CHAIRMAN'S STATEMENT

I am pleased to present my review of the results and operations of the Herald Group (the "Group") for the year ended 31 March 2003.

RESULTS

The financial year under review was very challenging for the Group. The global economy continued to be hampered by the crisis over Iraq and consumers' sentiments in the group's major markets remained low. The strike on the US West Coast also further adversely affected the export business in Hong Kong at the end of 2002. However, the Group managed to turn around and returned to profitability in 2002. The Group's turnover for the year ended 31 March 2003 amounted to HK$926 million, representing a 7% increase as compared to the turnover of HK$867 million in the last financial year. Net profit attributable to shareholders was HK$30.6 million as compared to a net loss of HK$32.4 million in the previous financial year. Last year, the net loss included impairment losses and revaluation deficits for the Group's properties amounting to HK$36.9 million. Before these charges, the Group had a net profit of HK$4.5 million in the year ended 31 March 2002. The earnings per share for the year was HK4.92 cents as compared to last year's loss per share of HK5.19 cents.

REVIEW OF OPERATIONS

Toy and Gift Division

Bolstered by the strong sales of Star Wars action figures, the Toy and Gift Division recorded a very strong growth in the first half of the financial year over the same period in 2001. In the second half financial year, the growth leveled off as sales of the Star Wars toys slowed down. The overall toy industry was weak amidst a very weak market sentiment, resulting from the military crisis in Iraq and the prolonged weakness of the global economy. The Division successfully developed some new toy products with some new customers which also contributed to the increase of sales in the fourth quarter in the year under review. Throughout the year, the political uncertainties led to rapid rises in plastic material prices. The Division took early measures to reduce this negative impact of rising costs by purchasing larger quantities of plastic material ahead of production. The Division finished the financial year under review with a 14% increase in sales and a satisfactory result.

To cope with the future expansion, the Toy and Gift Division set up a new factory in Fulong, Dongguan, PRC. The total investment for the factory, which has a total floor area of approximately 120,000 sq. ft., is approximately HK$15 million.

Computer Head Division

The Computer Head Division experienced a satisfactory increase in the thin film head business. However, this was not enough to make up for the rapid decline in the ferrite head business due to changing technologies. As a result, the Division recorded a substantial net loss. To reduce its overall reliance on the tape head business, new products have been developed in the fields of fiber optics and biometrics and are currently being introduced to potential customers and markets. The Division is undergoing a restructuring in order to correspond with the current level of business.

REVIEW OF OPERATIONS *(CONTINUED)*

Houseware Division

For the year under review, the Houseware Division performed well. The overall sales of the Division increased by 37% over the last financial year. Sales of aluminium cookware and stainless steel cookware grew by 26% and 80% respectively. Following the success of the stainless steel cookware, the Division developed a wider range of cookware products for its customers. These new products include carbon steel cookware, copper bottom stainless steel cookware and tri-ply stainless steel cookware. These new products have been well received by the customers.

Timepiece Division

We are pleased to report that the Timepiece Division returned to profitability in the second half financial year and recovered partially the losses suffered in the first half of the financial year. The improvement was partly due to the strength of sterling which helped to improve the gross profit margin. Following the closure of the operation in France in March 2002, the Division's operation in Germany also ceased business in January 2003. These operations were loss making and had been cash drains for the Division in previous years. After their closures, the Division can now focus more on the UK market. Substantial sales were achieved through customers who focus on television and internet marketing.

FINANCIAL POSITION

The Group has maintained its sound financial position. At the end of the financial year, the Group had a strong balance sheet with a healthy liquidity position. As at 31 March 2003, the Group had total assets of HK$566 million (2002: HK$557 million) which were financed by current liabilities of HK$94 million (2002 as restated: HK$113 million), non-current liabilities of HK$6 million (2002: HK$6 million), minority interests of HK$26 million (2002: HK$18 million) and shareholders' equity of HK$440 million (2002 as restated: HK$420 million).

At 31 March 2003, the Group's cash balances aggregated to HK$160 million representing an increase of HK$29 million over the balance of HK$131 million in last year's balance sheet. The increase in the Group's cash balances was largely due to the positive cash inflows from operation after non-cash items such as depreciation charges. The Group's current assets position as at 31 March 2003 was HK$373 million which was similar to the level at the last year-end. The trade and other receivables decreased to HK$95 million from HK$121 million as at 31 March 2002 partly due to an overall reduction of sales volume of the Computer Head Division and partly due to less shipments of the Toy and Gift Division in March 2003.

The Group's current liabilities decreased from HK$113 million to HK$94 million primarily due to decrease in trade and other payables that is attributed to the same factors affecting the level of trade and other receivables above-mentioned.

As in the previous year, the Group's borrowings were maintained at a low level of HK$1 million (2002: HK$3 million). None of the Group's assets are charged to secure the Group's banking facilities. Furthermore, the Group has no long-term borrowings. The Group's gearing ratio, which is calculated based on the Group's total borrowings and the shareholders' equity, was 0.002 (2002: 0.008). As at 31 March 2003, the working capital ratio, an indicator of a company's liquidity represented by a ratio between the current assets over the current liabilities, was 3.96 compared to 3.22 last year. The quick ratio, another ratio that gauges the short-term liquidity of a company measured by trade debtors and cash at bank and in hand over the current liabilities, increases to 2.45 from 2.08.

CONTINGENT LIABILITIES

As at 31 March 2003 the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the year under review, approximately 28% of the Group's turnover is denominated in sterling and euro. From time to time, the Group enters forward foreign exchange contracts to hedge its foreign exchange exposure.

PROSPECTS AND GENERAL OUTLOOK

In the middle of March 2003, SARS broke out in Hong Kong. Soon, the deadly disease spread to Beijing and other northern provinces in China. Hong Kong and Guangdong, where the Group's factories are located, were declared SARS affected areas by the World Health Organization. Though SARS has not directly caused any damage to us, toy production plans were adversely affected as local authorities banned any new recruitment of workers. While the disease was gradually brought under control by late May in both Hong Kong and China, the Toy and Gift Division may have some late shipments in the following months.

On the positive side, we are delighted that the war in Iraq was over by the middle of April 2003. This has cleared away a major uncertainty, which affected both the economy of the USA and the world.

On the whole, we are optimistic about the Group's performance in 2003. Both the Toy and Gift Division and the Houseware Division will continue to perform well in the new fiscal year. Zeon, the Timepiece Division's operation in the UK, started the new fiscal year with stable sales and a positive outlook. Furthermore, without the financial burdens of its subsidiaries in France and Germany, Zeon's profits from the operation in the UK will fully be reflected in the Group's results.

On the other hand, the Computer Head Division may still face very difficult market conditions. However, with reduced overheads, it can now break-even at lower turnover levels.

DIVIDENDS

Last year, the Company paid a final dividend of HK1 cent per share and did not pay any interim dividend. This year, the Company resumed the payment of an interim dividend of HK1 cent per share. At the forthcoming Annual General Meeting to be held on 18 September 2003, the Directors will recommend a final dividend of HK2 cents per share. Together with the interim dividend, the dividend for the year of HK3 cents would represent an annual return of 15% on the Company's average share price of HK20 cents in the year ended 31 March 2003.

The total final dividend will amount to HK$12,305,000 and is calculated based on the total number of shares in issue as at 14 July 2003 being the latest practicable date prior to the announcement of the results. Dividend will be payable on 26 September 2003 to shareholders registered in the Register of Members on 18 September 2003.

APPRECIATION

On behalf of the Board of Directors and shareholders, I should like to extend my sincere thanks to all the Group's employees for their efforts and hard work under difficult market conditions.

George Bloch
Chairman

Hong Kong, 15 July 2003