

SUN Sports wear

SUN
SPORTSWEAR



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MESSAGE TO SHAREHOLDERS

Sun truly exists for and considers itself an extension of our fine customers. The service-oriented partnerships we have established and continue to strengthen are the foundation that drives our Company's efforts. This focus and commitment to service and responsiveness is felt through sales, design, merchandising, sourcing, production, and other support functions at Sun. The attitude and culture that exists at Sun gives longevity to the system and provides value for our investors.

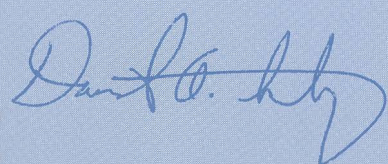
Our revenue growth was 24% in 1989 from 1988 levels. Target, Wal-Mart, and K mart continue to provide the fastest rate of sales growth. We were pleased to add Toys "R" Us and Montgomery Ward to our customer family in 1989 and we expect continued significant growth with our existing and our new customers in 1990.

Sun introduced a new line of juniors' and girls' wear in 1989. Reception was and continues to be excellent. Sales of over \$3 million were generated in the second half of 1989 and sales for this new area are projected to reach \$8 million in 1990. Our proprietary sales remain strong in men's and boys' wear and continue to give us the volume base to operate efficiently. In the licensing area, we recently acquired the National Wildlife Federation license and early indications are that this license will be excellent in the long term.

Sun moved into its new Washington facility in October of 1989. This operation is without question state of the art in our industry. Sophisticated bar coding inventory systems, clean air production areas, a future automated hanging system, in-house ink mixing equipment, and electronic data interchange and ticketing programs are some of the examples of the continued commitment to create an excellent work environment for our people and enhance service to our customers.

Our facility in Johnson City, Tennessee was expanded dramatically in 1989. In 1990 this facility will undergo new expansion from the existing 76,000 square feet to over 225,000 square feet. The expansion will be completed by mid 1991.

As we look back to 1989, Sun has succeeded in building for its future with the new facility expansions, system enhancements, the introduction of a new product line, continued successes with its proprietary and licensed designs, and our initial public offering to you, our shareholders. We feel we have set the framework for continued growth in the 1990's.



MERCHANDISING AND DESIGN



Garment design capabilities allow Sun to present new style ideas to its customers.

Sun Sportswear purchases and screen prints casual sportswear for adults and children. Using its own design department, combined with licenses such as "Garfield," "The Jetsons," and "National Wildlife Federation," Sun Sportswear screen prints images onto a wide variety of garments and markets them nationwide. The Company has sold primarily men's and boys' apparel and in mid 1989 introduced a line of imprinted juniors' and girls' tops.

In the mid 1980's, Sun found acceptance in the growing mass merchandise industry and captured market share in this important portion of the retail business. The philosophy of Sun, which was and still is to approach the business as a commodity first and as fashion second, seems to parallel the needs of large national and regional retail chains as casual sportswear was becoming, and is today, a significant part of everyday wardrobes.

Today, Sun is an important supplier to approximately 30 national and regional retailers, including Wal-Mart, Target, K mart, Bradlees, Ames, Mervyns, and Shopko.

Combining the talents of approximately 30 in house artists, Sun Sportswear has one of the finest and most responsive art departments of any screen printer in the country. Our art staff allows us to respond quickly to our customer demands with variety and freshness in art designs. With our licenses and Sun's own "Rude Dog," as well as fifteen to twenty other categories of art, Sun's design department creates over 2000 new graphics each year. Sun turns over about 40 percent of its graphics each month so retailers can regularly show their customers new product designs.

Sun's ability to develop the right garments in step with the designs comes from a merchandising staff that monitors apparel trends. Through constant communication with the retailers, the design and merchandising team works to create the perfect mix of color, style and design each season.



Sun's 29 artists create over 2000 designs annually.

PRODUCT SOURCING



Sun obtains various garment styles from both domestic and foreign sources.

Sun Sportswear purchases over 20 million garments annually for screen printing. About 65 percent of the garments are supplied by fifteen domestic vendors located primarily in the Southeastern United States, in close proximity to the Company's Johnson City, Tennessee facility. The remaining 35 percent of our product is purchased from 16 foreign suppliers

primarily located in Pakistan, Portugal, Peru, Costa Rica, Honduras, and Israel. Most of the garments from these sources enter the United States through the Seattle, Washington port.

The Company has developed a network of suppliers across the globe. Sun's offshore and domestic production provides a base of relatively low-cost, high-value products, that result in a good gross margin for the Company and a good value for the ultimate consumer.

We are constantly striving to improve quality, price and delivery. Sun's garments are made strictly to our specifications, from the width to the weight of fabric used. We control quality through on site inspection, both domestically and overseas.

As most of Sun suppliers are "vertical" manufacturers, with the capability of garment development from yarn spinning through knitting, dye/finish and construction, we find this type of supplier providing us with more control and greater quality and service – elements essential to Sun's growth.

SUN SPORTSWEAR
1989



WAREHOUSING

One of the reasons for Sun Sportswear's success with its customers is its ability to ship large volumes of garments in a short period of time. To do this, the Company commits a significant amount of capital in maintaining adequate levels of unprinted garments.

In the new Kent, Washington facility, Sun has installed a high-rack, bar coded warehouse operating system. The total warehouse capacity of this facility ranges from 6 million to 7.2 million garments, depending on the types of garments.

A system similar to Kent's will be installed in Johnson City in the near future. The present warehouse capacity for the Johnson City operations ranges from 1 million to 1.3 million garments.

Sun's commitment to stocking inventory in these volumes enhances its ability to deliver timely and to take advantage of sales opportunities when they arise.



Sun's new Kent, Washington warehouse is completely bar coded for improved inventory tracking.

PRODUCTION

Sun operates two production facilities: one in Kent, Washington, and one in Johnson City, Tennessee.

During 1989, Sun relocated its Washington facility to a new 230,000 square foot building in Kent. The new facility houses 13 automatic screen printing presses and 2 belt presses. Shipments totaled over 14 million garments in 1989, which represents a 10% increase over 1988 shipments. There are 420 employees in the Kent facility of which 170 are in the production departments. Kent production departments encompass the printing of all sales and production samples as well as a production development group with a concentration on research and development. The screen department is geared for volume and can process over 200 screens per day from the emulsion coating to the reclaiming process.

The Johnson City facility was opened in September 1988 with three automatic presses. With expansion during 1989, this facility now has eight automatic presses



Sun has two production facilities, one in Washington and one in Tennessee.

and shipped over 5 million garments in 1989. There are 185 employees in this facility of which 97 are in the production departments. All of Sun's production of fleece bottoms has been transferred and expanded in Johnson City along with several printing accessory innovations which enhance the ability of Sun's printing processes.

Expansion plans at the Tennessee facility call for an increase to eleven automatic presses in 1990, with the ability for even greater expansion in the future.

Development of training programs to further develop skill levels and offer opportunity for promotion to production personnel has continued to evolve.

Sun's concern for quality and responsiveness for its customers and our teamwork philosophy are already established traditions in both our Washington and Tennessee facilities.



Multi-color automatic screen press.



BOARD OF DIRECTORS AND MANAGEMENT

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Randy H. Clark
President

L. Kaye Counts
Vice President Operations

George Rodak
Vice President Purchasing

Deborah K. Skiles
Vice President Finance

SHAREHOLDER INFORMATION

Annual Meeting

The annual meeting of shareholders will be held on May 10, 1990, at 9:30 a.m., at Sea-Tac Marriott, 3201 South 176th Street, Seattle, WA 98188. Shareholders of record as of April 10, 1990, are entitled to vote at the meeting or may vote through proxy material provided.

Form 10-K, 10-Q and Annual Reports

Copies of the Company's Form 10-K and the Form 10-Q quarterly reports as filed with the Securities and Exchange Commission and the Company's Annual Report to Shareholders are available to shareholders without charge upon request to:

Deborah K. Skiles
Vice President Finance
Sun Sportswear, Inc.
P.O. Box 58003
Seattle, WA 98188

Stock Market Information

Sun's stock is traded on the NASDAQ National Market System, trading symbol SSPW. At March 22, 1990 the number of shareholders of record totaled approximately 100.

Transfer Agent and Registrar

Security Pacific Bank
701 South Western Avenue
Glendale, CA 91201

Independent Public Accountants

Price Waterhouse
1001 Fourth Avenue Plaza
Suite 4200
Seattle, WA 98154