



**PELIKAN HOLDING AG**

**2010 ANNUAL REPORT**

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## REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

In 2010, the global economic crisis continued to affect the Group's global business performance, in particular our operations in Europe. The financial crisis which resulted in a slump in overall consumer spending and demand, posed a challenge for Pelikan as the Group faced a decline in sales. Sales were also affected by the termination of distribution agreements with Henkel and Faber-Castell for the distribution of their products in certain countries in Europe, in line with the Group's strategy to concentrate on our own brands. The strengthening of Swiss Franc ("CHF") against the Group's major trade currencies such as Euro and United States Dollar ("USD") has resulted in lower translation of revenues into the reporting currency. The Group's sales of CHF 272.7 million were 13% lower than that of 2009 and finally resulting in a consolidated net loss of CHF 10.7 million for the financial year ended 31 December 2010 as a direct impact of these factors. On the positive note, the Group recorded better performances outside of Europe particularly in the Latin America region where we have achieved double digit growths and greater market share in 2010.

In March 2010, our parent company, Pelikan International Corporation Berhad completed the acquisition of Herlitz AG Group ("Herlitz Group") and related assets, as in especially the Falkensee Logistics Centre. With the completion of this acquisition, the Group together with our parent company have started projects to deliver synergies and common cost savings. One of the projects was the integration of our German logistic operations into Falkensee Logistics Centre, completed in third quarter of 2010.

The Group also maintains its commitment to innovation by continuous investments in research and development ("R&D"). The management strongly believes that high innovation rate is vital for the brand and existence of Pelikan, and the Group has proudly introduced new products in 2010 to maintain market share and take leadership.

The Group had undergone a project to change its 'Pelikan' logo on our fine writing instruments to metal logo during the year. Together with the strategic partnership with Porsche Design for the manufacturing and distribution of Porsche Design writing instruments commenced in early 2011, this shall contribute positively to the sales of Fine Writing Instruments.

The development of writing instrument 'M205 Duo Highlighter' had won the ISPA award for "Innovation Product of the Year" and iF Product Design Award 2011 for its design and the idea of equipping a fountain pen with additional function of a text marker. This as well as other achievements of our R&D in 2010 will positively contribute to the sales of the Group in 2011.

However, with the ongoing economic crisis in most of the European countries as well as the natural disasters and political shakeouts that happened around the world, the Group does not expect significant improvement in turnover in 2011. Nevertheless, the Group will constantly develop innovative products to increase the market share in the existing stationery market by continuous investments in R&D.

Cost control and profitability remain the key focus in 2011 and the Group expects more cost savings resulting from the synergies and common cost savings between Pelikan and Herlitz Group which the parent company has been coordinating.

The Board would like to thank the management and employees for their unwavering commitment and efforts during the challenging year. Peter Rajmann will leave the Board in the forthcoming shareholders' meeting and we thank him for his contribution over the past 20 years. The Board would also like to express thanks to all our shareholders, investors, business partners and associates for their continuous support and encouragement.

On behalf of the Board of Directors

Loo Hooi Keat  
28 April 2011

| <b>KEY FIGURES</b><br><b>Pelikan Group</b> | <b>Figures in CHF million</b> |             |             |             |             |
|--|-------------------------------|-------------|-------------|-------------|-------------|
|  | <b>2010</b>                   | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
| Net sales                                  | 272.7                         | 313.1       | 330.1       | 282.2       | 211.3       |
| Operating results                          | (7.2)                         | (2.9)       | (1.8)       | 9.1         | 12.6        |
| (Loss)/profit before taxation              | (6.1)                         | (4.6)       | (2.8)       | 8.6         | 14.1        |
| Net (loss)/profit                          | (10.7)                        | (8.4)       | (7.2)       | 6.0         | 18.9        |
| Non-current assets                         | 69.6                          | 90.2        | 87.5        | 106.9       | 74.9        |
| Total equity excluding minorities          | (2.7)                         | 7.9         | 15.8        | 31.5        | 29.1        |
| Provisions for pensions                    | 60.6                          | 75.9        | 79.0        | 91.3        | 93.1        |
| Balance sheet total                        | 203.2                         | 240.7       | 241.6       | 278.3       | 203.8       |
| Share of the balance sheet total in %      |                               |             |             |             |             |
| Non-current assets                         | 34.3%                         | 37.5%       | 36.2%       | 38.4%       | 36.7%       |
| Total equity excluding minorities          | (1.3%)                        | 3.3%        | 6.5%        | 11.3%       | 14.3%       |
| Provisions for pensions                    | 29.8%                         | 31.5%       | 32.7%       | 32.8%       | 45.7%       |
| Tangible and intangible assets             |                               |             |             |             |             |
| Investments                                | 3.7                           | 6.6         | 6.6         | 8.9         | 8.9         |
| Depreciation and amortization              | 11.1                          | 12.2        | 12.7        | 10.1        | 5.2         |
| Number of employees                        | 1,384                         | 1,345       | 1,221       | 1,236       | 979         |
| Personnel expenses                         | 72.6                          | 78.6        | 78.0        | 69.2        | 60.2        |
| <b>Pelikan Holding AG</b>                  |                               |             |             |             |             |
| Result for the year                        | 3.5                           | (7.4)       | (1.6)       | (1.5)       | 3.5         |
| Dividend                                   | -                             | -           | -           | -           | -           |
| Shareholders' equity                       | 54.3                          | 50.8        | 58.2        | 59.8        | 61.3        |
| <b>Key figures per share</b>               |                               |             |             |             |             |
| Data per bearer share in CHF               |                               |             |             |             |             |
| Nominal value each CHF65                   |                               |             |             |             |             |
| Earnings per share                         | (8.6)                         | (6.6)       | (6.5)       | 2.3         | 11.2        |
| Dividend per share in %                    | -                             | -           | -           | -           | -           |
| Share prices                               |                               |             |             |             |             |
| Highest                                    | 65                            | 88          | 182         | 212         | 106         |
| Lowest                                     | 40                            | 43          | 65          | 115         | 69          |

## PELIKAN GROUP

### MANAGEMENT REPORT

#### Business in 2010

The Group's sales for 2010 had fallen to CHF 272.7 million (2009: CHF 313.1 million). This is a direct result of economic downturn since 2008 but also influenced by the strategic decision to concentrate on own brands and to end distribution cooperations with Faber-Castell and Henkel. The lower gross margin as a result of the reduced sales volume could not be totally compensated by cost reductions. As a result, the Group generated an operating loss of CHF 7.2 million (2009: loss of CHF 2.9 million) and the consolidated net result for the year was a loss of CHF 10.7 million (2009: loss of CHF 8.4 million).

#### Important contracts

A long-term agreement concerning the distribution of gluing and correcting products under the Henkel brand "Pritt" in Germany, Austria and Switzerland was terminated to end of September 2009.

In addition, distribution cooperation with Faber-Castell in Belgium and Poland ended on 31 March 2010.

A strategic partnership with PORSCHE DESIGN effective from January 2011 has been established.

An agreement on logistic services to be rendered out of Falkensee Logistics Centre has been concluded with eCom Logistik GmbH & Co. KG.

#### Sales

| <b>Sales by region</b> |       |
|------------------------|-------|
| Germany                | 46.1% |
| Italy                  | 6.5%  |
| Switzerland            | 3.2%  |
| Rest of Europe         | 17.2% |
| Latin-America          | 20.9% |
| Other countries        | 6.1%  |

In 2010, the Group faced a challenging time with downturn in the economy particularly in our major European markets, including our major market Germany, going along with declining sales. A better performance was seen outside Europe, particularly in our Latin America region whereby a growth in turnover of 19% was registered. As a result, the contributions of sales from the European markets to Group sales decreased to 73% from 80% in 2009.

## Results

| In million CHF       | 2010         | 2009         |
|----------------------|--------------|--------------|
| Loss before taxation | <u>(6.1)</u> | <u>(4.6)</u> |

Operating results of Pelikan Group in 2010 indicated a loss of CHF 7.2 million (2009: loss of CHF 2.9 million). The result from associated companies in Australia and Japan showed an after tax profit of CHF 3.0 million (2009: CHF 1.4 million). Included in operating results are expenses for pensioners amounting to CHF 4.2 million (2009: CHF 5.3 million) and impairment of intangible and tangible assets of CHF 3.4 million (2009: Nil). Pelikan Group incurred a net interest expense of CHF 3.3 million (2009: CHF 4.3 million). Tax expenses amounted to CHF 4.6 million (2009: CHF 3.8 million). The net loss for the year amounted to CHF 10.7 million (2009: CHF 8.4 million).

At Pelikan Holding AG company level, the financial statements showed a net profit of CHF 3.5 million for the year (2009: net loss CHF 7.4 million).

## Personnel

The Group's employees increased in 2010 mainly due to recruitments especially in Latin America to cater for increasing performance in this region.

| Personnel       | 31 Dec. 2010 | 31 Dec. 2009 | 31 Dec. 2008 |
|-----------------|--------------|--------------|--------------|
| Germany         | 471          | 483          | 493          |
| Switzerland     | 16           | 16           | 26           |
| Italy           | 40           | 41           | 39           |
| Rest of Europe  | 86           | 97           | 149          |
| Total Europe    | <u>613</u>   | <u>637</u>   | <u>707</u>   |
| Latin-America   | 724          | 657          | 448          |
| Other countries | 47           | 51           | 66           |
| Total Group     | <u>1,384</u> | <u>1,345</u> | <u>1,221</u> |

## Investments in fixed assets

Investments in fixed assets during the year amounted to CHF 3.3 million (2009: CHF 5.6 million). Major investments were made in Germany for, among others, the following projects:

- Tooling and equipment for new production lines for:
  - a) Higher priced writing instruments:
    - Porsche Design (Slim Line, Pure Black, Pure Titanium)
    - Limited Edition "Fire"
    - Limited Edition M100 1937 marbled brown
    - Change to metal logo
    - Edelstein Ink Collection
  - b) School – writing: Pelikano Mechanical Pencil (tools)
- Other new equipment for production included injection moulding machine and restructuring of production hall.

## **Quality Management**

Pelikan's Hanover operation as well as Pelikan's operation in Mexico have obtained ISO 9001:2000 certification and a new ISO 14001:2004 certification awarded by SGS Société Générale de Surveillance SA, Zurich/Switzerland in 2008. These certifications and its frequent audits confirm that an efficient and well documented Quality Management System is being implemented to ensure reliability and business processes of the highest quality and that the certified entities are environmental friendly companies with a certified environmental management system.

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

## **Research and development**

In 2010, CHF 3.3 million (2009: CHF 4.1 million) were mainly incurred for the following research and development projects:

- Development of Special Edition "Eternal Ice"
- Development of Special Edition "Souverän M800 blue o' blue"
- Development of Limited Edition "Fire"
- Development of change to metal logo
- Development of highlighter with fountain pen "M205 Duo"
- Development of "Edelstein Ink Collection"
- Development of "Porsche Design P'3125 Slim Line" series
- Development of fountain pen "Porsche Design P'3105 Pure Black" and "Pure Titanium"
- Development of school "Pelikano Mechanical Pencil"
- Development of new motifs for the ink eradicator

## **Risks of future development**

Pelikan Group offers an extensive assortment of products worldwide for the high-end market, school and hobby, as well as office supplies and printer consumables. 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 controls 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.



## **Risk management policy and framework**

The enterprise risk management policy of Pelikan Group is to identify, measure and control risks that may prevent the Group from achieving its business objectives. Pelikan Group seeks to apply risk management in all parts of its business to ensure risks are minimized and opportunities are explored.

Risk management practices have been inherent in the way management has conducted business. The practice, values and culture that have endured to the present day have always exercised profound effect on management's conduct. The Board of Directors has always regarded risk management as an integral part of this conduct.

The 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; and
- Regular visits to operating units by members of the Board and senior management.

## **Internal control**

The Group's approach to internal control is based on the underlying principle of line management's accountability for risk and control management. The Group adopts the risk-based approach towards internal control and that the management in the Group is responsible for implementing, operating and monitoring the system of internal controls, which is designed to provide reasonable but not absolute assurance of achieving business objectives.

For the first time for the financial year 2008 Pelikan Holding AG has implemented an Internal Control System in accordance with Swiss Code of Obligations on Group level in the form of the Enterprise Risk Management System (ERM) of Pelikan International Corporation Berhad. The procedures described in this Internal Control System have been applied and constantly reviewed by the Board of Directors for the financial year 2010 on Group and selected major subsidiaries level.

## **Risk management and internal audit function**

The Pelikan Group has an internal audit function that assists the Board of Directors in providing an independent assurance on risk management and internal controls. The audit focuses on regular and systematic review of the internal controls and management information systems. The scopes of the internal audit function cover the audit of the adequacy of risk management, operational controls, compliance with established procedures, guidelines and statutory requirements of the Group.

## **Outlook**

In March 2010, the Group's parent company, Pelikan International Corporation Berhad completed the acquisition of Herlitz AG Group ("Herlitz Group") and related assets as in especially the Falkensee Logistics Centre. With the completion of this acquisition, the parent company is currently concentrating on post merger efforts to deliver synergies and common cost savings from the combined business.

Although economic activities in some countries in Europe have shown recovery, the recovery has not been strong enough to make major inroads into high unemployment and spare capacity. The World Bank has forecasted global growth to be weakened somewhat in 2011, expected to pick up in 2012. In view of the economic outlook, the Group does not expect significant improvement in turnover in 2011. Profitability remains the key focus in 2011, mainly resulting from the synergies and common cost savings between Pelikan and Herlitz groups which the Group's parent company is coordinating. Some projects like the logistics in Germany have been completed, some projects are on-going and further projects will be defined. Barring any unforeseen circumstances, these efforts are expected to bring about greater growth and prospects.

Furthermore, the Group is still striving to explore into new markets in order to expand sales and profitability of the Group. Albeit most of the European economies are still in recession, any turnaround will positively contribute to the improvement of the Group's turnover.

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 GROUP***

### **CORPORATE GOVERNANCE**

Pelikan Holding AG (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 SIX Swiss Exchange.

#### **Group structure**

Pelikan Holding AG Group is organized into four geographical units: Europe, Americas, Middle East/Africa/India and South East Asia/China/Taiwan/Japan/Korea. These units are supported by four centralized functions of: Procurement, Brand Management, Production and Research & Development (R&D) and Group Corporate Services.

The subsidiaries and associated companies are not listed on a stock exchange and are disclosed on pages 43 to 44 of the Group’s consolidated financial statements.

#### **Capital structure**

As at 31 December 2010, 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 the share capital since 1997.

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

There are no cross-shareholdings.

The bearer shares of Pelikan Holding AG, Feusisberg, Switzerland are listed on the SIX Swiss Exchange on the Domestic Standard with security no. 632875. The market capitalization of the listed shares amounted to CHF 50.0 million as at 31 December 2010.

#### **Share ownership / Significant shareholders**

Pelikan International Corporation Berhad, a company listed in Bursa Malaysia Securities Berhad (the Malaysia Stock Exchange) (“Bursa Malaysia”) has a direct and indirect holding of 1,445,981 (93.89%) and 40,000 (2.60%) in Pelikan Holding AG shares. Due to the pledge of some of the shares with transfer of the voting rights to certain Malaysian banks for financing purposes, the percentage of voting rights of Pelikan International Corporation Berhad by 31 December 2010 is 51.69%. The voting rights percentage of HSBC Bank Malaysia Berhad is 16.23%, the voting rights percentage of CIMB Bank Malaysia Berhad equals to 12.99% and OCBC Bank Malaysia Berhad and Overseas Chinese Banking Corporation Limited Malaysia (as a Group) holds 12.99% of the voting rights by 31 December 2010 due to the pledge of shares as mentioned above.

## **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 ("CO").

## **Legitimacy of shareholders**

For each share, the Company accepts only one beneficiary: for bearer shares by legitimation through the possession of the titles and for registered shares, the legitimacy of shareholders is determined by the names as per the register of shares.

## **Transfers of registered shares**

The transfers of registered shares require in each case 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 can refuse the transfer of registered shares of the Company without explanation when the Board is prepared to buy these shares at their actual value for the account of the Company (up to a maximum of 20 % of the share capital) or for other shareholders or third parties at the time of application for registration into the share register. Further, the Board of Directors can refuse the registration in the share register without any obligation to buy these shares, if (i) a purchaser would directly or indirectly hold 5% of all registered shares, (ii) such registration would impede the company to comply with legal requirements of Swiss law, (iii) the purchaser is directly or indirectly in competition with the company, (iv) the purchaser does not declare to hold these shares for its own name and for its own account.

## **Board of Directors**

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

The composition of the Board shall be no 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 nor a shareholder.

Elections and resolutions of the Board are passed by absolute majority of the votes casted by its elected members. In the case of a tie, the President casts the deciding vote.

The Board manages the Company and decides on all matters except those specifically specified by laws and the Articles of Association as falling into the competence of another body of the Company. The Board has the following non-transferable and inalienable duties:

- a) the ultimate management of the Company and the issuance of the necessary directives;
- b) the establishment of the organization;
- c) the structure of the accounting system, financial planning and controls;
- d) the appointment and removal of the management team and proxies;
- 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 the business report, organization of the General Shareholders' Meeting and implementation of shareholders' resolutions; and
- g) the notification to the judge in case of insolvency.

## Board of Directors (Contd.)

The Board issued the Organizational Regulations of the Company on 22 September 1997. The Organizational Regulations set out the duties and the responsibilities of the Company's governing bodies, which are comprised of: 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). The Board actually convened twice in 2010.

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 show the business development including budget-actual comparisons. The Board also attends meetings and conferences with the Group Management to discuss about the group's business and strategic directions. Ad hoc meetings were also held by Advisers of certain subsidiaries to brief the Board on certain ongoing projects.

## Members of the Board

Members of the Board as of 31 December 2010:

| Name           | Age | Function       | Nationality | Since | Elected until |
|----------------|-----|----------------|-------------|-------|---------------|
| Loo Hooi Keat  | 56  | President      | Malaysia    | 1997  | AGM 2011      |
| Ng Cheong Seng | 39  | Vice President | Malaysia    | 2008  | AGM 2011      |
| Peter Raijmann | 51  | Member         | Netherlands | 2008  | AGM 2011      |

(AGM = Annual General Meeting)

Secretary of the Board is Frauke Wandrey, Hanover.

The Members of the Board are elected by the general meeting all together if no individual election is requested by the majority of the shareholders in the general meeting (simple majority of the present votes). The Board of Directors will be (re)elected each year.

## 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 President of the Board of Directors and Chief Executive Officer of the Group since 1997. He received his training in accountancy from a reputable international accounting firm in Malaysia where he obtained his Certified Public Accountant accreditation. Since then, he has gained over 30 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. Loo Hooi Keat is presently the President/Chief Executive Officer of Pelikan International Corporation Berhad. Until 8 December 2010, he was also Executive Vice President and sat on the board of directors of Konsortium Logistik Berhad, a public company listed in the Bursa Malaysia. Since June 2010 he also acts as Supervisory Board Member of Herlitz AG and Herlitz PBS AG, Berlin.

### **Ng Cheong Seng, Malaysia**

Ng Cheong Seng joined Pelikan Holding AG as Vice President of Corporate Planning in 2003. He is a member of The Association of Chartered Certified Accountants (“ACCA”) and Institute of Chartered Accountants in England and Wales (“ICAEW”), United Kingdom, and graduated from University of London with a Masters in Financial Management. He was previously employed under PricewaterhouseCoopers, Kuala Lumpur, as audit manager and joined a regional logistics company in Malaysia as Vice President of Business Management. He is now Head of Group Corporate Services. Ng Cheong Seng is a board member of Pelikan Asia Sdn Bhd, Malaysia and a board member of Pelikan Hardcopy Holding AG, Switzerland. He was appointed Head of Europe in July 2010 and is a managing director of Pelikan Vertriebsgesellschaft mbH & Co KG since 1 January 2011.

### **Peter Raijmann, Netherlands**

Peter Raijmann has a Bachelor in Business Administration. He joined Pelikan Group in 1991 as Group Controller for Europe. Before he joined Pelikan, he was an internal auditor in a food company in Netherlands. In 1996 he was appointed as Head of Controlling department in Hanover and in 2004 was appointed Head of Finance and Administration (Sales) in Europe. Since June 2010 he was in charge of IT and supporting the European sales subsidiaries outside Germany/Austria. Peter Raijmann was a managing director of Pelikan Vertriebsgesellschaft mbH & Co KG, Germany, Pelikan PBS-Produktionsgesellschaft mbH & Co KG, Germany, Pelikan GmbH, Germany since 2004 and member of the board of directors of several European subsidiaries of the Company. By best mutual agreement as of 18 April 2011 Peter Raijmann has resigned from his functions in the Pelikan Group. Hereof unaffected remains his function within the Board of Directors of Pelikan Holding AG which he will fulfil until the next Annual General Meeting (“AGM”) taking place on 8 June 2011. Peter Raijmann will not be proposed for re-election at the AGM.

### **Group Management**

| <u>Name</u>                       | <u>Age</u> | <u>Nationality</u> | <u>Function</u>                    |
|-----------------------------------|------------|--------------------|------------------------------------|
| Loo Seow Beng                     | 53         | Malaysia           | Head of Group Procurement          |
| Thorsten Lifka                    | 45         | Germany            | Head of Group Production and R&D   |
| Arno Alberty (until 30 June 2010) | 50         | Germany            | Head of Sales and Marketing Europe |
| Claudio Esteban Seleguan          | 49         | Argentina          | Head of Sales Americas             |

### **Loo Seow Beng**

Loo Seow Beng has a Bachelor of Science in Business. Previously, he worked with a large international audit firm. He joined Pelikan Singapore-Malaysia Pte. Ltd. in 1995 and was subsequently seconded to Pelikan Hanover, responsible for the coordination of sales in Asia and the rest of the world in early 2000s. He is presently in charge of international procurement.

### **Thorsten Lifka**

Thorsten Lifka joined Pelikan Hardcopy Production AG in 2006 as Managing Director. He graduated from a German university with a Diploma in Chemistry, and subsequently obtained a PhD in natural science. Prior to joining Pelikan, he spent 9 years in international management assignments in research and development and production operations of AGFA Gevaert Group in Germany, Brazil and China. He presently heads the production, R&D and industrial sales division of Pelikan global operations.

## Arno Alberty

Arno Alberty joined Pelikan Hardcopy in 2006 and after the reunification of stationery and hardcopy business, he was (until 30 June 2010) in charge of Sales & Marketing Europe as Executive Vice President. Before he joined Pelikan, he had worked for Henkel KGaA Consumer Adhesives, 3M Office Products and Saint Gobain. After completion of his training as a merchant in wholesale and foreign trade, he obtained several business educations.

## Claudio Esteban Seleguan

Claudio Esteban Seleguan has a Bachelor in Business Administration. He joined 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 CEO for Latin America, United States of America and Canada.

## Compensation, shareholdings and loans

During the financial year, there were no fixed nor variable board fees paid to any Board Members but however, remuneration to the Board Members is effected according to the rules set out for the Group management.

Like all employees of the Group, the members of the Group Management 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 labour market environment. Compensation based on individual contracts 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 by the President of the Board of Directors and the respective Member of the Group management, have been attained and is also linked to the financial results of the Group (earnings before interest and tax and turnover) for each preceding financial year. The President of the Board of Directors approves the compensation of the members of the Group Management and informs the Board of Directors during the Board Meetings. The variable component of pay to members of the Group Management amounted to between 0 and 36 percent of the fixed components.

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

### Remuneration of members of the Board of Directors in 2010

CHF (000)

|   | Salaries   | Bonus     | Compensation<br>for Board<br>committee<br>members | Pension, social<br>insurance fund<br>and benefits in<br>kind | Total<br>2010 | Total<br>2009 |
|---|------------|-----------|---|--|---------------|---------------|
| <b>Executive directors</b>                          |            |           |   |  |               |               |
| Loo Hooi Keat*                                      | -          | -         | -   | -  | -             | -             |
| Ng Cheong Seng**                                    | 114        | 26        | -   | 17   | 157           | 92            |
| Peter Raijmann                                      | 224        | -         | -   | 39   | 263           | 269           |
| <b>Total remuneration of<br/>Board of Directors</b> | <b>338</b> | <b>26</b> | <b>-</b>  | <b>56</b>  | <b>420</b>    | <b>361</b>    |

## Remuneration of the Executive Committee and Group Management in 2010

CHF (000)

|                                   | Salaries | Bonus | Compensation<br>for Board<br>committee<br>members | Pension, social<br>insurance fund<br>and benefits in<br>kind | Total<br>2010 | Total<br>2009 |
|-----------------------------------|----------|-------|---|--|---------------|---------------|
| <b>Chief Executive Officer</b>    |          |       |   |  |               |               |
| Loo Hooi Keat*                    | 427      | -     | -   | 93   | 520           | 449           |
| <b>Others</b>                     |          |       |   |  |               |               |
| Annual salaries                   |          |       |   |  | 803           | 919           |
| Bonus                             |          |       |   |  | 214           | 253           |
| Pension and social insurance fund |          |       |   |  | 84            | 96            |
| Benefits in kind                  |          |       |   |  | 52            | 55            |
| Severance payment#                |          |       |   |  | 158           | -             |
|                                   |          |       |   |  | <b>1,311</b>  | <b>1,323</b>  |

- \* Remuneration of Loo Hooi Keat was paid by the parent company, Pelikan International Corporation Berhad, in the capacity as Chief Executive Officer ("CEO") of Pelikan International Corporation Berhad Group (including Pelikan International Corporation Berhad's direct subsidiaries, Pelikan Holding AG Group and Pelikan Hardcopy Holding AG Group and Herlitz AG Group).
- The President and CEO, Loo Hooi Keat was the member of the Board of Directors and Group Management with the highest total remuneration for 2010.
- \*\* Remuneration of Ng Cheong Seng was paid by the parent company, Pelikan International Corporation Berhad, in the capacity as Head of Group Corporate Services of Pelikan International Corporation Berhad Group (including Pelikan International Corporation Berhad direct subsidiaries, Pelikan Holding AG Group and Pelikan Hardcopy Holding Group and Herlitz AG Group).
- # The "severance payment" disclosed above was paid as mutual settlement fee to Arno Alberty who resigned in 2010. Other than that, there was no other severance payment made in 2010 to any Board Member or Member of the Group Management who resigned in earlier years. There are no other contracts with Members of the Board of Directors or Group Management providing for severance payments during the year.
- No compensation was paid in 2010 financial year to members of the Board of Directors or Group Management who stepped down in the previous period.
- There was no non-cash compensation in the form of shares or options or any other form given to the Company's governing bodies.
- None of the members of the management team held shares in Pelikan Holding AG as of 31 December 2010. The direct and indirect interest of Loo Hooi Keat in Pelikan International Corporation Berhad is 3.01% and 21.46% respectively.
- No advances or credits were granted to any members of the Board of Directors.
- There are no pension commitments in respect of current or former members of the Board of Directors of Pelikan Holding AG.
- In case of dissolving the engagement with the company, there are no agreements providing for a benefit of the members of the Board of Directors or the management.



## **Options**

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

## **Loans to members of the governing bodies**

As of 31 December 2010, neither Pelikan Holding AG nor its subsidiaries had granted any guarantees, loans, advances or credit facilities to members of the Group Management or the Board of Directors.

## **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.

In case of a change of control in the company, there are no agreements providing for a benefit of the members of the Board of Directors or the management (“golden parachutes”).

## **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. At least twenty days must elapse between the day of publication or the dispatch of the invitation and the day of the General Meeting. The deadline is considered to be observed if the written invitations are posted not later than 23 days before the date of the General Meeting.

## **Agenda**

A shareholder or several shareholders representing together a par value of at least more than one million Swiss Francs are entitled to request Ordinary General Shareholders’ Meetings 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 in writing. 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 company does not make any registration in the share register during the period starting from the day of sending the invitation to a shareholders’ meeting up to and including the day after the shareholders’ meeting.

The General Shareholders’ Meeting can pass a resolution independent of the number of shareholders present or shares represented, subject to any compulsory provisions set out in the Swiss Code of Obligations. The General Shareholders’ Meeting makes its resolutions and executes its elections with the simple majority of the submitted shareholder votes, subject to any compulsory provisions set out in the Swiss Code of Obligations.

## **Resolutions and elections at General Meetings (Contd.)**

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, resolution on the balance profits, especially the declaration of dividend and remuneration of directors in accordance with Art. 671 and 677 CO;
- d) the discharge 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 and by the Articles of Association or which are being brought to decision by the Board of Directors.

## **Auditors**

### **Duration of the mandate and term of office of the lead auditor / auditor supervision and control mechanisms in respect of the auditors**

BDO Ltd has been appointed as external auditor of Pelikan Holding AG and Group auditors since 2005. The auditors are elected during the Annual General Meeting of Shareholders every year. Pursuant to the Swiss Code of Obligations, the lead auditor is replaced after a maximum term of seven years. The auditor in charge, Andreas Wyss has held that position since 8 January 2006.

The communication with the Board of Directors by the auditors is via a written representation such as the comprehensive report and ad-hoc meetings as required. The Board of Directors assesses the performance, invoicing and independence of the external auditors. The auditors' reports set out the results of their work and recommendations. The Board of Directors annually reviews the scope of the external audit, the audit plans and the relevant procedures and discusses the audit reports with the external auditors.

### **Audit and additional fees**

BDO had charged Pelikan Holding AG Group CHF 0.41 million in the 2010 financial year for services in connection with auditing the annual statements of Pelikan Holding AG and the Group companies as well as the consolidated statements of the Pelikan Holding AG Group. Furthermore, the audit company invoiced a fee of CHF 0.01 million in the 2010 financial year for agreed-upon review services.

## **Information Policy**

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

The link for such publications is [http://www.pelikan.com/pulse/Pulsar/de\\_DE.CMS.displayCMS.115./ad-hoc-archive](http://www.pelikan.com/pulse/Pulsar/de_DE.CMS.displayCMS.115./ad-hoc-archive)

The Company's official publication medium is the Swiss Commercial Gazette (SHAB). Information is also available on the Company's website at [www.pelikan.com](http://www.pelikan.com). Addresses of the Group companies are listed on pages 60 to 63.

**Pelikan Group**

**Financial Statements  
2010**

*Pelikan Group*

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER**

|   | Note   | 2010<br>CHF(000) | 2009<br>CHF(000) |
|---|--------|------------------|------------------|
| Net sales   | 3      | 272,697          | 313,091          |
| Other operating income                                    | 4      | 3,428            | 2,948            |
| Change in the level of finished goods and work in process |        | (2,193)          | (87)             |
| Materials purchased                                       |        | (134,534)        | (159,511)        |
| Personnel expenses  | 5      | (72,628)         | (78,553)         |
| Depreciation on tangible fixed assets                     | 13     | (4,737)          | (5,255)          |
| Amortization on intangible assets                         | 16     | (6,359)          | (6,955)          |
| Impairment on tangible and intangible assets              | 13, 16 | (3,431)          | -                |
| Other operating expenses                                  | 6      | (59,440)         | (68,554)         |
| Operating results   |        | (7,197)          | (2,876)          |
| Financial result  | 7      | (1,876)          | (3,115)          |
| Results from associated companies                         | 14     | 2,968            | 1,419            |
| Loss before taxation                                      |        | (6,105)          | (4,572)          |
| Taxes   |        |                  |                  |
| - Company and subsidiaries                                | 8      | (4,607)          | (3,813)          |
| Net loss  |        | (10,712)         | (8,385)          |
| (Loss) / profit attributable to:                          |        |                  |                  |
| - shareholders of Pelikan Holding AG                      |        | (13,313)         | (10,209)         |
| - minority interests                                      |        | 2,601            | 1,824            |

**CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER**

|   | Note | 2010<br>CHF(000) | 2009<br>CHF(000) |
|---|------|------------------|------------------|
| <b>ASSETS</b>                                   |      |                  |                  |
| <b>Current assets</b>                           |      |                  |                  |
| Cash and bank balances                          |      | 6,878            | 11,955           |
| Trade receivables                               | 10   | 41,781           | 62,497           |
| Other short term receivables                    | 11   | 30,001           | 22,067           |
| Inventories                                     | 12   | 54,328           | 52,655           |
| Prepayments                                     |      | 620              | 1,373            |
|   |      | <b>133,608</b>   | <b>150,547</b>   |
| <b>Non-current assets</b>                       |      |                  |                  |
| Tangible fixed assets                           | 13   | 36,251           | 43,193           |
| Financial assets                                |      |                  |                  |
| Loans and investments                           | 14   | 13,106           | 12,624           |
| Deferred tax assets                             | 15   | 6,479            | 9,004            |
|   |      | <b>19,585</b>    | <b>21,628</b>    |
| Intangible assets                               | 16   | 13,736           | 25,377           |
|   |      | <b>69,572</b>    | <b>90,198</b>    |
| <b>TOTAL ASSETS</b>                             |      | <b>203,180</b>   | <b>240,745</b>   |
| <b>LIABILITIES AND EQUITY</b>                   |      |                  |                  |
| <b>Current liabilities</b>                      |      |                  |                  |
| Bank liabilities                                | 17   | 19,622           | 32,610           |
| Accounts payable                                | 18   | 29,852           | 28,749           |
| Other short-term liabilities                    | 19   | 46,187           | 53,209           |
| Short term provisions                           |      |                  |                  |
| Provisions for pensions and similar commitments | 20   | 3,119            | 3,821            |
| Other provisions                                | 21   | 2,611            | 2,083            |
|   |      | <b>5,730</b>     | <b>5,904</b>     |
| Deferred income                                 |      | 14               | 13               |
|   |      | <b>101,405</b>   | <b>120,485</b>   |
| <b>Non-current liabilities</b>                  |      |                  |                  |
| Bank liabilities                                | 17   | 10,398           | 15,969           |
| Long term provisions                            |      |                  |                  |
| Provisions for pensions and similar commitments | 20   | 57,494           | 72,080           |
| Provisions for deferred tax                     | 15   | 60               | 95               |
| Other provisions                                | 21   | 2,901            | 4,707            |
|   |      | <b>60,455</b>    | <b>76,882</b>    |
| Other long-term liabilities                     | 22   | 17,967           | 3,718            |
|   |      | <b>88,820</b>    | <b>96,569</b>    |

*Pelikan Group*

**CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER (CONTD.)**

|  | Note | 2010<br>CHF(000) | 2009<br>CHF(000) |
|--|------|------------------|------------------|
| <b>Shareholders' equity</b>              |      |                  |                  |
| Capital stock                            | 23   | 100,100          | 100,100          |
| Revaluation reserve                      |      | 6,669            | 6,984            |
| Foreign currency reserves                |      | (1,461)          | (4,527)          |
| Retained earnings                        | 24   | (107,970)        | (94,657)         |
| <b>Total equity excluding minorities</b> |      | <b>(2,662)</b>   | <b>7,900</b>     |
| <b>Minority interests</b>                |      | <b>15,617</b>    | <b>15,791</b>    |
| <b>Total equity including minorities</b> |      | <b>12,955</b>    | <b>23,691</b>    |
| <b>TOTAL EQUITY AND LIABILITIES</b>      |      | <b>203,180</b>   | <b>240,745</b>   |

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER**

|   | 2010<br>CHF(000) | 2009<br>CHF(000) |
|---|------------------|------------------|
| <u>Cash flows from business activities</u>                                    |                  |                  |
| Loss before minority interest   | (10,712)         | (8,385)          |
| Adjustments for :   |                  |                  |
| Depreciation and amortization   | 11,096           | 12,210           |
| Impairment on tangible and intangible assets                                  | 3,431            | -                |
| Deferred taxes  | 1,206            | 775              |
| Change in pension provisions  | (3,513)          | (3,145)          |
| Change in other provisions  | (203)            | 685              |
| Gain on step acquisition  | -                | (735)            |
| Book loss from disposals of tangible fixed assets (net)                       | 383              | 21               |
| Book loss from disposals of intangible fixed assets (net)                     | 29               | -                |
| Book gain from disposal of financial assets                                   | (58)             | -                |
| Results from associated companies   | (2,968)          | (1,419)          |
| Change in trade receivables, other short term receivables and prepayments     | 4,468            | 8,622            |
| Change in inventories   | (9,608)          | 3,800            |
| Change in accounts payables, other short term liabilities and deferred income | 4,681            | 4,047            |
|   | <u>(1,768)</u>   | <u>16,476</u>    |
| <u>Cash flows from investing activities</u>                                   |                  |                  |
| Investments in tangible fixed assets  | (3,337)          | (5,591)          |
| Disposals of tangible fixed assets  | 386              | 939              |
| Investments in financial assets   | -                | (142)            |
| Disposals of financial assets   | 89               | 39               |
| Investments in intangible assets  | (376)            | (973)            |
| Disposal of intangible assets   | 9                | 27               |
| Acquisition of subsidiaries   | -                | (4,430)          |
| Dividend from associated companies  | 2,597            | 1,719            |
|   | <u>(632)</u>     | <u>(8,412)</u>   |
| <u>Cash flows from financing activities</u>                                   |                  |                  |
| Net advances from parent company  | 14,646           | -                |
| Changes in bank liabilities – current   | (8,784)          | (913)            |
| Changes in bank liabilities – non-current                                     | (4,366)          | (7,048)          |
| Dividend to minorities  | (2,065)          | (781)            |
|   | <u>(569)</u>     | <u>(8,742)</u>   |
| Effect of exchange rate changes and inflation adjustments                     | (2,108)          | (148)            |
| Net change in cash  | (5,077)          | (826)            |
| Cash at 1 January   | 11,955           | 12,781           |
| Cash at 31 December   | <u>6,878</u>     | <u>11,955</u>    |

*Pelikan Group*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER**

| CHF (000)                   | Capital<br>stock | Revaluation<br>Reserves | Foreign<br>Currency<br>Reserves | Retained<br>earnings<br>(Note 24) | Total<br>equity<br>excluding<br>minorities | Minority<br>interest | Total<br>Equity |
|-----------------------------|------------------|-------------------------|---------------------------------|-----------------------------------|--|----------------------|-----------------|
| <b>Balance 1 Jan. 2009</b>  | 100,100          | 6,781                   | (6,625)                         | (84,448)                          | 15,808                                     | 14,485               | 30,293          |
| Dividend                    | -                | -                       | -                               | -                                 | -  | (781)                | (781)           |
| Result 2009                 | -                | -                       | -                               | (10,209)                          | (10,209)                                   | 1,824                | (8,385)         |
| Translation adjustments     | -                | 203                     | 2,098                           | -                                 | 2,301                                      | 263                  | 2,564           |
| <b>Balance 31 Dec. 2009</b> | <b>100,100</b>   | <b>6,984</b>            | <b>(4,527)</b>                  | <b>(94,657)</b>                   | <b>7,900</b>                               | <b>15,791</b>        | <b>23,691</b>   |
| Dividend                    | -                | -                       | -                               | -                                 | -  | (2,065)              | (2,065)         |
| Result 2010                 | -                | -                       | -                               | (13,313)                          | (13,313)                                   | 2,601                | (10,712)        |
| Translation adjustments     | -                | (315)                   | 3,066                           | -                                 | 2,751                                      | (710)                | 2,041           |
| <b>Balance 31 Dec. 2010</b> | <b>100,100</b>   | <b>6,669</b>            | <b>(1,461)</b>                  | <b>(107,970)</b>                  | <b>(2,662)</b>                             | <b>15,617</b>        | <b>12,955</b>   |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### 1. Summary of Significant Accounting Policies for the year ended 31 December 2010

#### 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.

#### 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 43 to 44. Pelikan Mexico S.A. de C.V. and its subsidiaries, in which the parent company holds an investment of less than 50%, but which is under its management control (e.g. by enforcing rights determined in the Licensing agreement for trademarks), have also been consolidated.

##### **Associated companies**

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.

##### **Participations**

Investments of less than 20% are carried at cost less necessary valuation provisions.

##### **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 Group Reporting Packages (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.

## *Pelikan Group*

### **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 for the year. The differences resulting from utilization of differing exchange rates for the translation of balance sheets and income statement are applied to shareholders' equity. Unrealised foreign exchange gains or losses on long term intra-group loans with equity nature are recognized in shareholders' equity. The exchange rates used are as follows:

|               | 2010          |              | 2009          |              |
|---------------|---------------|--------------|---------------|--------------|
|               | Year-end rate | Average rate | Year-end rate | Average rate |
|               | <u>CHF</u>    | <u>CHF</u>   | <u>CHF</u>    | <u>CHF</u>   |
| 1 EUR         | 1.25          | 1.37         | 1.49          | 1.51         |
| 1 USD         | 0.94          | 1.04         | 1.04          | 1.09         |
| 1 MYR         | 0.30          | 0.32         | 0.30          | 0.31         |
| 100 MXN       | 7.61          | 8.24         | 7.97          | 8.01         |
| 1 ARS         | 0.24          | 0.27         | 0.27          | 0.29         |
| 1 SEK         | 0.14          | 0.14         | 0.14          | 0.14         |
| 1 million COP | 0.50          | 0.60         | 0.51          | 0.50         |
| 1 JPY         | 0.01          | 0.01         | 0.01          | 0.01         |

### **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 income statement as minority interest.

### **Consolidation adjustments**

All intercompany balances and transactions including intercompany profits 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**

#### **Cash**

Cash includes cash on hand, postal checking, bank account balances and time deposits (duration <3 months), which are at nominal value.

#### **Receivables**

Trade receivables and other short-term receivables are shown at invoiced amounts less appropriate provisions for debtors' risks. Specific provisions for doubtful accounts are accounted for where required and deferred credit risks are also considered.

#### **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.

## ***Pelikan Group***

### **Tangible fixed assets**

Tangible fixed assets are stated at their acquisition or manufacturing cost less accumulated depreciation. Yearly impairment tests are made and the appropriate charge, if any, is booked to income statement. Inflation-related revaluation 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 statement but are included under the balance sheet heading "Revaluation reserve". Any profit or loss from disposal of tangible fixed assets is booked to income statement.

Estimated useful lives of tangible fixed assets are as follows:

|                                   |                 |
|-----------------------------------|-----------------|
| Land                              | No depreciation |
| Buildings                         | 48 – 50 years   |
| Machinery and technical equipment | 10 – 30 years   |
| Moulds                            | 1 – 25 years    |
| Office and other equipment        | 3 – 10 years    |
| Motor vehicles                    | 4 – 7 years     |

The estimated useful lives in the machinery and technical equipment category ranges from: equipment for design writing instruments for 10 years, moulding machines for 20 years and technical equipment for production facilities (infrastructure for building) for 30 years. Moulds have useful lives ranging from 1 year for limited editions of fine writing instruments due to one-time production cycle and up to 25 years for moulds for ink cartridges.

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. Assets of relatively minor value are also charged directly to the income statement.

Financing cost incurred during the construction of property, plant and equipment is taken directly to the income statement.

### **Financial assets**

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

### **Intangible assets**

Intangible assets include goodwill arising from the acquisition of subsidiaries and 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 of 5 to 15 years, using the straight-line method. The valuation of intangible assets is yearly checked and required impairment adjustments are charged to the income statement.

## ***Pelikan Group***

### **Bank liabilities**

Bank liabilities are amounts payable to financial institutions for the facilities used.

### **Payables**

Accounts payable and other short term liabilities are stated at their nominal value.

### **Deferred tax**

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 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.

### **Employee pensions**

The pension obligations of group companies in relation to 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 only defined benefit plans. Due to the international organisation and various local pension regulations, the Group presents the economical impact of pension obligations according to the dynamic method in compliance with IAS 19 - Accounting for Employee Benefits.

The Group recognises actuarial gains and losses using the corridor method. Actuarial gains and losses are recognised in accordance with IAS 19.93. An alternative systematic method that would result in a faster recognition of actuarial gains and losses, has not been adopted.

### **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.

### **Research and development**

Research expenditure is recognised as an expense when incurred. Development costs are capitalized when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the costs can be measured reliably and are amortised from the commencement of commercial production of the product to which they relate over the period of their expected benefit, not exceeding 10 years.

### **Leases**

Operating lease instalments are charged to the income statement over the lease term on a straight-line basis. There are no finance lease contracts.

## *Pelikan Group*

### 2. Risk Management

Beside the assessment of strategies, the exploration of market opportunities and the periodical analysis of results, the Board of Directors has also assessed the risks inherent in the business of the Group. The enterprise risk management policy of Pelikan Group is to identify, measure and control risks that may prevent the Group from achieving its business objectives. Pelikan Group seeks to apply risk management in all parts of its business to ensure risks are minimized and opportunities are explored.

The key elements of the Group's risk management strategies are:

- 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; and
- Regular visits to operating units by members of the Board and senior management.

### 3. Net sales

| CHF (000)                | 2010           | 2009    |
|--------------------------|----------------|---------|
| Sales to third parties   | <b>262,004</b> | 303,691 |
| Sales to related parties | <b>10,693</b>  | 9,400   |
| Total                    | <b>272,697</b> | 313,091 |

| Sales by region | 2010           |              | 2009      |       |
|-----------------|----------------|--------------|-----------|-------|
|                 | CHF (000)      | %            | CHF (000) | %     |
| Germany         | <b>125,593</b> | <b>46.1</b>  | 159,517   | 51.0  |
| Italy           | <b>17,725</b>  | <b>6.5</b>   | 19,813    | 6.3   |
| Switzerland     | <b>8,668</b>   | <b>3.2</b>   | 11,000    | 3.5   |
| Rest of Europe  | <b>47,016</b>  | <b>17.2</b>  | 59,777    | 19.1  |
| Total Europe    | <b>199,002</b> | <b>73.0</b>  | 250,107   | 79.9  |
| Latin-America   | <b>56,890</b>  | <b>20.9</b>  | 47,907    | 15.3  |
| Other countries | <b>16,805</b>  | <b>6.1</b>   | 15,077    | 4.8   |
| Total           | <b>272,697</b> | <b>100.0</b> | 313,091   | 100.0 |

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**4. Other operating income**

| CHF (000)                | 2010         | 2009         |
|--------------------------|--------------|--------------|
| Income from staff lease  | 1,202        | 507          |
| Refunds from insurances  | 558          | 242          |
| Indemnification payments | 430          | 377          |
| Others                   | 1,238        | 1,822        |
| Total                    | <u>3,428</u> | <u>2,948</u> |

**5. Personnel expenses**

| CHF (000)  | 2010          | 2009          |
|--|---------------|---------------|
| Salaries and wages                                       | 54,794        | 57,460        |
| Social security contributions and other welfare expenses | 13,599        | 15,777        |
| Pension expenses   | 4,235         | 5,316         |
| Total  | <u>72,628</u> | <u>78,553</u> |

The headcount as well as the changes in the number of employees are shown on page 6.

**6. Other operating expenses**

| CHF (000)   | 2010          | 2009          |
|---|---------------|---------------|
| Sales promotion                                     | 15,325        | 17,845        |
| External costs for logistics, administration, sales | 9,996         | 12,961        |
| Energy, other operating expenses                    | 6,957         | 4,642         |
| Occupancy costs                                     | 6,893         | 7,770         |
| Outwards freight, packaging                         | 5,458         | 6,826         |
| Administration costs                                | 5,168         | 7,201         |
| Travel expenses                                     | 2,302         | 2,517         |
| Licenses and commissions                            | 1,877         | 3,182         |
| Communication, EDP                                  | 1,800         | 2,333         |
| Provision for doubtful debts                        | 838           | 1,144         |
| Others  | 2,826         | 2,133         |
|   | <u>59,440</u> | <u>68,554</u> |

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### 7. Financial result

| CHF (000)                     | 2010           | 2009           |
|-------------------------------|----------------|----------------|
| Interest and similar income   | 238            | 474            |
| Interest and similar expenses | (3,513)        | (4,812)        |
| Gain on exchange rate (net)   | 1,399          | 488            |
| Gain on step acquisition      | -              | 735            |
| Total                         | <u>(1,876)</u> | <u>(3,115)</u> |

#### Interest and similar expenses

| CHF (000)                   | 2010         | 2009         |
|-----------------------------|--------------|--------------|
| Interest to third parties   | 3,165        | 4,620        |
| Interest to related parties | 348          | 192          |
|                             | <u>3,513</u> | <u>4,812</u> |

### 8. Taxes

| CHF (000)                    | 2010         | 2009         |
|------------------------------|--------------|--------------|
| Expense from current taxes   | 3,401        | 3,038        |
| Expenses from deferred taxes | 1,206        | 775          |
| Total                        | <u>4,607</u> | <u>3,813</u> |

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.

### 9. Remuneration of / advances to the Board of Directors

For Directors' and Group Management's remunerations, refer to Note 11 on page 53.

### 10. Trade receivables

| CHF (000)                                      | 2010          | 2009          |
|--|---------------|---------------|
| Trade receivables from third parties           | 44,608        | 65,522        |
| Written offs and provisions for doubtful debts | (2,827)       | (3,025)       |
| Total  | <u>41,781</u> | <u>62,497</u> |

As of 31 December 2010 derecognized accounts receivables under financing agreement amounted to CHF 13.0 million (2009: CHF 6.5 million).

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**11. Other short term receivables**

| CHF (000)  | 2010   | 2009   |
|--|--------|--------|
| <b>From parent company and its related companies (related parties)</b> |        |        |
| Pelikan International Corporation Berhad, Malaysia                     | 112    | 1,107  |
| Pelikan Production (Malaysia) Sdn Bhd, Malaysia                        | 3,261  | 2,142  |
| Pelikan Hardcopy Production AG, Switzerland                            | 2,535  | 1,320  |
| PBS Office Supplies Pte Ltd, Singapore                                 | 1,765  | 1,752  |
| Pelikan Polska Sp.z.o.o, Poland  | 1,626  | 1,635  |
| Pelikan Singapore Pte Ltd, Singapore                                   | 1,581  | 1,683  |
| Pelikan Hardcopy Scotland Ltd.   | 1,172  | 772    |
| Others   | 2,821  | 1,267  |
| Total  | 14,873 | 11,678 |
| <b>From associated companies</b>                                       | 487    | 1,166  |
| <b>From third parties</b>  | 14,641 | 9,223  |
| Total  | 30,001 | 22,067 |

**12. Inventories**

| CHF (000)                                   | 2010    | 2009    |
|---|---------|---------|
| Raw material, stores and operating supplies | 8,086   | 7,620   |
| Work in process                             | 11,811  | 12,329  |
| Finished products and merchandise           | 37,840  | 36,756  |
| Goods in transit                            | 4,194   | 1,698   |
| Payments on account                         | 372     | 399     |
| Valuation adjustments                       | (7,975) | (6,147) |
| Total                                       | 54,328  | 52,655  |



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**13. Tangible fixed assets**

| CHF (000)                          | Land and buildings | Machinery and technical equipment | Motor vehicles, moulds, production and office equipment | Assets under construction | Total          |
|------------------------------------|--------------------|-----------------------------------|---|---------------------------|----------------|
| <b>Cost</b>                        |                    |                                   |   |                           |                |
| Opening balance 1 Jan. 2009        | 20,154             | 45,674                            | 44,262  | 1,645                     | 111,735        |
| Acquisition of subsidiaries        | 4,799              | 8,526                             | 1,059   | 132                       | 14,516         |
| Investments                        | 8                  | 2,253                             | 2,655   | 675                       | 5,591          |
| Disposals                          | (170)              | (1,105)                           | (2,616)   | (296)                     | (4,187)        |
| Transfers                          | 115                | 345                               | 430   | (890)                     | -              |
| Translation differences            | 378                | 472                               | (1)   | 11                        | 860            |
| Opening balance 1 Jan. 2010        | <b>25,284</b>      | <b>56,165</b>                     | <b>45,789</b>   | <b>1,277</b>              | <b>128,515</b> |
| Investments                        | 5                  | 772                               | 1,464   | 1,096                     | 3,337          |
| Disposals                          | (285)              | (683)                             | (4,591)   | (139)                     | (5,698)        |
| Transfers                          | -                  | 361                               | 600   | (961)                     | -              |
| Translation differences            | (2,265)            | (6,447)                           | (6,543)   | (169)                     | (15,424)       |
| <b>Ending Balance 31 Dec. 2010</b> | <b>22,739</b>      | <b>50,168</b>                     | <b>36,719</b>   | <b>1,104</b>              | <b>110,730</b> |
| <b>Accumulated depreciation</b>    |                    |                                   |   |                           |                |
| Opening balance 1 Jan. 2009        | 11,751             | 34,796                            | 29,188  | 223                       | 75,958         |
| Acquisition of subsidiaries        | 56                 | 6,304                             | 493   | -                         | 6,853          |
| Disposals                          | -                  | (1,059)                           | (2,097)   | (70)                      | (3,226)        |
| Depreciation                       | 357                | 1,756                             | 3,142   | -                         | 5,255          |
| Translation differences            | 118                | 387                               | (19)  | (4)                       | 482            |
| Opening balance 1 Jan. 2010        | <b>12,282</b>      | <b>42,184</b>                     | <b>30,707</b>   | <b>149</b>                | <b>85,322</b>  |
| Disposals                          | -                  | (491)                             | (4,299)   | (139)                     | (4,929)        |
| Transfers                          | -                  | (64)                              | 64  | -                         | -              |
| Depreciation                       | 375                | 1,806                             | 2,556   | -                         | 4,737          |
| Impairment                         | -                  | -                                 | 49  | -                         | 49             |
| Translation differences            | (1,505)            | (4,815)                           | (4,370)   | (10)                      | (10,700)       |
| <b>Ending Balance 31 Dec. 2010</b> | <b>11,152</b>      | <b>38,620</b>                     | <b>24,707</b>   | <b>-</b>                  | <b>74,479</b>  |
| <b>Net book value</b>              |                    |                                   |   |                           |                |
| <b>Ending Balance 31 Dec. 2010</b> | <b>11,587</b>      | <b>11,548</b>                     | <b>12,012</b>   | <b>1,104</b>              | <b>36,251</b>  |
| Ending Balance 31 Dec. 2009        | 13,002             | 13,981                            | 15,082  | 1,128                     | 43,193         |

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### 13. Tangible fixed assets (Contd.)

Insurance values of the tangible fixed assets amounted to CHF 106.5 million as of 31 December 2010 (2009: CHF 121.4 million).

### 14. Loans and investments

| CHF (000)                          | Investments<br>in associated<br>companies | Loans to<br>third parties | Long-term<br>securities | Total          |
|------------------------------------|---|---------------------------|-------------------------|----------------|
| Opening balance 1 Jan. 2009        | 9,936                                     | 62                        | 918                     | 10,916         |
| Acquisition of a subsidiary        | -   | 31                        | -                       | 31             |
| Share of current year net result   | 1,419                                     | -                         | -                       | 1,419          |
| Dividends                          | (1,719)                                   | -                         | -                       | (1,719)        |
| Translation adjustments            | 2,245                                     | 1                         | (3)                     | 2,243          |
| Other movements                    | (369)                                     | (39)                      | 142                     | (266)          |
| Opening balance 1 Jan. 2010        | <b>11,512</b>                             | <b>55</b>                 | <b>1,057</b>            | <b>12,624</b>  |
| Share of current year net result   | <b>2,968</b>                              | -                         | -                       | <b>2,968</b>   |
| Dividends                          | <b>(2,597)</b>                            | -                         | -                       | <b>(2,597)</b> |
| Translation adjustments            | <b>352</b>                                | <b>(2)</b>                | <b>(169)</b>            | <b>181</b>     |
| Other movements                    | <b>(31)</b>                               | <b>(18)</b>               | <b>(21)</b>             | <b>(70)</b>    |
| <b>Ending Balance 31 Dec. 2010</b> | <b>12,204</b>                             | <b>35</b>                 | <b>867</b>              | <b>13,106</b>  |

Significant balance sheet information for associated companies is as follows:

| CHF (000)               | 2010           | 2009    |
|-------------------------|----------------|---------|
| Current assets          | <b>6,822</b>   | 7,588   |
| Non-current assets      | <b>28,758</b>  | 24,999  |
| Current liabilities     | <b>(3,440)</b> | (2,184) |
| Non-current liabilities | <b>(298)</b>   | (270)   |

The associated companies are shown in the list of group companies on pages 43 to 44.

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**15. Deferred tax**

| CHF (000)                      | 2010  | 2009  |
|--------------------------------|-------|-------|
| Deferred tax assets from:      |       |       |
| - Temporary differences        | 5,045 | 5,958 |
| - Net losses                   | 1,434 | 3,046 |
| Total deferred tax assets      | 6,479 | 9,004 |
| Deferred tax liabilities from: |       |       |
| - Temporary differences        | 60    | 95    |
| Total deferred tax assets, net | 6,419 | 8,909 |

Movements in deferred taxes during the year were as follows:

| CHF (000)                    | 2010    | 2009  |
|------------------------------|---------|-------|
| Opening Balance 1 Jan.       | 8,909   | 9,715 |
| Expenses from deferred taxes | (1,206) | (775) |
| Reclassification             | 15      | -     |
| Translation adjustments      | (1,299) | (31)  |
| Ending Balance 31 Dec.       | 6,419   | 8,909 |

The Group's average tax rate used for deferred taxes is at 21.7% (2009: 19.7%).

The available trade tax losses carried forward related to companies in Germany amounted to CHF 130.4 million (2009: CHF 142.3 million), for which no deferred tax asset has been recognised. Assuming a tax rate of 14.3%, a further CHF 18.6 million (2009: CHF 20.7 million at a tax rate of 14.6%) would be available to be offset against future taxes payable.

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**16. Intangible assets**

| CHF (000)                           | Trademarks    | Development costs | Goodwill Business Activities | Goodwill Subsidiaries | Computer software licence | Total         |
|-------------------------------------|---------------|-------------------|------------------------------|-----------------------|---------------------------|---------------|
| <b>Cost</b>                         |               |                   |                              |                       |                           |               |
| Opening balance 1 Jan. 2009         | 10,234        | 2,407             | 21,681                       | 15,850                | 833                       | 51,005        |
| Acquisition of a subsidiary         | 27            | -                 | -                            | -                     | -                         | 27            |
| Acquisition of business Investments | -             | -                 | 496                          | -                     | -                         | 496           |
| Disposals                           | 6             | 933               | -                            | -                     | 34                        | 973           |
| Translation difference              | (27)          | -                 | -                            | -                     | -                         | (27)          |
| Opening balance 1 Jan. 2010         | (5)           | (15)              | (10)                         | -                     | -                         | (30)          |
|                                     | <b>10,235</b> | <b>3,325</b>      | <b>22,167</b>                | <b>15,850</b>         | <b>867</b>                | <b>52,444</b> |
| Investments                         | -             | 262               | -                            | -                     | 114                       | 376           |
| Disposals                           | (29)          | -                 | (4,209)                      | -                     | (281)                     | (4,519)       |
| Translation difference              | (1,654)       | (563)             | (3,129)                      | -                     | (124)                     | (5,470)       |
| <b>Ending Balance 31 Dec. 2010</b>  | <b>8,552</b>  | <b>3,024</b>      | <b>14,829</b>                | <b>15,850</b>         | <b>576</b>                | <b>42,831</b> |
| <b>Accumulated amortisation</b>     |               |                   |                              |                       |                           |               |
| Opening balance 1 Jan. 2009         | 6,921         | 821               | 7,047                        | 5,210                 | 180                       | 20,179        |
| Amortisation                        | 638           | 480               | 2,725                        | 2,944                 | 168                       | 6,955         |
| Translation difference              | (13)          | (7)               | (42)                         | -                     | (5)                       | (67)          |
| Opening balance 1 Jan. 2010         | <b>7,546</b>  | <b>1,294</b>      | <b>9,730</b>                 | <b>8,154</b>          | <b>343</b>                | <b>27,067</b> |
| Disposals                           | -             | -                 | (4,209)                      | -                     | (272)                     | (4,481)       |
| Amortisation                        | 580           | 577               | 2,096                        | 2,944                 | 162                       | 6,359         |
| Impairment                          | 290           | -                 | 3,092                        | -                     | -                         | 3,382         |
| Translation difference              | (1,302)       | (266)             | (1,617)                      | -                     | (47)                      | (3,232)       |
| <b>Ending Balance 31 Dec. 2010</b>  | <b>7,114</b>  | <b>1,605</b>      | <b>9,092</b>                 | <b>11,098</b>         | <b>186</b>                | <b>29,095</b> |
| <b>Net book value</b>               |               |                   |                              |                       |                           |               |
| <b>Ending Balance 31 Dec. 2010</b>  | <b>1,438</b>  | <b>1,419</b>      | <b>5,737</b>                 | <b>4,752</b>          | <b>390</b>                | <b>13,736</b> |
| Ending Balance 31 Dec. 2009         | 2,689         | 2,031             | 12,437                       | 7,696                 | 524                       | 25,377        |

Trademarks include mainly GEHA trademarks which were acquired in 1998 and are amortised on a straight-line basis over 15 years.

The goodwill impaired in 2010 is related to the business of selling and distributing presentation equipments. The impairment of this goodwill is recognised in the income statement in connection to the reduced expectation of future operating profit from this business.

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**17. Bank liabilities**

| CHF (000)  | 2010          | 2009          |
|--|---------------|---------------|
| Current  | 19,622        | 32,610        |
| Non-current                                      | 10,398        | 15,969        |
|  | <b>30,020</b> | <b>48,579</b> |
| Unsecured bank liabilities                       | 12,410        | 27,678        |
| Secured bank liabilities                         | 17,610        | 20,901        |
| Total  | <b>30,020</b> | <b>48,579</b> |
| Secured by (carrying amounts of the securities): |               |               |
| Receivables                                      | 4,065         | 2,975         |
| Inventories                                      | -             | 4,791         |
| Tangible assets                                  | 8,895         | 11,878        |

The bank liabilities of Pelikan Holding AG which have been included in the secured bank liabilities shown above, amount to CHF 1.7 million (2009: CHF 3.0 million). These are secured by shares in a subsidiary, Geha GmbH. Bank liabilities are mainly denominated in EUR.

**18. Accounts payable**

| CHF (000)                                      | 2010          | 2009          |
|--|---------------|---------------|
| <b>Payables to third parties</b>               | <b>13,706</b> | 15,400        |
| <b>Payables to related parties</b>             |               |               |
| Pelikan Hardcopy Production AG, Switzerland    | 14,470        | 13,349        |
| Pelikan Hardcopy Scotland Ltd., United Kingdom | 1,676         | -             |
|  | <b>29,852</b> | <b>28,749</b> |

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**19. Other short term liabilities**

| CHF (000)   | 2010          | 2009          |
|---|---------------|---------------|
| <b>Payables to parent company and its related companies (related parties)</b> |               |               |
| Pelikan International Corporation Berhad, Malaysia                            | 13,214        | 6,899         |
| Pelikan Production (Malaysia) Sdn Bhd, Malaysia                               | 1,433         | 5,187         |
| Others  | 2,110         | 2,408         |
|   | <u>16,757</u> | <u>14,494</u> |
| <b>Payables to third parties</b>  |               |               |
| Income taxes payable  | 1,805         | 993           |
| Accruals  | 21,039        | 26,893        |
| Others  | 6,574         | 10,829        |
|   | <u>29,418</u> | <u>38,715</u> |
| <b>Payables to associated companies</b>                                       | <u>12</u>     | <u>-</u>      |
| Total   | <u>46,187</u> | <u>53,209</u> |

**20. Provisions for pensions and similar commitments**

| CHF (000)  | 2010          | 2009          |
|--|---------------|---------------|
| <b>Change of present value of the defined benefit obligation</b> |               |               |
| Balance at 1 January   | 80,835        | 80,952        |
| Current service cost   | 509           | 492           |
| Interest cost  | 3,884         | 4,767         |
| Actuarial (gains) / losses                                       | (502)         | 2,548         |
| Benefits paid  | (7,740)       | (8,558)       |
| Other movements  | (139)         | 641           |
| Translation difference   | (12,167)      | (7)           |
| <b>Ending Balance at 31 December</b>                             | <u>64,680</u> | <u>80,835</u> |
| <b>Change of fair value of the plan assets</b>                   |               |               |
| Balance at 1 January   | 3,410         | 4,096         |
| Expected return on plan assets                                   | 142           | 177           |
| Actuarial gains / (losses)                                       | 16            | (1,150)       |
| Employee's contribution  | 94            | 102           |
| Employer's contribution  | 203           | 310           |
| Benefits paid  | (447)         | (145)         |
| Other movements  | (6)           | -             |
| Translation difference   | (226)         | 20            |
| <b>Ending Balance at 31 December</b>                             | <u>3,186</u>  | <u>3,410</u>  |

The actual return on plan assets amounts to CHF 0.2 million (2009: CHF -1.0 million).

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**20. Provisions for pensions and similar commitments (Contd.)**

The pension assets are composed of the essential asset classes:

| Valuation date 31 December    | 2010 | 2009 |
|-------------------------------|------|------|
| Qualifying insurance policies | 36%  | 41%  |
| Debt instruments              | 28%  | 29%  |
| Equities                      | 16%  | 10%  |
| Real estate                   | 11%  | 9%   |
| Bonds                         | 4%   | 4%   |
| Cash                          | -    | 1%   |
| Others                        | 5%   | 6%   |
|                               | 100% | 100% |

The pension assets do not include any own financial instruments nor property occupied by or other assets used by the Group itself.

| CHF (000)                                      | 2010    | 2009    |
|--|---------|---------|
| <b>Recorded liability in the balance sheet</b> |         |         |
| Present value of funded obligations            | 5,512   | 5,634   |
| Fair value of plan assets                      | (3,212) | (3,410) |
| <b>Funded status</b>                           | 2,300   | 2,224   |
| Present value of unfunded obligations          | 59,168  | 75,201  |
| Unrecognised actuarial gains / (losses)        | (855)   | (1,524) |
| <b>Liability in the balance sheet</b>          | 60,613  | 75,901  |
| <b>Amount included in personnel costs</b>      |         |         |
| Current service cost                           | 509     | 492     |
| Interest cost                                  | 3,884   | 4,767   |
| Expected return on assets                      | (142)   | (177)   |
| Actuarial loss of the year                     | (42)    | -       |
| Employee's contribution                        | (95)    | (102)   |
| Other movements                                | 121     | 336     |
| <b>Pension expenses</b>                        | 4,235   | 5,316   |

| Actuarial assumptions in %             | 2010 | 2009 |
|--|------|------|
| Discount rate                          | 3.85 | 4.53 |
| Expected rate of return on plan assets | 4.66 | 4.81 |
| Expected rate of salary increases      | 2.12 | 2.12 |
| Expected rate of pension increases     | 0.23 | 0.21 |

Expected employer contributions for 2011 amounts to CHF 0.2 million.

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**20. Provisions for pensions and similar commitments (Contd.)**

The following table shows how the actual development of defined benefit obligations and fair value of the plan assets deviates from their expected development:

| CHF (000)                                     | 2010           | 2009    | 2008    | 2007    |
|---|----------------|---------|---------|---------|
| Present value of defined benefit obligations  | <b>64,680</b>  | 80,835  | 80,952  | 94,764  |
| Fair value of plan assets                     | <b>(3,212)</b> | (3,410) | (4,096) | (1,631) |
| Underfunding                                  | <b>61,468</b>  | 77,425  | 76,856  | 93,133  |
| Experience adjustments on pension liabilities | <b>(1,150)</b> | (132)   | (1,939) | 540     |
| Experience adjustments on plan assets         | <b>28</b>      | (1,150) | 820     | 31      |

The expected return on assets depends especially on the investment strategy of insurance companies respectively and the policy of the board of the foundation in which the pension assets have been mainly invested. The expected returns on government bonds, equity instruments and other assets are orientated on the long-term development of these types of investments in the particular market.

**21. Other provisions**

| CHF (000)                             | Provision for warranty | Provision for staff related benefits | Others       | Total          |
|---------------------------------------|------------------------|--------------------------------------|--------------|----------------|
| Balance at 1 January 2009             | 795                    | 4,796                                | 422          | 6,013          |
| Reclassification                      |                        | (49)                                 | (416)        | (465)          |
| additional provision                  | 15                     | 1,179                                | 751          | 1,945          |
| unused amount reversed                | -                      | (36)                                 | -            | (36)           |
| Utilized during the year              | (72)                   | (574)                                |              | (646)          |
| Translation difference                | -                      | (24)                                 | 3            | (21)           |
| Balance at 1 January 2010             | <b>738</b>             | <b>5,292</b>                         | <b>760</b>   | <b>6,790</b>   |
| Transfer                              | -                      | (36)                                 | -            | (36)           |
| additional provision                  | <b>93</b>              | <b>1,710</b>                         | <b>325</b>   | <b>2,128</b>   |
| unused amount reversed                | <b>(36)</b>            | <b>(15)</b>                          | -            | <b>(51)</b>    |
| Utilized during the year              | <b>(40)</b>            | <b>(2,156)</b>                       | <b>(52)</b>  | <b>(2,248)</b> |
| Translation difference                | <b>(120)</b>           | <b>(803)</b>                         | <b>(148)</b> | <b>(1,071)</b> |
| <b>Ending Balance at 31 Dec. 2010</b> | <b>635</b>             | <b>3,992</b>                         | <b>885</b>   | <b>5,512</b>   |
| <b>2010</b>                           |                        |                                      |              |                |
| Current                               | <b>353</b>             | <b>1,408</b>                         | <b>850</b>   | <b>2,611</b>   |
| Non-Current                           | <b>282</b>             | <b>2,584</b>                         | <b>35</b>    | <b>2,901</b>   |
|                                       | <b>635</b>             | <b>3,992</b>                         | <b>885</b>   | <b>5,512</b>   |
| <b>2009</b>                           |                        |                                      |              |                |
| Current                               | 412                    | 948                                  | 723          | 2,083          |
| Non-Current                           | 326                    | 4,344                                | 37           | 4,707          |
|                                       | 738                    | 5,292                                | 760          | 6,790          |



## *Pelikan Group*

### **21. Other provisions (Contd.)**

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

The Group recognises the estimated liability to repair or replace products still under warranty at end of reporting period. This provision is calculated based on past history of the level of repairs and replacements.

The provision for staff related benefits comprises statutory and non-statutory staff related welfare and benefits which the Group has undertaken, in according to the relevant laws applicable in the countries concerned.

### **22. Other long term liabilities**

| CHF (000)   | 2010   | 2009  |
|---|--------|-------|
| <b>Payables to parent company and its related companies (related parties)</b> |        |       |
| Pelikan International Corporation Berhad, Malaysia                            | 16,145 | 3,718 |
| Others  | 1,822  | -     |
| Total   | 17,967 | 3,718 |

### **23. Capital stock**

At 31 December 2010, 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

### **24. Retained earnings**

Retained earnings include legal and local statutory revaluation reserves of Pelikan Holding AG of CHF 13.5 million (2009: CHF 13.5 million) which are not distributable.

## *Pelikan Group*

### 25. Significant shareholders

Pelikan International Corporation Berhad, a company listed in Bursa Malaysia Securities Berhad (the Malaysia Stock Exchange) ("Bursa Malaysia") has a direct and indirect holding of 1,445,981 (93.89%) and 40,000 (2.60%) in Pelikan Holding AG shares. Due to the pledge of some of the shares with transfer of the voting rights to certain Malaysian banks for financing purposes, the percentage of voting rights of Pelikan International Corporation Berhad by 31 December 2010 is 51.69%. The voting rights percentage of HSBC Bank Malaysia Berhad is 16.23%, the voting rights percentage of CIMB Bank Malaysia Berhad equals to 12.99% and OCBC Bank Malaysia Berhad and Overseas Chinese Banking Corporation Limited Malaysia (as a Group) holds 12.99% of the voting rights by 31 December 2010 due to the pledge of shares as mentioned above.

### 26. Other financial commitments

| CHF (000)<br>at nominal values | 2010  | 2009  |
|--------------------------------|-------|-------|
| Leasing and rent commitments   |       |       |
| - due next year                | 2,668 | 4,046 |
| - due within 2-5 years         | 2,779 | 4,457 |
| - due after 5 years            | 105   | 81    |
| Total                          | 5,552 | 8,584 |

The rental periods for land and buildings extend up to the year 2016. As of 31 December 2010, capital commitment authorised and contracted for amounted to CHF 0.1 million (2009: CHF 0.2 million).

## *Pelikan Group*

### 27. Related party transactions

Besides the transactions with related parties which are separately disclosed in the Notes, the other related party transactions are as follows:

| CHF (000)  | 2010   | 2009   |
|--|--------|--------|
| <u>Income</u>  |        |        |
| Other operating income   | 1,190  | 1,054  |
| <u>Expenses</u>  |        |        |
| Purchases of products from Pelikan Hardcopy Holding AG Group                     | 65,325 | 68,600 |
| Purchases of products from Herlitz AG Group                                      | 896    | -      |
| Purchase of logistic and related services from Pelikan Hardcopy Holding AG Group | 3,243  | 4,026  |
| Purchase of logistic and related services from Herlitz AG Group                  | 4,743  | -      |
| Purchase of information technology services from Herlitz AG Group                | 163    | -      |
| Purchase of sales related services from Herlitz AG Group                         | 16     | -      |

Pelikan Hardcopy Holding AG and Herlitz AG are subsidiaries of the Group's parent company, Pelikan International Corporation Berhad.

### 28. Events after the balance sheet date

These consolidated financial statements were approved by the Board of Directors on 28 April 2011.

From the loan agreement dated 29 April 2010 amounting to EUR 5 million between Pelikan Holding AG and Pelikan International Corporation Berhad ("PICB"), on 28 April 2011 PICB had declared an amount of EUR 2.5 million as waiver of claim with debt warrant effective by 28 April 2011.

No other significant events have occurred since the balance sheet date and up to 28 April 2011, which could have an impact on these consolidated financial statements or which are required to be disclosed.

*Pelikan Group*

**GROUP AND ASSOCIATED COMPANIES AS AT 31 DECEMBER 2010**

| Country and location | Name   | Capital stock in 1000 | Group Holding in % | thereof directly held by Pelikan Holding AG in % | Consolidation | Operation |
|----------------------|--|-----------------------|--------------------|--|---------------|-----------|
| <b>EUROPE</b>        |  |                       |                    |  |               |           |
| <b>Austria</b>       |  |                       |                    |  |               |           |
| Wiener Neudorf       | Pelikan Austria GesmbH                           | EUR                   | 872                | 100  | 100           | C D       |
| <b>Belgium</b>       |  |                       |                    |  |               |           |
| Groot-Bijgaarden     | Pelikan Belux N.V./ S.A.                         | EUR                   | 837                | 100  | 100           | C D       |
| <b>Bosnia</b>        |  |                       |                    |  |               |           |
| Odzak                | German Hardcopy doo                              | EUR                   | 1                  | 100  |               | C O       |
| <b>France</b>        |  |                       |                    |  |               |           |
| Les Ulis             | Pelikan France SAS                               | EUR                   | 250                | 100  | 100           | C D       |
| <b>Germany</b>       |  |                       |                    |  |               |           |
| Hanover              | Kreuzer Produktion + Vertrieb GmbH               | EUR                   | 26                 | 100  |               | C O       |
| Hanover              | Pelikan GmbH                                     | EUR                   | 7,670              | 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              | Remerch GmbH                                     | EUR                   | 95                 | 100  | 100           | C S       |
| Brilon               | Geha GmbH (formerly German Hardcopy AG)          | EUR                   | 237                | 100  | 90            | C D       |
| <b>Greece</b>        |  |                       |                    |  |               |           |
| Markopoulo-Attica    | Pelikan Hellas E.P.E.                            | EUR                   | 442                | 100  | 95            | C D       |
| Markopoulo-Attica    | Henkel-Pelikan Office Products Ltd.              | EUR                   | 60                 | 49   |               | E O       |
| <b>Italy</b>         |  |                       |                    |  |               |           |
| Milan                | Pelikan Italia S.p.a.                            | EUR                   | 1,560              | 100  |               | C D       |
| <b>Netherlands</b>   |  |                       |                    |  |               |           |
| Rotterdam            | Pelikan Nederland B.V.                           | EUR                   | 3,630              | 100  | 100           | C S       |
| <b>Spain</b>         |  |                       |                    |  |               |           |
| Lliçà del Vall       | Pelikan S.A.                                     | EUR                   | 1,000              | 100  |               | C D       |
| <b>Switzerland</b>   |  |                       |                    |  |               |           |
| Feusisberg           | Pelikan (Schweiz) AG                             | CHF                   | 500                | 100  | 100           | C D       |
| Fribourg             | Günther Wagner S.A.                              | CHF                   | 100                | 100  | 100           | C O       |
| <b>Sweden</b>        |  |                       |                    |  |               |           |
| Malmö                | Pelikan Nordic AB                                | SEK                   | 1000               | 100  | 100           | C D       |

**Pelikan Group**

**GROUP AND ASSOCIATED COMPANIES AS AT 31 DECEMBER 2010**

| Country and location   | Name  |     | Capital stock in 1000 | Group Holding in % | thereof directly held by Pelikan Holding AG in % | Consolidation | Operation |
|------------------------|---|-----|-----------------------|--------------------|--|---------------|-----------|
| <b>LATIN-AMERICA</b>   |   |     |                       |                    |  |               |           |
| <b>Argentina</b>       |   |     |                       |                    |  |               |           |
| Buenos Aires           | Pelikan Argentina S.A.                                    | ARS | 7,868                 | 51.6               | 3.2  | C             | D         |
| <b>Colombia</b>        |   |     |                       |                    |  |               |           |
| Santafé de Bogotá      | Pelikan Colombia S.A.S.                                   | COP | 15,487,749            | 54.6               | 9.1  | C             | P/D       |
| <b>Mexico</b>          |   |     |                       |                    |  |               |           |
| Puebla                 | Pelikan Mexico S.A. de CV                                 | MXP | 20,119                | 49.9               | 49.9   | C*            | P/D       |
| <b>Venezuela</b>       |   |     |                       |                    |  |               |           |
| Caracas                | Artof C.A.  | VEB | 50,020                | 25                 | 25   | E             | O         |
| <b>Costa Rica</b>      |   |     |                       |                    |  |               |           |
| San Jose               | Pelikan Costa Rica S.A.                                   | COL | 150,059               | 100                | 100  | C             | O         |
| <b>OTHER COUNTRIES</b> |   |     |                       |                    |  |               |           |
| <b>Australia</b>       |   |     |                       |                    |  |               |           |
| Milperra               | Columbia Pelikan PTY Limited                              | AUD | 2,659                 | 40                 | 40   | E             | P/D       |
| <b>Japan</b>           |   |     |                       |                    |  |               |           |
| Tokyo                  | Pelikan Japan K.K.  | JPY | 200,000               | 25                 | 25   | E             | D         |
| <b>Malaysia</b>        |   |     |                       |                    |  |               |           |
| Puchong                | Pelikan Asia Sdn. Bhd.                                    | MYR | 10,500                | 100                | 100  | C             | D         |
| <b>Turkey</b>          |   |     |                       |                    |  |               |           |
| Istanbul               | Pelikan Ofis Ve Kirtasiye Malzemeleri Ticaret Ltd Sirketi | TRY | 100                   | 60                 | 60   | C             | D         |
| <b>USA</b>             |   |     |                       |                    |  |               |           |
| Nashville, TN          | Pelikan, Inc.   | USD | 7,633                 | 100                | 100  | C             | O         |

**Consolidation:**

C = Fully consolidated

E = Equity Accounting

\* refer to note 1, Consolidation principles

**Operation:**

P = Production companies

D = Distribution companies

S = Service/Real estate companies

H = Holding companies

O = Companies without operational activity

## **Report of the statutory auditors on the consolidated financial statements**

to the general meeting of

### **Pelikan Holding AG, Feusisberg**

As statutory auditor, we have audited the accompanying consolidated financial statements of Pelikan Holding AG, which comprise the income statement, balance sheet, statement of cash flows, statement of changes in equity and notes (page 19 to 42) for the year ended 31 December 2010.

#### *Board of Directors' Responsibility*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements for the year ended 31 December 2010 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.

**Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Zurich, 28 April 2011

BDO Ltd

Andreas Wyss  
Auditor in Charge  
Licensed Audit Expert

Reto Frey  
Licensed Audit Expert

**Pelikan Holding AG, Feusisberg**

**Financial Statements  
2010**



**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER**

|                         | Note | 2010<br>CHF(000) | 2009<br>CHF(000) |
|-------------------------|------|------------------|------------------|
| Income from investments |      | 5,570            | 4,331            |
| Other operating income  |      | 67               | 175              |
| Administration expenses |      | (569)            | (734)            |
| Exchange differences    |      | 152              | 738              |
| Interest income         |      | 190              | 382              |
| Interest expense        |      | (625)            | (647)            |
| Extraordinary income    | 3    | 58               | -                |
| Extraordinary expenses  | 4    | (1,348)          | (11,614)         |
| Result before taxation  |      | <u>3,495</u>     | <u>(7,369)</u>   |
| Taxes                   |      | (7)              | (20)             |
| Net result for the year |      | <u>3,488</u>     | <u>(7,389)</u>   |

**BALANCE SHEET AS AT 31 DECEMBER**

|   | Note | 2010<br>CHF(000) | 2009<br>CHF(000) |
|---|------|------------------|------------------|
| <b>ASSETS</b>                                     |      |                  |                  |
| <b>Current assets</b>                             |      |                  |                  |
| Receivables from subsidiary companies             | 5    | 12,084           | 1,434            |
| Receivables from parent and its related companies |      | 884              | 858              |
| Bank  |      | 431              | 1,611            |
|   |      | <u>13,399</u>    | <u>3,903</u>     |
| <b>Non-current assets</b>                         |      |                  |                  |
| Investments                                       | 1    | 68,330           | 65,421           |
| Loans receivable from subsidiary companies        | 5    | 968              | 1,339            |
|   |      | <u>69,298</u>    | <u>66,760</u>    |
| <b>TOTAL ASSETS</b>                               |      | <u>82,697</u>    | <u>70,663</u>    |
| <b>EQUITY AND LIABILITIES</b>                     |      |                  |                  |
| <b>Current liabilities</b>                        |      |                  |                  |
| Payables to subsidiary companies                  | 6    | 9,389            | 9,730            |
| Other liabilities to third parties                |      | 362              | 429              |
| Short term provision                              |      | 308              | 1,742            |
|   |      | <u>10,059</u>    | <u>11,901</u>    |
| <b>Non-current liabilities</b>                    |      |                  |                  |
| Bank liabilities                                  | 7    | 2,276            | 3,327            |
| Payables to subsidiary companies                  | 6    | -                | 873              |
| Payables to parent                                | 8    | 16,079           | 3,767            |
|   |      | <u>18,355</u>    | <u>7,967</u>     |
| <b>Shareholders' equity</b>                       |      |                  |                  |
| Capital stock                                     | 9    | 100,100          | 100,100          |
| Legal reserve                                     |      | 1,166            | 1,166            |
| Revaluation reserve                               | 10   | 12,286           | 12,286           |
| Retained earnings                                 |      | (59,269)         | (62,757)         |
|   |      | <u>54,283</u>    | <u>50,795</u>    |
| <b>TOTAL EQUITY AND LIABILITIES</b>               |      | <u>82,697</u>    | <u>70,663</u>    |

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER**

| CHF (000)                   | Capital<br>stock | Legal<br>reserves | Revaluation<br>reserve | Retained<br>earnings | Total Equity  |
|-----------------------------|------------------|-------------------|------------------------|----------------------|---------------|
| Balance 1 Jan. 2009         | 100,100          | 1,166             | 12,286                 | (55,368)             | 58,184        |
| Result 2009                 | -                | -                 | -                      | (7,389)              | (7,389)       |
| <b>Balance 31 Dec. 2009</b> | <b>100,100</b>   | <b>1,166</b>      | <b>12,286</b>          | <b>(62,757)</b>      | <b>50,795</b> |
| Result 2010                 | -                | -                 | -                      | 3,488                | 3,488         |
| <b>Balance 31 Dec. 2010</b> | <b>100,100</b>   | <b>1,166</b>      | <b>12,286</b>          | <b>(59,269)</b>      | <b>54,283</b> |

## NOTES TO THE FINANCIAL STATEMENTS 2010

### 1. Investments

The investments of Pelikan Holding AG are shown in the list of group companies pages 43 and 44.

### 2. Risk Management

Beside the assessment of strategies, the exploration of market opportunities and the periodical analysis of results, the Board of Directors has also assessed the risks inherent in the business of the Group. The enterprise risk management policy of Pelikan Group is to identify, measure and control risks that may prevent the Group from achieving its business objectives. Pelikan Group seeks to apply risk management in all parts of its business to ensure risks are minimized and opportunities are explored.

The key elements of the Group's risk management strategies are:

- 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; and
- Regular visits to operating units by members of the Board and senior management.

Pelikan Holding AG is integrated in this risk management process of Pelikan Group.

### 3. Extraordinary income

| CHF (000)                  | 2010 | 2009 |
|----------------------------|------|------|
| Gain on sale of investment | 58   | -    |

### 4. Extraordinary expenses

| CHF (000)   | 2010  | 2009   |
|---|-------|--------|
| Value adjustment for waiver of loan with debt warrant to subsidiaries | -     | 5,012  |
| Value adjustment for loan to subsidiaries                             | 1,348 | 3,578  |
| Provision for guarantee granted to a subsidiary                       | -     | 1,742  |
| Value adjustment for waiver of loan to subsidiaries                   | -     | 1,266  |
| Value adjustment for other receivables                                | -     | 16     |
| Total   | 1,348 | 11,614 |

*Pelikan Holding AG, Feusisberg*

**5. Loans receivable from subsidiary companies**

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

**6. Payables to subsidiary companies**

At the end of 2010, payables to subsidiary companies include mainly the liabilities to Pelikan PBS-Produktionsgesellschaft mbH & Co. KG and Pelikan Vertriebsgesellschaft mbH & Co. KG, both in Hanover, Germany as well as to Pelikan Belux NV / SA, Groot Bijgaarden, Belgium in the amount of CHF 7.1 million (2009: CHF 5.0 million, mainly to Pelikan PBS-Produktionsgesellschaft mbH & Co. KG and Pelikan Vertriebsgesellschaft mbH & Co. KG, both in Hanover, Germany).

**7. Bank liabilities**

The bank liabilities of the Company amounting to CHF 2.3 million (2009: CHF 3.3 million) are secured by shares in a subsidiary, Geha GmbH, at carrying value of CHF 6.6 million (2009: CHF 6.6 million).

**8. Payables to parent**

At the end of 2010, this is the payable to the parent, Pelikan International Corporation Berhad.

**9. Capital stock**

At 31 December 2010, the capital stock of CHF100.1 million comprises the following shares:

539,000 Registered shares of nominal CHF65  
1,001,000 Bearer shares of nominal CHF65

By 31 December 2010, half of the share capital and the legal reserves are no longer covered (Art 725p1 OR). From the loan agreement dated 29 April 2010 amounting to EUR 5,000,000.00, Pelikan International Corporation Berhad on 28 April 2011 had declared an amount of EUR 2,500,000.00 as waiver of claim with debt warrant effective by 28 April 2011. Therefore, as of to date half of the share capital and the legal reserves are covered.

**10. Revaluation reserve**

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.

**11. Compensation, shareholdings and loans**

**Remuneration of members of the Board of Directors in 2010**

CHF (000)

|   | Salaries   | Bonus     | Compensation for Board committee members | Pension, social insurance fund and benefits in kind | Total 2010 | Total 2009 |
|---|------------|-----------|--|---|------------|------------|
| <b>Executive directors</b>                      |            |           |  |   |            |            |
| Loo Hooi Keat*                                  | -          | -         | -  | -   | -          | -          |
| Ng Cheong Seng**                                | 114        | 26        | -  | 17  | 157        | 92         |
| Peter Raijmann                                  | 224        | -         | -  | 39  | 263        | 269        |
| <b>Total remuneration of Board of Directors</b> | <b>338</b> | <b>26</b> | <b>-</b>                                 | <b>56</b>   | <b>420</b> | <b>361</b> |

Members of the Executive Board and Group Management of the Company receive remuneration and benefits as shown in the table below.

**Remuneration of the Executive Committee and Group Management in 2010**

CHF (000)

|   | Salaries | Bonus | Compensation for Board committee members | Pension, social insurance fund and benefits in kind | Total 2010   | Total 2009   |
|---|----------|-------|--|---|--------------|--------------|
| <b>Chief Executive Officer</b>  |          |       |  |   |              |              |
| Loo Hooi Keat*  | 427      | -     | -  | 93  | 520          | 449          |
| <b>Others</b>   |          |       |  |   |              |              |
| Annual salaries   |          |       |  |   | 803          | 919          |
| Bonus   |          |       |  |   | 214          | 253          |
| Pension and social insurance fund                                     |          |       |  |   | 84           | 96           |
| Benefits in kind  |          |       |  |   | 52           | 55           |
| Severance payment#  |          |       |  |   | 158          | -            |
| <b>Total remuneration of Executive Committee and Group Management</b> |          |       |  |   | <b>1,311</b> | <b>1,323</b> |

**11. Compensation, shareholdings and loans (Contd.)**

- \* Remuneration of Loo Hooi Keat was paid by the parent company, Pelikan International Corporation Berhad, in the capacity as Chief Executive Officer ("CEO") of Pelikan International Corporation Berhad Group (including Pelikan International Corporation Berhad's direct subsidiaries, Pelikan Holding AG Group and Pelikan Hardcopy Holding Group and Herlitz AG Group).
- The President and CEO, Loo Hooi Keat was the member of the Board of Directors and Group Management with the highest total remuneration for 2010.
- \*\* Remuneration of Ng Cheong Seng was paid by the parent company, Pelikan International Corporation Berhad, in the capacity as of Group Corporate Services of Pelikan International Corporation Berhad Group (including Pelikan International Corporation Berhad direct subsidiaries, Pelikan Holding AG Group and Pelikan Hardcopy Holding AG Group and Herlitz AG Group).
- # The "severance payment" disclosed above was paid as mutual settlement fee to Arno Alberty who resigned in 2010. Other than that, there was no other severance payment made in 2010 to any Board Member or Member of the Group Management who resigned in earlier years. There are no other contracts with Members of the Board of Directors or Group Management providing for severance payments during the year.
- No compensation was paid in 2010 financial year to members of the Board of Directors or Group Management who stepped down in the previous period.
- There was no non-cash compensation in the form of shares or options or any other form given to the Company's governing bodies.
- None of the members of the management team held shares in Pelikan Holding AG as of 31 December 2010. The direct and indirect interest of Loo Hooi Keat in Pelikan International Corporation Berhad is 3.01% and 21.46% respectively.
- No advances or credits were granted to any members of the Board of Directors.
- There are no pension commitments in respect of current or former members of the Board of Directors of Pelikan Holding AG.
- In case of dissolving the engagement with the company, there are no agreements providing for a benefit of the members of the Board of Directors or the management.

**12. Parent company**

As of 31 December 2010, Pelikan International Corporation Berhad, Malaysia, a company listed in Bursa Malaysia Securities Berhad (the Malaysia Stock Exchange) held effectively 96.49 % (direct and indirect) of the shares of Pelikan Holding AG.

### **13. Significant shareholders**

Pelikan International Corporation Berhad, a company listed in Bursa Malaysia Securities Berhad (the Malaysia Stock Exchange) ("Bursa Malaysia") has a direct and indirect holding of 1,445,981 (93.89%) and 40,000 (2.60%) in Pelikan Holding AG shares. Due to the pledge of some of the shares with transfer of the voting rights to certain Malaysian banks for financing purposes, the percentage of voting rights of Pelikan International Corporation Berhad by 31 December 2010 is 51.69%. The voting rights percentage of HSBC Bank Malaysia Berhad is 16.23%, the voting rights percentage of CIMB Bank Malaysia Berhad equals to 12.99% and OCBC Bank Malaysia Berhad and Overseas Chinese Banking Corporation Limited Malaysia (as a Group) holds 12.99% of the voting rights by 31 December 2010 due to the pledge of shares as mentioned above.

### **14. Contingent liabilities / Guarantees**

Pelikan Holding AG, Pelikan GmbH and Pelikan PBS-Produktionsgesellschaft mbH & Co. KG jointly guaranteed the obligations of a subsidiary related to the assignment of receivables for financing purposes up to maximum of CHF 12.5 million (2009: CHF 14.9 million). The financed amount as at 31 December 2010 was CHF 1.4 million (2009: CHF 0.3 million).

Additionally, Pelikan Holding AG granted letters of comfort, guarantees and an additional assumption of debt to banks and financial institutions in favour of its subsidiaries for credit line of a maximum of CHF 19.2 million (2009: CHF 33.6 million).

### **15. Events after the balance sheet date**

These statutory financial statements were approved by the Board of Directors on 28 April 2011.

From the loan agreement dated 29 April 2010 amounting to EUR 5 million, Pelikan International Corporation Berhad on 28 April 2011 had declared an amount of EUR 2.5 million as waiver of claim with debt warrant effective by 28 April 2011.

No other significant events have occurred since the balance sheet date and up to 28 April 2011, which could have an impact on these financial statements or which are required to be disclosed.



*Pelikan Holding AG, Feusisberg*

**PROPOSAL OF THE BOARD OF DIRECTORS FOR THE TREATMENT OF ACCUMULATED DEFICIT AS OF 31 DECEMBER 2010**

| CHF (000)  | 2010                   | 2009            |
|--|------------------------|-----------------|
| Accumulated deficit at 1 January                         | <b>(62,757)</b>        | (55,368)        |
| Net result for the year                                  | <b>3,488</b>           | (7,389)         |
| Accumulated deficit at 31 December to be carried forward | <b><u>(59,269)</u></b> | <u>(62,757)</u> |

## **Report of the statutory auditor**

to the general meeting of

### **Pelikan Holding AG, Feusisberg**

As statutory auditor, we have audited the accompanying financial statements of Pelikan Holding AG, which comprise the income statement, balance sheet, statement of changes in equity and notes (pages 48 to 56) for the year ended 31 December 2010.

#### *Board of Directors' Responsibility*

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements for the year ended 31 December 2010 comply with Swiss law and the company's articles of incorporation.

**Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of accumulated deficit complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zurich, 28. April 2011

BDO Ltd

Andreas Wyss  
Auditor in Charge  
Licensed Audit Expert

Reto Frey  
Licensed Audit Expert

*Pelikan Holding AG, Feusisberg*

**INSTITUTIONS / MANAGEMENT as at 31 December 2010**

**Board of Directors**

**Loo Hooi Keat**

President

Selangor Darul Ehsan/ Malaysia

**Ng Cheong Seng**

Vice President

Selangor Darul Ehsan/ Malaysia

**Peter Rajjmann**

Member

Hanover/ Germany

**Secretary of the Board of Directors**

**Frauke Wandrey**

Hanover/ Germany

**Auditors**

**BDO Ltd**

Zurich/ Switzerland

**Management**

**Loo Hooi Keat**

Selangor Darul Ehsan/ Malaysia

**Ng Cheong Seng**

Selangor Darul Ehsan/ Malaysia

**Peter Rajjmann**

Hanover/ Germany

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