions.

As the Group expands and grow globally, we need to attract, engage and develop our employees to be able to perform and accomplish goals set in order to further propel the Group into greater heights. The Group strives to ensure that our employees are rewarded with comparative salaries and benefits, performance bonuses, a safe, healthy and stimulating work environment to perform in, and great teamwork fostered amongst colleagues. Knowledge and skills trainings for every level of employment are offered and recommended in their professional and personal development so that they can drive change and accelerate the Group's performance. For workers in production facilities, periodical prevention medical check up for hearing, sight, hand-eye coordination tests for driving, control and monitoring duties, and balance tests for workers under fall risks are carried out throughout the year.



MANAGEMENT DISCUSSION AND ANALYSIS

GROUP EMPLOYEES BY CORPORATE FUNCTION



Production, R&D and Product Development

The Group's production's strategy was to reduce production complexities and improve the utilisation of capacity in all its production facilities. In 2016, Group Production realised many successful projects and focused on the product development and production of key business groups such as the FWI, school and office products.

Pelikan Hardcopy Production AG Switzerland, also continued to disinvest the machinery, inventory and property of the Monchaltdof, Switzerland plant by August 2016 following the winding down of the toner powder operations in 2015.

All of the Group's production plants and locations were recertified as ISO 9001, ISO 14001 (environmental) and OHSAS 18001 (health and safety) management systems by the Swiss Certification Institute ("SGS" SOCIETE GENERALE DE SURVEILLANCE SA) in November 2016. These certifications ensure that the Group meets the requirements on its quality systems and improve on environmental management efforts. The Group also passed the Forest Stewardship Council ("FSC") Certification for products containing wood and paper elements. Furthermore, Susy Card GmbH was recertified for the PEFC standard for wood and paper products. The Group production plants strictly adhered to their operating country's regulations and laws on environment, and inspections by internal and external auditors were carried out throughout the year.

For 2016, the R&D strategy was focused on expanding the market leadership for school products. The chemical department looked into developing new inks and ink formulations while the technical development team focused on the use of write-erase-write technology to expand further the product development of writing for FWI, school and office products. The R&D team also focused on researching new materials and technologies that can be of use for our production portfolio as well as carried out leadership duties in project management, technical and production planning. In addition, the R&D team continued to develop manufactured toner modules and compatible inkjet cartridges via producing inkjet cartridge refills with recycled empties. The toner powder were either bought in goods or

MANAGEMENT DISCUSSION AND ANALYSIS

available formulations in the market. The R&D team also checked and qualified the other products necessary for a full assortment from reliable suppliers.

The Group invested a total of RM15.1 million (2015: RM14.8 million) in fixed assets for the R&D of new products and machinery in production for 2016. In Vöhrum, Germany, the total investment in fixed assets last year amounted to EUR1.05 million for the manufacturing of new products and new production machinery such as a data recording machine, inject moulding machines and precision surface grinding machine. The Group also invested in the manufacturing of new products such as the new Pelikano® Up and griffix® fountain pens collection for 2017.

The Group strictly carries products that are sourced and made from ethically produced materials and environmentally safe chemicals. The Group abides by the rules and regulations stipulated by the authorities in the R&D and technical development of our products and packaging. In accordance to the CLP Directive 1272/2008, the Group created new “Safety Data Sheets” for all products with chemical content and have updated the texts on some of the product packaging since 2015. The Group constantly changes and updates the chemical formulations to avoid hazardous labelling of the products as the authorities enforced and implement stricter guidelines and rules across all European legislation such as REACH, BPD and CLP. The

Group also tied up with well known universities in Germany in accordance to new laws to create own toxicological studies and reports. In addition, the ‘Candidate List of Substances of Very High Concern’ was further enlarged to contain over 150 substances, which included many raw chemical materials that were restricted for industrial and consumer use.

SUMMARY OF FINANCIAL RESULTS

- A stable revenue of RM1.3 billion
 - Year on year growth with key growth in Americas region
 - Increased sales of 55% in significant high potential growth markets in Taiwan/China
 - Stable development of core European markets
- Earnings Before Interest, Depreciation and Amortisation (“EBITDA”)
 - EBITDA improvement from RM38.2 million in 2015 to RM79.2 million in 2016
- Net earnings
 - Achieving a positive net earnings for the first time after 5 years of continued losses.
 - Net earnings of RM6.5 million
- Earnings per share (“EPS”)
 - EPS of 0.97 sen per share
- Cash flow from operating activities was RM8.6 million
 - Net cash and cash equivalent of RM50.8 million

RESULTS OF OPERATIONS

Net Revenue

The Group achieved a net revenue of RM1.32 billion in 2016 as compared to RM1.33 billion in 2015. The revenues are generated through the respective segments as follows:

	2016 RM'm	2015 RM'm
Germany	685.9	659.9
Switzerland	78.7	109.6
Rest of Europe	268.9	273.5
Americas	206.1	215.8
Rest of World	81.7	72.7
	1,321.3	1,331.5

The Germany segment is the largest segment revenue representing 51.9% of the Group's revenue. The business is mainly driven by the stationery sales and distribution company Pelikan Vertriebsgesellschaft mbH & Co. KG (“Pelikan Germany”) contributing approximately 88.3% of the German segment. Sales development of Pelikan Germany remained stable in the current year with key growth in the areas of school supplies and fine writing instruments. Pelikan Germany's focus on multi-channel distribution and action to reduce complexities in its product-mix and stock keeping units (“SKU”) had a short-term negative effect on sales of selected channels but in the long run is expected to improve operating efficiency and improve margins. On the services revenue (6.1% of Germany segment revenue) of logistics, merchandising and IT, there was a slight decline in revenue due to lower demand of services in the current year.



The Switzerland segment is driven mainly by the sales of the printer consumable products of approximately 81.3% of segment revenue. It saw a decline in the current year mainly due to the closure of the toner powder plant at the end of 2015. In addition, the reduction in demand for OEM printer ribbons and also inkjet cartridges also contributed to the decline in revenue for this segment.

Rest of Europe is represented by all the subsidiaries operating within Europe except Germany and Switzerland. The revenue development for this segment was more or less stable during the year. The region's focus was to promote more branded products so as to have a more permanent catchment

of consumer base and improve future sales growth. Product mix and assortments were also revised wherein the Group targetted to phase out low volume non-contributing products from the market.

The Americas region which comprise Mexico, Colombia and Argentina saw a mixed development in the current year, influenced mainly on volatility of the local currencies against United States Dollars ("USD") and also against RM. The table below shows the sales in local currencies:

	Mexico MXP'm	Colombia COP'm	Argentina ARS'm
2016	500.5	43,190.3	134.9
2015	472.1	38,716.5	106.3
Sales growth	6.0%	11.6%	26.9%

The revenues above were translated to RM at a lower exchange rate in 2016 as compared to 2015 due to the depreciation of the local currencies in Americas. The decline in translation rates for the respective currencies was 10.1%, 4.4% and 33.9% for Mexican Pesos, Colombia Pesos and Argentinian Pesos. The positive impact on lower exchange rates on the other hand was the slight improvement of the export markets in Mexico and Colombia as products are relatively cheaper against the USD. The resultant effect was an overall lower translated segment revenue by RM9.8 million in 2016 as compared to 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

The Rest of World segment revenue saw a significant improvement of approximately 12.4% against last year mainly due to the significant increase in sales in China, of over 55% compared to the year before. The surge in sales in China is predominantly driven by the surge in online sales channel for our products as more and more customers are purchasing online in China nowadays. We made in November 2016, a turnover in excess of RMB2 million through our online merchants during a one day event of “Single’s Day Sales” organised by Alibaba in China.

PROFIT BEFORE TAX

The Group has managed to turnaround to profitability by achieving a profit before taxation of RM24.1 million in the current year as opposed to a loss before taxation of RM25.5 million in the previous year. The Group’s strategy to focus on branded sales, reduction of lower margin non-profitable stock keeping units (“SKU”) and multi-channel strategies has improved overall profitability and gross margin contribution. Besides that, although the Company had still incurred foreign exchange losses on its USD denominated borrowings in the current year, the losses incurred this year amounted to RM8.0 million as opposed to RM38.9 million in the previous year. There were no significant changes to the Group’s staff cost and finance cost in the current year.

The Group’s total comprehensive loss in the current year was RM39.1 million and this was mainly driven by the losses incurred from the actuarial loss on defined benefits plan of RM57.7 million. These actuarial losses were primarily due to the changes in yields used in the actuarial valuation of the defined benefit plan in Scotland as the gilt yields has reduced following United Kingdom’s referendum to exit European Union (“Brexit”). In addition, the exchange differences from translation of foreign exchange operations is lower in the current year as the fluctuation in rates were much higher last year compared to the current year.

ASSETS AND LIABILITIES

There were no significant changes in the assets and liabilities of the Group apart from the increase in the post-employment benefit obligations from RM322.6 million in 2015 to RM361.5 million in the current year. As mentioned earlier, the increase is mainly coming from the increase in actuarial valuation of the post-employment benefit obligations in Scotland due to the effects of Brexit on gilt yields.

The Group’s cash and cash equivalents at year end amounted to RM50.8 million a reduction of RM6.3 million in as compared to last year and mainly influenced by a net reduction in bank borrowings of approximately RM19.1 million and net investing outflow of RM1.6 million. Cash flow from operating activities remained positive but at a lower amount at approximately RM8.6 million driven by slightly higher debtors and lower creditors towards year end.

The Group’s borrowings decreased from RM416.5 million at the end of the previous year to RM409.4 million. The Group’s borrowings is still influenced by the fluctuation in foreign currencies in particular the USD. As at the year end, the Company had recognised an additional translation amount of RM8.0 million resulting from the translation of its USD denominated borrowings as the USD rates have increased by 4.3% as compared to last year’s closing exchange rate.

RISK FACTORS

We would like to highlight below the key anticipated or known risks that the Group is exposed to that may have an effect on our operations, performance, financial condition and liquidity.

Global Economic Conditions

Economic changes, political unrest, natural disasters, terrorist activities and other macro and micro economic factors may affect consumption and decreased demand in our products. Besides, these factors may also affect our assets and liabilities in our balance sheets. Our success will depend, on our ability to manage our business within such global economic conditions and having an experienced management team who can plan ahead to mitigate the risk impact and also to react to sudden changes effectively. Failing which, our sales, business and assets/liabilities may be affected and the Group may suffer economic loss.

MANAGEMENT DISCUSSION AND ANALYSIS



Regulatory Environment

In recent years, there has been an increasing consciousness, particularly in the more developed countries of the world, of the quality of ingredients being used in the manufacturing of products. This increasing consciousness has been accompanied by a corresponding increase in health and safety standards and regulations, as well as surveillance and enforcement by the relevant authorities.

The stationery industry in Germany is also affected by health and safety standards and regulations. Among the more important ones are the German quality standard Deutsche Industrial Norm, the European standards for children's toys, and the list of materials and substances recommended by the

European Community authorities as being non-allergenic. In order to meet these requirements, companies are required to invest in R&D and also implement strict quality policies. The larger players in the industry are co-operating with legislative and semi-government organisations to develop as well as to comply with these requirements.

In addition, there are also regulatory law related to patents, intellectual policy, product liability, and also tax laws which are equally important for the Group to ensure compliance. Our ability to manage and comply with all these regulations and resolve regulatory issues as and when they arise may impact our results.

Competition

The stationery industry is highly competitive. Worldwide, the industry is characterised by a large number of players in each country, with few truly global players, and individual players tend to specialise in specific product segments. As such, the Pelikan Group competes with different competitors in different product segments.

The Pelikan Group has experienced and expects to continue to experience intense competition. The Group believes that its ability to compete depends upon many factors both within and outside its control, including the timing and market acceptance of new products and enhancements developed by the Group and its competitors, product functionality, ease of use,

MANAGEMENT DISCUSSION AND ANALYSIS

performance, price, value for money, reliability, customer service, sales and marketing efforts and product distribution channels.

Pelikan's competitors vary in size and in the scope and breadth of products offered. Some of these competitors may have significantly greater resources than Pelikan, in terms of finance, technical and human resources and others. Competitors may be able to respond more quickly to changes in consumer preferences or to devote greater resources to the development, promotion, sale and service of their products. Increased competition could result in loss of market share, which could materially and adversely affect the Pelikan Group's business, operating results and financial condition.

To ensure its competitiveness, Pelikan invests in product innovation and practises a rigorous product development process for all of its new products and enhancements to its existing products. Its R&D teams develop new products on an ongoing basis.



The market acceptance and sales potential of new products are tested through market research prior to the commencement of commercial production. Pelikan will also determine the best method to produce the new products in order to meet its targeted profit margins. Through this stringent product development process, Pelikan minimises its risk of market acceptance.

However, there can be no assurance that Pelikan will be able to develop and introduce new products or enhancements in a timely manner in response to changing market conditions or consumer preferences or to maintain its competitiveness against current and future competitors.

Seasonality

The Pelikan Group's business in its core markets in Europe and Americas is seasonal in that sales are strongest in April to July each year. This is due to the annual sales cycle in the stationery industry whereby manufacturers increase production in the first quarter of the year in anticipation of strong sales to distributors in the

second quarter. The distributors stock up in the second quarter in order to prepare for sales to end consumers in the third quarter before the start of the school year in September. In the last quarter of the year, sales in the industry are generally more subdued except for the Christmas period.

In order to counter the effects of seasonal sales, Pelikan is taking measures such as the introduction of more office products, which are less affected by seasonality, and increasing its geographical spread, particularly in Asia, so that products can be produced for other countries during the low seasons in its core markets.

OTHER INFORMATION – DIVIDEND

No dividends have been paid by the Company for the current financial year. Payment of any future dividends will be made after taking into account factors, including the Company's availability of distributable reserves, operating results, financial condition and current and anticipated cash needs. The Company have not established any fixed dividend policy.

MARKETING DIARY 2016



MALAYSIA

MPH Bookerville, Subang Parade

Pelikan participated in the MPH Bookerville Fair at Subang Parade on 22 January until 8 February 2016. At the fair, Pelikan offered its colouring sets and other basic stationery

at special prices. Stationed at the Pelikan booth were product promoters to help promote Pelikan products to the visitors.

Free Erasable Highlighter for Campus Plus Readers

As part of the initiative to promote the unique Erasable Highlighter, Pelikan Malaysia gave away free samples to the readers of a popular magazine among college students, Campus Plus. The erasable highlighter samples were distributed together with the March issue of the magazine in the Klang Valley area. Campus Plus is a monthly magazine targeting college/university students as their main readers, with the aim to be the leading source of news, information and resources for today's youth. The magazine is distributed for free in selected colleges and popular hangout places.



Real Adventurers Contest Prize Presentation

Real Adventurers Colouring contest was held as part of the Pelikan 'Back to School' promotion 2015/16 and ran from 1 October 2015 until 31 January 2016. To conclude the contest, a prize giving ceremony for the winners was held at the Pelikan Store, The Gardens Mall on 19 March. A total of 3 main and 10 consolation winners were awarded prizes worth over RM10,000 collectively.



Kids Around's Karl Lagerfeld Kids Launch

Pelikan was one of the sponsors for Kids Around's Karl Lagerfeld Kids launch, which took place at The Gardens Mall on 17 March. Kids Around is a children's clothing store which carries high end brands like Carrément Beau and KARL LAGERFELD KIDS, and Pelikan has partnered up with them in a few events in the past. For this launch, Pelikan sponsored products for the door gift and prizes for lucky draw. Many local celebrities attended the launch and the event managed to get good media attention.

MARKETING DIARY 2016



MALAYSIA

3rd Putrajaya International Book Fair

For the first time, Pelikan took part in MPH's 3rd Putrajaya International Book Fair ('PIBF') held at the Putrajaya International Convention Centre from 29 March to 3 April. The Pelikan booth displayed most of its school and office stationery as well as products from Geha and herlitz. All the products at the PIBF including Pelikan were greatly discounted to attract the visitors to the fair. Our Pelikan mascot also made its appearance at the Pelikan booth to the delight of the children over the weekend.



Mid Valley City Charity Run (MVCCR)

The 'Mid Valley City Charity Run 2016' (MVCCR) was held on 24 April 2016. Jointly organised by both The Gardens Mall and Mid Valley Megamall, the event was held in aid of the Malaysian Red Crescent (MRC). Pelikan as one of the sponsors took part in the event by opening a booth selling selected Pelikan and herlitz products and at the same time organising fun art activities and games. Each activity/game was charged a minimal fee and all proceeds went to MRC as the beneficiary of the event. The art activities held at the Pelikan booth were 'Colouring with Pelikan', 'Art Jamming' and 'Art with Pelikan' while the games were 'Spin the Wheel' and Instagram Photo Booth. With the attractive activities, the crowd swarmed Pelikan booth especially when the ever popular Pelikan mascot made its appearance.



Celebrating 178th Anniversary on FB & Instagram with Stola

Pelikan Malaysia took to Facebook and Instagram to celebrate the 178th Pelikan anniversary, and at the same time took the opportunity to promote the new Professional Writing range, Stola. On Facebook, the Pelikan 178th Anniversary Quiz was held for 3 days from 27-29 April. 7 questions centered on Pelikan products were posted in the 3-day contest to an excellent response from Pelikan Malaysia Facebook followers. 7 Stola pens were given away as the prizes, much to the delight of the winners. On Instagram, a Tag & Win contest was held from 28-30 April. It's a simple contest where participants were required to tag 5 friends at Pelikan's Anniversary post. 5 winners were selected randomly and they received a Stola fountain pen each.





MALAYSIA

The 34th Annual General Meeting

Pelikan International Corporation Berhad held its 34th Annual General meeting on 18 May at The Saujana Hotel Kuala Lumpur. As previous years, Pelikan did not pass up the opportunity to do a special shareholder sale offering selected products at discounted price and at the same time, introduced new products to them. The products that received the most attention from the shareholders were the Stola range and the 24 colour Space+ paint box.



MPH Book Fairs

Pelikan participated in 2 MPH Book Fairs, organised by MPH Bookstores at 1st Avenue Mall Penang and the Great Eastern Mall. The fair at 1st Avenue Mall ran from 20-29 May and at Great Eastern Mall, the fair was held from 23-25 May.

Nostalgic Colouring Contest at Besut, Terengganu

Ibu Pejabat Polis Besut (IPD Besut) organised a reunion event called Nostalgia Anak-anak & Anggota Polis Kg Raja (NAAPKR) for the Kg Raja's Police force from 28-30 May at Damai Beach Resort. The event was officiated by Kota Putra's State Assemblyman, YB Haji Mohd Mahdi bin Haji Musa. During the event, a colouring contest was held for the children there. Pelikan sponsored oil pastel to be used in the contest, as well as the prizes for the winners.



Rafflesia School's Open Day

Pelikan was invited to join Rafflesia International & Private School's Open Day on 18 June. At the event, Pelikan had a booth displaying selected Pelikan and herlitz products including the new Clever Classmate schoolbags collection. Pelikan also conducted art classes for the visitors and students of the school, which saw full houses on all 3 sessions of the class. The Open Day took place at 2 locations, Rafflesia School in Puchong and Kajang.

MARKETING DIARY 2016



MALAYSIA

Clever Classmate Launch @ Times Bookstores, Pavilion KL

The eagerly awaited herlitz schoolbag collection 2016, Clever Classmate, was successfully launched at Times bookstores Pavilion KL on 11 June. During the event, Pelikan promoters were there to introduce the Clever Classmate collection to the mall visitors, with the help of the adorable Pelikan mascot. A crowd puller, the visitors didn't waste the chance to pose for a photo or two with the mascot. The collection is also being highlighted by Times bookstores Pavilion for the whole month of June at their frontage display area, giving it excellent visibility to the public.

As part of the Clever Classmate launching promotion, Pelikan sponsored Times bookstores Pavilion 'Guess The Weight Contest', offering herlitz schoolbags and Pelikan products as the prizes. The contest required participants to guess the weight of herlitz schoolbags (stuffed with Pelikan products) that were on display at Times bookstores Pavilion until 26 June. 3 different herlitz schoolbags were up for grabs. The closest answers will be selected as the winners. An online version of the contest was also held through Time bookstores Malaysia Facebook page, starting from 20 June until 3 July.



Clever Classmate Launch @ Pelikan Store

The new herlitz schoolbags collection 2016, "Clever Classmate", was officially launched at the Pelikan Store on 3 September. The fun afternoon saw crowd made up of Pelikan & herlitz fans, parents, business partners, art enthusiasts and bloggers & media, throng Pelikan Store to watch the mini fashion show to mark the launching of the "Clever Classmate" collection. The mini fashion show featured 18 adorable children showing off the eye catching schoolbag collection much to the delight of the crowd. The children and the crowd were then treated to an engaging batik painting demo lead by Pelikan Store's new art teacher, Ms Shahrizan Tan. The two-hour event also saw the launching of other Pelikan, herlitz and Susy Card products including griffix®, Twist® and Style writing instruments, Space+ paintbox 24 colours and water container from Pelikan, the SmileyWorld Rainbow & Splash stationery series from herlitz.



MALAYSIA

Pelikan Hubs KL!

On Friday 23 September at 8pm, 11 people gathered at Italiannies Restaurant at The Gardens Mall to share their common passion on fountain pens with each other. It was a fun night meeting new friends, sharing stories and exchanging experiences especially on Pelikan fine writing instruments. Participants were given a wonderful goodie bag filled with special Pelikan Hub products.



Back to School 2016/17 Campaign – Best Friends

Adopting Pelikan's global Back To School (BTS) campaign 'Best Friends' theme, Pelikan Malaysia's BTS campaign started officially on 1 November 2016 until 31 January 2017. The BTS products can be found at all major channels including selected outlets of Mydin, AEON BIG, Times bookstores, MPH Bookstores and of course, the Pelikan Store at The Gardens Mall. New products that was introduced for the campaign included the all new Brush Marker 12 colours and the 'Best Friends' set. And as usual to help promote the campaign, Pelikan Malaysia organised the 'Best Friends Colouring Contest' offering cash, Pelikan products and latest gadgets to contestants.



The Amazing Toys, Gifts & Stationery Sale!

MPH Bookstores held a nationwide promotion called The Amazing Toys, Gifts & Stationery Sale at all their outlets starting from 26 October until 31 October. MPH members enjoyed 20% discount during the promotion while non-members received 15% discount. Pelikan and herlitz products were included in this promotion especially the school range.



8th Private & International School Fair

The 8th Private & International School Fair (PISF) was successfully held at Mid Valley Exhibition Centre on 5 and 6 November. PISF is the largest international school fair in the country, featuring most of Malaysia's top international and private schools and thousands thronged the fair to find out which school suits them the best. Pelikan was one of the main sponsors of the fair and since 2014 has been one of the main non-school exhibitors at PISF. At the fair, Pelikan took the opportunity to feature the latest products under Pelikan and herlitz brands including the popular herlitz Clever Classmate schoolbags and promoting Pelikan 'Best Friends' Back to School campaign. Not only that, the popular Pelikan mascot also made a few appearances during the 2-day fair, much to the delight of its young fans.



MARKETING DIARY 2016



MALAYSIA

Pelikan Store Online www.pelikanstore.com

Pelikan Store online was officially open on 24 November, just in time for the 'Black Friday' promotion on 25 November where Pelikan Malaysia offered RM20 off the total bill (Code: BLACKFRIDAY20). Since then, more promotions have been offered to introduce this online channel to the customers like free shipping nationwide (with minimum purchase) and the Christmas promotion for the whole December where customers get to enjoy RM20 discount for every minimum purchase of RM50. Currently, Pelikan Store Online carries almost all products of Pelikan, herlitz & Geha and more products will be added from time to time.



Bloggers Day @ Pelikan Store, The Gardens Mall

Pelikan hosted a Bloggers Day at Pelikan Store on 26 November 2016. 14 bloggers, most of them lifestyle bloggers, attended the event with some bringing their children to see what Pelikan Store has to offer. They were all given a tour of Pelikan Store and at the same time were briefed about Pelikan and Pelikan Store. The children then joined a special art class session conducted by Pelikan Store's art instructor, Ms Shahrizan Tan. From this visit to Pelikan Store, the bloggers wrote about Pelikan and Pelikan Store in their blog, as well as promoting the brand on their social networks like Facebook and Instagram.

Selangor & Kuala Lumpur Stationers & Booksellers Association Dinner

Selangor & Kuala Lumpur Stationers & Booksellers Association (SKLSBA) held their annual dinner on 20 November 2016 at The Place @ OneCity, USJ 25. Members of SKLSBA and their partners were invited including Pelikan. It was a fun night

out for those involved and it was hoped that the dinner will help strengthen the relationship between its members and partners alike.



Atria Xmas Colouring Contest

Atria Shopping Gallery teamed up with Gospel KL for a Christmas Colouring Contest on 10 December 2016 for children aged 12-17 years old. The one hour contest was held at Centre Court Atria Shopping Gallery and joined by almost 40 participants. The contest was made special by the participation of the invited 15 Myanmar refugee children who are taking shelter in this country. Pelikan sponsored the prizes for the winners as well as the oil pastels used in the contest.



MALAYSIA

Sinaran Book Fair and Colouring Contest @ Atria Shopping Gallery

Pelikan was invited by its partner Sinaran Bookstore to join their book fair at Atria Shopping Gallery. The fair started on 25 November 2016 until 8 January 2017, hosting many other stationery brands offering products for the new school term. Pelikan booth sold Pelikan, herlitz and Geha products at special prices exclusive to the book fair.

Other than the book fair, Sinaran Bookstore also organised a colouring contest on 27 November 2016 taking place at Centre Court, Atria Shopping Gallery. The contest was open to children aged 8-12 years old and the prizes and material used for the contest were sponsored by Pelikan. Almost 30 participants took part in the 2-hour contest.



Brush Marker Workshops & Contests

As part of the Brush Marker promotions, Pelikan worked together with its partners to organise Brush Marker workshops and contests at major shopping malls on 17 and 18 December 2016. Two workshops were held together with Times bookstores and MPH Bookstores at their outlets in Suria Sabah Mall and Subang Parade while the contests were done at Citta Mall and One Utama Shopping Centre. Check out the photos!

MARKETING DIARY 2016



GERMANY

Back to School 2016 Campaign – Best Friends

As usual, Pelikan Germany kicked-off their Back to School (BTS) campaign in March 2016, this time with the theme Best Friends. The theme maintained the style and focus of the previous themes by featuring children having fun and

their friendship & adventure. This theme was adopted by many other countries including Malaysia who started their BTS campaign in November.

Pelikan Hubs 2016

Pelikan Germany initiated the Pelikan Hubs 2016, the 3rd edition of the campaign, to get Pelikan fine writing fans all over the world to meet up and share their common passion with each other. The set date was on 16 September

2016, 6.30pm local time. 109 hubs all over the world enthusiastically joined in the event, gathering 2,300 fine writing fans in this successful event.



UAE

Paperworld Middle East

Pelikan Middle East successfully participated in the Paperworld Middle East exhibition held on 1-3 March 2016 at Dubai International Convention & Exhibition Centre. Paperworld Middle East is the largest international trade exhibition in Dubai which promotes the stationery, paper and office supplies industry of Middle East. Organised annually, Paperworld is a very important platform for companies as it provides an ideal overview about the latest market trends, themes and demands in the paper & office products sector.



KENYA

School Art Contests

Pelikan conducted various competitions in several schools and they were huge success. Pelikan key items were distributed & promoted as prizes. Among the schools involved were Kilimani Junior School, Riara Springs School, NPCA Woodley, Makini School, Mount Laverna School, Shepherd Junior School, St Mary's Kasarani School and Nairobi Academy.



 **ROMANIA**
Herlitz-Pelikan Caravan 2016

In Romania, the Herlitz-Pelikan Caravan 2016 was launched with the objective of having a campaign based on the idea of a mobile store. The caravan is a bus containing herlitz and Pelikan products, moving from city to city targeting young customers. The caravan not only managed to make the products more accessible to customers, it also served as an effective moving advertisement especially with its colourful design and cozy interior.

**DIVERTA – Schoolbags buy-back action 2016**

Herlitz Romania once again did its school bag trade-in campaign through its partner, Diverta. It is a nationwide campaign that ran through 28 Diverta stores. Through this campaign, customers who traded in their old schoolbags received 20% discount on a new herlitz bag purchase.

 **ARGENTINA**
Back to School TV Advert

Pelikan Argentina continued to invest in the effective TV advertisements through Disney channels and local cinemas to promote Pelikan and herlitz products. The advertisements

were aired targeting school going children especially during the Back to School campaign.

**Petit Montmartre Event**

Pelikan Argentina organised the monthly Petit Montmartre event at the Plaza Vicente López y Planes, a public space for art in Recoleta, Buenos Aires. Here, children can freely express themselves through painting using the provided Pelikan products at the venue. Petit Montmartre has become a popular event which attracts about 250 children every month.



MARKETING DIARY 2016



ARGENTINA

Origami 3D For Teachers

In October, Pelikan Argentina organised an origami 3D workshop for teachers in Cordoba. The workshop was conducted by Cristina Chiappero, a talented art teacher. At the workshop, they learnt how to make and decorate figures using Pelikan products such as pencils and crayons.



MEXICO

Factory Guided Tour

Pelikan Mexico opened up their factory to the public on a few occasions by organising tours to show how products are produced and processed at production level. These tours, targeting both children and adults, were part of their efforts to promote the brand. Making the customers see firsthand the production process will help create more awareness that could eventually lead to brand loyalty.



Sales Incentive For Tony's Promoter

Tony Super Papelerias is one of Pelikan Mexico's main retail channels. To help increase sales of Pelikan products there, Pelikan Mexico started an incentive scheme for Tony's promoters. The promoters are given sales target to hit in return for rewards. This encouraged the promoters to promote and recommend Pelikan products to more customers.



COLOMBIA

Arcadia Festival

Pelikan Colombia participated in the Art & Books Festival organised by Arcadia, a local magazine. The festival was held for three days from 7-9 October 2016. At the festival, Pelikan had a booth called the Pelikan Zone where children participated in drawing and painting activities while trying out Pelikan products. Key Pelikan school products were promoted and some were given away as free samples.



National Friendship Games

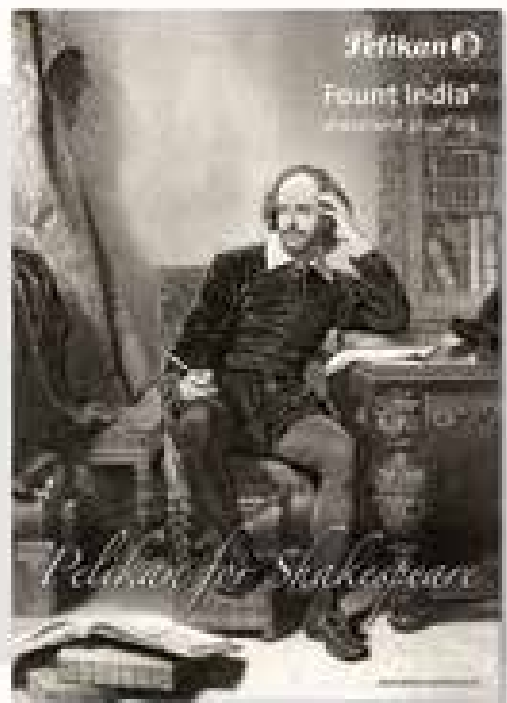
German schools in Colombia have their annual National Friendship Games where the students from these schools get together to compete in a sports festival that consist of sports like athletics, basketball, swimming and volleyball. For 2016, Pelikan Colombia was invited to be a part of the National Friendship Games that was held for 7 days. A total of 2,300 students took part giving the brand huge exposure among the schools. Pelikan team not only displayed and promoted key products, but they also organised workshops for the students there.



ITALY

Recreation of Romeo and Juliet Manuscript

Pelikan Italy took part in a unique event to mark the 400th anniversary of the death of Shakespeare by providing the Fount India ink to recreate the lost original manuscript of Romeo & Juliet. The event was organised by the Juliet Club under the patronage of UNESCO and hosted in Verona starting from 14 February. Through this event, the public were invited to handwrite line by line the script of Romeo & Juliet until it was completed. The completed manuscript was documented and bound in the traditional way of composing a precious manuscript that was called "Romeo and Juliet, the Verona manuscript". The manuscript was presented to the public on 23 April 2016, during the 400th anniversary of Shakespeare's death and World Book Day UNESCO in Verona. The significance of Pelikan's Fount India ink to the event is that it won't fade with time, therefore the Romeo & Juliet manuscript will never be lost again.



MARKETING DIARY 2016



GREECE

2016 School and Office Exhibition

Pelikan Greece participated in the 2016 School and Office Exhibition held in Athens from 9-11 April. In the exhibition, Pelikan's and herlitz's school products were promoted to the visitors for the back to school season. An estimated 2,000 visitors thronged the exhibition.



Vatrappunzel Drawing Contest

Pelikan was the sponsor for the Vatrappunzel Drawing Contest, a unique drawing contest involving children age 3-6 years old. The contestants were invited to see the famous children's theater play, Rapunzel and Frog Prince and were asked to draw and paint their favorite characters or scenes from the play. 6,000 drawings were submitted and from there, 800 were shortlisted to be displayed at the Byzantine museum on 24 and 25 September. Pelikan sponsored the materials used in the contest and prizes for the 800 children whose drawings were selected for the exhibition.



BELGIUM

Boasta's Paper Show

Pelikan Belgium participated in Boasta's Paper Show that was held in the city of Leuven on 24 and 25 January 2016. The fair is organised by Boasta, Belgian office supplies trade association. The number of visitors to the fair was estimated to be around 1408.



Teacher's Day COV

Pelikan Belgium continued to participate in the Teacher's Day COV, an effective platform to introduce Pelikan and

herlitz products to teachers. The fair was held at 5 different locations in the province of Flanders, Belgium.



STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors (“Board”) of Pelikan International Corporation Berhad (“Pelikan” or “the Company”) is pleased to report to shareholders on the manner in which the Pelikan group of companies (“the Group”) applies the principles as set out in the Malaysian Code on Corporate Governance 2012 (“the Code”) and the extent to which the Group has complied with the best practices of the Code and also complies with relevant chapters of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) throughout the financial year ended 31 December 2016.

THE BOARD OF DIRECTORS

1. Composition

The Group is led by an experienced Board under the leadership of Independent Non-Executive Chairman, Tan Sri Dato’ Sri Abi Musa Asa’ari bin Mohamed Nor and President/Chief Executive Officer, Loo Hooi Keat, supported by two (2) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors. The company is in compliance with paragraph 15.02 of the Main Market Listing Requirements of Bursa Securities (“the Listing Requirements”) which requires at least one-third (1/3) of the Board to comprise of Independent Directors.

The roles of the Chairman and Chief Executive Officer are separate and each has a clear accepted division of responsibilities to ensure that there is a balance of power and authority. The Chairman is responsible for ensuring Board effectiveness and conduct whilst the Chief Executive Officer has the overall responsibilities over the Company’s operating units, organisational effectiveness and implementation of Board policies and decisions.

The Board is satisfied that its current composition fairly reflects the investment in the Company, and that its current size and composition are effective for the proper functioning of the Board.

2. Independence

The Independent Non-Executive Directors are independent from the management and are free from any business or other relationships that could materially interfere with the exercise of independent judgement. The Independent Directors provide a broader view and an independent and balanced assessment. They do not participate in the day-to-day management of the Group and do not engage in any business dealing or other relationship with the Group to ensure that they are capable of exercising judgment objectively and act in the best interest of the Group, its stakeholders and shareholders, including minority shareholders. The Board has adopted a Policy of Independence of Directors in order to ensure that a structured manner of how the Board assesses the independence of Directors.

There are no Independent Directors serving the Board for a cumulative term of nine years.

3. Board Charter and Responsibilities

The Company has in place a Board Charter that sets out, among others, the responsibilities, authorities, procedures, evaluations and structures of the Board and Board Committees, as well as the relationship between the Board with its management and shareholders. The Board Charter is reviewed and updated where necessary and is published on the Company’s website.

To enhance accountability, the Board Charter also sets out specific functions reserved for the Board and those delegated to Management. The principal functions of the Board are as follows:

- (a) ensuring that the Company’s goals are clearly established, and that strategies are in place for achieving them;
- (b) establishing policies for strengthening the performance of the Company including ensuring that Management is proactively seeking to build the Business through innovation, initiative, technology, new products and the development of its business capital;

STATEMENT ON CORPORATE GOVERNANCE

- (c) input into and final approval of major corporate strategy and annual budget;
- (d) monitoring corporate performance and implementation of strategy and policy;
- (e) approving and monitoring the progress of major capital expenditure, capital management and acquisitions/divestments;
- (f) monitoring the performance of senior Management and implementation of strategy and policies, including assessing whether appropriate resources are available; and
- (g) reviewing and ratifying systems of risk management and internal compliance controls, code of conducts, continuous disclosure, legal compliance and other significant policies.

4. Board Meetings

The Board meets at least four (4) times a year with additional meetings being held as and when required. During these meetings, the Board reviews the Group's financial statements where results are deliberated and considered. Any other strategic issues that may affect the businesses or performance of the Group are also deliberated. The deliberations at the Board meetings and the conclusions are minuted by the Company Secretaries.

During the financial year ended 31 December 2016, the Board met five (5) times, where it deliberated and considered a variety of matters affecting the Company's operations including the Group's financial results, business plan and the direction of the Group.

The Directors' attendance for the Board meetings held in 2016 was as follows:

Name of Directors	No. of meetings attended	Total attendance (%)
Tan Sri Dato' Sri Abi Musa Asa'ari bin Mohamed Nor	5 out of 5	100
Loo Hooi Keat	5 out of 5	100
Dato' Afifuddin bin Abdul Kadir	5 out of 5	100
Datuk Rozaida binti Omar	5 out of 5	100
Datin Normimy binti Mohamed Noor	5 out of 5	100
Dato' Lua Choon Hann	5 out of 5	100

5. Supply of Information

All Directors have access to the advice and services of the Company Secretaries who ensure that the Board receives appropriate and timely information for its decision-making, the Board procedures are followed and that the statutory and regulatory requirements are met. The Board also has direct access to the senior management officers on information relating to the Company's business and affairs in the discharge of their duties.

In addition, the Board may further seek independent professional advice at the Company's expense on specific issues to enable the Board to discharge its duties in relation to the matters being deliberated. Procedures for obtaining such professional advice are contained in the Board Charter.

The Company Secretaries, who are qualified, experienced and competent, advises the Board on any updates relating to new statutory and regulatory requirements pertaining to the duties and responsibilities of Directors and their impact and implication to the Company and Directors in carrying out their fiduciary duties and responsibilities.



STATEMENT ON CORPORATE GOVERNANCE

6. Appointments to the Board

The Board has established a Nomination Committee who is responsible for making recommendations to the Board on the composition of the Board and review of the effectiveness of the Board and its committees.

The Nomination Committee had assessed the effectiveness of the individual Directors, the Board as a whole, the Audit Committee and the Remuneration Committee. All the assessments have been properly documented in compliance with the Code.

As and when a new Director is appointed to the Board, the new Board member provides assurances to the Board that sufficient time can be devoted to carry out his/her responsibilities as a Board member. In addition, should any new Board member accept new directorship appointments, they are required to notify the Chairman and inform the time spent on such new directorships.

The Nomination Committee is satisfied with the size of the Company's Board and that there is appropriate mix of knowledge, skills, attributes and core competencies in the composition of the Board.

7. Re-election of Directors

In accordance with the Company's Articles of Association ("the Articles"), all Directors who are appointed by the Board during a financial year are subject to retire at the following Annual General Meeting ("AGM"). The Articles also provide that at least one third (1/3) of the Directors for the time being, or if their number is not three or multiple of three, then the number nearest to one-third (1/3) shall retire from office provided always that all Directors shall retire from office at least once every three (3) years but shall be eligible for re-election.

At the forthcoming AGM, Datuk Rozaida Omar ("Datuk Rozaida") and Datin Normimy Mohamed Noor ("Datin Normimy") are due to retire pursuant to Article 127 of the Articles. Datuk Rozaida and Datin Normimy have offered themselves for re-election at the forthcoming AGM.

8. Directors' Training

All the existing Directors have attended and completed the Mandatory Accreditation Programme as prescribed by Bursa Securities. During the year, the respective Directors participated in trainings on Risk Management, Sustainability Reporting, AGM Guide, Corporate Governance and other trainings on various topics that were relevant in keeping abreast with the general economic, industry, regulatory and technical developments.

The Board will continue to evaluate and determine the training needs of its Board members to ensure continuing education to assist them in discharging of their duties as Directors.

9. Board Committees

The Board has established four (4) main Board Committees, which are Audit Committee, Nomination Committee, Remuneration Committee and Executives' Share Option Scheme ("ESOS") Committee, to which it has delegated certain of its responsibilities. Each Board Committee has its own terms of reference that clearly defines their operating procedures and authorities that have been approved by the Board.

Each Board Committee will submit their respective deliberations and recommendations to the Board and all the deliberations and decisions taken will be minuted and approved by the respective Board Committee.

STATEMENT ON CORPORATE GOVERNANCE

(A) Audit Committee

The terms of reference of the Audit Committee are in compliance with the Listing Requirements and the best practices as set out in the Code. The report of the Audit Committee for the financial year ended 31 December 2016 are presented on pages 60 to 63 of this Annual Report.

(B) Nomination Committee

The Nomination Committee, was set-up to ensure business continuity of the Group by having in place a succession plan for the Board and senior management.

The Nomination Committee was established on 6 June 2001 and comprises exclusively Non-Executive Directors as follows:

Name of Nomination Committee members

Dato' Afifuddin bin Abdul Kadir (Re-designated on 27 February 2017)	Chairman Independent Non-Executive Director
Dato' Lua Choon Hann (Re-designated on 27 February 2017)	Member Independent Non-Executive Director
Datin Normimy Binti Mohamed Noor	Member Non-Independent Non-Executive Director

The Nomination Committee met once during the financial year ended 31 December 2016 and the meeting was attended by majority of the members of the Nomination Committee, during which the Nomination Committee did an assessment programme to assess, the Board Committees, individual director and the independence of Independent Directors. Criteria used in these assessments are guided by the Bursa Securities' Corporate Governance Guide after taking into consideration the current and future needs of the Company.

The annual assessment of each individual Director enables the Board to ensure that each of the Board members has the character, experience, integrity, competence and time to effectively discharge the respective role.

The Nominating Committee was satisfied that the Board has the right size and the Board composition is well balanced having considered the appropriate mix of skills, experience, strength and independence and the diversity (including gender diversity) required to meet the current and future needs of the Company.

The Nomination Committee also assess and recommends relevant programs and training to the directors on an on-going basis annually.

The duties and responsibilities of the Nominating Committee are in its terms of reference approved by the Board set out as below:

- a) To review the structure, size, and composition of the Board of Directors;
- b) To develop, maintain and review the criteria for the appointment of new Directors and independence of Directors;



STATEMENT ON CORPORATE GOVERNANCE

- c) To conduct an annual assessment on all Directors;
- d) To review formal succession plans in identifying and mentoring potential Executive and Non-Executive Directors and senior management personnel;
- e) To assess and recommend new appointments of potential candidate to the Board;
- f) To review Board and Senior Management succession plans;
- g) To review training programmes for the Board and facilitate board induction and training programmes; and
- h) To propose and recommend to the Board of Directors, the retirement and re-appointment/re-election of existing Executive and Non-Executive Directors, in accordance with the Companies Act 1965 and the Articles.

Fundamentally, new appointments to the Board are made by the whole Board and potential Directors are proposed by any Director and reviewed by the Nomination Committee before any approach is made to the candidate. New appointment is made by the Board only after a recommendation from the Nomination Committee. In view of the essential requirement for potential Directors to understand the nature of responsibilities of the Board and the extensive operations of the Group, it is vital for the Chairman to take part in the briefing of any nominees to the Board. Accordingly, the Nomination Committee is structured as a sub-committee of the whole Board so that all Directors can participate in the nomination process.

(C) Remuneration Committee

The Group operates in a competitive environment and it is essential that part of its strategy is to attract, motivate and retain the highest achievers who are able to deliver the business objectives. The level of remuneration and benefits that the Company offers is the key to support the objectives and maintaining the Group's market position as an employer of choice. The Company provides competitive salaries and benefits for all its employees, consistent with its business strategy and performance.

The Remuneration Committee was established on 6 June 2001 and comprises exclusively Non-Executive Directors as follows:

Name of Remuneration Committee members

Tan Sri Dato' Sri Abi Musa Asa'ari bin Mohamed Nor	Chairman Independent Non-Executive Director
Dato' Afifuddin bin Abdul Kadir	Member Independent Non-Executive Director
Datin Normimy binti Mohamed Noor	Member Non-Independent Non-Executive Director

The Remuneration Committee met once during the financial year ended 31 December 2016 and the meeting was attended by majority of the members of the Remuneration Committee.

The duties and responsibilities of the Remuneration Committee are reflected in its terms of reference approved by the Board set out as below:

- a) to recommend to the Board, the remuneration and compensation of the Executive Directors in all its form, drawing external advice where necessary;

STATEMENT ON CORPORATE GOVERNANCE

- b) to establish a formal procedure for developing policy on Executive Directors remuneration and compensation package;
- c) to ensure the levels of remuneration be sufficiently attractive and be able to retain Directors needed to run the Company successfully;
- d) to structure the component parts of remuneration so as to link rewards to corporate and individual performance and to assess the needs of the Company for talent at Board level;
- e) to act in line with the directions of the Board of Directors;
- f) to consider and examine such other matters as the Remuneration Committee consider appropriate; and
- g) to consider any other matters as defined by the Board.

The Remuneration Committee recommends to the Board the reward framework to allow the Company to attract and retain its Executive Director giving due regard to the financial and commercial health of the Company. The Remuneration Committee's approach reflects the Company's overall philosophy that all employees should be appropriately rewarded.

The Company aims to align the interests of its Executive Director as closely as possible with the interests of shareholders in promoting the Group's strategies. Total remuneration comprises salaries, performance related bonus and benefit-in-kind. Salaries and benefits are competitive and reviewed annually. In making recommendations on the framework for retaining and rewarding senior management, the Remuneration Committee reviews the total reward package, making use of internally and externally published information. The salaries of the Executive Director is set by the Remuneration Committee and reviewed annually after consideration of the Company's performance, market conditions, the level of increase awarded to employees throughout the business and the need to reward individual performance.

(D) ESOS Committee

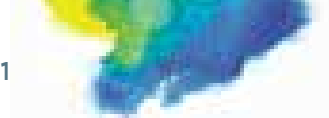
The ESOS Committee was set-up to ensure the ESOS is fairly and properly administered in accordance with its approved By-Laws and other applicable rules and regulations.

The ESOS Committee was established on 29 April 2010 and comprises a majority of Independent Non-Executive Directors as follows:

Name of ESOS Committee members

Tan Sri Dato' Sri Abi Musa Asa'ari bin Mohamed Nor	Chairman Independent Non-Executive Director
Loo Hooi Keat	Member President/Chief Executive Officer
Datuk Rozaida binti Omar	Member Non-Independent Non-Executive Director

The ESOS Committee did not meet during the financial year ended 31 December 2016.



STATEMENT ON CORPORATE GOVERNANCE

The duties and responsibilities of the ESOS Committee amongst others, are as follows:

- a) to determine the eligibility of the person for participation in the ESOS;
- b) to decide on the number of shares to be offered to eligible persons, the subscription price for the shares and such other terms in relation to the offer;
- c) to enter into any transactions, agreements, deeds, documents or arrangements, and make rules, regulations or impose terms and conditions or delegate part of its power relating to the ESOS subject to the provisions of the ESOS By-Laws; and
- d) to take all other actions within the purview of the ESOS Committee pursuant to the ESOS By-Laws, for the necessary and effective implementation and administration of the ESOS.

DIRECTORS' REMUNERATION

The Directors' remuneration is linked to experience, scope of responsibility, seniority, performance and industry information. Directors' fees are paid to Non-Executive Directors and these are approved by shareholders at the AGM. The details of the Directors' remuneration for the financial year ended 31 December 2016 are as follows:

Name of Directors	Fees (RM)	Salaries (RM)	Defined Contribution Plan (RM)	Benefit -in-kind (RM)	Total (RM)
Executive Director					
Loo Hooi Keat	—	1,710,000	205,200	111,048	2,026,248
Non-Executive Directors					
Tan Sri Dato' Sri Abi Musa Asa'ari bin Mohamed Nor	120,000	—	—	—	120,000
Dato' Afifuddin bin Abdul Kadir	60,000	—	—	—	60,000
Datuk Rozaida binti Omar	60,000	—	—	—	60,000
Dato' Lua Choon Hann	70,000	—	—	—	70,000
Datin Normimy binti Mohamed Noor	60,000	—	—	—	60,000
Total	370,000	1,710,000	205,200	111,048	2,396,248

RELATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises that a key element of good corporate governance is the effective communication and dissemination of information to the Company's stakeholder. The Board adopts various methods of communication to the respective stakeholders and has adopted a corporate disclosure policy to ensure that any communications made are transparent, timely, coherent, consistent and accurate.

1. The Annual General Meeting and Communication with Stakeholders

The AGM is the principal forum for dialogue with shareholders. At the Company's AGM, shareholders have direct access to the Board and are encouraged to participate in the deliberations of the resolutions. The Chief Executive Officer of the Company in the AGM often presents to the shareholders, the Company's operations in the financial year and outlines the future prospects of the Group. Questions raised by the shareholders are answered by the Board.

STATEMENT ON CORPORATE GOVERNANCE

Further, the Group's Company Secretaries could provide shareholders and investors with a channel of communication on which they can provide feedback to the Group. Queries regarding the Group may be conveyed to the Company Secretaries at the Company's registered address.

The contact details of the Company Secretary are as follows:

Company Secretaries

Mr Ho Ming Hon
Ms Chua Siew Chuan

Pelikan International Corporation Berhad
c/o Mr Ho Ming Hon
9, Jalan Pemaju U1/15, Seksyen U1
Hicom Glenmarie Industrial Park
40150 Shah Alam, Selangor Darul Ehsan
Tel: +603 5569 5511 ext 205
Fax: +603 5569 2299

The Annual Report also plays an important part in disseminating information related to the Group's financial performance and operations and activities throughout the financial year. It also describes how the Board and the Management instil corporate governance and corporate social responsibilities principles in running the operations of the Group.

Other than the above, all public announcements are made via Bursa Securities website and the Company also maintains its website (www.pelikan.com) to disseminate additional information on the Group's operations.

2. Dialogue between the Company and Investors

The Group values dialogue with shareholders and investors as a means of effective communication that enables the Board to convey information with regards to the Group's performance, corporate strategy and other matters that affect shareholders' interest. The Company holds discussion with analysts and institutional shareholders regularly. Presentations based on permissible disclosure are made to explain the Group's performance and major development plans. However, price sensitive information about the Group is not discussed in these exchanges until after the prescribed announcement to Bursa Securities has been made.

ACCOUNTABILITY AND AUDIT

1. Financial Reporting

The Board takes responsibility for ensuring that the financial statements of the Group and the Company give a true and fair view of the state of affairs of the Group and the Company as required under Section 169(15) of the Companies Act, 1965 and Malaysian Financial Reporting Standards, International Financial Reporting Standards in Malaysia.

The Board also ensures the accurate and timely release of the Group's quarterly and annual financial results to Bursa Securities.



STATEMENT ON CORPORATE GOVERNANCE

The Audit Committee reviewed the quarterly and year-to-date unaudited financial results of the Group and the reports and the audited financial statements of the Company and the Group together with external auditors prior to tabling to the Board for approval. The review was, inter alia, to ensure compliance with:

- i) Provision of the Companies Act, 1965;
- ii) Main Market Listing Requirements of Bursa Malaysia Securities Berhad;
- iii) Malaysian Financial Reporting Standards, International Financial Reporting Standards in Malaysia; and
- iv) Other legal and regulatory requirements.

2. Directors' Responsibility Statement in Preparing the Annual Audited Financial Statements

The Directors are responsible for ensuring that the annual audited financial statements of the Group and the Company are drawn up in accordance with the provisions of the Companies Act, 1965 and Malaysian Financial Reporting Standards, International Financial Reporting Standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the results of their operations and cash flows for the financial year.

In preparing the financial statements, the Directors have:

- a) selected suitable accounting policies and applied them consistently;
- b) made judgements and estimates that are reasonable and prudent;
- c) ensured that all applicable accounting standards have been followed; and
- d) prepared financial statements on a going concern basis as the Directors have a reasonable expectation having made appropriate enquiries that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

The Directors have the duty to ensure that the Company keeps accounting records which disclose with reasonable and accuracy of the financial position of the Group and Company and which enable them to ensure that the financial statements are in compliance with the Companies Act, 1965.

The Board has the overall responsibility to take all steps as are reasonably open to them to safeguard the assets of the Group to prevent and detect frauds and other irregularities.

3. Internal Audit Function

In line with paragraph 15.27 of the Listing Requirements, the Group has its own internal audit function following the adoption of its Internal Audit Charter by the Audit Committee. The internal audit review of the Group's operations encompassed an independent assessment of the Group's compliance with its risk management policies and internal controls and makes recommendations for improvements.

STATEMENT ON CORPORATE GOVERNANCE

The Group has established an Internal Audit and Risk Management department as an independent appraisal function. This is to provide the Audit Committee and the management with independent and objective advice on the effectiveness of the Group's business and operations. It recognises that it is management's responsibility to analyse the risks and to devise and implement an effective system of internal control. The fulfilment of the above objective is achieved by providing reasonable assurance through an effective and efficient programme of independent review across the Group to the management, the Audit Committee and the Board on an on-going basis. This is not confined to but includes:

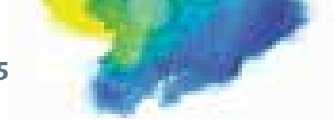
- a) appraising the adequacy and integrity of the internal control and management information system of the Group;
- b) ascertaining the effectiveness of operating management in identifying principal risks and to manage such risks through appropriate system of internal control set up by the Group;
- c) ascertaining the level of compliance with the Group's plan, policies, procedures and adherence to laws and regulations;
- d) appraising the effectiveness of administrative and financial controls applied and the reliability and integrity of data that is produced within the Group;
- e) ascertaining the adequacy of controls for safeguarding the Group's assets;
- f) conducting special reviews or investigations requested by management or by the Audit Committee; and
- g) consultation with management, reviewing operations as a whole from the viewpoint of economy and productivity with which resources are employed and making cost effective recommendations to management.

4. External Audit Function

The Company's independent external auditors fill an essential role for the shareholders by enhancing the reliability of the Company's financial statements and giving assurance of that reliability to users of these financial statements.

The external auditors, Messrs. BDO have continued to report to members of the Company on their findings which are included as part of the Group's and Company's financial reports with respect to each year's audit on the statutory financial statements.

In doing so, the Group and the Company have established a transparent arrangement with the external auditors to meet their professional requirements. As an independent measure, the external auditors meet with the Audit Committee at least twice a year to discuss the audit plan findings and audited accounts.



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

In accordance with Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors of public listed companies are required to include in their annual report a statement about the state of risk management and internal control of the listed issuer as a group. The Malaysian Code on Corporate Governance (“Code”) requires listed companies to maintain a sound system of internal control to safeguard shareholders’ investments and the group’s assets.

The Board is pleased to provide the Statement on Risk Management and Internal Control, which has been prepared in accordance with the “Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers” (the “Guidelines”).

BOARD’S RESPONSIBILITIES

The Board of Directors (“Board”) of Pelikan International Corporation Berhad (“Pelikan” or “the Company”) is ultimately responsible for the Company’s overall system of corporate governance including to adopt a sound and effective system of risk management and internal controls of Pelikan group of companies (“the Group”) and for reviewing its effectiveness. Such system is designed to manage the risk of failure to achieve corporate objectives.

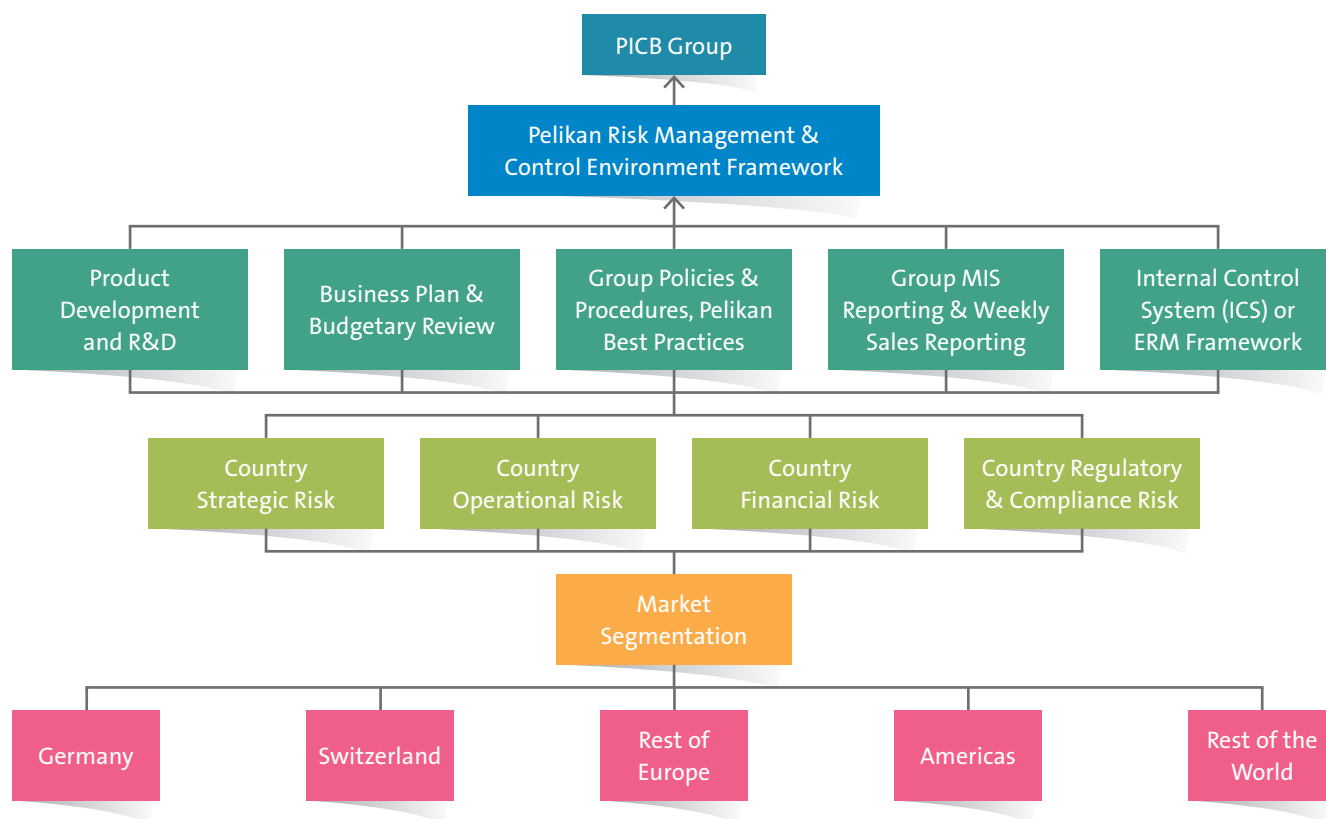
The Board has delegated to executive management the implementation of processes for identifying, evaluating, monitoring, reporting and responding of significant risks and internal controls pertinent to the achievement of Company’s overall corporate objectives, while the Board through its Audit Committee oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures that have been in place. Qualified personnel throughout the Group maintain and monitor these systems of controls on an on-going basis.

RISK MANAGEMENT FRAMEWORK

The Group has in place a formal risk management process systematically to identify, evaluate, mitigate, monitor and review risks impacting the achievement of the Group’s corporate objectives. The Board has extended the responsibilities of the Audit Committee to include the work of monitoring the Group’s risks and internal controls on its behalf, including identifying risk areas and communicating these risk areas to the Board. Risk management is firmly embedded in the Group’s key processes through Pelikan’s Enterprise Risk Management (“ERM”) Framework, in line with the Code. The ERM Framework which sets out details of the procedures, methodologies, evaluation criteria and documentation requirements to ensure clarity and consistency of application across the Group. For ease of communication and to achieve a coherent structure of risk management throughout the Group, the risks are structured under four main categories:

- (a) Strategic Risks;
- (b) Operational Risks;
- (c) Financial Risks; and
- (d) Regulatory and Compliance Risks.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL



The Group Internal Audit and Risk Management department reviews the adequacy and effectiveness of risk management and internal controls and their corresponding risks mitigation steps. Findings are reported to the Audit Committee and thereafter to the Board on an annual basis. Periodic updates on the risk assessment are done when necessary, including identifying changes to risk or emerging risks, action points taken and reported to the Board via the Audit Committee.

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM

The key elements of the Group's systems of internal controls are described below:

- Clear organisation structure of the Company and its subsidiaries has defined level of accountability and authority for all aspects of the business;
- Clear Company vision, mission and strategic direction which are communicated to employees at all levels;
- Training and development programs to ensure that staff are kept up to date with the necessary competencies to carry out their responsibilities towards achieving the Group's objectives;
- Code of ethics are established and adopted for all employees to ensure high standards of conduct and ethical values in all business practices;



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- e) Regular and comprehensive information provided to management, covering operating and financial performance and key business indicators such as resource utilisation, cash flow performance and sales achievement;
- f) Detailed budgeting process where operating units prepare budgets for the coming year, which are approved at both the operating unit level and the Board;
- g) Monthly monitoring of results against budget, with major variances being followed up and management action taken, where necessary;
- h) Clearly documented standard operating procedure manuals set out the policies and procedures for day to day operations to be carried out. Regular reviews are performed to ensure that documentation remains current and relevant;
- i) Regular visits to operating units by members of the Board and senior management; and
- j) The Group Internal Audit and Risk Management department independently reviews the control processes implemented by the management from time to time and periodically reports on its findings and recommendations to the Audit Committee. The duties and responsibilities of the Audit Committee are detailed in the Terms of Reference of the Audit Committee. The Audit Committee, by consideration of both internal and external audit reports, is able to gauge the effectiveness and adequacy of the internal control system, for presentation of its findings to the Board.

CONCLUSION

For the financial year under review and up to the date of issuance of the financial statements, the Board is satisfied with the adequacy and effectiveness of the Group's system of risk management and internal control to safeguard the interest of shareholders. The CEO and CFO have provided assurance to the Board that the Group's risk management and internal control system, in all material aspects, is operating adequately and effectively.

This Statement on Risk Management and Internal Control is made in accordance with the Resolution of the Board of Directors passed on 31 March 2017.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirement, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised): Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report, issued by the Malaysian Institute of Accountants. RPG 5 (Revised) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

STATEMENT ON INTERNAL AUDIT FUNCTION

In line with Appendix 9C, paragraph 30 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”), the internal audit function of Pelikan International Corporation Berhad (“the Company”) group of companies (“the Group”) is performed in-house, in which the Internal Audit Charter had been formally adopted by the Audit Committee. The internal audit review of the Group’s operations encompassed an independent assessment of the Group’s compliance with its internal controls and makes recommendations for improvements.

1. PURPOSE

In accordance with the Main Market Listing Requirements of Bursa Securities, the Group Internal Audit and Risk Management (“IARM”) department is established to ensure not only the effective implementation and compliance of good corporate governance, but also to ensure that effective risk management and system of internal control are in place. Such examination and evaluation of all departments’ activities serves as a service to corporate management and it’s Board of Directors (“Board”) across all companies under the Group’s management control. It is an internal control that functions by measuring and evaluating the effectiveness of other controls. The in-house IARM department was vacant since mid January 2017. Nonetheless, the Board has ensured continuity of the IARM function by engaging a professional internal audit firm to fill in the vacancy during this interim period.

2. TERMS OF REFERENCE

The Group IARM department is responsible for providing the respective country’s management with information about the adequacy and the effectiveness of its system of internal control and quality of operating performance when compared with established standards. To accomplish this responsibility, all corporate activities are subject to audit. It is the responsibility of the Group IARM department to serve the Group in the manner that is consistent with the “Standards for the Professional Practice of Internal Auditors” and the professional standards of conduct such as the “Code of Ethics” of the Institute of Internal Auditors.

3. POLICY GUIDELINE

3.1 Organisational Status

Whilst the Group IARM department is an integral part of the Company and functions in accordance with policies established by its Senior Management and the Board, it is essential for the Group internal auditor to be independent of the activities audited. To enhance and ensure this independence, it is authorised to access all relevant records, personnel and physical properties.

In view of the fact that its organisational status and support accorded to it by Senior Management are major determinants of its range and value, the Group IARM department reports to the Audit Committee, whose authority is sufficient to ensure a broad range of audit coverage and an adequate consideration of effective action on internal audit findings and recommendations.

The Group IARM department has an independent functional responsibility to the Audit Committee, which is made up of majority Independent Non-Executive Directors of the Company for the adequacy and effectiveness of the system of internal control. The Group IARM department reports to the Audit Committee on a quarterly basis.

3.2 Objectivity

Objectivity is essential to auditing. Thus, the Group IARM department should not normally develop or install accounting procedures or controls, prepare records, or engage in activities that its personnel would normally review and appraise and that could reasonably be construed to compromise its independence. Objectivity need not be adversely affected by the determination and recommendations of standards and techniques of control to be applied in developing systems and procedures under its review nor lending its technical assistance to management in systematic analysis of operations or activities.



STATEMENT ON INTERNAL AUDIT FUNCTION

3.3 Scope

The scope of internal auditing encompass examining and evaluating the adequacy and the effectiveness of the Company's risk management and system of internal controls and the quality of operating performance against established standards in carrying out assigned responsibilities. The scope of the examination and the evaluation performed in areas of the Company includes the review of:

- a) the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report information;
- b) the systems established to ensure compliance with policies, plans, procedures, law and regulations that could have a significant impact on operations and reports including determining whether the organisation is in compliance;
- c) the means of safeguarding assets and verifying their existence;
- d) the economy and efficiency with which resources are utilised and employed; and
- e) operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations and programmes are being carried out as planned.

The audit will be conducted in such a manner the Group IARM department considers necessary to fulfil his responsibilities and will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities. The nature and extent of the audit tests will vary according to the internal auditor's assessment of the Company's accounting system, system of internal controls and cover any aspect of the business operations. The Group IARM department shall report any significant weaknesses in or observations on, the Company's risk position and system of internal controls which comes to its notice and which the Group IARM department thinks should be brought to the attention of the Board and/or the Audit Committee.

The responsibility for the prevention and detection of irregularities and fraud rests with the operating management. However, the Group IARM department shall endeavour to plan its audit so that it has a reasonable expectation of detecting material misstatements in accounting and operational records resulting from irregularities or fraud, but its examination should not be relied upon to disclose irregularities and frauds which may exist.

4. ADDITIONAL INFORMATION RELATING TO THE INTERNAL AUDIT FUNCTION

4.1 Internal Audit Administration

The Group IARM department is generally responsible for the administration of this policy and functionally directing internal audit activities throughout the Group.

Group corporate management and operating management are responsible for providing the Group IARM department with relevant and timely access to all records, personnel and physical properties and for making sure that appropriate actions are taken to address audit recommendations.

4.2 Internal Audit Function Costs

The total costs incurred by the Group internal audit function in respect of the financial year 2016 amounted to RM141,158.

AUDIT COMMITTEE REPORT

The Board of Directors (“Board”) of Pelikan International Corporation Berhad (“the Company”) is pleased to present the following report of the Audit Committee for the financial year ended 31 December 2016.

MEMBERSHIP AND MEETINGS OF AUDIT COMMITTEE

The Audit Committee comprises two (2) members who are Independent Non-Executive Directors and one (1) member who is Non-Independent Non-Executive Director. The Chairman of the Audit Committee is an Independent Non-Executive Director, and one (1) member who is Non-Independent Non-Executive Director is a member of the Malaysian Institute of Accountants. The representative of the Internal Audit and Risk Management was invited to all the Audit Committee meetings to present the Internal Audit and Risk Management reports. The representatives from the external auditors of the Company were also invited to attend the Audit Committee meetings in three (3) meetings out of five (5) held.

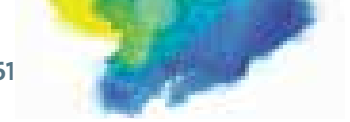
The Audit Committee members’ attendance record is as follows:

Name of Audit Committee members	No. of meetings attended	Total Attendance (%)
Dato’ Lua Choon Hann (Chairman) <i>Independent Non-Executive Director</i>	5 out of 5	100
Dato’ Afifuddin bin Abdul Kadir <i>Independent Non-Executive Director</i>	5 out of 5	100
Datuk Rozaida binti Omar <i>Non-Independent Non-Executive Director</i>	5 out of 5	100

AUTHORITY

The Audit Committee shall, in accordance with a procedure to be determined by the Board and at the expense of the Company and the Group:

- have explicit authority to investigate any matter within its terms of reference, resources to do so, and full access to information. All employees shall be directed to co-operate as requested by members of the Audit Committee;
- have full and unrestricted access to any information, records, properties and personnel of the Company and of any other companies within the Group;
- have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity;
- obtain independent professional or other advice and to invite outsiders with relevant experience and expertise to attend the Audit Committee’s meetings (if required) and to brief the Audit Committee;
- have right to ensure the attendance of any particular Audit Committee meeting by other Directors and employees of the Company shall be at the Audit Committee’s invitation and discretion and must be specific to the relevant meeting; and
- in instances where matters reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Bursa Malaysia Securities Berhad (“Bursa Securities”) requirements, the Audit Committee must promptly report such matters to the Bursa Securities.



DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Audit Committee are reflected in its terms of reference as follows:

- a) to assess the suitability and independence of the external auditors before considering their appointment, the audit fee, re-appointment and any question of resignation or dismissal;
- b) to establish policies governing the circumstances under which contracts for the provision of non-audit services can be entered into and procedures that must be followed by the external auditors;
- c) to discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination when more than one audit firm is involved;
- d) to review with the external auditors his evaluation of the system of internal controls and his audit report;
- e) to review the quarterly and year-end financial statements of the Group before submission to the Board, focusing particularly on:
 - i) any change in accounting policies and practices;
 - ii) significant adjustments arising from the audit;
 - iii) the going concern assumption; and
 - iv) compliance with accounting standards and other legal requirements.
- f) to discuss problems and reservations arising from interim and final audits, and any matter the external auditors may wish to discuss (in the absence of management where necessary);
- g) to review the external auditor's management letter and management's response;
- h) to do the following, in relation to the internal audit function:-
 - i) review the adequacy of the scopes, functions and resources of the internal audit function, and ensure that it has the necessary authority to carry out its works;
 - ii) review the internal audit programme and results of the internal audit process and, when necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
 - iii) review the internal audit plan, consider the internal audit reports and findings of the internal auditors, fraud investigations and actions and steps taken by Management in response to audit findings;
 - iv) review any appraisal or assessment of the performance of the members of the internal audit function; and
 - v) approve an appointment or termination of senior staff members of the internal audit function.

AUDIT COMMITTEE REPORT

- i) to consider any related party transactions that may arise within the Group including any transaction, procedure or code of conduct that raises questions of management integrity;
- j) to consider the major findings of internal investigations and management's response;
- k) to determine the remit of the internal audit function;
- l) to consider other topics as defined by the Board;
- m) to report its findings on the financial and management performance, and other material matters to the Board;
- n) verification on allotment of shares under Executives' Share Option Scheme ("ESOS") is in compliance with the basis set out in the Bursa Securities' Main Market Listing Requirements and ESOS by-laws;
- o) to monitor the integrity of the Company's and Group's financial statements;
- p) to monitor the independence and qualification of the Company's external auditors;
- q) to monitor the performance of the Company's internal audit function; and
- r) to review the adequacy and effectiveness of risk management, internal control and governance systems.

SUMMARY OF WORK OF THE AUDIT COMMITTEE

During the financial year 2016, the Audit Committee carried out its duties as set out in the terms of reference. Other main work carried out by the Audit Committee during the financial year included the following:

1. Financial Results

- a) Reviewed the quarterly and year-to-date unaudited financial results of the Group before tabling to the Board for consideration and approval, focusing particularly on:
 - i) changes in or implementation of major accounting policy changes;
 - ii) significant matters highlighted including financial reporting issues, significant judgments made by management, significant and unusual events or transactions, and how these matters are addressed; and
 - iii) compliance with accounting standards and other legal requirements.
- b) Reviewed the reports and the audited financial statements of the Company and the Group together with external auditors prior to tabling to the Board for approval. The review was, inter alia, to ensure compliance with:
 - i) Provision of the Companies Act, 1965;
 - ii) Main Market Listing Requirements of Bursa Malaysia Securities Berhad;
 - iii) Malaysian Financial Reporting Standards, International Financial Reporting Standards in Malaysia; and
 - iv) Other legal and regulatory requirements.

In the review of the annual audited financial statements, the Audit Committee discussed with management and the external auditors the accounting principles and standards that were applied and their judgement of the items that may affect the financial statements as well as issues and reservations arising from the statutory audit.



AUDIT COMMITTEE REPORT

2. External Audit

- a) Reviewed the external auditors' scope of work and audit plan for the year and made recommendations to the Board on their appointment and remuneration;
- b) Reviewed and discussed the external auditors' audit report and areas of concern highlighted in the management letter, including management's response to the concerns raised by the external auditors; and
- c) Discussed on significant accounting and auditing issues, impact of new or proposed changes in accounting standards and regulatory requirements.

3. Internal Audit

- a) Reviewed the Group internal audit plan, resources planning requirements for the financial year and assessed the performance of the Group Internal Audit and Risk Management department;
- b) Reviewed the internal audit reports which highlighted the audit issues, recommendation and the management's responses and directed actions to be taken by the management to rectify and improve the system of internal control;
- c) Monitored the implementation programme recommended by the Group Internal Audit and Risk Management department arising from its audits in order to obtain assurance that all key risks and controls have been fully dealt with; and
- d) Reviewed the performance of members of the internal audit function.

STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY 2016

Pelikan Group is an organisation that is aware of the impact its business operations may have on its surroundings. This awareness arises from the deep sense of responsibility gained from years of experience operating globally. We are committed to leave a positive impact on the communities we operate within, the marketplace we do businesses in, the environment surrounding our operations, and the people we hire and work with.

NURTURING THE FUTURE

Children have always been at the heart of Pelikan's CSR initiative so it was not surprising to see examples of effort put by the whole Group for children's wellbeing.

One of the major global issues last year was the increasing number of refugees fleeing their war-torn countries. So when the invitation came from Sunway Lagoon to contribute stationery to refugee children, Pelikan Malaysia did not hesitate to agree by donating 100 sets of Pelikan Junior set (comprising 2B pencil sets and coloured pencils) as

gifts to the children. Sunway Lagoon hosted the event on the 8 May 2016 in conjunction with the International Children's Day celebration. The theme of the event was 'The Best Day Ever' and it aimed to bring cheer to the children involved. The children were treated to a sumptuous lunch before they met the famed Nickelodeon characters, 'SpongeBob SquarePants', 'Patrick Star', 'Dora the Explorer' and 'Boots'. The smile on their faces said it all; they had their best day ever at the Sunway Lagoon theme park!

On 16 March 2016, Pelikan Malaysia team visited Rumah KIDS, a shelter for underprivileged children located at USJ 1 Subang Jaya, to present their contributions to the children. The contributions included some cash raised from a Christmas staff sale done in December 2015 as well as stationery supplies for school and office use. Furthermore, Pelikan Malaysia staff made personal contributions to the shelter, with some donating cash while others contributed food, toiletries and household supplies. During the visit, the team spent time with all the children doing fun activities including a colouring session.



STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY 2016

In August 2016, Pelikan Malaysia launched its Herlitz's Schoolbag Used for New programme which encouraged customers to donate their used bags to charity through the Pelikan Store and in return, the customers were given a 30% discount voucher to purchase a new herlitz schoolbag at the Pelikan Store. The programme was originally planned only for the month of August 2016 in conjunction with Malaysia's National Day but due to the overwhelming response, the programme was extended until 31 October 2016. At the end of the programme, 50 used bags were collected and were donated to the children of Rumah KIDS in January 2017.

Pelikan Romania was one of the sponsors for the NARRATIVE 2016, a reading festival for children, organised by *Curtea Veche* on 24-25 September and 1-2 October 2016. *Curtea Veche* is an organisation that aims to promote reading as a fun leisure activity suitable for children, family and friends. At the festival, hundreds of kids received free books, school supplies and a wonderful introduction into the world of writing.

Continuing previous years' success, Pelikan Romania was again involved in the Book of Childhood, a project by the Romanian Royal House, which was put in place to introduce an alternative reading programme for children aged 8 to 14 years old in

Romania. Pelikan Romania, as the official supplier of Romanian Royal House was involved in the programme together with *Curtea Veche*. Through the programme, books and stationery were donated to children in rural areas and orphanages.

In Greece, Pelikan focused their CSR efforts to help schools and the underprivileged children through partnerships with many local organisations. One of it was the 'Smile of the Child', an organisation that aims to fight any forms of violence against children and deals with children's health issues. Through this partnership, Pelikan school products were donated to many underprivileged students in Greece.



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CELEBRATING A CULTURE OF PHILANTHROPY

It is important for Pelikan Group as an organisation to help endeavours of others in achieving their goals when it comes to good causes. Children and education related issues are the core of Pelikan's CSR focus, but at the same time Pelikan Group realises there are many good causes which focus on different but yet equally important subject matters and objectives.

Pelikan Malaysia continued to show its support to the Earth Hour campaign by WWF. Through its flagship retail outlet the Pelikan Store, The Gardens Mall, Pelikan Malaysia joined the lights off event during the Earth Hour 2016. All non-essential lights were turned off for an hour on 19 March from 8.30-9.30pm. To spread the awareness, Pelikan Store held a

special flash sale during the hour by giving away a free Pelikan plush toy to customers who made a minimum purchase of RM30 and above.

As with previous collaborations on the past few years, Pelikan Malaysia once again supported Zubedy's 'Say Something Nice' Campaign for 2016. At the grand campaign launch at Sri KDU International School on 25 August 2016, Pelikan Malaysia sponsored stationery as gifts for the guests as well as set up a booth at the venue to highlight Pelikan and herlitz products to all the students, teachers and guests. 'Say Something Nice' is a popular annual campaign that runs from National Day to Malaysia Day and is aimed at promoting unity among Malaysians. The 2016 campaign was launched by the Youth and Sports Ministry Deputy Secretary General (management) Nik Abdul Kadir Nik Mohamad.

In September 2016, Pelikan Malaysia sponsored INTI College's Centre of Art & Design (ICAD) 'Longest Doodle in Subang Jaya' attempt by providing black Permanent Markers 407F to be used by the students in the project. ICAD was successful and they managed to create doodle artworks with a total length of 300 feet. To celebrate, they held an event at DA:MEN Mall in USJ to display their successful doodle to the public on 9 November 2016. The event was attended by INTI College's students, their lecturers and staff, the media and Pelikan Malaysia representatives. The famous doodle was displayed at the mall to the public for one month and received a lot of recognition from the public and media.

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Pelikan Malaysia contributed a large amount of used pens to Sixth Form students of SMJK Katholik Petaling Jaya who then did their school proud when they managed to enter into the Malaysia Book of Records by creating the largest logo (their school logo) using only pens. A total of 1,523,677 pens were used, collected by the students from their friends, families and companies including Pelikan Malaysia, to create the school logo which measured 40m x 27.1m. The logo was completed in time for the official inspection by the Malaysia Book of Records team on 20 June 2016.

OUR PEOPLE, OUR TREASURE

Career development for its management and employees is high on the list of priorities for Pelikan Group. We believe that as a global organisation, it is the Group's interest and policy to adhere to high standards of health and safety, as well as training development to enhance employees' skills and knowledge. This ensures that employees are always on the best path to grow together with the organisation. Pelikan Group strives to equip employees with the right skill sets required in their field to stay ahead and relevant. Essential knowledge and development programmes are afforded to them regularly based on their individual and department assessment.

The workers' well-being and safety are also highly prioritised. A yearly risk assessment is conducted with regular health and safety inspections carried out. The promotion of safety and hygiene in workplace is extensively done, such as the improvement to the preventive fire protection and emergency preparedness and response, as well as the skin protection campaign for the workers. Not only that, annual preventive influenza vaccination and the early detection examination for bowel cancer are offered to workers.

Pelikan Group manufacturing plants were also re-certified with OHSAS 18001, an Occupation Health and Safety Assessment Series for health and safety management systems. It is intended to help an organisation to control occupational health and

STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY 2016



safety risks, developed in response to widespread demand for a recognised standard against which to be certified and assessed. This re-certification, year after year, shows the commitment Pelikan Group has in ensuring the well-being of its employees.

POSITIVE FOOTPRINTS

It has always been our priority to benefit the surroundings we operate in, in any way possible. The environment is something in which we place high importance in protecting and improving. The Group ensures that not only do we adhere to the strict rules and regulations set by the local authorities and government, we also step up our efforts through internal awareness and initiatives.

Pelikan Group's manufacturing plants are environmentally friendly and have been re-certified for ISO 14001 in 2016. ISO 14001 provides assurance to company management and employees as well as external stakeholders that the environmental impacts are being measured and improved. Among the improvements that have been made recently are the continuous investments in energy-efficient LED-lightning for indoor and outdoor area, use of renewable energy for central heating, and installation of an energy-efficient central cooling-unit.

Since the closure of the Pelikan plant in Mönchaltorf, Switzerland, the usage of water and electricity has been reduced heavily. Pelikan plant in Czech Republic engaged with a local recycling company to reduce and handle its waste efficiently.

Pelikan Group is also certified with the ISO 9001. Having this certification demonstrates Pelikan Group's ability to consistently provide products and services that meet customer and regulatory requirements. Offering quality products to the market and operating businesses centered on good customer relations principles are part of the Group's goals and Pelikan Group has always been keen to serve its customers to the best of its ability.



FINANCIAL CALENDAR

2016

24 Feb	Board Audit	Reviewed and approved the financial results for the 4 th quarter ended 31-12-2015
	Remuneration	Reviewed the remuneration package of Executive Director for year 2016
	Nomination	Reviewed the composition of the Board of Directors
31 Mar	Board Audit	Approved the Audited Financial Statements for the financial year ended 31-12-2015
		Reviewed the statements and reports to be included in the Annual Report 2015
18 May	34 th AGM	Received the Audited Financial Statements for the financial year ended 31-12-2015
		Approved the Directors' fees and re-appointment of External Auditors
18 May	Board Audit	Reviewed and approved the financial results for the 1 st quarter ended 31-03-2016
26 Aug	Board Audit	Reviewed and approved the financial results for the 2 nd quarter ended 30-06-2016
18 Nov	Board Audit	Reviewed and approved the financial results for the 3 rd quarter ended 30-09-2016
		Presentation of Audit Plan for year 2017
		Discussion of Proposed Meetings Calendar for year 2017

2017

27 Feb	Board Audit	Reviewed and approved the financial results for the 4 th quarter ended 31-12-2016
	Remuneration	Reviewed the remuneration package of Executive Director for year 2017
	Nomination	Reviewed the composition of the Board of Directors
31 Mar	Board Audit	Approved the Audited Financial Statements for the financial year ended 31-12-2016
		Reviewed the statements and reports to be included in the Annual Report 2016
24 May	35 th AGM	Receive the Audited Financial Statements for the financial year ended 31-12-2016
		Approve the Directors' fees and re-appointment of External Auditors
24 May	Board Audit	Review and approve the financial results for the 1 st quarter ended 31-03-2017
23 Aug	Board Audit	Review and approve the financial results for the 2 nd quarter ended 30-06-2017
29 Nov	Board Audit	Review and approve the financial results for the 3 rd quarter ended 30-09-2017
		Presentation of Audit Plan for year 2018
		Discussion of Proposed Meetings Calendar for year 2018