

Chairman's Statement

On behalf of the board of directors ("Directors") of Mainland Headwear Holdings Limited (the "Company"), I am pleased to announce another year of positive results for the Company and its subsidiaries (collectively called the "Group") for the year ended 31 December 2001. This is the second annual report since the Group has successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 13 December 2000.



Mr. Ngan Hei Keung, *Chairman*

RESULTS

The Group's turnover and profit attributable to shareholders for the year under review amounted to HK\$288,565,000 and HK\$62,527,000 respectively, representing a growth of 19.0% and 42.7% respectively when compared to that of the same period in the previous year. Earnings per share for the year were HK26.0 cents. The board of Directors ("Board of Directors") recommends the payment of a final dividend of HK5 cents per share in respect of the year ended 31 December 2001, subject to the approval of shareholders at the forthcoming annual general meeting of the Company.

BUSINESS REVIEW

Despite the general economic slowdown, the headwear industry in the USA continued its growth trend. We attribute this growth to the robust sporting games encompassing NBA, NFL, NHL, MLB and car-racing events such as NASCAR, sustaining strong demand for our products. Other world-renowned sports brands such as Nike, Reebok, Fila, Ferrari, also sustained their popularity amongst consumers which benefited our business.

In early 2001, the Group had successfully obtained the headwear production rights for leading sportswear brands Nike, Reebok, Wrangler, Umbro, as well as the patent rights for Perfect Fit, the built-in elastic band headwear. Business has grown rapidly pursuant to these new customers who contributed favourably to our revenues.



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Other business developments included promotional caps for Hollywood movies such as Star Wars III, Michael Jordan's comeback to NBA, and patriotic American caps as a result of the "911" incident. The Group has also diversified the product range to include dress hats and a winter range of knit hats. The uniform caps business remained strong with demand from the fast food chains and restaurants such as Burger King and Sonic in the USA.



Showroom

To meet our fast business growth and to cater to the demands of our customers, we have constructed a new 8-storey factory building comprising an area of approximately 200,000 square feet space adjacent to our existing facilities in Shenzhen, the PRC. It is anticipated that manufacturing will commence shortly, and, our production capacity will be increased by approximately 80%.



Zhen Han Industrial City, Buji, Shenzhen

Corporate Development

On 27 December 2001, the Group acquired shares in the two associates, namely, Drew Pearson Marketing, Inc. ("DPM") and Drew Pearson International, Inc. ("DPI") so as to increase its equity shareholding in DPM from 28.57% to 42.86%, and its equity shareholding in DPI from 25% to 33.33%. This has further strengthened the Group's business relationship with DPM and DPI and enhanced the Group's leading international position in the licensed casual headwear industry.

On 13 March 2002, we announced that we had entered into an agreement for the sale and purchase of shares in DPM and DPI so as to increase the Group's shareholdings in DPM and DPI to 85.72% and 66.67% respectively. The completion of the sale and purchase agreement is expected to take place on or before 30 April 2002.

In March 2002, Templeton Strategic Emerging Funds LDC ("Templeton") and Paramount Apparel International, Inc. ("Paramount") had purchased 18,000,000 and 2,000,000 existing shares in the Company from the Company's major shareholder, Successful Years International Co., Ltd. ("Successful Years") and Successful Years had subscribed an aggregate of 20,000,000 new shares in the Company. The net proceeds of approximately HK\$34 million arising from such subscription will serve as general working capital for the Group.

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OUTLOOK

China's entry into the WTO is expected to create abundant business opportunities for the Group. Foreseeing this, we will be launching our e-commerce platform, aiming to capture additional business in view of the convenience and exceptional quick-time delivery. We will also continue our efforts to expand our market share in the USA and to develop other potential markets.

DPM's recent success in acquiring the exclusive license to manufacture and distribute headwear for the US national motor sports league, Team Racing Auto Circuit (TRAC), further strengthens DPM's leading position among license-holders of headwear products, and will benefit the Group as the manufacturer for TRAC's licensed headwear products.

We consider our staff to be our most valuable assets and, in this regard, we have placed great emphasis on staff training and development, aiming to upgrade management excellence and to offer more value-added services to our customers.

The Group will continue to streamline operational functions including strict cost controls to maximize returns to our shareholders.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express our deep appreciation to all our customers, suppliers, financial institutions, shareholders and staff for their continuous support.

Ngan Hei Keung

Chairman

16 April 2002

Awards



2001 Young Industrialist Awards of Hongkong

Pauline Ngan, Deputy Chairman and Managing Director of Mainland Headwear, received the 2001 Young Industrialist Awards of Hongkong. This annual event is organized by the Federation of Hong Kong Industries in recognition of the outstanding achievements made by Hong Kong's young industrialists in the manufacturing sector.

ISO 9002

The Company's successful receipt of ISO 9002 quality management certification, awarded by BSI, U.K., is clear recognition that our quality management systems in planning and implementation meet internationally recognized standards.

We are pleased to report that our ISO 9002 certification was recently upgraded to ISO 9001:2000 certification.

This further demonstrates our continuous efforts and dedication to enhance management excellence.

