



Pelikan Holding AG

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R E P O R T



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REPORT OF THE BOARD OF DIRECTORS

We take pride in reporting that Pelikan Holding AG Group achieved significant improvement in both sales and earnings in 2003. The growth was due to our improved operating structures and processes together with the continuous efforts to reduce costs to sustain global competitiveness, in spite of the stagnant economies particularly in Europe.

This, however, was not at the expense of product and market development which received an increased budget of CHF 3.0 million for the year (CHF 2.7 million in 2002). Indeed, the success of the Group's research and development programmes enabled a 6.6% grow in net sales for writing instruments over 2002.

Group net sales rose 4.4% to CHF 192 million in 2003 (prior year CHF 183 million). The higher sales were achieved mainly in Europe (increase of 7.9% over 2002), particularly Germany (increase of 6.7% over 2002) while growth was driven by the launch of several new products, improved distribution channels and promotional activities. In addition, the "Office General" business which was repurchased from Henkel KGaA in December 2002 made a significant contribution to sales in 2003, matching our expectations.

Profit before non-operating items surged from CHF 8.9 million to CHF 14.8 million during the year. The higher profit is a reflection of the stronger sales as well as the better utilization of resources and cost reduction measures. Amongst others, the Group has taken advantage of the stronger Euro by initiating plans to purchase materials, goods and services in non-Euro currencies especially from suppliers outside Europe.

In this year, we have decided to write off the guaranteed loans receivables from the two German Pelikan companies in the Holding Company's financial statements. For many years, the main shareholder has provided a guarantee to these loans to avoid undercapitalisation and over-indebtedness at the Holding Company level. In 2003, these guaranteed loans were proposed to be written off as the Company undertook an exercise to revalue its investments which were stated at marginal book value, thus eliminating undercapitalisation as a whole. The revaluation was conducted by independent third party and an agreed amount of CHF 51 million was recorded to represent the value of these investments in accordance the Swiss Code of Obligations; whilst the fair value of our total investments is worth more than this amount. The impact of the adjustments was a negative net result for the year. For the revaluation of investments exceeding the acquisition costs a revaluation reserve was set up at the Holding Company level. However, all these have no effect on the consolidated financial statements of the Group.

In the midst of strengthening our global presence and geographical networks, the Group purchased Pelikan Benelux N.V./S.A. early 2004 for EUR 520,000. Pelikan Benelux N.V./S.A. is the current distributor of Pelikan's products in Belgium, the Netherlands and Luxembourg.

In Spring 2003, Pelikan's administration offices in Hanover, Germany were relocated to the newly built office centre on the bank of the Mittelland Canal at the Lister Yacht Harbour, after almost 100 years at the Podbielskistrasse address in the city centre. Pelikan's new office facilities have clear and modern facades, a symbol of the changes that have been taking place within the organisation. The relocation was inevitable to create a better working atmosphere to foster efficiency and effectiveness.

Plans to further strengthen the Pelikan brand in the traditional and non-traditional markets gathered momentum last year with the unveiling of new corporate design elements. These include the transformation and modernisation of Pelikan logo, new packaging concept and design and new product display stands. We also created a corporate typeface called "Pelikan The Sans". With these new design elements, the Group aspires to communicate a truly consistent identity throughout the globe stamping our mark as a leader in the industry.

Although economists are not in total agreement on the direction of world trade, the growing consensus is that economies in Europe are in recovery mode. Those in the Asia Pacific region, on the other hand, are certainly expanding, with member countries expecting robust Gross Domestic Product ("GDP") figures. The improving economic conditions coupled with the Group's continuous programmes to streamline operations and to enhance production efficiency will lead the way for further growth in sales and profitability. We believe that we will be way ahead of our peers with our astute strategies and vision in exploiting opportunities.

Lastly, on behalf of the Board, I would like to place on record our appreciation to Mr. Markus Kündig who will retire from the Board at this Shareholders' Meeting. Mr. Kündig has been a long serving member of the Board and has made substantial contributions to the Group over the years. The Board has proposed Mr Thomas Pfister to be the new Non-Executive Member and trust that this proposal will be supported by all shareholders at the forthcoming meeting. Our appreciation also goes to the management and employees for their efforts and contributions in 2003. To our business partners and associates, we thank you and look forward to receiving your continuous support.

On behalf of the Board of Directors



LOO HOOI KEAT
May 26, 2004



KEY FIGURES

Pelikan Group

Figures in CHF million

	2003	2002	2001	2000	1999
Net sales	191.6	183.5	190.1	203.9	195.4
Result from operations	12.9	8.0	11.2	12.1	6.9
Result before non-operating items	14.8	8.9	11.5	13.2	6.7
Result before taxation	9.3	2.1	3.7	0.5	1.7
Net result for the year	9.2	1.5	1.2	-1.7	1.1
Consolidated net result for the year	8.0	0.3	0.2	-3.0	0.2
Fixed assets	50.7	46.3	43.9	44.2	47.3
Shareholders' equity	1.4	-3.5	-0.8	-1.4	0.0
Provisions for pensions	101.8	98.6	101.4	105.2	111.3
Balance sheet total	162.0	160.2	169.3	177.2	183.9
Share of the balance sheet total in %					
Fixed assets	31.3%	28.9%	25.9%	24.9%	25.7%
Shareholders' equity	0.9%	-2.2%	-0.4%	-0.8%	0.0%
Provisions for pensions	62.8%	61.5%	59.9%	59.4%	60.5%
Tangible and intangible assets					
Investments	6.8	12.5	7.4	5.6	4.5
Depreciation and amortization	6.5	6.2	6.8	7.0	8.0
Number of employees	848	789	830	933	821
Personnel expense	51.1	49.7	51.7	49.0	46.6

Pelikan Holding AG

Figures in CHF million

	2003	2002	2001	2000	1999
Result for the year	-63.2	1.2	1.7	-3.0	0.2
Dividend	-	-	-	-	-
Shareholders' equity	53.1	103.5	102.3	100.6	103.6

Key figures per share

Data per bearer share in CHF

Nominal value each CHF 65

Earnings per share	5.2	0.2	0.1	-1.9	0.1
Dividend per share in %	-	-	-	-	-
Share prices					
Highest	34	34	39	63	73
Lowest	19	18	15	35	62

MANAGEMENT REPORT

Business in 2003

2003 was a very successful year for Pelikan, with most companies within the Group registering increased sales and profits, some considerably. The "Office General" business which was acquired on December 31, 2002 also contributed to the better performance as anticipated. Pelikan Group sales rose by 4.4% over prior year to CHF 191,6 million, while consolidated net profit for the year rose sharply to CHF 8,0 million (2002: CHF 0,3 million).

The growth was achieved despite the stagnant consumer markets, particularly in Germany, and the strengthening of the Euro against major currencies which slowed exports from Hanover, Germany. The improved results were also due to the Group's continued focus on improving its structure and processes coupled with vigorous cost reduction projects.

All efforts made for a new international unified corporate identity unveiled during the year were well accepted by the trade and consumers. This includes both the new Pelikan logo as well as the new designed packaging concept.

Distribution co-operations and important contracts

On December 31, 2002, Pelikan Group repurchased the worldwide "Office General" business from Henkel KGaA for EUR 5,25 million. The remaining purchase price of EUR 3,5 million was paid in 2003. This business includes duplicating and stamping materials which were distributed under the Pelikan brand name. The buy-back of the business is a logical move to expand Pelikan's existing range of products in the "Office Supplies" segment.

To further strengthen Pelikan's position in the European market, the Group entered into an agreement to purchase 100% equity interest in Pelikan Benelux N.V./S.A. for EUR 520,000 in the first quarter of 2004. This Belgium incorporated company is the current distributor of Pelikan's products in Belgium, the Netherlands and Luxemburg.

Sales

Pelikan Group achieved net sales of CHF 192 million in 2003 (2002: CHF 183 million), representing an increase of 4,4% compared with the previous year.

Sales by region 2003



Germany	53.1%
Switzerland	6.2%
Rest of Europe	21.4%
USA/Canada	1.8%
Latin-America	12.5%
Other countries	5.0%

In its largest market, Germany, sales expanded by 6,7% compared with the previous year, by far improving its market position. The main reasons for the increase were well accepted new products, modern and improved sales and distribution channels, in addition to the regular marketing and promotional activities.

In the neighbouring country Switzerland, sales volume also improved significantly. This is partly due to synergies from the marketing cooperation between Pelikan and Faber-Castell, both of which have strong presence in Switzerland, as well as internal efficiency.

The increased sales in the "Rest of Europe" was primarily from duplicating and stamping products in Italy, Spain and Greece, following the repurchase of "Office General" business from Henkel.

Sales in the United States and Canada went up marginally due to the negative development of the local currencies against the Euro. In Latin America, the reported sales were affected by the depreciation of the Mexican Peso against Swiss Franc (- 21% in 2003). In fact, at constant currency exchange rates, sales in Latin America rose by 6%.

The higher sales in “Other Countries” resulted from the additional sales of duplicating and stamping articles principally in the African continent.

Sales by product group 2003



General office supplies	25.8%
Writing instruments	35.1%
School/Leisure time	31.7%
Hardcopy	4.9%
Others	2.5%

The “Office Supplies” segment performed strongly as anticipated following the buy-back of the duplicating and stamping business from Henkel. The main contributors of this segments are markets like Spain, Italy, Greece and other countries outside Europe.

The “Writing Instruments” category also performed better due to success in newly launched products such as the “Pelikano”, “Fineliners”, additions to the “Souverän” range in black and red, Special Editions and Limited Editions of high value writing instruments.

Results

The profit from operations of Pelikan Group increased considerably from CHF 8,0 million in 2002 to CHF 12,9 million in 2003. The results from unconsolidated companies showed a profit of CHF 2,1 million (2002: CHF 0,7 million) which was mainly due to the promising results from the Group’s investment in Columbia Pelikan Pty Limited in Australia.

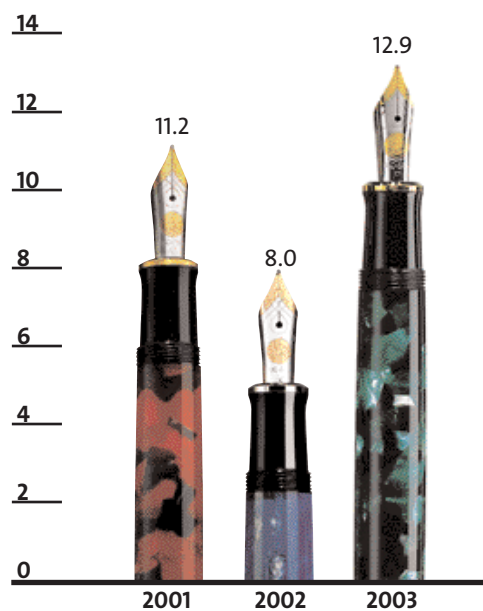
Pelikan Group incurred a net interest expense of CHF 0,2 million (2002: net income of CHF 0,1 million), while the expenses for pensioners came to CHF 5,5 million (2002: CHF 6,8 million). Taxes amounted to CHF 0,1 million because of the capitalisation of deferred tax assets of CHF 2,2 million in the German subsidiaries based on foreseeable improvement in future profitability.

The net profit for the year increased significantly to CHF 9,2 million in 2003 from CHF 1,5 million in 2002. After deduction of the profit due to minority interests, the consolidated net profit for the year came to CHF 8,0 million (2002: CHF 0,3 million).

At Pelikan Holding AG company level, the financial statements showed a net loss of CHF 63,2 million for the year (2002: profit of CHF 1,2 million) resulting mainly from the write-off of guarantee which was partly compensated by a revaluation of the investments (see notes 1 and 2 on page 50).

Result from operations

In million CHF



Personnel

The total number of employees in the Group increased by 59 to 848 as at December 31, 2003 as a consequence of an increase in workforce in the factory in Mexico to avoid production bottlenecks.

Pelikan Group, on average, employed 870 persons in 2003 (2002: 869 persons).

Personnel December 31, 2003



Germany	438
Switzerland	17
Rest of Europe	45

Latin-America 348

At end of:

Personnel	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2001
Germany	438	432	444
Switzerland	17	18	16
Rest of Europe	45	47	65
Total Europe	500	497	525
Latin-America	348	292	305
Total Group	848	789	830

Investments in fixed assets

Investments in fixed assets during the year amounted to CHF 6,6 million (2002: CHF 5,4 million). As in previous years, the major investments were made in Germany for, among others, the following projects:

- Tools to supplement the modular concept for the school and youth writing instruments. This is essentially an expansion of the new "Pelikano" range with the "Script" for beautiful and expressive handwriting;
- Tools for the re-launch of the premium paint box "ProColor";
- Tools for the "Plaka" 50ml product range, which was part of the new presentation of the hobby paint products;
- Tools for the "Enjoy", Pelikan's new twist-action ballpoint pen in the low-price segment for Germany promotional business;
- Tools for the new writing instrument series "Factor" and "Epoch" which target new consumer groups;
- Modernisation of the infrastructure in the moulding-making and tool-making departments.

Quality Management

Pelikan's Hanover operation has obtained DIN EN ISO 9001:94 certification awarded by SGS-ICS Gesellschaft für Zertifizierungen, Hamburg, Germany. This certification and its frequent audits confirm that an efficient and well documented Quality Management System is being implemented to ensure reliability and production processes of the highest quality.

Pelikan's operation in Mexico received the certification CLASS A awarded by Buker Inc., a Management Education and Consulting Firm in 2001, which confirmed the excellence and quality of their business processes and product quality at world standard.

Research and development

In 2003, CHF 3,0 million (2002: CHF 2,7 million) was expended for research and development projects which included:

Technical developments:

- Development of the new writing instrument "Epoch" - the symbiosis of tradition and modernity;
- Development of the Special Editions "New York City" and "Athens";
- Development of an exclusive colour combination in tortoiseshell and white for the "Souverän" line;
- Development of the Limited Edition writing instruments "Myth of the Moon Goddess" and "Hercules";
- Development of the "Enjoy", a new twist-action ballpoint pen in a modern form and attractive colours; and

- Development of the new water colour “ProColor” in young fashionable design and attractive colours.

Chemical developments:

- Complete revision of recipes for the well known “Kasein-Plaka” colours;
- Development of a new series of colours based on synthetic dispersion base “Plaka Lack” with excellent user advantages, multiple colours as well as extraordinary special effects;
- Development of a wide range of textile colours for light colour textiles;
- Introduction of plastic erasers with improved quality and environmental acceptability.

Risks of future development

Pelikan Group offers an extensive assortment of products for the up-market, school and hobby, as well as office supplies. Its operations are worldwide. The globalisation, market concentration and structural changes in the environment pose continuous challenges and simultaneously are accompanied by numerous risks. These risks, however, are unavoidable.

Pelikan Group regards an efficient and anticipative risk management as an important function. The primary goal is not the avoidance of all risks but the formulation of strategies for risks identification and mitigation based on active management and control. The objective is to take only those risks which will lead to improved shareholders’ value and/or market position of the Group.

For the companies in Germany in particular, the German law for business control and transparency (KonTraG) calls for the commitment of the management to set up a control system to recognise in advance, risks which might potentially endanger the Group. This requirement has for many years been regarded by Pelikan as a precondition for a successful business. Thereby, Pelikan continuously strives to improve the risk management and controlling system.

The other key elements of the Group’s risk management strategies are described below:

- Clearly defined lines of accountability and delegated authority;
- Regular and comprehensive information provided to management, covering operating and financial performance and key business indicators such as resource utilisation and cash flow performance;
- Detailed budgeting process where operating units prepare budgets for the coming year which are approved both at operating unit level and by the Board;

- Monthly monitoring of results against budget, with major variances being followed up and management action taken, where necessary; and
- Regular visits to operating units by members of the Board and senior management.

Outlook

The strong Euro and the rate of recovery of the economies in Germany and the rest of Europe are key factors affecting sales growth for the current year. However, given evidence of an emerging recovery in Europe during the second half of 2003 on the back of strong US growth and near zero real short term interest rates in the Euro area, the risks associated with growth are more balanced now than in the previous year.

Net sales in the first quarter of 2004 have increased to CHF 42,5 million from CHF 40,5 million in 2003, partly due to the impact of the strong Euro. After eliminating the foreign exchange effect, sales showed a marginal increase of 0,4 % as compared to prior year. In Germany, where economic recovery remained slow and the strong Euro continued to impact exports, sales were below the previous year’s corresponding period. The lower sales in Germany were compensated by the better numbers in the rest of the countries, which is in line with the expected global economic recovery of an estimated GDP growth of 4.5% in 2004 and 2005. With world trade rising sharply, the financial markets buoyant, and the US economy rebounding, the balance of risks has significantly improved. The Pelikan Group expects to reap the benefits of tapping the opportunities provided by the external environment.

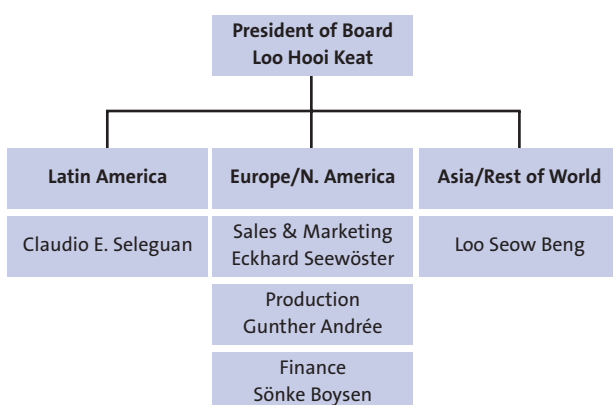
While cost reduction measures continue to be the Group’s endeavour, research and development on products and markets will remain a key focus. Feedback from the trade and consumers on the new products presented at the Paperworld Fair in Frankfurt early this year has provided the Group with ideas for the further development of products and markets. On the other hand, the planned expansion of the Group’s manufacturing and distribution network is expected to provide a solid base for another year of outstanding results.

The statements in this business report relating to matters that are not historical facts, are forward-looking statements that are not guaranteed for future performance and involve risks and uncertainties, including but not limited to: future global economic conditions, foreign exchange rates, regulatory rules, market conditions, actions of competitors and other factors beyond the control of the Group.

Pelikan Holding AG (or the “Company”) is incorporated in Switzerland and governed by Swiss law. This report conforms with the Directive on Information Relating to Corporate Governance, issued by the SWX Swiss Exchange effective July 1, 2002.

Group structure

Pelikan Holding AG Group (the Group) is organized into three geographical units: Europe/North America, Latin America and Asia/Rest of World.



The subsidiaries and associated companies are disclosed on pages 44 to 45 of the Group’s consolidated financial statements.

Capital structure

As at December 31, 2003, the share capital of Pelikan Holding AG is CHF 100.1 million divided into 1’001’000 bearer shares of CHF 65 nominal value each and 539’000 registered shares of CHF 65 nominal value each, all of which have been fully paid.

There have been no changes in capital since 1997.

Pelikan Holding AG has neither authorized nor conditional capital. There were no participation certificates and warrants as at the balance sheet date.

There are no cross-shareholdings.

The bearer shares of Pelikan Holding AG, Baar, Switzerland are listed on the Stock Exchange of Zurich as “Local Cap” with security no. 632875 and in Germany with security no. 871771. The market capitalization amounted to CHF 33,8 million as at December 31, 2003.

Share ownership / Significant shareholders

Pelikan Holding Sdn. Bhd., Kuala Lumpur, Malaysia, controlled by Loo Hooi Keat, held 64,9 % of the capital of Pelikan Holding AG consisting of all the 539’000 registered and 461’000 bearer shares. This holding has not changed in the last three years. As at December 31, 2003, the other members of the Executive Committee and persons closely linked to them have held 150 shares in Pelikan Holding AG. The Non-Executive Members of the Board of Directors and persons closely linked to them held 104 bearer shares in Pelikan Holding AG as at December 31, 2003.

Shareholders’ rights

Each share entitles the holder to one vote at the General Shareholders’ Meeting. There are no preferential voting shares. Shareholders have the right to receive dividends, appoint a proxy, convene a General Meeting, include additional items on the agenda of a General Meeting and hold such other rights as defined by the Swiss Code of Obligations (SCO).

Legitimacy of shareholders

For bearer shares, the Company can accept one shareholder for each share by legitimating through the possession of the titles. Legitimacy of shareholders for registered shares is determined by the names as per the register of shares.

Transfers of registered shares

Transfers of registered shares require the consent of the Board of Directors (the “Board”). Until such consent is granted, the ownership of the shares and all rights therefrom remain with the seller.

The Board of Directors can refuse the transfer of shares of the Company without explanation where the Board is prepared to buy these shares at their actual value at the time of their entry into the register, for the account of the Company (up to a maximum of 20 % of the share capital) or for other shareholders or third parties.

In 2003 there were no transfers of registered shares.

Board of Directors

The duties of the Board are governed by the SCO, the Articles of Association, and the Organization Regulations.

The composition of the Board shall be not less than three members. At least half of the members of the Board must be persons proposed by the registered shareholders.

The Board annually elects a President and a Vice-President among those members who were elected based on the proposal of the registered shareholders. The Board establishes regulations and elects a secretary who does not have to be a member of the Board or shareholder.

Elections and resolutions of the Board are passed by absolute majority of the votes cast by its elected members. The President decides in case of tied votes.

The Board manages the Company and decides on all matters including those not specifically specified by laws and the Articles of Association. The Board has the following non-transferable and inalienable duties:

- the ultimate management of the Company and the issuance of directives;
- the establishment of the organization;
- the structure of the accounting system, financial planning and controls;
- the appointment and removal of the management team;

- e) the ultimate supervision of the management team, particularly in respect of compliance with laws, the Articles of Association, regulations, and directives;
- f) the preparation of business reports, organization of General Shareholders' Meetings and implementation of shareholders' resolutions; and
- g) the notification of insolvency.

The Board issued the Organizational Regulations of the Company on September 22, 1997. The Organizational Regulations set out the duties and the responsibilities of the Company's governing bodies, which comprise: The Board, the President and the Executive Members of the Board.

The Board meets as required, but at least twice annually: Once in the first semester (in particular to fix the proposals for the General Shareholders Meeting) and the other in the second semester (in particular to decide upon the budget and related business).

As a small and hence efficient body, the Board wishes to advise and decide on all matters as a whole; it has not, therefore, nominated any committees at this time.

The Board is briefed on a monthly basis. Detailed management reports from the controlling system (MIS) show the business development including budget-actual comparisons.

Members of the Board

Members of the Board as of December 31, 2003:

Name	Age	Function	since	Elected until
Loo Hooi Keat	49	President	1997	AGM 2004
Markus Kündig	73	Non-Executive Vice President	1986	AGM 2004
Mirzan bin Mahathir	46	Non-Executive member	1998	AGM 2004

(AGM = Annual General Meeting)

Secretary of the Board is Dr. Rico Jenny, Zurich.

None of the Non-Executive Members of the Board was a member of Pelikan management in the three financial years preceding the current year. None of the Non-Executive Members of the Board of Directors has important business connections with Pelikan.

Markus Kündig announced to the Board of Directors that due to his age, he will not be ready for another appointment. The vacancy shall be filled by Thomas Pfister, who shall according to the proposal of the Board of Directors be elected as Non-Executive Member of the Board at the forthcoming Annual Shareholders Meeting. Thomas Pfister, Swiss, age 40 is a member of the board of directors of Pelikan Faber-Castell (Schweiz) AG and manages this company as a delegate of the board of directors.

Indication of cross-involvement among the boards of listed companies:

Loo Hooi Keat and Mirzan bin Mahathir are both members of the Board of Directors of Konsortium Logistik Berhad, a company listed in Malaysia.

Loo Hooi Keat, Malaysia

Loo Hooi Keat is a certified public accountant and a member of the Malaysian Institute of Certified Public Accountants (MICPA). He acts as Chief Executive Officer of the Group since 1995. He received his training in accountancy from a reputable international accounting firm in Malaysia where he received his Certified Public Accountant accreditation. Since then, he has gained over 22 years of experience in various international companies in Malaysia, namely as Group Accountant for the Sime Darby Group of Companies (1982-1985) and Lion Group of Companies (1986-1989). He was the Group General Manager for Business Management of United Engineers (Malaysia) Berhad from 1990 to 1992.

Presently, he is the Executive Vice President and sits on the Board of Konsortium Logistik Berhad (listed on the Malaysia Securities Exchange Berhad, formerly known as Kuala Lumpur Stock Exchange) (since 1992).

Markus Kündig, Switzerland

Markus Kündig received a high school education, graduated in business school and an apprenticeship as a printer. Presently, he manages his own printing company in Zug. He was an important member in Swiss politics, being a member of the Federal Council of States for over more than 20 years. He was member of the Board of Directors of many renowned listed companies such as UBS and Zurich Insurance. Currently, he is still a board member of Luzerner Zeitung AG, Erdgas Zentralschweiz, AAE Ahaus Alstätter Eisenbahn AG, Multicolor AG, Sand AG und Swissgas AG.

Mirzan bin Mahathir, Malaysia

Mirzan bin Mahathir graduated with a Bachelor of Science (Honours) in Computer Science and obtained his Master in Business Administration from the Wharton Business School in the United States of America. Between 1982 and 1985, he worked for IBM World Trade Corporation in Malaysia as a Systems Engineer. Upon completion of his Masters programme in 1987, he rejoined Salomon Brothers Inc, as an associate in the Proprietary Strategies Department, developing and testing analytical tools and trading strategies. In 1989 he was seconded to Asia Pacific Investment Banking Department of Salomon Brothers Hong Kong Ltd. He currently sits on the Board of several public listed companies in Malaysia namely, Konsortium Logistik Berhad, Dataprep Holdings Berhad, Worldwide Holdings Berhad, Sunway Building Technology Berhad, Artwright Holdings Berhad and Nakamichi Corporation Berhad. He is also the President of Container Hauliers' Association of Malaysia (CHAM) and President of Asian Strategy and Leadership Institute (ASLI).

Group management

Name	Age	Nationality	Function
Gunther Andréé	55	Germany	Head of Production
Sönke Boysen	59	Germany	Head of Finance/ Administration
Loo Seow Beng	46	Malaysia	Head of Asia/ Rest of World
Claudio Esteban Seleguan	42	Argentina	Head of Latin America
Eckhard Seewöster	60	Germany	Head of Sales/ Marketing

Gunther Andréé

Gunther Andréé has a Master of Science as well as a Master of Business Administration. He joined the Group on January 1, 1998 and is responsible for the worldwide production and development. He is mainly responsible for the management of the factory in Vöhrum, Hanover, Germany. Before he joined Pelikan he had similar functions at rotring.

Sönke Boysen

Sönke Boysen has a degree in economics. He joined Pelikan in Hanover on January 27, 1997 and is responsible for finance, administration and personnel. At the same time he is also the Director of Pelikan Holding AG, Baar, Switzerland. Before he joined the Group, he was with Telefunken as Controller and prior to that, with Thomson as Chief Financial Officer. Sönke Boysen retired from Pelikan as of April 30, 2004. His function as Head of Finance/Administration for Europe/North America was taken over by Peter Raijmann. Peter Raijmann has been working for the Pelikan Group for a considerable time as international controller. In respect of Sönke Boysen's function as Director of Pelikan Holding AG, the Board is looking for a suitable candidate to replace him. Meanwhile, Loo Hooi Keat acts as a Delegate of the Board of Directors in charge of the management of Pelikan Holding AG.

Loo Seow Beng

Loo Seow Beng has a Bachelor of Science in Business. Previously, he worked with a large audit firm. He joined Pelikan Singapore-Malaysia Pte. Ltd. in 1995. He is now with Pelikan Hanover, responsible for the coordination of sales in Asia/Rest of World.

Claudio Esteban Seleguan

Claudio Esteban Seleguan has a Bachelor in Business Administration. He joined the Pelikan Group as a manager of Pelikan Costa Rica in 1989. In 1992, he was appointed as Chief Executive Officer of Pelikan Mexico. He also acts as Regional Manager for Latin America.

Eckhard Seewöster

Eckhard Seewöster started with an apprenticeship as a carpenter and spent 6 years in the army where he resigned as First Lieutenant. He joined Pelikan Hanover in 1969 as a sales employee. He is now the Head of Sales/Marketing responsible for Europe and North America.

Compensation, shareholdings and loans

During the financial year, the President and other Board Members were paid a fixed annual fee.

Like all employees of the Group, the members of the Executive Committee are rewarded fairly in accordance with their abilities, experience and performance. The amount and composition of the compensation paid are tailored to the respective sectors and labor market environment. Compensation comprises a fixed basic salary and a performance-related cash bonus. The bonus is determined by the extent to which personal performance objectives, set in advance, have been attained and is also linked to the financial results of the Group. The President of the Board of Directors approves the compensation of the members of the Executive Committee.

Details of the compensation paid to active members of governing bodies are set out below in compliance with the SWX Swiss Exchange Corporate Governance Directive.

- The total compensation paid in cash to the members of the Executive Committee (including the President of the Board of Directors) in the 2003 financial year was CHF 1,6 million.
- The sum of all compensation paid in cash to Non-Executive Members of the Board of Directors in the 2003 financial year was CHF 0,1 million.
- No severance payment was made in 2003 to any Board Member who resigned in earlier years.
- No compensation was paid in the 2003 financial year to members of the Board of Directors or Executive Committee who stepped down in the previous period.
- There was no non-cash compensation in the form of shares or options or any other form to the Company's governing bodies.
- Members of the management team held a total of 150 shares in Pelikan Holding AG. Loo Hooi Keat indirectly holds 64,9 % of Pelikan Holding AG.
- During the year under review, the Non-Executive Board Member with the highest total remuneration received net CHF 40'000 in cash.

There are no consulting agreements with any of the Board Members.

Options

Since options have never been part of the compensation package paid to members of the Executive Committee or the Board of Directors, neither they nor persons closely linked to them possess any such options.

Loans to members of governing bodies

As at December 31, 2003, neither Pelikan Holding AG nor its subsidiaries had granted any guarantees, loans, advances or credit facilities to members of the Executive Committee or the Board of Directors.

Loans granted to companies related to the President of the Board of Directors and main shareholder are disclosed in the Notes to the Financial Statements on page 36.

Changes in control - Opting out

The Articles of Association of Pelikan Holding AG contain the following "opting-out" clause under the heading "Obligation to make an offer according to the Stock Exchange Act":

The duty to submit a public offer according to Articles 32 and 52 of the Stock Exchange Act in Switzerland (BEHG) shall not be applicable according to Article 53 of BEHG.

Calling of the Annual General Meeting

The Articles of Association of Pelikan Holding AG do not contain any regulations concerning the calling of the Annual General Meeting that deviate from those laid down by law.

Agenda

A shareholder or several shareholders representing together a par value of more than one million Swiss Francs are entitled to request an Ordinary General Shareholders Meeting to discuss and resolve upon specific matters of business that will be included in the agenda and sent with the invitation.

The Board, at the latest, must receive this request by the end of the financial year preceding the meeting. Motions not in line with laws or the Articles of Association must not be included for discussion.

Resolutions and elections at General Meetings

Each share carries one vote. Each shareholder can be represented by proxy in writing at the General Shareholders Meeting. The Board can issue conditions to verify the possession of the share titles. The Board can regulate the issuance of voting cards and the form of the power of attorney.

The General Shareholders' Meeting can pass a resolution independent of the number of shareholders present or shares represented, as long as the legally binding or statutory provisions and regulations have been adhered to.

The General Shareholders' Meeting passes resolutions exclusively on:

- a) the adoption and the alteration of the Articles of Association;
- b) the approval of the annual report;
- c) the approval of the annual financial statements, the declaration of dividend and remuneration of directors;
- d) the termination of the members of the Board;
- e) the election of members of the Board;
- f) the election of auditors of the Company and the Group; and
- g) the adoption of resolutions on matters which are reserved to the General Shareholders' Meeting by law or by the Articles of Association.

Auditors

Ernst & Young of Zurich, has been external auditors of Pelikan Holding AG and Group auditors since 1983. The auditor in charge has taken up the position in 2003. For the 2003 financial year, worldwide audit fees amounted to CHF 586,738 whereof CHF 521,610 concern Ernst & Young. Other consulting costs of audit firms such as business consulting, taxation and legal consulting amounted to CHF 139,463 in total whereof CHF 108,539 concern Ernst & Young.

The auditors are elected during the Annual General Meeting of Shareholders every year.

Information Policy

Pelikan Holding AG provides information to its shareholders through annual reports and interim reports. In addition, press releases on significant events in accordance with the SWX ad-hoc reporting requirements are published.

The Company's official publication is the Swiss Commercial Gazette (SHAB).

Information is also available on the Company's website at www.pelikan.com. Addresses of the Group companies are listed on pages 55 and 56.

PELIKAN'S 125-YEAR ANNIVERSARY

Pelikan has embodied quality made in Germany for more than a century. In 2003 in conjunction with its 125 years anniversary, the brand took yet another step forward. The logo was modernized, so to speak, but yet retained all the traditional and emotional values that it has come to symbolize.



2003



1984



Pelikan

1926



Pelikan

1957



1878

Pelikan

1896



1913

The following section is a parade of Pelikan's INNOVATION AND CREATIVITY, a sampling of the products that the Group have painstakingly developed and delivered with TRADITIONAL AND EMOTIONAL VALUES for the year 2004.

Moon Goddess

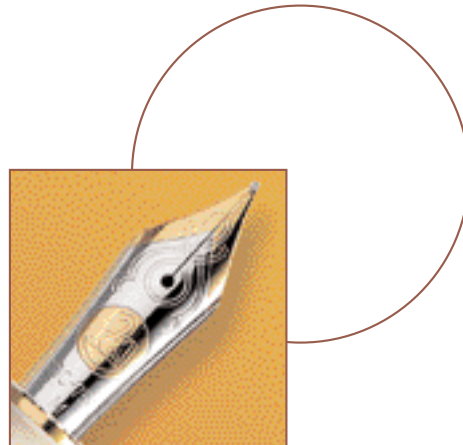


THE MYTH OF THE MOON GODDESS

Inspired by legend

This Limited Edition is inspired by the ancient legend of the sacrifices that the Emperor of China had to make to the Moon Goddess during each autumn festival (the 15th day of the eighth lunar month). It represents a harmonious marriage between hand-crafted German precision and the mythical enchantment of this time-honoured rite.

Based on the design of the M1000, the pale-gold fountain pen boasts a masterfully crafted sleeve of solid 925 sterling silver with 24 carat gold plating. The pen's 18-carat gold nib features rhodium plated decorative touches. This exquisite edition is limited to 568 pens worldwide, a lucky number in Chinese mythology, associated with flourishing fortune in every aspect of life.



Hercules



HERCULES

Powerful and bold

This Limited Edition is inspired by Greek mythology. Hercules, the god-like hero and adventurer was courageous and powerful, bold and clever. His pioneering spirit and unwillingness to compromise inspired us to create an exclusive premium writing instrument.

The high-caliber piston-filled fountain pen is equipped with a finely engraved and individually hand-tested 18-carat gold nib. This coveted collector's item is available in a limited edition of 800 pens worldwide.



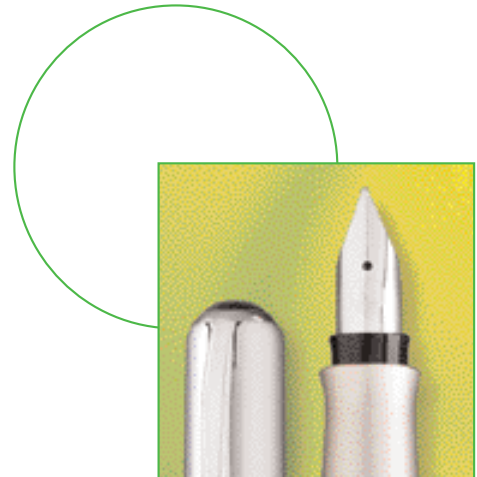
Epoch



Fashionable and timeless

This new series is Pelikan's novelty for 2004. These high quality writing instruments combine tradition and innovation by using modern materials to produce classic forms. It is distinguished by its timeless design, ultra-modern technology and quality German craftsmanship. The fashionable combination of aluminum with refined synthetic materials accentuates that Epoch is a writing instrument of today.

The heart of the collection is a cartridge fountain pen, which can be combined in a set with a roller pen, a ballpoint pen and a propelling pencil. The innovative cartridge refill system makes the fountain pen individual and unmistakable. The stainless steel nib which is supplied in three widths is enhanced with palladium, giving it a particularly rich and exclusive appearance.



Plaka





Universal appeal

Long a favourite of Pelikan's consumers, this water-based casein emulsion paint remains as popular and as sought after as ever. Whether at home, or at school, Plaka paints are used in many fields because of their universal appeal, practicality and quick-drying properties.

In 2004, these classical paints have a new look. The chic new bottles with modern functional design emphasize the tried and tested qualities of the content - bright colours, good covering, rapid drying, resistance to water and to fading.

Thirty-one pigments and three metallic shades can be excellently mixed and ensure an outstanding brilliance of colour, whether one is using it for hobby painting, decoration or arts and crafts.



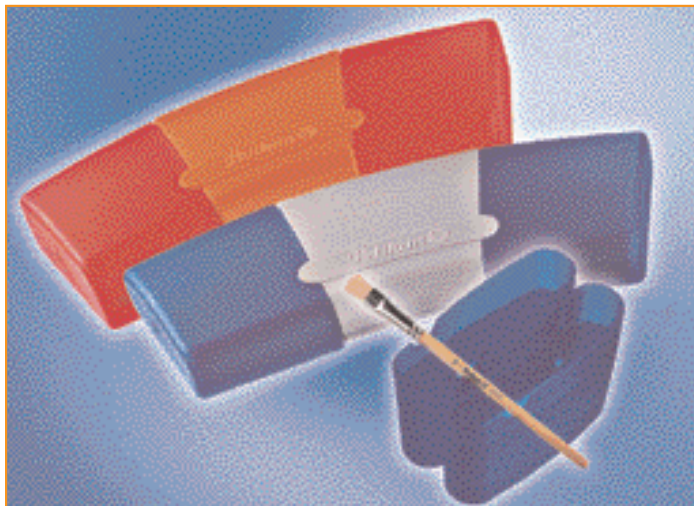
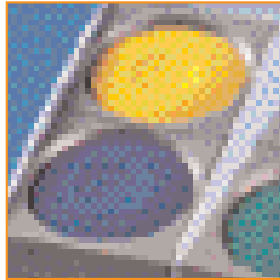
ProColor



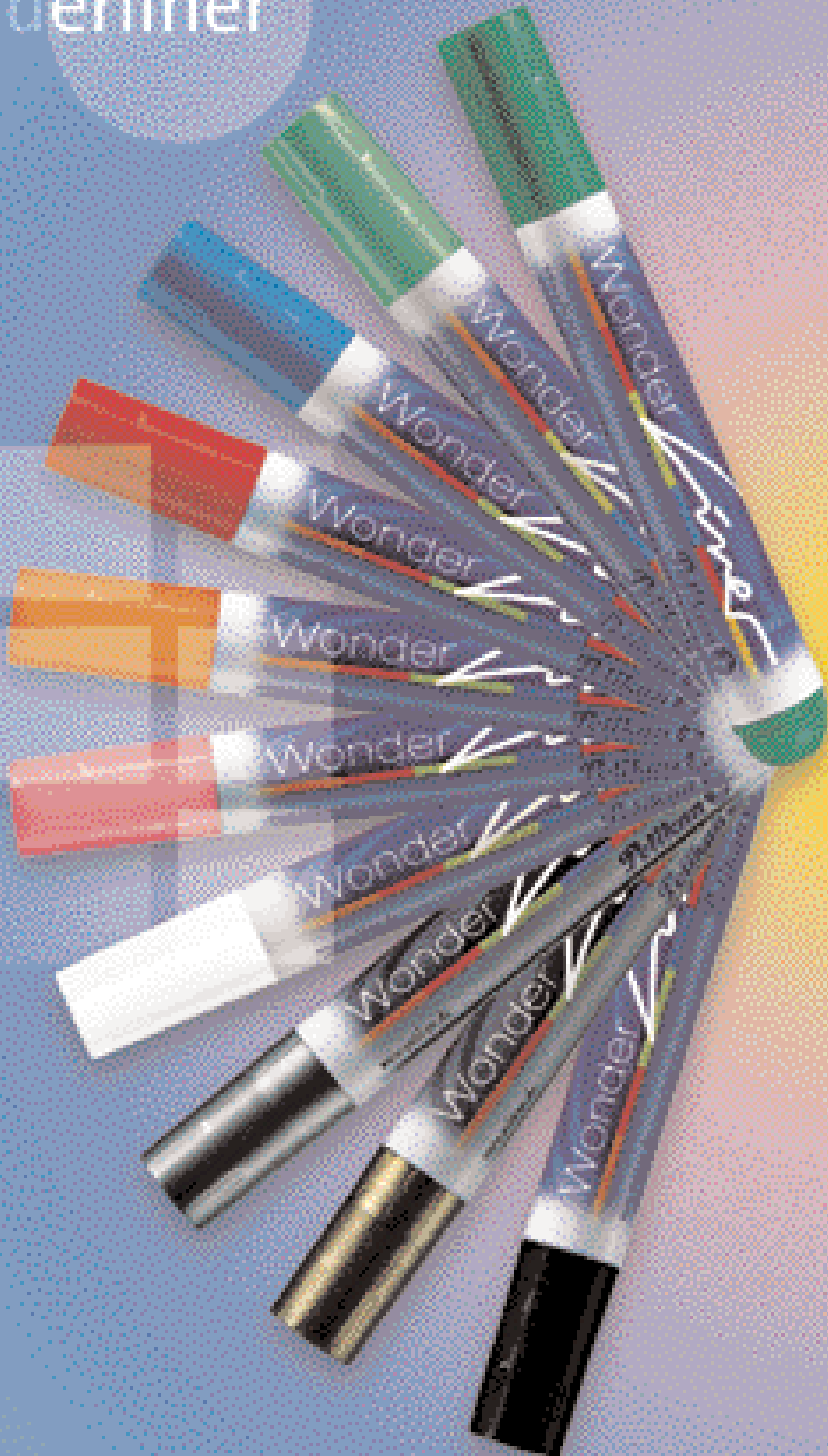
Fresh colours, vigorous design

Another of Pelikan's classic, this product is now available in new opaque colour paint box design. The vigorous design in light blue/dark blue and orange/red combination has made it even more practical for school and leisure use with a removable mixing tray and the two ends of the box double up as water containers.

ProColor contains the well-proven patented pans of opaque paint that are also found in other Pelikan products. This makes it not only easy to replace but can also be bought individually. Each box also comes with a tube of Chinese white and a quality bristle paint-brush.



Wonderliner



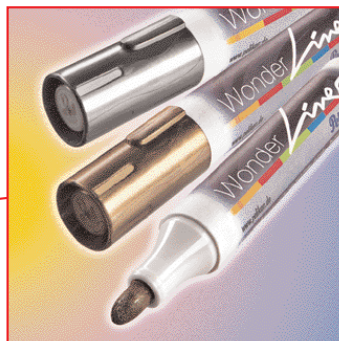
W ONDERLINER

Putting colour into life

Designed to bring colour into your life and into your business, Wonderliner is quite a remarkable colouring pen. Specially developed pigmented ink is dispensed evenly via a patented fibre-tip system and can be used practically everywhere.

It paints on paper, card, board, wood, ceramics, textiles, glass, stone and similar materials; on porous surface it is permanent, on others it can be washed off.

The eight standard and two metallic colours are of radiant intensity and colour extremely well. The ink is water-soluble and odour-free.





**Pelikan Group
Financial Statements
2003**



CONSOLIDATED BALANCE SHEET

as at December 31, 2003

	Note	Dec. 31, 2003 CHF (000)		Dec. 31, 2002 CHF (000)	
Assets					
Fixed assets					
Intangible assets	1	13,682		13,731	
Tangible assets	2	27,909		27,677	
Financial assets	3	6,799		4,925	
Deferred tax assets	4	2,260	50,650	-	46,333
Current assets					
Inventories	5	36,995		34,641	
Prepayments		689		640	
Accounts receivable from third parties and other assets	6	36,809		40,653	
Accounts receivable from unconsolidated companies		706		1,441	
Accounts receivable from parent company and its related companies	7	20,947		19,414	
Cash and cash equivalents		15,231	111,377	17,077	113,866
Total assets			162,027		160,199
Equity and liabilities					
Shareholders' equity					
Capital stock	9	100,100		100,100	
Revaluation reserve		8,161		9,406	
Retained earnings		-106,858	1,403	-112,993	-3,487
Minority interests	10		12,081		13,286
Provisions					
Provisions for pensions and similar commitments	11	101,847		98,620	
Provisions for taxes payable		156		1,742	
Provisions for deferred taxes	4	2,672		2,700	
Other provisions	12	18,635	123,310	20,019	123,081
Short-term liabilities					
Bank liabilities	13	6,471		6,151	
Accounts payable		12,425		10,511	
Payables to unconsolidated companies		1		18	
Payables to companies related to the parent company		5		22	
Other liabilities	14	6,329		10,524	
Deferred income		2	25,233	93	27,319
Total equity and liabilities			162,027		160,199

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR 2003

	Note	2003 CHF (000)		2002 CHF (000)	
Net sales	15	191,606		183,465	
Change in the level of finished goods and work in process		1,542		1,566	
Other expenses capitalized		1,250		1,048	
Other operating income	16	4,689	199,087	5,869	191,948
Materials purchased		-83,912		-81,707	
Personnel expenses	17	-51,129		-49,658	
Depreciation and amortization	18	-6,525		-6,205	
Other operating expenses	19	-44,576	-186,142	-46,369	-183,939
Result from operations			12,945		8,009
Result from unconsolidated companies	20	2,106		744	
Interest and similar income	21	729		1,103	
Interest and similar expenses	22	-969	1,866	-982	865
Result before non-operating items			14,811		8,874
Expenses for pensioners	23		-5,502		-6,772
Result before taxation			9,309		2,102
Taxes	24		-133		-640
Net result for the year			9,176		1,462
Profit due to minority interests	10		-1,218		-1,116
Consolidated net result for the year			7,958		346

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2003

	Note	2003 CHF (000)		2002 CHF (000)	
Cash flows from business activities					
Net result for the year before minority interest		9,176		1,462	
Adjustments for:					
- Result from unconsolidated group companies	20	-2,102		-744	
- Depreciation	18	6,525		6,205	
- Book profits/-losses from disposals of fixed assets		-212		-24	
- Deferred taxes	4	-1,719		1,039	
- Other non-cash items		35		-3,989	
Cash flows before working capital changes		11,703		3,949	
Decrease pension provisions		-3,768		-2,342	
Change in accounts receivables, other assets and prepayments		4,630		-1,791	
Change in inventories		-1,146		-13	
Change in payables		670		655	
Change in other liabilities and deferred income		854		-937	
Change in other provisions		-3,889	9,054	-2,590	-3,069
Cash flows from investing activities					
Investments in intangible assets	1	-5,499		-2,054	
Investments in tangible assets	2	-6,568		-5,440	
Disposals of tangible assets		303		299	
Repayment of loans		-		842	
Dividend from unconsolidated companies		760		213	
Purchase of securities		-11		-	
Disposals of investments		325	-10,690	650	-5,490
Cash flows from financing activities					
Repayments from parent company		184		4,949	
Changes in bank liabilities		-8		-1,035	
Dividend to minorities	10	-661	-485	-779	3,135
Effect of exchange rate changes and inflation adjustments			275		-2,201
Net change in cash			-1,846		-7,625
Cash at beginning of year			17,077		24,702
Cash at end of year			15,231		17,077

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2003

General principles

The consolidated financial statements are prepared in accordance with Swiss GAAP FER as well as with the provisions of the Swiss Code of Obligations. In 2002 the accounting principles were changed to Swiss GAAP FER. All differences arising from this adjustment were booked against opening equity as of 1.1.2001 which included mainly the adjustment of the German pension provisions.

Consolidation principles

Companies consolidated

The consolidated financial statements include those companies in which the parent company, Pelikan Holding AG, holds directly or indirectly more than 50% of the voting rights. The companies included in the consolidation are shown in the list of group companies on pages 44 to 45. One group company, Pelikan Mexico, in which the parent company holds an investment of less than 50%, but which is under its management control, has also been consolidated.

Investments of between 20% and 50% are accounted for under the equity method. The respective portions of the equity and of the profit or loss for the year of such investments are included in the consolidated financial statements. Investments of less than 20% are carried at cost less necessary valuation provisions.

During the year under review no material changes in the group of consolidated companies took place.

Consolidation period

The consolidation period is the calendar year.

Accounting

The individual financial statements included in the consolidation have been prepared according to the group's standard accounting and valuation principles. For this purpose, the companies prepare second statements (Financial Statements II), besides the regular financial statements prepared according to the laws of the respective countries. These Financial Statements II show a true and fair view of the financial position and results of operations of the companies and are also examined and reported on by the companies' auditors.

Currency translation

The balance sheets of the foreign companies have been translated at year-end exchange rates. The profit and loss accounts have been translated at the average exchange rates ruling during the year. Translation differences arising from movements in the exchange rates used to translate equity and long-term intercompany financing transactions are allocated to shareholders' equity.

The exchange rates are:

	2003		2002	
	Year-end rate	average rate	Year-end rate	average rate
1 EUR	1.56	1.52	1.45	1.47
1 USD	1.24	1.34	1.39	1.56
100 MXN	11.01	12.38	13.26	15.69

Consolidation method

The consolidation is based on the purchase method. The shares of third parties in the equity and in the result for the year of the consolidated companies have been calculated at the balance sheet date and are shown separately in the balance sheet and profit and loss account.

Consolidation adjustments

The sales, expense/income and receivables/payables between the consolidated companies and the profits arising from the intercompany transactions have been eliminated. In those cases where group companies have given guarantees in respect of the liabilities of other consolidated companies, the contingent liabilities shown in the individual balance sheets become irrelevant in view of the disclosure of the primary liabilities in the consolidated financial statements.

Valuation policies

Intangible fixed assets

Intangible fixed assets include goodwill arising from the acquisition of business activities as well as formulas, licenses, trademarks and similar rights acquired from third parties. Goodwill and other intangible assets are amortized to the income statement over their estimated useful life, usually not exceeding 15 years, using the straight-line method. The valuation of intangible assets is yearly checked and required impairment adjustments are charged to income.

Tangible fixed assets

Tangible fixed assets are stated at their acquisition or manufacturing costs less accumulated depreciation. Inflation-related revaluations of fixed assets in countries with high inflation rates have been made and are also included in the Financial Statements II which are used for consolidation. These revaluations are not taken to income but are included under the balance sheet heading "Revaluation reserve". All profit or loss from disposals of tangible fixed assets is booked to income. Assets of relatively minor value are charged directly to the income statement. Yearly impairment tests are made and the appropriate charge, if any, is booked to income.

Estimated useful lives are as follows:

Buildings	8 – 25 years
Machinery and technical equipment	5 – 14 years
Computer systems	3 – 7 years
Furniture and other equipment	3 – 10 years

Improvements that extend the useful life or increase the value of an asset are capitalized and depreciated over the remaining useful life of the asset. All other maintenance and repair expenditures are charged to the income statement as incurred.

Financing costs incurred in respect of the construction of property, plant and equipment are taken directly to the income statement.

Financial assets

Financial assets are valued at acquisition cost, less provisions for specific debtors' risks.

Inventories

The inventories are valued primarily at the lower of average purchase or manufacturing costs and net realizable value and are stated net of deduction of provisions for obsolescence risks. Received payment discounts are booked as a reduction of the purchase price.

Receivables

Trade receivables and other receivables are shown at invoiced amounts, less appropriate provisions for debtors' risks. Specific provisions for bad debts are accounted for where required and deferred credit risks are also considered.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, postal checking, bank account balances and time deposits.

Tax provisions

Tax provisions are for income and capital taxes. Provisions for deferred taxes resulting from the valuation differences between the tax accounts prepared according to local rules and the Financial Statements II used for the consolidation are included under provisions for deferred taxes.

Deferred tax assets are capitalized to the extent that it is probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilized.

Other provisions

Provisions are recognized if present obligations based on past events are known and probable, and a reliable estimate of the amount can be made.

Leases

Operating lease installments are charged to the income statement over the lease term on a straight line basis. There are no financial lease contracts.

Employee pensions

The pension obligations of group companies in respect of retirement, death and disability benefits are based on local rules and customs in each country. Regular contributions are paid to government bodies, autonomous pension funds or insurance companies. The pension and benefit payments made during the accounting period and the regular contributions to the various pension funds are charged to the income statement. Actuarial reviews are undertaken regularly. There are defined benefit and contribution plans. The pension obligation of the defined benefit plans are calculated using the Projected Unit Credit Method.

Research and development

Research and development costs are fully charged to the income statement.

Derivative Financial Instruments

Derivative financial instruments are used to hedge against foreign currency risks. For such transactions, the same valuation principles apply as for the underlying transaction.

Notes to the Consolidated Financial Statements

1. Intangible assets

CHF (000)	Concessions, trademarks	Goodwill	Total
Cost			
Opening Balance Jan. 1, 2003	11,510	6,925	18,435
Investments	114	68	182
Disposals	-59		-59
Translation differences	845	511	1,356
Ending Balance Dec. 31, 2003	12,410	7,504	19,914
Accumulated amortization			
Opening Balance Jan. 1, 2003	4,681	23	4,704
Disposals	-59		-59
Amortization	731	486	1,217
Translation differences	355	15	370
Ending Balance Dec. 31, 2003	5,708	524	6,232
Net book value			
Ending Balance Dec. 31, 2003	6,702	6,980	13,682
Ending Balance Dec. 31, 2002	6,829	6,902	13,731

Concessions and trademarks mainly include the GEHA trademarks which were acquired in 1998 and are amortized on a straight-line basis over 15 years. The Goodwill relates primarily to the „Office general“-business which was bought from Henkel on December 31, 2002 and is amortized over 15 years. As of December 31, 2002 CHF 2,0 million were paid, the remaining purchase price of CHF 5,3 million was paid in 2003.

2. Tangible assets

CHF (000) Cost	Land and buildings	Machinery and technical equipment	Other production and office equipment	Assets under construction	Total
Opening Balance Jan. 1, 2003	21,550	45,931	29,709	898	98,088
Investments	237	2,022	2,716	1,593	6,568
Transfers	18	590	212	-820	-
Disposals	-21	-2,494	-4,501		-7,016
Revaluation due to inflation	486	721	99		1,306
Translation differences	-1,650	-619	1,317	-56	-1,008
Ending Balance Dec. 31, 2003	20,620	46,151	29,552	1,615	97,938

Accumulated depreciation

Opening Balance Jan. 1, 2003	10,604	36,217	23,590		70,411
Disposals	-14	-2,482	-4,429		-6,925
Depreciation	641	2,366	2,301		5,308
Revaluation due to inflation	159	571	66		796
Translation differences	-294	-384	1,117		439
Ending Balance Dec. 31, 2003	11,096	36,288	22,645	-	70,029

Net book value

Ending Balance Dec. 31, 2003	9,524	9,863	6,907	1,615	27,909
Ending Balance Dec. 31, 2002	10,946	9,714	6,119	898	27,677

The insurance values of the tangible assets amounted to CHF 112,4 million as at December 31, 2003 (prior year CHF 110,9 million). Details on the investments in tangible assets which amount to CHF 6,6 million (prior year CHF 5,4 million) are given on page 6.

3. Financial assets

CHF (000) Cost	Unconsoli- dated investments	Goodwill in uncons. investments	Loans to uncons. companies	Long-term securities	Other long-term loans	Total
Opening Balance Jan. 1, 2003	3,910	400	125	642	373	5,450
Disposal		-400				-400
Result current year	2,102					2,102
Dividends	-760					-760
Translation adjustments	5			47	26	78
Inflation adjustment	443					443
Other movements				11		11
Ending Balance Dec. 31, 2003	5,700	-	125	700	399	6,924

CHF (000)	Unconsolidated investments	Goodwill in uncons. investments	Loans to uncons. companies	Long-term securities	Other long-term loans	Total
Accumulated depreciation						
Opening Balance Jan. 1, 2003		400	125			525
Disposal		-400				-400
Ending Balance Dec. 31, 2003	-	-	125	-	-	125
Net book value						
Ending Balance Dec. 31, 2003	5,700	-	-	700	399	6,799
Ending Balance Dec. 31, 2002	3,910	-	-	642	373	4,925

As at December 31, 2003, the total proportionate share in equity of investments accounted for using the equity method amounted to CHF 5,6 million (prior year CHF 3,8 million). Investments under 20% are carried at CHF 0,1 million (prior year CHF 0,1 million) being cost less necessary valuation provisions. The written-off goodwill relating to "QUADRIGA plus" was eliminated in 2003 because the company has stopped its activities.

The unconsolidated group companies are shown in the list of group companies on pages 44 to 45.

4. Deferred tax

CHF (000)	2003	2002
Deferred tax assets from:		
- Temporary differences	371	
- Net operating losses	1,889	
Total deferred tax assets	2,260	-
Deferred tax liabilities from:		
- Temporary differences	2,672	2,700
Total deferred tax liabilities	2,672	2,700
Total deferred tax liabilities, net	412	2,700

Movements in deferred taxes during the year were as follows:

CHF (000)	2003	2002
Opening Balance Jan. 1	2,700	2,588
Expense / Income (-) from deferred taxes	-1,719	1,039
Translation adjustments	-569	-927
Ending Balance Dec. 31	412	2,700

Based on the improved profitability of the Germany sales company deferred tax assets of CHF 2,3 million have been capitalized in 2003. In addition there are further non capitalized tax losses of over CHF 140 million to be offset against future profits. These tax losses mainly relate to Germany.

5. Inventories

CHF (000)	2003	2002
Raw material, stores and operating supplies	6,345	5,657
Work in process	9,983	8,876
Finished products and merchandise	25,218	24,400
Goods in transit	494	386
Payments on account	273	409
Value adjustments	-5,318	-5,087
Total	36,995	34,641

6. Accounts receivable from third parties and other assets

CHF (000)	2003	2002
Trade accounts receivable	31,678	33,949
Other assets	5,131	6,704
Total	36,809	40,653

As of December 31, 2003 derecognized accounts receivables amounted to CHF 6,9 million. The accounts receivable are stated at their nominal values less allowance for bad and doubtful debts of CHF 2,5 million (prior year CHF 2,5 million). The other assets comprise primarily receivables from tax reclaims, license fees and short-term loans.

7. Accounts receivable from parent company and its related companies

CHF (000)	2003	2002
Pelikan Holding Sdn. Bhd., Malaysia	18,629	19,063
Pelikan Japan KK, Japan	2,037	238
Others	281	113
Total	20,947	19,414

The receivables from the parent company Pelikan Holding Sdn. Bhd., Malaysia, result from finance transactions and are secured partly by assets in Japan, Malaysia and Singapore. The interest rate for the loan was 2,25% (prior year 3,25%).

8. Guarantee from parent company

In connection with the waivers of claim with debt warrants granted by Pelikan Holding AG to two German Pelikan companies, the parent company has guaranteed the recoverability of receivables of EUR 72,9 million despite the waivers of claim. This potential contingent receivable will crystallize when it is determined that the two German Pelikan companies are not able to make payment of the amounts due under the debt warrants and therefore, that Pelikan Holding AG will not recover such amounts.

9. Shareholders' equity

CHF (000)	Capital stock	Revaluation Reserves	Retained earnings	Total Equity
Balance Jan. 1, 2002	100,100	11,737	-112,568	-731
Result 2002			346	346
Revaluations due to inflation		640		640
Translation adjustments		-2,971	-771	-3,742
Balance Dec. 31, 2002	100,100	9,406	-112,993	-3,487
Result 2003			7,958	7,958
Revaluations due to inflation		395		395
Translation adjustments		-1,640	-1,823	-3,463
Balance Dec. 31, 2003	100,100	8,161	-106,858	1,403

At December 31, 2003, the capital stock of CHF 100,1 million comprises the following shares:

539 000 Registered shares of nominal CHF 65

1 001 000 Bearer shares of nominal CHF 65

Retained earnings include legal and local statutory revaluation reserves of Pelikan Holding AG of CHF 13,5 million (prior year CHF 0,6 million) which are not distributable.

10. Minority interests

CHF (000)	2003	2002
Balance Jan. 1	13,286	16,192
Dividends to minorities	-661	-779
Result current period	1,218	1,116
Increase minority shareholder	110	147
Revaluations due to inflation	411	666
Translation adjustments	-2,283	-4,056
Balance Dec. 31	12,081	13,286

11. Provisions for pensions and similar commitments

CHF (000)	2003	2002
German companies	97,899	94,856
Others	3,948	3,764
Total	101,847	98,620

Total pension expenses amount to CHF 6,7 million (prior year CHF 7,9 million).

Compared to prior year the pension provisions increased by CHF 7,0 million due to changes in foreign currencies. At constant currency rates the provisions decreased by CHF 3,8 million.

German companies

The pension provisions of German companies are based on the yearly updated actuarial calculations in accordance with the "Projected Unit Credit Method" calculated on the following assumptions:

	2003	2002
Market value of plan assets	-	-
Return on plan assets	not applicable	not applicable
Discount rate	5,00 % p.a.	5,75 % p.a.
Expected future salary increase	2,50 % p.a.	2,50 % p.a.
Expected future pension increase		
- general pension promises due to economical situation	0,00 % p.a.	0,00 % p.a.
- individual promises	2,50 % resp. 1,50 % p.a.	2,50 % resp. 1,50 % p.a.
Expected future turnover	1,00 % p.a.	1,00 % p.a.

The decrease of the discount rate resulted in the following unrecognized actuarial loss:

CHF (000)	2003	2002
Present value of unfunded obligations	104,294	94,856
Unrecognized actuarial loss	-6,395	-
Net pension liability in balance sheet	97,899	94,856

The unrecognized actuarial loss does not exceed 10 percent (the so-called corridor) and therefore does not yet have to be booked as an expense in the income statement.

Persons entitled:

All employees, who are in a fix employment, except:

- employees, who started after 31.12.1983 their fix employment;
- employees, who work only temporary or irregularly and home worker;
- employees, who reached the age of 55 years (men) and the age of 50 (women) when they started their employment;
- the management, who has separate pension agreements.

Coverage:

- Pensions
- Early pensions
- Disability
- Survivorship

12. Other provisions

CHF (000)	2003	2002
Early retirement and jubilee provisions	4,466	4,013
Other personnel related provisions	6,037	5,712
Refunds to customers	3,422	3,263
Others	4,710	7,031
Total	18,635	20,019

13. Bank liabilities

All bank liabilities are short-term and mainly denominated in EUR. The liabilities are partially secured by the following liens and charges:

CHF (000)	2003	2002
Receivables	5,242	4,767

14. Other liabilities

The decrease of other liabilities in 2003 results from the payment of the remaining purchase price of CHF 5,0 million for the buy-back of the Henkel "Office general"-business.

15. Net sales

CHF (000)	2003	2002
Sales to third parties	186,146	176,629
Sales to related parties	5,460	6,836
Total	191,606	183,465

Sales by product group	2003		2002	
	CHF (000)	%	CHF (000)	%
General office supplies	49,383	25.8%	45,457	24.8%
Writing instruments	67,342	35.1%	63,184	34.5%
School/Leisure time	60,661	31.7%	60,912	33.2%
Hardcopy	9,402	4.9%	9,260	5.0%
Others	4,818	2.5%	4,652	2.5%
Total	191,606	100.0%	183,465	100.0%

Sales by region	2003		2002	
	CHF (000)	%	CHF (000)	%
Germany	101,766	53.1%	95,374	52.0%
Switzerland	11,886	6.2%	11,128	6.1%
Rest of Europe	41,011	21.4%	36,814	20.1%
Total Europe	154,663	80.7%	143,316	78.2%
USA / Canada	3,458	1.8%	3,366	1.8%
Latin-America	23,895	12.5%	28,356	15.4%
Other countries	9,590	5.0%	8,427	4.6%
Total	191,606	100.0%	183,465	100.0%

16. Other operating income

CHF (000)	2003	2002
Income from the release of provisions	12	389
Income from licenses	1,703	2,394
Exchange rate gains	786	455
Other	2,188	2,631
Total	4,689	5,869

17. Personnel expenses

CHF (000)	2003	2002
Salaries and wages	40,139	39,686
Social security contributions and other welfare expenses	9,770	8,845
Pension contributions	1,220	1,127
Total	51,129	49,658

The headcount as well as the changes in the number of employees are shown on page 7. Pension expenses for retired employees are shown separately below the result before non-operating and extraordinary items. Personnel expenses for the year 2003 include an allocation of CHF 0,7 million (prior year CHF 1,4 million) to the early retirement provision related to the German companies.

18. Depreciation and amortization

Depreciation on tangible and amortization on intangible assets amounted to CHF 6,5 million (prior year CHF 6,2 million). No impairment charges were required in the years 2003 and in 2002.

19. Other operating expenses

CHF (000)	2003	2002
Occupancy costs	5,237	6,010
Outwards freight, packaging	3,729	3,390
Energy, other operating expenses	2,277	2,665
Licenses and commissions	2,314	1,966
External costs for logistics, administration, sales	11,630	10,092
Sales promotion	9,017	9,137
Travel expenses	1,973	1,899
Communication, EDP	1,161	1,178
Administration costs	5,357	5,428
Losses on disposal of fixed assets	63	93
Provision for doubtful debts	475	1,012
Other	1,343	3,499
Total	44,576	46,369

“External costs for logistics, administration and sales” relate to distribution expenses in the joint-venture company with Henkel Greece and also include the external logistic expenses in Hanover.

20. Result from unconsolidated companies

The proportionate share in the 2003 results of the investments accounted for under the equity method amounted to a net profit of CHF 2,1 million (prior year CHF 0,7 million).

21. Interest and similar income

CHF (000)	2003	2002
Interest income		
- third parties	306	453
- main shareholder	423	650
Total	729	1,103

22. Interest and similar expenses

CHF (000)	2003	2002
Interest expense third parties	621	353
Monetary correction due to inflation	348	629
Total	969	982

23. Expenses for pensioners

The pension expenses for retired employees amounted to CHF 5,5 million compared to CHF 6,8 million in prior year. These expenses relate mainly to pensioners in Germany.

24. Taxes

CHF (000)	2003	2002
Expense (-) / income from current taxes	-1,852	399
Expense (-) / income from deferred taxes	1,719	-1,039
Total	-133	-640

Tax expense comprises the income and capital taxes of the current business year and tax adjustments in respect of prior years. Non-recoverable withholding taxes on distributions by group companies are also included under this heading.

Tax expense from current taxes of 2002 has been reduced by a release of a provision of CHF 1,9 million due to a favorable outcome of a tax litigation settled in 2002.

25. Other financial commitments

The following commitments existed from rental and leasing contracts:

CHF (000) at nominal values	2003	2002
Leasing and rent commitments		
- due next year	3,318	3,598
- due within 2 - 5 years	10,721	12,038
- due after 5 years	5,965	9,165
Total	20,004	24,801

The rental periods for land and buildings extend up to the year 2013.

No material capital commitments existed at December 31, 2003.

26. Remuneration of/advances to the Board of Directors

The Board of Directors of Pelikan Holding AG received for its function as such (without executive functions) a fee of CHF 0,2 million (prior year less than CHF 0,1 million). No advances or credits were granted to the members of the Board of Directors. Loans to the company related to the President of the Board of Directors are disclosed in Note 7. There are no pension commitments in respect of current or former members of the Board of Directors of Pelikan Holding AG.

27. Contingent liabilities/Guarantees

CHF (000)	2003	2002
Discounted bills	897	1,253
Total	897	1,253

Pelikan Holding AG guaranteed a maximum amount of TEUR 850 to the bank of Faber-Castell Pelikan Austria GmbH for the loan facility granted by the bank to this company. As of December 31, 2003 no loans were taken up under this facility.

Pelikan Holding AG, Pelikan GmbH und Pelikan PBS-Produktionsgesellschaft mbH & Co. KG jointly guaranteed the financing company of a subsidiary up to maximum EUR 10 million.

28. Foreign exchange contracts

As of December 31, 2002 open foreign exchange contracts amounted to CHF 0,3 million with maturities between January 8 – 17, 2003. The fair value of these foreign exchange contracts as of December 31, 2002 were CHF 0,3 million. As of December 31, 2003 there were none.

29. Related party transactions

Besides the transactions with related parties which are separately disclosed in the Notes there are the following transactions to be reported:

CHF (000)	2003	2002
Expenses		
Guarantee commission	284	-
Management fees/Personnel expenses	370	-
Consulting fees/Infrastructure expenses	-	1,326
Other expenses	19	20
Income		
License fees and commissions	457	617
Other income	72	-

The guarantee commission as well as “Management Fees/Personnel expenses” were paid to the main shareholder. In 2002 the main shareholder waived its right for this commission.

“Consulting fees/Infrastructure expenses” relate to payments made during the year 2002 to the company related to Mr. Benno Zehnder who left the Board of Directors in 2002. Since he is no longer a Board Member in 2003, payments to the company related to him are no longer reported as related party transactions.

GROUP AND ASSOCIATED COMPANIES

as at December 31, 2003

Country and location	Name	Capital Stock in 1000	Group Holding in %	thereof directly held by Pelikan Holding AG in %	Consolidation	Operation
EUROPE						
Austria						
Brunn	Pelikan Austria GmbH	EUR 872	100	100	C	H
Brunn	Faber-Castell Pelikan Austria GmbH	EUR 1,500	50		E	D
Germany						
Hanover	Kreuzer Produktion + Vertrieb GmbH	EUR 26	100		C	O
Hanover	Pelikan GmbH	EUR 7,669	100		C	S
Hanover	Pelikan PBS-Produktion Verwaltungs-GmbH	EUR 26	100	100	C	O
Hanover	Pelikan PBS-Produktionsgesellschaft mbH & Co. KG	EUR 1,100	100	100	C	P
Hanover	Pelikan Vertrieb Verwaltungs-GmbH	EUR 26	100	100	C	O
Hanover	Pelikan Vertriebsgesellschaft mbH & Co. KG	EUR 2,100	100	100	C	D
Hanover	Pelikan Verwaltungs-GmbH	EUR 95	100		C	O
Hanover	QUADRIGA plus GmbH	EUR 1,000	25		E	O
Greece						
Markopoulo-Attica	Pelikan Hellas E.P.E.	EUR 442	100	95	C	D
Markopoulo-Attica	Henkel-Pelikan Office Products Ltd.	EUR 60	49		E	D
Italy						
Milan	Pelikan Italia S.p.a.	EUR 1,560	100		C	D
Netherlands						
Rotterdam	G. Wagner Pelikan Maatschappij B.V.	EUR 18,151	100	100	C	H
Spain						
Barcelona	Pelikan S.A.	EUR 601	100		C	D
Switzerland						
Feusisberg	Pelikan Faber-Castell (Schweiz) AG	CHF 500	75	75	C	D
Freiburg	Günther Wagner SA	CHF 100	100	100	C	O

Country and location	Name	Capital Stock in 1000	Group Holding in %	thereof directly held by Pelikan Holding AG in %	Consolidation	Operation
USA						
Nashville, TN	Pelikan, Inc.	USD 7,633	100	100	C	O
LATIN-AMERICA						
Argentina						
Buenos Aires	Pelikan Argentina S.A.	ARS 2,864	45	45	E	P/D
Colombia						
Santafé de Bogotá	Indistri S.A.	COP 3,800,000	20	20	E	P/D
Mexico						
Puebla	Productos Pelikan S.A. de C.V.	MXP 14,570	49	49	C	P/D
Peru						
Lima	Carbolan S.A.	PEN 20,807	11	11	A	P/D
Venezuela						
Caracas	Artof C.A.	VEB 50,020	35	25	E	O
OTHER COUNTRIES						
Australia						
Milperra	Columbia Pelikan PTY Limited	AUD 2,659	40	40	E	P/D
Japan						
Tokyo	Pelikan Japan K.K.	JPY 200,000	25	25	E	D

Consolidation:

C = Fully consolidated
E = Equity Accounting
A = At cost

Operation:

P = Production companies
D = Distribution companies
S = Service-, Real estate-companies
H = Holding companies
O = Companies without operational activity

REPORT OF THE GROUP AUDITORS

to the General Meeting

As auditors of the group, we have audited the accompanying consolidated financial statements (consolidated balance sheet, consolidated profit and loss account, consolidated statement of cash flows and notes set out on pages 28 to 45) of Pelikan Holding AG for the year ended December 31, 2003.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession as well as International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, with the following qualification, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law:

The shareholder's loan of CHF 18,2 million is stated at its nominal value. Subsequent to the balance sheet date, the main shareholder has made repayments totaling CHF 3,6 million. Based on the documentary evidence available to us, we are not in a position to ultimately assess the collectibility of the remaining amount of CHF 14,6 million; the value of the pledges received as partial security; and the value of an investment to be contributed in accordance with a signed agreement with the main shareholder.

Despite this qualification, we recommend that the consolidated financial statements submitted to you be approved since the valuations of the pledges estimated by management at CHF 7,8 million and the investment to be contributed estimated by management at CHF 4,8 million do not appear unreasonable and the ability of the main shareholder to repay the balance on the loan account does not appear to be impossible.

Zurich, May 26, 2004

Ernst & Young Ltd

Beat Röthlisberger
Swiss Certified Accountant
(in charge of the audit)

Willy Hofstetter
Swiss Certified Accountant



**Pelikan Holding AG, Baar
Financial Statements
2003**



B BALANCE SHEET

as at December 31, 2003

Assets	Note	Dec. 31, 2003 CHF (000)		Dec. 31, 2002 CHF (000)	
Fixed assets					
Investments	1	51,000		675	
Loans receivable from associated companies	2	4,448	55,448	110,945	111,620
Current assets					
Other receivables					
- third parties		10		688	
- associated companies		614		26	
- parent company	3	18,239		19,063	
Bank		2,315	21,178	3,358	23,135
Total assets			76,626		134,755
Equity and liabilities					
Shareholders' equity					
Capital stock	4	100,100		100,100	
Legal reserve		1,166		609	
Revaluation reserve		12,286		-	
Retained earnings		2,709		1,540	
Net result for the year		-63,190	53,071	1,231	103,480
Short-term liabilities					
Loans payable to associated companies	5	17,485		22,123	
Other liabilities to third parties		177		172	
Tax provisions		13		50	
Other provisions		120	17,795	170	22,515
Deferred income	6		5,760		8,760
Total liabilities and shareholders' equity			76,626		134,755
Contingent liabilities	10		16,925		

P ROFIT AND LOSS ACCOUNT

for 2003

	Note	2003 CHF (000)		2002 CHF (000)	
Income from investments		1,951		2,990	
Other income		21	1,972	86	3,076
Administration expenses		-1,987		-2,635	
Exchange differences		-224	-2,211	-713	-3,348
Interest income		648		854	
Interest expense		-540	108	-697	157
Extraordinary income	7	59,096		9,228	
Extraordinary expenses	8	-122,215	-63,119	-7,932	1,296
Result before taxation			-63,250		1,181
Taxes			60		50
Net result for the year			-63,190		1,231

NOTES TO THE FINANCIAL STATEMENTS**2003****1. Investments**

The investments of Pelikan Holding AG are shown in the list of group companies on pages 44 to 45. In 2003 8,3% of the Swiss distribution company was sold to Faber-Castell. In addition Faber-Castell has an option to acquire another 15% until 2007. In 2003 Pelikan International Corporation was merged retroactively as of January 1 into Pelikan Holding AG.

Value adjustments on investments recorded in prior years in the amount of nominal CHF 106,0 million. In order to eliminate the undercapitalisation resulting from the write-off of the guarantee on the long-term loans, a revaluation of the investments of CHF 12,3 million exceeding the acquisition costs was booked in accordance with the Swiss Code of Obligations (SCO) article 670. This revaluation, based on a valuation report prepared by an independent third party, was credited to income. Simultaneously a revaluation reserve in the same amount was created through a charge to income.

2. Long-term loans receivable from associated companies

This position includes guaranteed loans receivable from two German Pelikan companies of nominal CHF 106,0 million. Pelikan Holding AG has given waivers of claim with debt warrants on these receivables. Pelikan Holding AG can re-activate its claims when the German Pelikan companies report profits. The carrying value of the loans is dependent among other things upon the future operating results of the German companies. Should the German companies irrefutably be unable to repay the loans, the main shareholder has guaranteed to make good any loss. The guarantee is not secured. During 2003, the guarantee by the main shareholder on the loans was written off since the guarantor could not fully prove his ability to honour the guarantee at any time in the full amount.

The other loans receivable are stated at their nominal value less any necessary valuation adjustments.

3. Other receivables from parent company

The receivables from the parent company decreased during 2003 from CHF 19,1 million to 18,2 million and are partially secured by assets in Japan, Malaysia and Singapore.

4. Equity

CHF (000)	Capital stock	Legal reserve	Revaluation reserve	Retained earnings	Total equity
Balance January 1, 2002	100,100	528		1,622	102,250
Allocation to legal reserve		81		-81	-
Result 2002				1,230	1,230
Balance December 31, 2002	100,100	609		2,771	103,480
Allocation to legal reserve		62		-62	-
Allocation to revaluation reserve			12,286		12,286
Merger Pelikan Int. Corporation		495			495
Result 2003				-63,190	-63,190
Balance December 31, 2003	100,100	1,166	12,286	-60,481	53,071

The share capital amounts to CHF 100,1 million comprising the following shares:

- 539'000 Registered shares of nominal CHF 65
- 1'001'000 Bearer shares of nominal CHF 65

The revaluation reserve relates to the revaluation of the investments that exceeds the original acquisition costs. This reserve cannot be used for dividend distributions. It can only be utilised by conversion into share capital, depreciation of the revalued assets or on the sale of the revalued assets.

5. Loans payable to associated companies

At the end of 2003 the loans payable to associated companies include mainly the liabilities to Pelikan GmbH, Hanover, Germany, in the amount of CHF 15,3 million (prior year CHF 19.1 million).

6. Deferred income

In 1998 a considerable profit on disposal resulted from an intercompany sale of the investment in Pelikan GmbH which has been partially deferred. In 2003 CHF 3,0 million (prior year CHF 3,0 million) are regarded as realized and have been credited to the profit and loss account.

7. Extraordinary income

The extraordinary income includes:

CHF (000)	2003	2002
Release provisions for investments and profit from sale of investments	39,364	525
Revaluation of investments exceeding acquisition value	12,286	
Release provision for tax case of a subsidiary		1,910
Service of debt warrants granted in prior years	4,446	3,124
Release value adjustment for loans to related companies		667
Partial release of deferred income from intercompany sale of an investment	3,000	3,000
Other income		2
Total	59,096	9,228

The income from “release provisions for investments” and “revaluation of investments exceeding acquisition value” are explained in Note 1. The “profit from sale of investments” arose from the sale of shares in Pelikan Faber-Castell (Schweiz) AG.

8. Extraordinary expenses

CHF (000)	2003	2002
Value adjustment for loan to subsidiary		448
Value adjustment for loan with debt warrant to subsidiary	3,978	7,484
Value adjustment for loans with debt warrant to subsidiaries guaranteed by main shareholder	105,951	
Allocation to revaluation reserve	12,286	
Total	122,215	7,932

During the year under review a value adjustment on the loans guaranteed by the main shareholder was recorded as disclosed in Note 2.

According to SCO article 670, a revaluation reserve was created in an amount equal to the “income from revalued investments exceeding acquisition value” (See Note 1).

9. Parent company

As of December 31, 2003 Pelikan Holding Sdn. Bhd. in Selangor Darul Ehsan, Malaysia, held 64,9 % of the shares of Pelikan Holding AG.

10. Contingent liabilities/Guarantees

Pelikan Holding AG guaranteed a maximum amount of TEUR 850 to the bank of Faber-Castell Pelikan Austria GmbH for the loan facility granted by the bank to this company. As of December 31, 2003 no loans were taken up under this facility.

Pelikan Holding AG, Pelikan GmbH und Pelikan PBS-Produktionsgesellschaft mbH & Co. KG jointly guaranteed the obligations of a subsidiary related to assignment of receivables for financing purposes up to maximum of EUR 10 million.

P **ROPOSAL OF THE BOARD OF DIRECTORS
FOR THE TREATMENT OF THE
ACCUMULATED DEFICIT**

as at December 31, 2003

CHF (000)	2003	2002
Retained earnings at January 1	2,709	1,540
Net result for the year	-63,190	1,231
Accumulated deficit /available earnings	-60,481	2,771
Allocation to the legal reserve		-62
Accumulated deficit/retained earnings to be carried forward	-60,481	2,709

R EPORT OF THE STATUTORY AUDITORS to the General Meeting

As statutory auditors, we have audited the accounting records and the accompanying financial statements (balance sheet, profit and loss account and notes set out on pages 48 to 51) of Pelikan Holding AG for the year ended December 31, 2003.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, with the following qualification, the accounting records and financial statements comply with Swiss law and the company's articles of incorporation:

The shareholder's loan of CHF 18,2 million is stated at its nominal value. Subsequent to the balance sheet date, the main shareholder has made repayments totaling CHF 3,6 million. Based on the documentary evidence available to us, we are not in a position to ultimately assess the collectibility of the remaining amount of CHF 14,6 million; the value of the pledges received as partial security; and the value of an investment to be contributed in accordance with a signed agreement with the main shareholder.

Despite this qualification, we recommend that the financial statements submitted to you be approved since the valuations of the pledges estimated by management at CHF 7,8 million and the investment to be contributed estimated by management at CHF 4,8 million do not appear unreasonable and the ability of the main shareholder to repay the balance on the loan account does not appear to be impossible.

We draw your attention to the fact that any valuation adjustment that might ultimately require to be made on the shareholder's loan could result in the loss of one half of the company's share capital and legal reserves and, in such circumstances, the provisions of Art. 725 (1) of the Swiss Code of Obligations should be observed.

Further, we confirm that the legal requirements in respect of the CHF 12,3 million revaluation of the investments in accordance with Art. 670 para. 1 of the Swiss Code of Obligations to eliminate the under-capitalization have been complied with.

Zurich, May 26, 2004

Ernst & Young Ltd

Beat Röthlisberger
Swiss Certified Accountant
(in charge of the audit)

Willy Hofstetter
Swiss Certified Accountant

I INSTITUTIONS / MANAGEMENT

as at December 31, 2003

Board of Directors

Loo Hooi Keat

President

Selangor Darul Ehsan/Malaysia

Markus Kündig

Vice President

Zug/Switzerland

Mirzan bin Mahathir

Member

Selangor Darul Ehsan/Malaysia

Secretary of the Board of Directors

Dr. Rico Jenny

Zurich/Switzerland

Auditors

Ernst & Young Ltd.

Zurich/Switzerland

Management

Loo Hooi Keat

Selangor Darul Ehsan/Malaysia

Sönke Boysen

Hanover/Germany

EUROPE

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