

Chairman's Statement



On behalf of the board of directors (the "Board of 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 2002. This is the third annual report since the Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 13 December 2000.

RESULTS

The Group's turnover and profit attributable to shareholders for the year under review amounted to HK\$394,122,000 and HK\$64,032,000 respectively, representing growth of 36.6% and 2.4% respectively compared to those of the same period in the previous year. Basic earnings per share for the year were HK23.7 cents. The Board of Directors recommends the payment of a final dividend of HK6 cents per share in respect of the year ended 31 December 2002, subject to the approval of shareholders at the Company's forthcoming annual general meeting.

BUSINESS REVIEW

Although consumer spending was generally weak in 2002, this did not have a negative impact on the headwear industry which remained strong in the United States ("US"), our major market. The US's strong headwear culture and robust sporting events such as NBA, NHL, MLB, NCAA and car-racing events such as NASCAR, sustained strong demand for our products. Other leading sports brands such as Reebok, Wrangler, Fila and Ellesse, also maintained their popularity amongst consumers which benefited our business.

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In the second half of 2002, the Group successfully obtained licenses for leading brands such as AFL (Arena Football League), Mudd and a famous sunglasses and sportswear brand which further enriched our customer portfolio. Business development with these new customers is progressing favourably, providing strong momentum for growth into the future.

Other business developments included additional manufacturing rights for private labels.



Ms. Pauline Ngan, Deputy Chairman and Managing Director

The baseball cap is still the dominant style. However, a diversified range of dress hats and knit hats were well received by the market. The uniform caps business remained strong with demand from fast food chains such as Burger King and Sonic in the US.

Our new 8-storey factory building comprising of approximately 200,000 square feet of space adjacent to our existing facilities in Shenzhen commenced operations last year with the installation of the first new production line in April 2002 and the second new production line in October 2002, increasing our production capacities by about 20%. We also set up a laboratory which is located in the new factory building to test fabrics for health-risk chemicals, e.g. formaldehyde. This move not only improves the quality of our products but also enhances our capability for new product development. Two additional production lines will also come on stream in 2003 and a further two in 2004, ultimately increasing the Group's production capacity by 80%.



Cap Assembly Line

During the year under review, we added 30 digitized embroidery machines, bringing the total to 130. This machinery upgrade will enhance our ability to meet increasing demands from our customers. Our digitized embroidery department has also created innovative new embroidery techniques to the delight of our customers.

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In October 2002, we set up our own carton box production unit to streamline overall efficiency. Not only can we avoid increasing price pressures from carton suppliers, it also enabled us to be well prepared for the provision of logistics services to customers. To date, this unit is performing highly satisfactorily, enhancing our competitive strength and production efficiencies by reducing material costs.



Carton Box Production Unit

CORPORATE DEVELOPMENT

During the year, the Group increased the equity shareholding in Drew Pearson Marketing, Inc. ("DPM") from 42.86% to 85.72%, and increased the equity shareholding in Drew Pearson International, Inc. ("DPI") from 33.33% to 66.67%. This further strengthened the Group's business relationships with DPM and DPI and enhanced the Group's leading international position in the licensed casual headwear industry.

During the same period, we also placed 18,000,000 shares to Templeton Strategic Emerging Funds LDC ("Templeton") and 2,000,000 shares to Paramount Apparel International, Inc. ("Paramount") through our major shareholder, Successful Years International Co., Ltd. ("Successful Years"). Successful Years had also subscribed for 20,000,000 subscription shares (the "Subscription"). The net proceeds of the Subscription amounted to approximately HK\$34 million which served as general working capital for the Group.

OUTLOOK

China's entry into the World Trade Organization has created abundant business opportunities for the Group. Foreseeing this, we have launched our e-commerce platform during the year under review for the specific use of our existing customers, aiming to capture further business with added convenience and exceptional quick-time delivery. We also continue our efforts to expand our market share in the US and to develop other potential markets such as those in Europe, Australia and Asia.

Expanding our product categories, the coming year will see more of our cap products penetrating the golfing, hunting and fishing segments. There is also a growing trend for fashion headwear and increasing interest in fabric variety such as waterproof and thermal materials. We are very confident that our business will continue to grow favourably this year both among our existing customers and also through the gaining of additional market share.

We are planning to set up a sportswear division in the second half of the year 2003 to cater to the demands from some of our customers to provide T-shirts and caps as sets. Further enhancing our first-class customer services, we began providing logistics services to a number of customers early last year. These value-added services have further strengthened our relationships with these customers.



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We consider our staff to be our most valuable resource. In this regard, we engaged a "management excellence" consultancy firm to upgrade the management skills of our middle management in Hong Kong and Shenzhen. Emphasis on staff training and development continues to be ongoing.

The Group views corporate governance as a matter of great importance and strictly monitors compliance in all areas. We also continue to streamline operational functions maintaining strict cost controls to maximize returns to our shareholders.



Zhen Han Industrial City, Buji, Shenzhen

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

Hong Kong

9 April 2003



Zhen Han Industrial City, Buji, Shenzhen