Dylex '86

Across Canada and the United States, Dylex is represented by 19 specialty retail chains which provide customers with fashion and value. The company's 2,822 women's, men's and family clothing stores account for 10 percent of total Canadian apparel sales and have a growing share in the U.S. market.

Contents

Annual Meeting

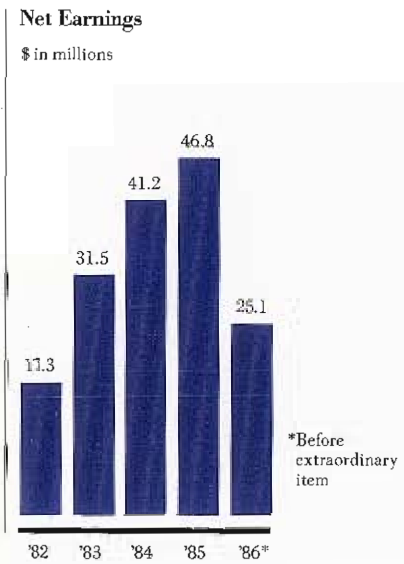
The Annual Shareholders' Meeting will be held at 11:30 a.m., Thursday, June 11, 1987, in the Canadian Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada.

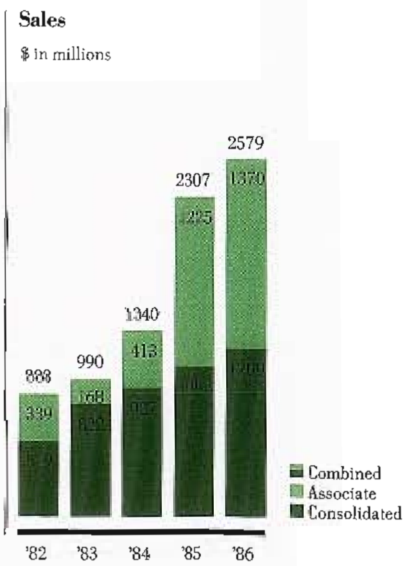
Highlights

	thousands of dollars except for per share and ratio data		*percent change*
Operating Results	**1986**	1985	
Combined sales			
Consolidated sales	**$1,208,600**	$1,082,133	11.7
Associate sales*	**1,370,247**	1,225,046	11.9
	$2,578,847	$2,307,179	11.8
Sales by market			
Retail: Canada			
Women's	**$ 411,966**	$ 383,471	7.4
Men's	**329,736**	294,547	11.9
Family	**480,142**	421,037	14.0
	1,221,844	1,099,055	11.2
Retail: United States			
Women's	**1,072,199**	941,677	13.9
Men's	**105,392**	95,722	10.1
	1,177,591	1,037,399	13.5
Manufacturing	**179,412**	170,725	5.1
Total combined	**$2,578,847**	$2,307,179	11.8
Net earnings†	**$ 25,118**	$ 46,753	(46.3)
Earnings per share†	**$ .51**	$ 1.00	
Consolidated Financial Position			
Working capital	**$ 153,278**	$ 147,709	
Current ratio (current assets to current liabilities)	**1.98:1**	2.06:1	
Inventory turnover (sales ÷ average inventory)	**4.0**	4.0	
Return on average equity (percent)	**8.6**	18.9	

* Sales of associate companies (ownership 50% or less) are included in combined sales. Their earnings are reported as investment income. Results for companies acquired are included from their dates of acquisition.

†Before extraordinary item.





Significant challenges face Dylex as we report our first decline in earnings in seven years. The major factor in these disappointing results was an increased loss incurred by BR Investors Inc., our 48.5 percent owned U.S. affiliate.

Dylex' share of the BRI loss was $22 million Canadian or 46 cents per share compared with $2 million or four cents per share a year ago. Our Canadian and other U.S. operations earned $47 million or $1.00 per share, compared with $49 million or $1.04 per share the previous year.

Dylex Excluding BRI – Combined Operations

millions of Cdn. dollars	1986	1985
Sales	$1,534	$1,381
Operating earnings	121	120
Interest	(9)	(10)
Income tax	(54)	(52)
Net earnings	58	58
Dylex' share of earnings (before extraordinary item)	47	49
Per share (before allocation of $.03 per share to preferred shareholders)	$ 1.00	$ 1.04

BR Investors Inc.

millions of U.S. dollars	1986	1985
Sales	$ 754	$ 676
Operating earnings	18	50
Interest and merger related adjustments	(60)	(61)
Income tax	–	7
Net loss	(42)	(4)
Dylex' share of loss (Cdn.$)	(22)	(2)
Per share (Cdn.$)	$(0.46)	$(0.04)

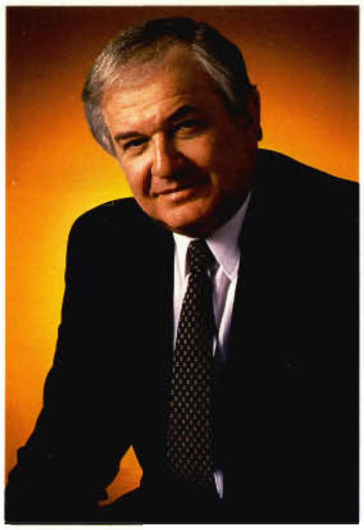
BR Investors Restructuring

In response to the unsatisfactory performance of BR Investors Inc., particularly the Brooks Fashions chain, we assumed a more active role in its management in May 1986. The ownership of BRI was restructured, a refinancing carried out and senior management was changed. Barry Aved was appointed President of Brooks and Wilfred Posluns became Chairman and Chief Executive Officer of BR Investors in addition to continuing as President and CEO of Dylex. Recently we announced the appointment of Kathleen Calcidise as President of the T. Edwards chain. The Foxmoor chain with Philip Brous as President continued to make strong progress in its turnaround.

Dylex and its partner AEA Investors Inc. acquired the interest of the former minority shareholders of BRI to increase ownership to 48.5 percent each from 39 percent. The voting equity in BRI is now owned 50-50 by Dylex and AEA with the new management of BRI holding approximately three percent equity in the form of non-voting shares. Dylex has an option exercisable at any time until October 1989 to buy out AEA Investors at its original cost for cash or Dylex Class "A" shares. In addition to assuming a greater ownership stake in BRI, AEA demonstrated its confidence in Dylex' future with a $37.5 million U.S. equity investment in our company.

BRI Operations

Brooks had a reduction in productivity during the last two years from $171 a square foot in 1984 to $153 in 1986. The impact of this decline was compounded in 1986 when goods were cleared at reduced prices so a new merchandising strategy could be implemented. As a result margins dropped to less than 40 percent from the more normal 45 percent level. The new merchandising program is now in place and management is seeking significant productivity gains with a near-term sales target of $175 to



James F. Kay and Wilfred Posluns.

$185 per square foot. Achieving this level of sales at regular gross margins would result in major gains in profitability.

The Brooks chain is operating from a strong real estate position across most of the United States. Its new operating team has defined its target market and merchandising approach. This has involved comprehensive changes which extend to every level of the organization and to the products it carries. The success of this approach should be seen in the year ahead.

Like Brooks, Foxmoor is also undergoing extensive change, but with different areas of emphasis. A new management group was installed in the summer of 1985 as its head office moved from Boston to New York. When acquired in March 1985, Foxmoor's stores needed extensive renovation and were operating at a sales level of close to $100 per square foot despite their excellent locations. While continuing to serve the teenage market, Foxmoor's management increased sales to approximately $170 per square foot in 1986 with a combination of new merchandise and renovations at important high volume stores. To achieve the profitability that we expect from our chains, sales at Foxmoor must move to the $225 per square foot level. Ongoing store renovation is essential to achieve this goal along with the development of better training programs, information systems and merchandising techniques. At our present rate of progress we hope to achieve $225 per square foot by 1989.

Canadian and Other U.S. Operations

Earnings from operations other than BRI were approximately the same in 1986 as in 1985, with gains in men's wear and manufacturing being offset by lower earnings largely in Canadian women's wear.

Our men's wear division, led by Tip Top and Harry Rosen in Canada and NBO in the U.S., continued its strong growth. A 12 percent gain in sales and higher operating margins resulted in an increase in operating earnings of over 20 percent. Both Tip Top and Harry Rosen have earned their strong sustained performance with service programs designed to gain customer confidence and loyalty. The success of these programs is clearly illustrated by comparing their double digit sales gains to the six percent sales increase for the entire Canadian men's wear market.

The opening of additional stores increased our Canadian women's wear sales. Our principal women's wear chains, regarded as leading fashion retailers, face competition from new specialty chains which challenge their long established position in fashion merchandising. In addition, the department stores, which for many years have been losing market share, are now becoming more adept in the fashion business and stronger competitors.

These market pressures led to a decrease in earnings at Fairweather, which had recorded excellent profits in the previous year. The chain has refocussed its marketing and merchandising to better appeal to the 18 to 34 year old woman. New techniques in visual presentation will be introduced to define fashion statements made by merchandise groupings throughout each store.

In the family stores division, Bi-Way sales increased 16 percent from 35 new stores opened as its expansion into eastern and western Canada continued. The chain has traditionally offered price savings in household items and clothing.

As more competitors have entered this market Bi-Way has looked for innovative ways to improve margins without sacrificing its reputation for value. Savings in distribution costs, selective promotional campaigns and even more astute buying methods are just some of the measures that Bi-Way will take to retain its market position.

New store openings planned for 1987 total approximately 100 and include most of the chains. The family division will lead the way with 14 Bi-Way stores which together with six new Drug World outlets will comprise over half of the square footage to be added. A substantial program of renovations and relocations will also be carried out with particular emphasis on the men's wear chains.

Our manufacturing division generated combined sales of $179 million, up five percent from last year. Earnings on these sales grew by more than 30 percent in 1986.

Financial Strength

During the year an additional $75 million U.S. was invested in BR Investors, bringing the company's total investment since 1984 to $145 million U.S. Half of this additional investment was provided by AEA's purchase of Dylex Class "C" preferred shares, $25 million U.S. was financed by borrowing and $12.5 million U.S. was provided from cash. Dylex' total long-term debt stands at $169 million Canadian, however the cash generated by Canadian operations has maintained debt/equity and working capital ratios at favorable levels. Our working capital at year-end was $153 million including cash resources of $135 million.

Appreciation

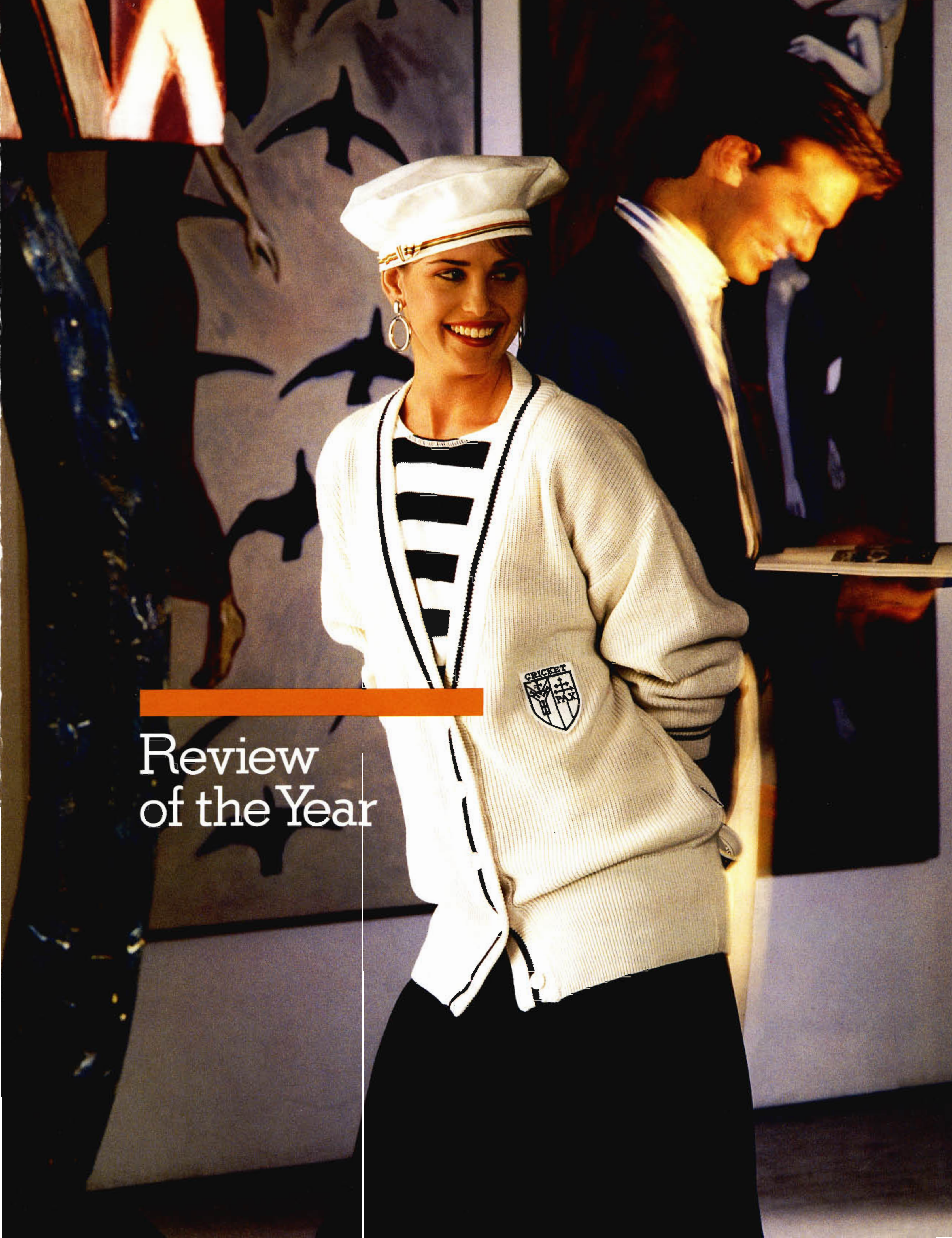
As Dylex marks the 20th anniversary of embarking on a strategy which made it Canada's largest and most successful specialty fashion retailer, the Officers and Board of Directors express appreciation to the many thousands of people whom it has been our pleasure to work with and serve over the years; the employees whose efforts have contributed to our success, and the suppliers and customers without whose support it would not have been possible. As this past year has shown us, success often entails some struggle, but with the unique abilities developed over two decades of challenge, the Dylex organization will regain its momentum in terms of substantial growth in sales and profits.

Wilfred Posluns
President and Chief Executive Officer

James F. Kay
Chairman of the Board

April 22, 1987

Review of the Year



Dylex is a unique family of dynamic divisions and companies. Some members such as the Tip Top and Bi-Way retail chains are wholly-owned and others like Suzy Shier and Harry Rosen are consolidated because we own more than 50 percent. Equity investments include Town and Country, Brooks and other operations in which our share is 50 percent or less.

Under existing accounting rules a company cannot report as part of the consolidated statements the operating results of investments in which it has significant influence but owns 50 percent or less of the voting shares.

In order to show the scope of the entire Dylex family, this review incorporates the results of both the consolidated and non-consolidated operations. The profits for non-consolidated operations are reported in the audited statements as investment income.

Dylex Family of Companies

Retailing

	Consolidated	Unconsolidated
Women's	B. H. Emporium Braemar Fairweather Harry Rosen (51%) Suzy Shier/L. A. Express (50.1%) Wet Seal (86.8% owned by Suzy Shier)	Brooks Fashions (48.5%) T. Edwards (48.5%) Foxmoor (48.5%) Rubys/Feathers/Fantasia/ Diva (50%) Town and Country/ Petites (50%)
Men's	Big Steel Man Club International Harry Rosen (51%) Tip Top Weston Apparel* Target Apparel*	NBO (50%) *Integrated manufacturing
Family	Bi-Way Thrifty's	Drug World (50%)

Manufacturing

Consolidated	Unconsolidated
Irving Posluns Sportswear Manchester Children's Wear National Knitting Nu-Mode Dress (75%) Paulman International (75%) San Remo (75%) Tobias Kotzin (70%)	John Forsyth (26⅔%) Manchester Manufacturing Inc. (42%) Shane Knit (50%)

Women's Wear Canada

<
Town and Country
Quality, fashionable style and a high level of service are the hallmarks of Town and Country and its Petites stores. The chain has 209 outlets across Canada.

>
Harry Rosen Women
Beautiful style and workmanship in clothing for the executive and professional woman are available at the 10 Harry Rosen Women stores.

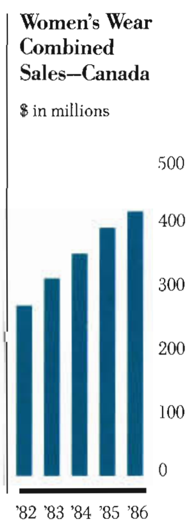
Women's Wear in Canada

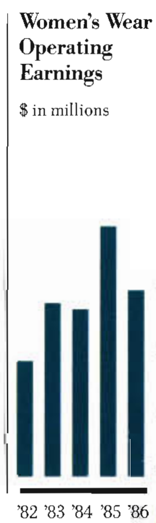
Canadian retail sales of women's wear reached $4.3 billion, an increase of 12.1 percent over 1985. Excluding the effect of inflation, as measured by the 3.1 percent rise in the Consumer Price Index for women's wear, the real growth in Canada was nine percent.

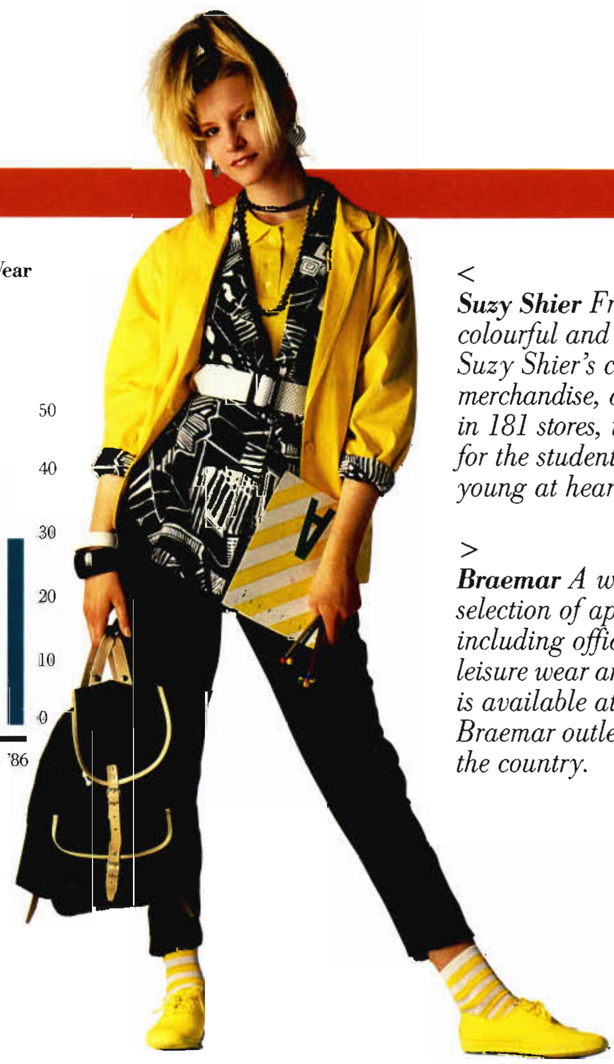
Combined sales for Dylex women's wear in Canada increased by 7.4 percent to $412 million, principally as a result of new store openings. This growth did not keep up with the market and our share of Canadian women's wear sales fell from 10 percent in 1985 to 9.5 percent in 1986. Productivity, measured in sales per square foot, was unchanged from the previous year at $225. Operating earnings fell to $29 million from $39 million a year ago.

The competitive pressures facing our women's wear chains have heightened as department stores put more emphasis on apparel sales. In addition, new specialty stores have recently entered the Canadian market with innovative retailing concepts.

Fairweather, which accounts for nearly 40 percent of our combined women's wear sales, did not duplicate its outstanding success of 1985. Total sales were up approximately two percent but return on sales declined. The chain is taking a number of measures to improve performance. Merchandise assortments are now planned to appeal to a customer in the 18 to 34 year old range. While casual wear is still Fairweather's strength, the chain is broadening its appeal with the Beechers Brook line of career apparel introduced on a test basis in 80 stores for the spring of 1987. Display and visual presentation will be employed extensively at Fairweather to create a more exciting atmosphere in the stores. Daniel Hechter, a designer boutique controlled by Fairweather in Canada, initiated its 1987 spring marketing campaign with a new catalogue enclosed in major magazines and newspapers.







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Suzy Shier *Fresh, colourful and daring, Suzy Shier's casual merchandise, available in 181 stores, is perfect for the student and the young at heart.*

>
Braemar *A wide selection of apparel, including office attire, leisure wear and coats, is available at 32 Braemar outlets across the country.*

Combined Sales

thousands of dollars	Canadian Market Cdn. $	U.S. Market Cdn. $	1986 Total	Percent Change	1985 Total
Women's	$ 411,966	$1,072,199	**$1,484,165**	12.0	**$1,325,148**
Men's	329,736	105,392	**435,128**	11.5	**390,269**
Family	480,142	—	**480,142**	14.0	**421,037**
Manufacturing	209,595	22,822	**232,417**	7.5	**216,118**
Less Inter-Group	(53,005)	—	**(53,005)**		**(45,393)**
	$1,378,434	$1,200,413	**$2,578,847**	11.8	**$2,307,179**

Women's U.S. sales are calculated from the date of acquisition.

Included in Fairweather's results is the B.H. Emporium chain of 28 outlets, which was created to meet the needs of the teen market. Store-for-store sales for B.H. Emporium declined in 1986. A greater degree of differentiation between Fairweather and B.H. Emporium is expected to produce strong gains in 1987.

Suzy Shier and Town and Country each contribute over 20 percent of our Canadian women's wear sales. Suzy Shier's sales increased by nine percent primarily as a result of the chain's 20-store expansion during the year. Earnings were down due to increased pressures on operating costs. Town and Country's sales increased approximately 13 percent, due to the addition of 16 Petites stores and 10 Town and Country outlets. The chain earned a lower return due to increased occupancy expense and pressures on gross margins. The chain continues

<

Fairweather *Exciting fashions for women with active lifestyles are carried by Fairweather and its Daniel Hechter designer boutiques. Imaginative presentation of sportswear creates a colourful atmosphere in the chain's 128 stores.*

>

Rubys *Merchandised to appeal to a broad segment of the women's market, 54 Rubys, Feathers, Fantasia and Diva stores feature moderately priced fashion footwear.*

to channel its growth into its Petites stores for women of all sizes that are under 5′4″ in height. At year-end Town and Country had 78 Petites stores which accounted for over 30 percent of its total square footage.

The remaining 20 percent of our women's wear sales are contributed by Ruby's, Harry Rosen and Braemar. The addition of new outlets was the primary reason for Ruby's 10 percent sales increase in 1986. Harry Rosen Women, with 10 stores in Canada, increased sales by eight percent. Braemar, with 32 stores at year-end, increased sales by 17 percent and productivity by nine percent.

Canadian Men's Wear

Sales for the Canadian men's wear market increased by 5.5 percent in 1986 to $2.7 billion. The CPI for men's clothing increased by 1.9 percent, which represents a real growth of 3.6 percent.

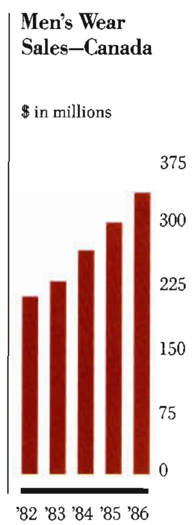
Our men's wear division in Canada outperformed the competition and its market share increased from 11.5 percent in 1985 to 12.3 percent in 1986. Five years ago our share of this market was 9.4 percent. Dylex' Canadian men's wear sales increased by 11.9 percent to $330 million as compared to $295 million a year ago. Operating earnings rose by over 13 percent to $42 million. The division's return on sales exceeded our corporate goal of 10 percent by more than two percentage points.

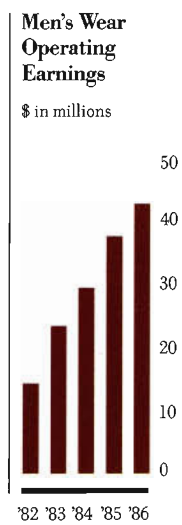
Tip Top, which contributes over 60 percent of our men's wear sales, reported an 11 percent increase in sales and an 18 percent gain in operating earnings. The chain attributes much of its success to its clientele development program, which now has a database of 225,000 people. Each sales person across Canada is sent their telephone list 30 days after a purchase has been made. The salesman then makes a follow-up call

Men's Wear Canada

< *__Tip Top__ Canada's largest and most successful men's wear retailer, Tip Top has 173 outlets which cater to the man who wants a good quality suit without fashion extremes.*

> *__Big Steel Man__ Today's young men can find a variety of fashion, patterns and textures at 114 Big Steel stores.*





to ensure that the customer is satisfied with his merchandise. Tip Top added three stores during 1986 and plans to open five and renovate 19 outlets in the coming year.

Specializing in clothes for the younger man, Big Steel had 114 stores at year-end, averaging 1,700 square feet in size. The chain's sales increased by three percent but operating earnings declined and return on sales was not satisfactory. Significant productivity improvements must be made to realize Big Steel's potential.

Harry Rosen with 19 men's wear stores in Canada, achieved a 26 percent sales gain and a 10 percent increase in sales per square foot. As a retailer of fine quality higher priced apparel, Harry Rosen's expansion opportunities are confined to major business centres. The chain has succeeded in obtaining an exciting opportunity to occupy an entire building in the prestigious Bloor and Bay area of downtown Toronto. Opening in the fall of 1987, the 32,000 square foot store will be devoted exclusively to Harry Rosen men's wear.

Family Stores

Dylex family sales rose by 14 percent, largely due to the addition of 35 more Bi-Way stores. Operating earnings for our family stores division declined to $23 million from $25 million a year earlier.

Bi-Way contributes over 80 percent of this division's sales. Its operating earnings increased by nine percent and sales grew by 16 percent. The chain faces increasing competition from other discount specialty stores that have entered Bi-Way's market in the last two years.

Thrifty's sales increased by six percent in 1986, virtually all of which was due to the addition of four new stores. Operating earnings were lower in 1986. The chain is attempting to capitalize on the revival of denim as a fashion item to improve sales and profitability. Drug World, with two 20,000 square foot stores at year-end, will be expanding to other centres in Ontario in 1987.

Family Stores Canada

<
Harry Rosen Men's Wear *Fine clothing reflecting a rich synthesis of tradition and innovation can be found at the 19 Harry Rosen outlets catering to the executive man.*

>
Thrifty's *Young men and women who want to create an image reflecting today's casual fashions find a wide selection of merchandise at Thrifty's 129 locations.*

Dylex Manufacturing

Combined manufacturing sales increased by five percent to $179 million from $171 million in the previous year and earnings grew by over 30 percent to reach $19 million.

John Forsyth, the largest manufacturer, had a $12.4 million public issue of stock, primarily to modernize the company's facilities and expand production. Forsyth's sales to the Dylex family of companies exceeded $35 million in 1986 and its total sales were up 11 percent.

Our other Canadian manufacturers' sales increased by over 15 percent. Manchester Children's Wear, which specializes in women's coats, reported strong gains in sales and profits for 1986. Irving Posluns, also a coat manufacturer, improved its performance and will target a higher priced market in 1987. National Knit and Shane Knit have invested in specialized machinery to step up domestic production of men's and women's sweaters. San Remo, primarily a manufacturer and importer of men's casual clothing, has started to explore opportunities to market its products in the U.S. Nu-Mode increased its sales of women's dresses in 1986 and operating profits were higher. Sales at Tobias Kotzin, our manufacturer in California, declined this year.

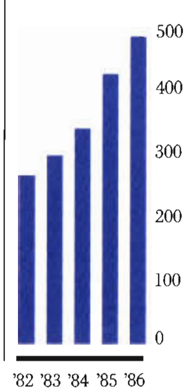
Women's Wear in the United States

The Brooks Fashions chain had a difficult year of transition in 1986. With the introduction of new management, merchandising strategy changed from reactive, based on testing and domestic sourcing, to predictive, using fashion research. The chain has virtually eliminated coats and dresses, concentrating on sportswear. Private labels exclusive to the chain are manufactured in the Far East, where more than half of Brooks' sportswear is made. Because Brooks is co-ordinating and planning its assortments more carefully, distribution and inventory control systems are now more streamlined.

Women's and Men's Wear U.S.

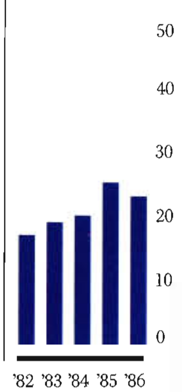
Family Stores Combined Sales

$ in millions



Family Stores Operating Earnings

$ in millions



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Bi-Way *Combining low overhead and volume purchasing to offer exceptional value to the bargain seeker, Bi-Way's 199 outlets sell brand-name clothing, housewares and food items.*

>

Wet Seal *Located in California, the 36-store Wet Seal chain sells exciting sports and leisure wear to its free-spirited customers.*

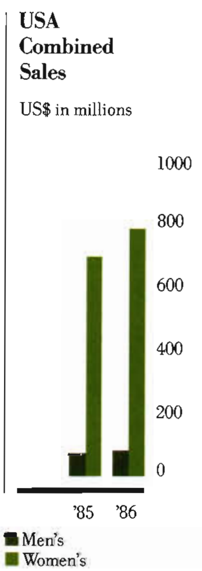
Foxmoor's sales increased by 20 percent store-for-store in 1986 and reached approximately $170 U.S. per square foot. The chain renovated 43 stores in 1986 at a cost of approximately $100,000 per outlet. An additional 70 to 80 outlets will be renovated in 1987. Sales gains made by the renovated stores were about 30 percent.

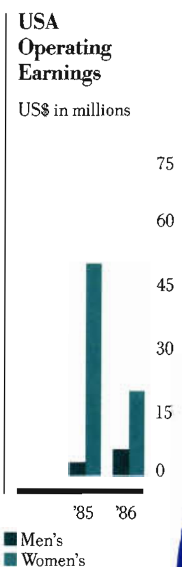
Foxmoor and Brooks now focus on different segments of the women's wear market, with Foxmoor selling to the junior customer and Brooks to the 18 to 35 year old woman. This is a significant change from 1985, when there was approximately a 50 percent overlap in merchandise between the two chains.

T. Edwards, the third BR Investors chain, had 95 stores at year-end, an increase of 22 from a year ago. The chain will slow its expansion to 10 outlets a year and concentrate on improving sales and profitability. Wet Seal, Suzy Shier's 86.8 percent owned subsidiary, is located in California. Nine stores were added during 1986 to end the year with 36. Same store sales were up by 20 percent and operating earnings increased significantly. The chain plans to open 13 stores in 1987.

Men's Wear in the United States

Sales increased by over seven percent at NBO, a 21-store off-price operation located in the New York City and Washington D.C. markets. Operating income came close to the Dylex 10 percent goal as a result of significant improvements in gross margins. Newspaper ads promoting the chain's depth of selection won a first prize for advertising from the National Retail Merchants Association. In 1987 the chain will invest in new warehousing facilities that are necessary to accommodate its growth. Club International, located in the Chicago area, opened a sixth store this year. Sales are improving and the chain will be adding four stores in 1988.





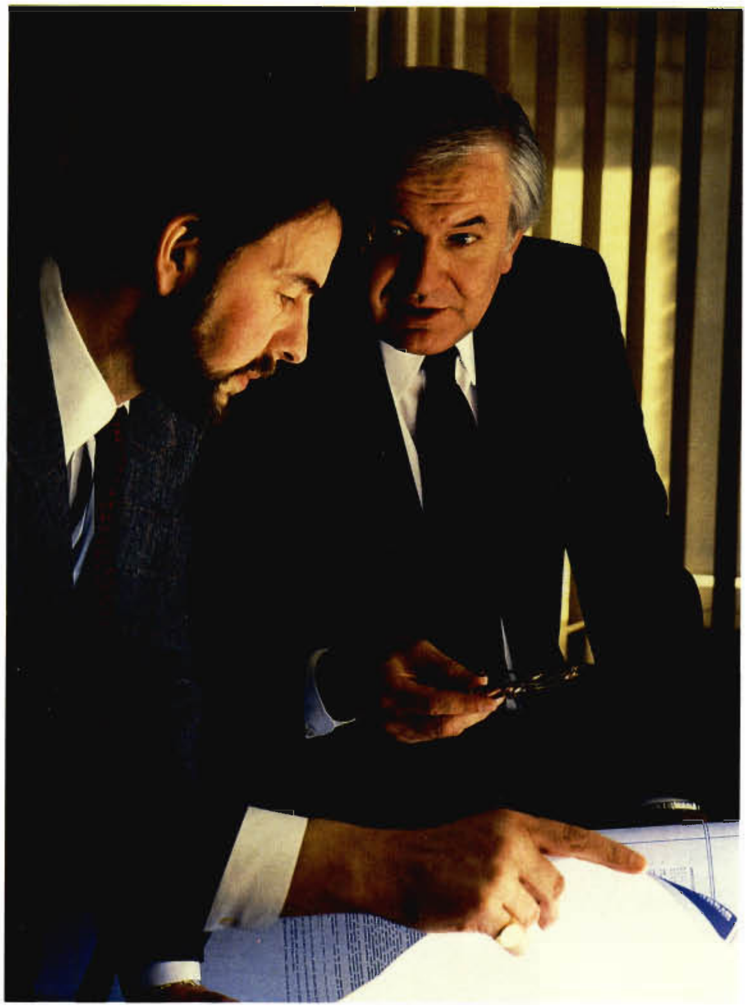
__NBO__ Carrying a full line of apparel, NBO is an off-price men's wear retailer with 21 stores in the New York City and Washington D.C. areas.

Brooks Fashions *Attractive merchandising and a focus on fashion and value are building a new following for Brooks' 777 outlets across the U.S.*

Strengthening Our U.S. Investment


BROOKS
Fashions
TARAZZIA SPORT

New initiatives are being implemented at BR Investors' three retail chains to ensure satisfactory levels of sales and profitability.



Wilfred Posluns, BR Investors' chairman and C.E.O., and Barry Aved, president of Brooks, discuss strategy. Below is Ralph Neal, Brooks operations vice-president, who has introduced training programs to boost sales.

BR Investors entered 1987 with a determination to succeed, supported by a strategic plan tailored to the individual requirements of its retail chains. In 1986 Wilfred Posluns was appointed chairman and chief executive officer of BRI. His mandate is to bring strong senior leadership to bolster the efforts of the executives who must implement new initiatives to ensure satisfactory levels of profitability. "Since I've come on board," explains Posluns, "we have reorganized the company to imitate the Dylex format, so that each business is autonomous and in control of its own destiny. Brooks Fashions, Foxmoor and T. Edwards all have access to centralized financial and real estate functions at BRI. But each of the three chains has different markets, different problems, and different real estate so they have to be managed as distinct and separate businesses."

Brooks Fashions

This flexible, decentralized organization structure was part of the response to serious declines in sales and profits at BRI, particularly Brooks. When originally purchased in November 1984, Brooks' operating earnings were approximately 13 percent of sales. Productivity was \$171 per square foot. "We expected it would continue to grow at the same pace," says Posluns, "but in 1986 sales fell to \$153 per square foot."

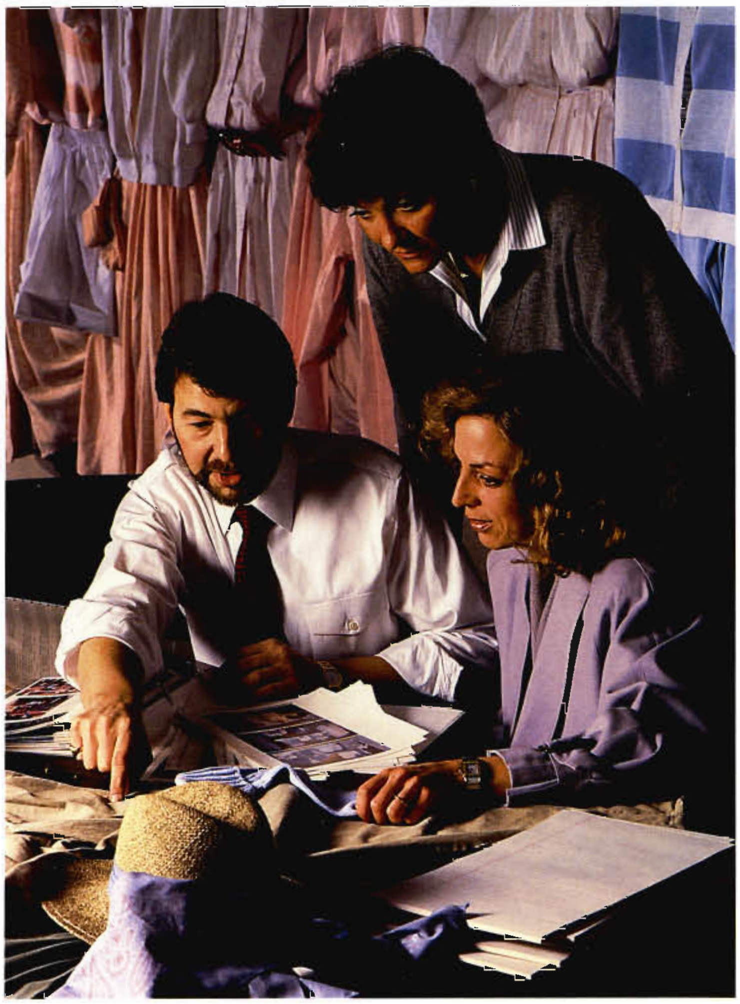
New management, headed by Barry Aved, was introduced to the Brooks chain in May 1986 to rebuild the organization and direct its merchandise strategy. Comments Aved, "we are buying a much narrower and deeper style selection, thereby improving overall coordination." This is a dramatic change for Brooks, which had previously tested merchandise in a few stores before placing large orders. By planning the allocation of merchandise more carefully, Aved has achieved a standardized, characteristic look for all Brooks outlets that gives them a recognizable identity in the marketplace.

This refocussing started with a definition of Brooks' customer and the type of clothing the chain would sell to meet her needs. "The majority of women in the work force want to look presentable but not necessarily in a suit," Aved explains. To serve the 18 to 35 year old woman who works in a non-executive position, he realigned merchandise to increase the volume of sportswear and virtually eliminate dresses and coats.

Aved has introduced three private label sportswear lines that each represent a distinct fashion statement. Styled to a very broad reach in age, the Tarazzia label stands for "quality, value and clean fashion taste," says Mary Jed, vice-president and merchandise manager. Tarazzia Sport is a second label developed by Brooks for active wear. In fashion-forward merchandise, the chain has introduced the Whipp line which features acid washed and stressed denim this year. Barb Hayes, marketing manager, explains that "Tarazzia is set up on one side of a store and Tarazzia Sport and Whipp on the other side. Each look is reinforced with store posters and appropriate merchandising."

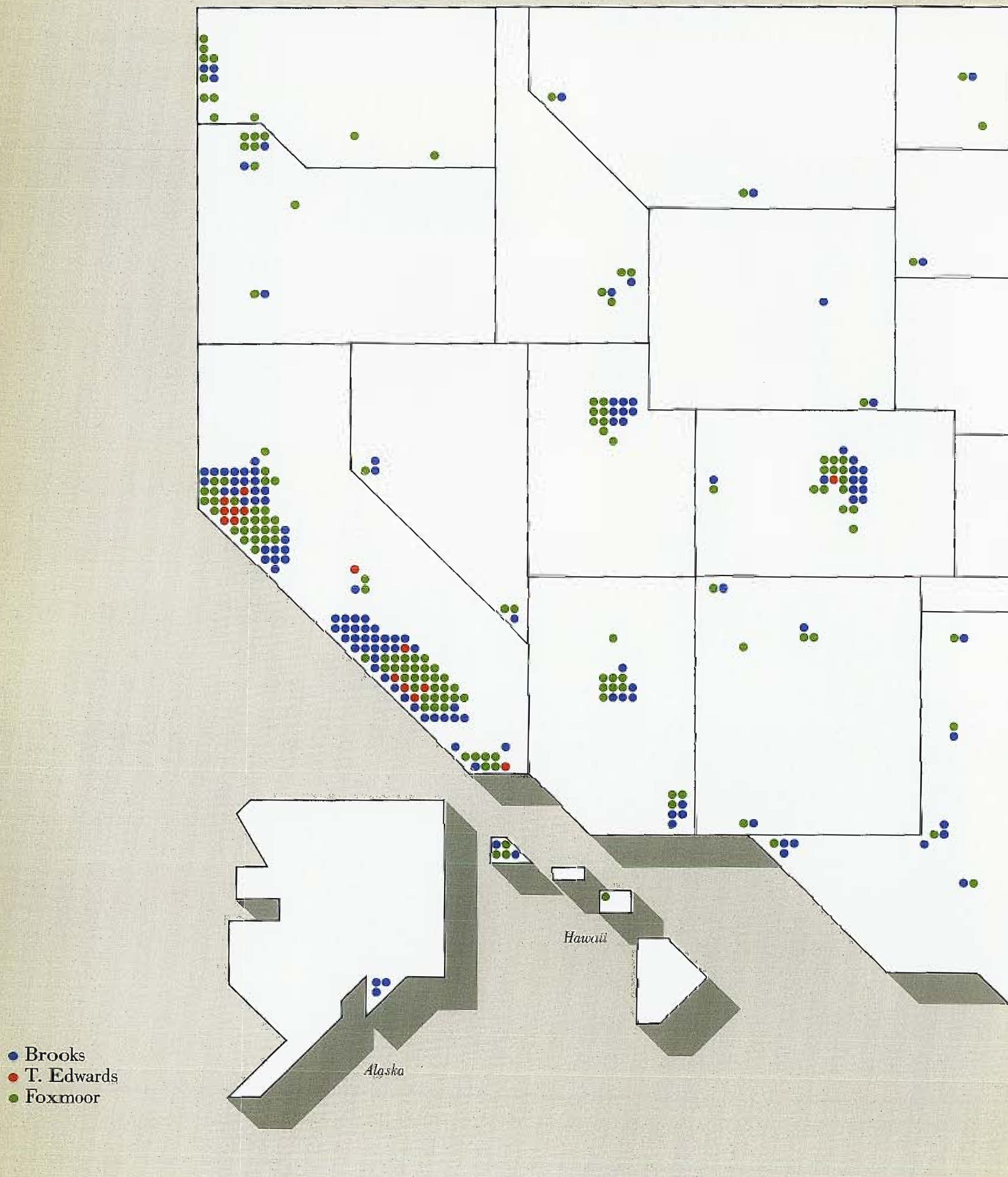
Ralph Neal, vice-president of store operations knows that "presentation is what gets people in the door the first time." Because display is so important, Neal and his people work extensively with marketing and buying staffs to maximize the visual impact of merchandise. Merely displaying how garments can be coordinated is not enough.

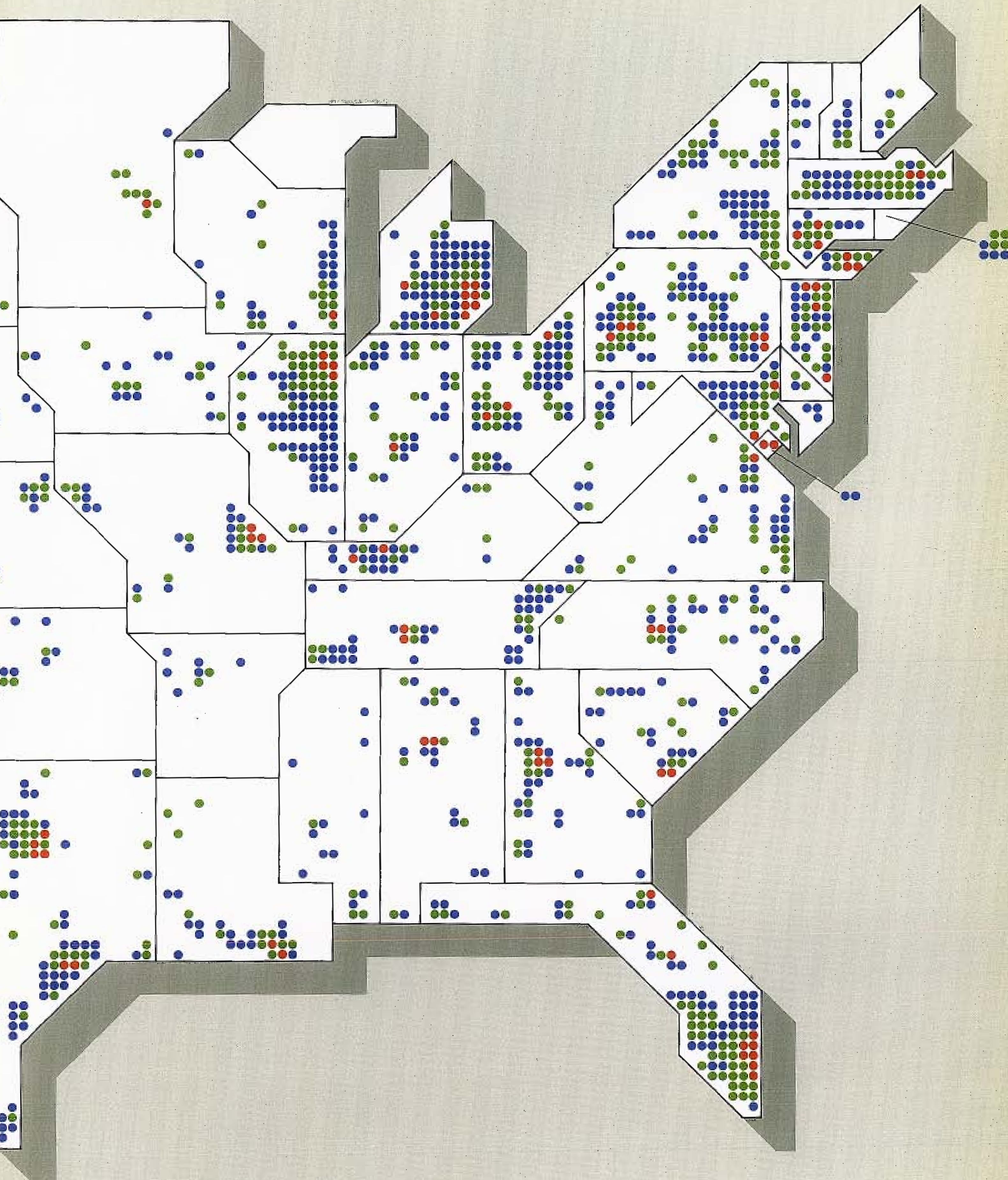
The Tarazzia and Whipp private labels have been developed by Barry Aved and his team to differentiate Brooks from other chains. Below are Aved, Mary Jed, vice-president and merchandise manager (left) and Barbara Hayes, vice-president marketing.



Brooks' customer is looking for excitement and flair but she also wants value. Fashion and quality are just as important as price for the informed consumer.

BR Investors Market Coverage





T. Edwards caters to women who want to be the first to wear new fashions influenced by North American and European trends.

"We must work very hard to build up our units per customer, which are down around 1.5 right now. I want to boost multiple sales up to the 3.0 level." To attain that goal, Neal's department has developed a sales training video, revised employee compensation packages, and introduced attractive sales incentives.

T. Edwards
Kathleen Calcidise, T. Edwards' recently appointed president, has some very definite ideas about the direction she will take with the chain. "We need to focus on our customer profile. Because we tried to be everything to everybody, our merchandise content was too broad and did not represent a uniform image," she says. In the past year, T. Edwards' productivity measured in sales per square foot was $255. What she calls "leading edge fashion" should make up the majority of T. Edwards' merchandise. "Our customer doesn't want to follow the rest of her peers. She wants to be the first to wear an item, before it reaches its peak in popularity." To win the "fast fashion" customer, her staff will carefully monitor trends in North America and Europe and adapt them to the U.S. market.

Kathleen Calcidise, president of T. Edwards, is developing the image, content and marketing that will appeal to the fashion-forward customer.

Foxmoor
The junior women's sportswear market, for the 12 to 20 year old, is Foxmoor's focus. "Demographics have shifted in the past 20 years," says Foxmoor president Philip Brous. "Most of the competition has traded up in age and sophistication. That has left us in a viable market niche with fewer competitors." The chain was selling a minimal $100 per square foot when it was acquired by BRI in March 1985. Although its

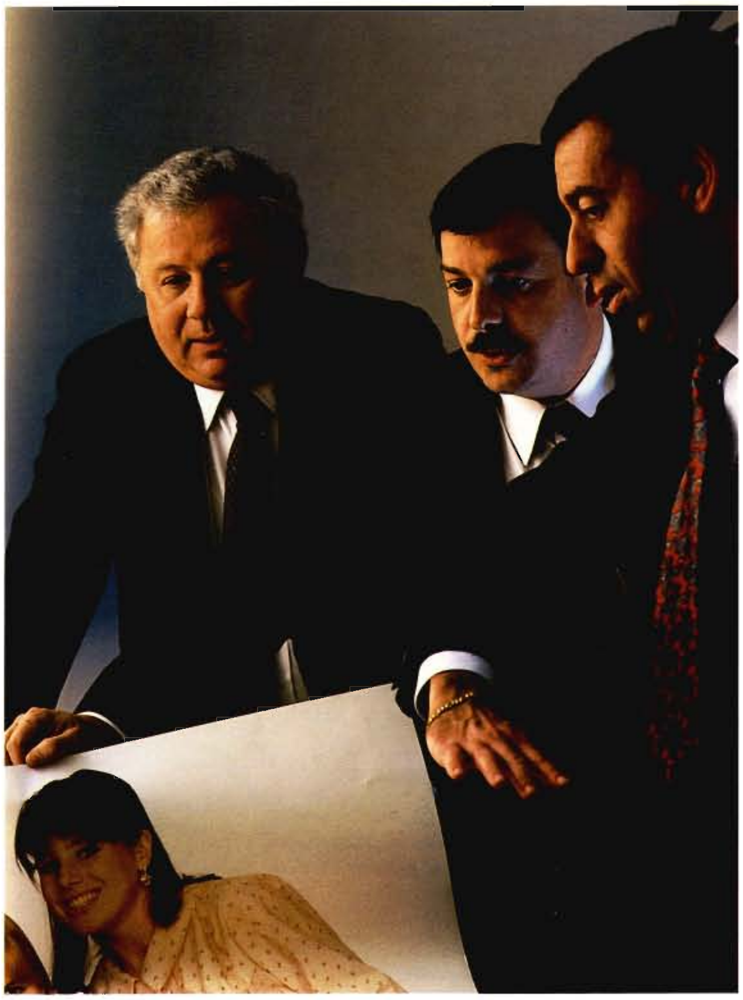
over 600 stores were situated in good locations across the United States, virtually every outlet required renovation. "We remodelled 43 stores in 1986 and plan to renovate 70 to 80 stores in 1987," says Brous. "The renovated outlets should gain an extra 20 to 30 percent in sales volume. We are budgeting a 15 percent store-for-store increase in Foxmoor's sales this year. I think we can come pretty close to it. Of that amount, half will be the extra kick from renovated stores."

The chain's objective is to drastically improve productivity over the next five years to $300 per square foot by consistently increasing sales. Having reached approximately $170 in 1986, management is pleased with its progress so far. But Bill Malanga, Foxmoor's general merchandise manager, notes that the small size of the chain's stores (2400 square feet) limits the number of units that each outlet can effectively display for sale. Price increases, the alternative to volume increases, must be used with caution. "The junior customer is very price sensitive," he explains, "therefore an across-the-board raising of prices would not improve productivity. I plan to eliminate the lowest price points entirely and replace that merchandise with competitively priced separates which complement our assortments."

BRI Potential

The efforts at Brooks, Foxmoor and T. Edwards are designed to exploit the tremendous potential of the BRI group. Significant profits can be generated if sales reach acceptable levels. If BRI meets its 1991 sales goal of $300 per square foot, total sales will exceed $1.5 billion U.S. BRI's new team is dedicated to making an important contribution to the Dylex organization. Its efforts can build a stronger future for the entire company.

Helium, Foxmoor's private label, will be promoted extensively in the chain's 1987 back to school season. Below, from left to right, Philip Brous, president of Foxmoor, discusses the campaign with Bill Malanga, vice-president and merchandise manager and Barry Gertsman, vice-president of operations.



Foxmoor has a viable market niche in junior women's sportswear for the 12 to 20 year old customer. The chain is budgeting a 15 percent store-for-store sales increase for 1987.


BROOKS

Retail Market Coverage

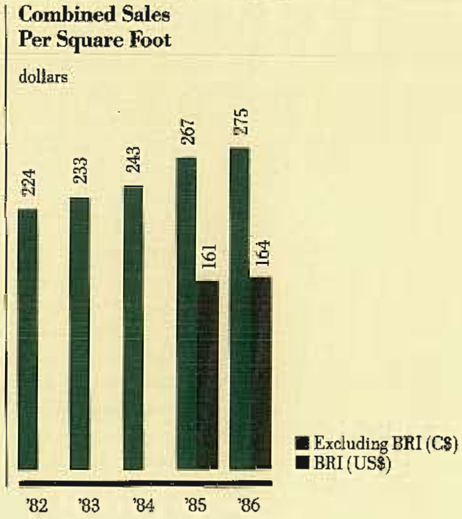
	Canada	Stores	Average Size sq. ft.
Women's	**B.H. Emporium** Value priced fashions for the younger shopper.	28	1,800
	Braemar Selected lines of sportswear, dresses and coats.	32	3,500
	Fairweather/Daniel Hechter Fashionable moderately priced women's clothing.	128	5,500
	Harry Rosen Women Beautiful and tasteful clothing for the professional woman.	10	2,000
	Rubys/Feathers/Fantasia/Diva Dress and casual footwear.	54	1,300
	Suzy Shier/L.A. Express Medium priced women's fashions.	181	2,500
	Town and Country/Petites Medium priced coats, dresses and sportswear.	209	2,300
		642	
Men's	**Big Steel Man** Moderately priced clothing for the younger man.	114	1,700
	Harry Rosen Quality apparel for the professional and executive.	19	5,300
	Tip Top Suits and accessories at reasonable prices for men of all ages.	173	3,800
		306	
Family	**Bi-Way** Low cost clothing and housewares for budget conscious consumers.	199	8,300
	Drug World Wide range of discount products and prescription drugs.	2	19,500
	Thrifty's Casual wear and accessories for active lifestyles.	129	2,000
		330	
	Total Canada	**1,278**	

	United States		
Women's	**Brooks Fashions** Medium priced fashions for women.	777	3,700
	T. Edwards Higher priced selected lines of apparel.	95	3,100
	Foxmoor Junior women's clothing at moderate prices.	609	2,400
	Wet Seal Sportswear for young women.	36	3,000
		1,517	
Men's	**Club International** Suits and accessories at reasonable prices for men of all ages.	6	5,000
	NBO Off-price brand name clothing.	21	10,300
	Total United States	**1,544**	
	Total Canada and United States	**2,822**	

Corporate Goals

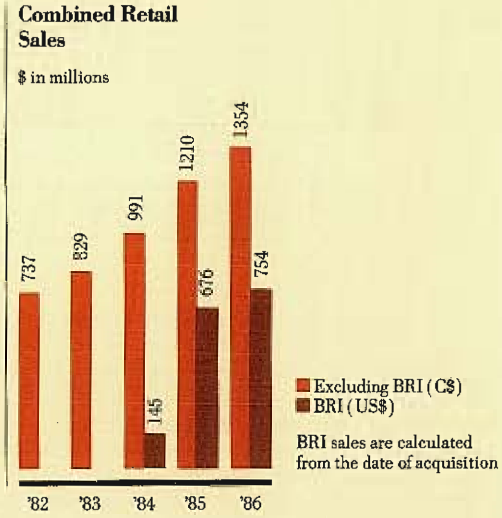
Sales Per Square Foot

Provide good value to the consumer.
Our success in offering quality and price is demonstrated by the continuing growth in the sales productivity of our stores.



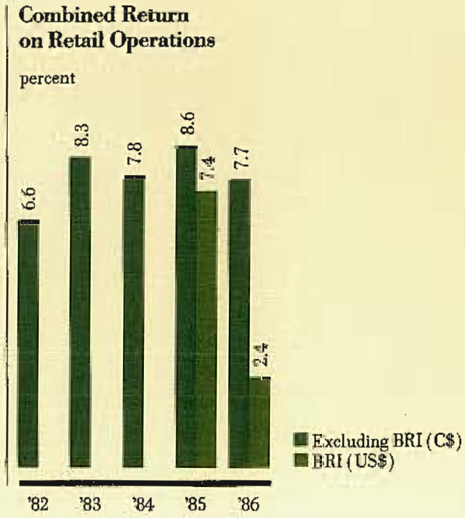
Retail Sales Growth

Achieve consistent sales growth by improving productivity in existing stores and by acquiring or adding new outlets.
Our Canadian and U.S. retail sales excluding the BRI group grew by 11.9 percent over the past year. Sales for BRI, which includes Brooks, T. Edwards and Foxmoor, were up 11.6 percent.



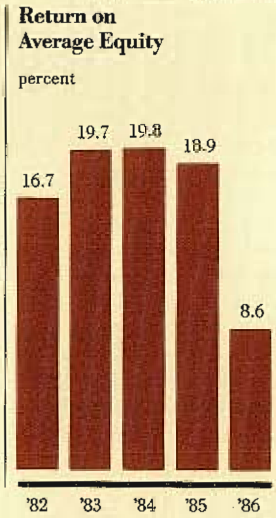
Return on Retail Operations

Earn a 10 percent return on sales from operating earnings.
We continue to strive to reach this target and believe it to be attainable. All divisions are examining their operations to identify opportunities for profit improvement.



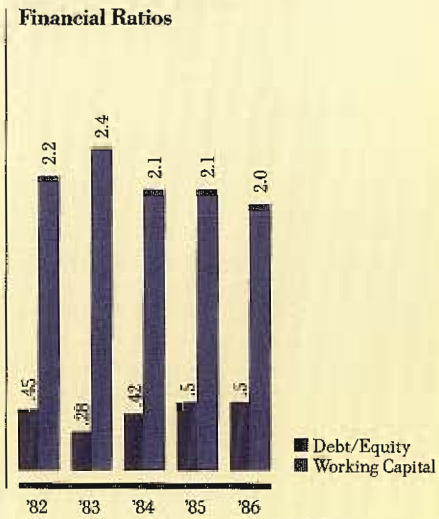
Return on Average Equity

Achieve a return on average equity of 20 percent. The 1986 return on average equity fell to 8.6 percent, principally due to losses at BR Investors. We are committed to improving our performance in both the U.S. and Canada to achieve better returns.



Financial Ratios

Maintain a strong financial position. We have maintained a strong working capital position and debt/equity ratio, key indicators of financial performance.



Develop Our People Resources

This continues to be among our highest priorities. Probably the most important factor in Dylex' success is motivation of its people and this includes not only those in the stores but those who work in all areas of our support operations and head office services. We believe that their selection and training is critical to obtaining higher productivity levels.

Financial Review

The preceding Review of the Year provides an analysis of the operating factors affecting the entire Dylex group (which includes the operations of associate companies in which the Dylex ownership is 50 percent or less). This financial review is designed to provide details of some aspects of the consolidated financial results.

Cash and Short-Term Deposits
Included are net investments in short-term instruments and floating rate preferred shares. Dylex' cash position increased from $124.1 million to $135.3 million as detailed in the consolidated statement of changes in financial position. The increase was due primarily to funds provided by operations and higher long-term debt, offset by the increase in investments in BR Investors Inc.

Accounts Receivable

millions of dollars

	1986	1985
Retail	$ 5.7	$ 5.4
Fashion manufacturing	12.2	12.8
Other	6.9	4.9
	$ 24.8	$ 23.1

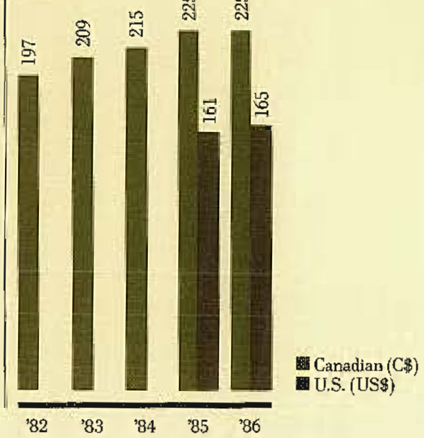
Retail receivables are principally layaway purchases by customers while fashion manufacturing receivables mainly consist of balances due from trade customers. Other receivables are primarily due from associate companies.

Inventories

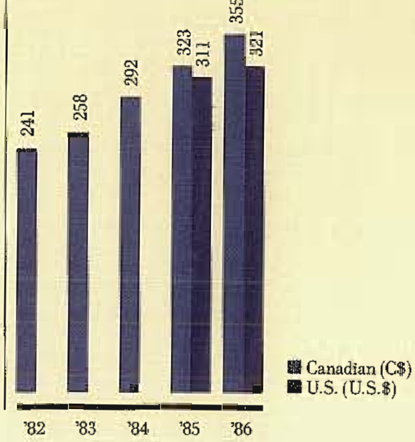
millions of dollars

	1986	1985
Retail	$130.0	$121.6
Fashion manufacturing	14.7	13.7
	$144.7	$135.3
Increase (decrease) in inventory		
retail	6.9%	7.0%
fashion manufacturing	7.0%	(16.7%)
Turnover		
at retail level	4.0	4.0
fashion manufacturing	3.9	3.9

Combined Women's Wear Sales Per Square Foot



Combined Men's Wear Sales Per Square Foot



Investment in Associate Companies

Companies which are owned 50 percent or less are accounted for by using the "equity" method. The original cost of the investment in these companies is adjusted each year by Dylex' pro rata share of the associate company's earnings, dividends received, additional advances, foreign exchange adjustments, and similar items as follows:

millions of dollars	1986	1985
Balance, beginning of year	$138.8	$ 97.1
Dylex' portion of the earnings (loss) of associate companies	(12.1)	2.6
Investments in and advances to associate companies	99.9	34.3
U.S. exchange adjustment	(8.0)	5.8
	218.6	139.8
Less dividends received from associate companies	3.2	1.0
Balance, end of year	$215.4	$138.8

The company's investment in associate companies is dominated by its 48.5% interest in BR Investors Inc. (BRI) of New York. Condensed financial statements of BRI and combined statements of the Dylex group excluding BRI are presented on page 32 to illustrate BRI's impact on Dylex' combined results.

Notes and Other Investments

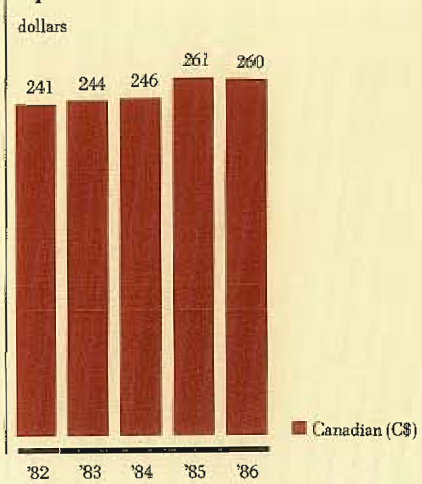
Notes and other investments include an investment in a venture capital fund in the United States. Also included is Dylex' investment of $1.5 million in the non-voting Class "A" shares of Strathearn House Group Limited. This represents approximately 29 percent of the total shares outstanding.

Fixed Assets

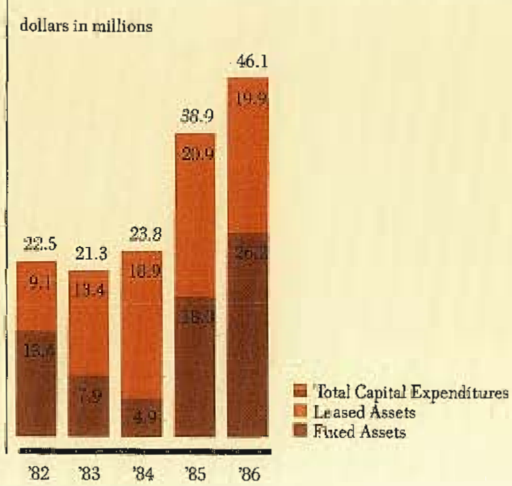
Major components of investments in fixed assets during the year included store renovations and point of sale equipment. Additions to the company's distribution centre and head office renovations comprise most of the land and building additions.

millions of dollars	1986	1985
Land	$ 7.0	$ 5.1
Buildings	26.8	20.3
Equipment and leasehold improvements	61.1	48.7
	94.9	74.1
Less accumulated depreciation	27.0	21.8
	$ 67.9	$ 52.3

Family Stores Sales Per Square Foot



Capital Expenditures



Leased Assets

Dylex has continued its practice of financing the cost of fixturing new stores and renovating existing stores through a capital lease finance instrument. Under this system, costs are paid by the lessor, who owns the related asset. Dylex pays rent to the lessor for the use of the asset. Accounting rules dictate that we record the present value of these leases as an asset with a corresponding long-term liability.

The average cost of fixturing a new store varies by chain and ranges from $100,000 to over $400,000. During the year, approximately $20 million of these costs were financed through capital leases, mostly for six year terms.

Long-Term Liabilities

Long-term liabilities include obligations under capital leases and long-term debt as follows:

millions of dollars	1986	1985
Obligations under capital leases		
Minimum lease payments	$ 83.7	$ 76.8
Less: amount representing imputed interest at rates in effect at drawdowns	18.6	19.0
Present value of obligations under capital leases	65.1	57.8
Due within one year	14.1	11.9
	51.0	45.9
Long-term debt		
Amounts outstanding	119.4	90.8
Due within one year	1.6	1.8
	117.8	89.0
Total obligations under capital leases and long-term debt	$ 168.8	$ 134.9

The increase in long-term debt is primarily attributable to loans totalling $25 million U.S., used to replenish working capital which was depleted due to the increase in investments in the United States.

New lease obligations totalling $20 million were arranged at fixed rates.

millions of dollars	1986	1985
Long-term liabilities	$ 168.8	$ 134.9
Shareholders' equity	336.6	269.0
Debt/equity ratio	.50:1	.50:1

Minority Interest — Subsidiary Earnings

Minority interest in subsidiary earnings reflects the partners' share of the following consolidated subsidiaries:

Harry Rosen Inc.	51%
Tobias Kotzin Inc.	70%
Paulman International Inc.	75%
San Remo Knitting Mills Inc.	75%
Suzy Shier Inc. (owns 86.8% of The Wet Seal, Inc.)	50.1%

During the year, Suzy Shier Inc. increased its investment in The Wet Seal, Inc. from 78% to 86.8%.

Shareholders' Equity

	1986	1985
Total shareholders' equity (millions)	$ 336.6	$ 269.0
Participating shares outstanding (thousands)	47,067	46,689
Book value per share	*$ 6.03	$ 5.76
Return on shareholders' equity before extraordinary item (average equity)	*8.6%	18.9%

*after deducting Class "C" shareholders' interest.

Interest Expense

Total net interest expense increased by $3.7 million to a net expense of $7.8 million.

	millions of dollars	
	1986	1985
Long-term debt	$ 8.9	$ 3.3
Capital lease obligations	6.5	5.6
Interest income	(7.6)	(4.8)
	$ 7.8	$ 4.1

Interest rate swaps have been used to fix the rates on term bank loans. At year-end virtually all of the long-term obligations and capital leases were at fixed rates.

The average interest rate paid on the long-term debt in 1986 was 10.1 percent compared with 11.1 percent in 1985.

The average rate on capital lease obligations was 11.6 percent compared with 12.5 percent a year earlier.

Interest income represents net revenue from short-term investments such as treasury bills, bankers' acceptances and other short-term money market instruments, net of interest expense.

Exchange Rates

Rounded to the nearest cent, the spot price of the Canadian dollar in United States currency at year-end was 75 cents, as compared to 70 cents the previous year. The average value of the dollar was 72 cents in 1986 and 73 cents in 1985.

Pension Expense

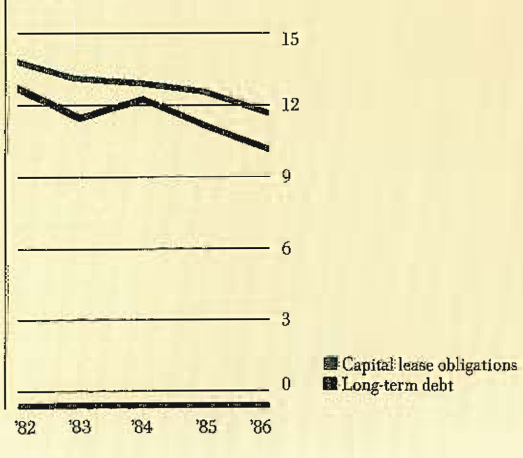
The Canadian Institute of Chartered Accountants has issued new recommendations dealing with accounting for and disclosure of pension costs and obligations effective for fiscal years commencing on or after December 1, 1986.

Dylex pension plans are defined benefit plans based on career average salaries. Under the existing accounting recommendations, the plans have no unfunded liabilities for either past or future service benefits and all current costs are expensed as incurred.

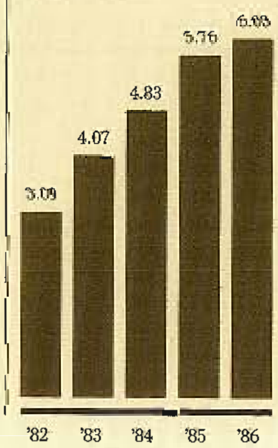
The major effect that the new rules will have on Dylex' financials when adopted next year is the requirement that management's best estimate be used to determine the long-term interest rate which in turn is used to estimate the present value of the plans' pension obligations. The plans' assets must also be valued at market related values.

Using these rules with an assumed interest rate of 8.5%, it is estimated that there is a surplus in the Dylex plans of approximately $5 million as at January 31, 1986. It is expected that the new accounting recommendations will not have a material effect on the company's financial results.

Average Interest Rates Paid on Long-Term Liabilities



Book Value Per Share



Supplemental Information

The following financial schedules include the accounts of all companies within the Dylex group including non-consolidated affiliates.

Total Dylex (excluding BR Investors Inc.)

Condensed Balance Sheet — *millions of Cdn. dollars*

	Jan. 31, 1987	Feb. 1, 1986
Current assets		
Cash and short-term deposits	$ 159	$ 121
Accounts receivable	49	38
Inventory	208	208
Other current assets	6	4
	422	371
Investment in BRI	192	97
Fixed assets, net book value	168	147
Goodwill	24	25
Other assets	5	6
Total assets	$ 811	$ 646
Current liabilities		
Accounts payable	$ 157	$ 141
Income and other taxes payable	25	17
Current portion of long-term debt	21	16
	203	174
Long-term debt	191	163
Deferred taxes	1	2
Total liabilities	395	339
Shareholders' equity		
Dylex' portion	356	267
Partners' portion	60	40
	416	307
Total liabilities and equity	$ 811	$ 646

Condensed Earnings Statement — *millions of Cdn. dollars*

	1986	1985
Sales	$1,534	$1,381
Operating earnings	121	120
Interest	(9)	(10)
Income taxes	(54)	(52)
Net earnings before extraordinary item	$ 58	$ 58
Dylex' earnings before extraordinary item	$ 47	$ 49

BR Investors Inc.

Condensed Balance Sheet — *millions of U.S. dollars*

	Jan. 31, 1987	Feb. 1, 1986
Current assets		
Cash and short-term deposits	$ 11	$ 4
Accounts receivable	2	2
Inventory	78	85
Other current assets	11	11
	102	102
Fixed assets, net book value	176	190
Goodwill	211	216
Other assets	1	2
Total assets	$ 490	$ 510
Current liabilities		
Accounts payable	$ 72	$ 79
Income and other taxes payable	3	10
	75	89
Long-term debt	244	293
Total liabilities	319	382
Shareholders' equity		
6.2% preferred shares	75	—
Other shares		
Dylex' portion	67	54
Partners' portion	67	71
(Deficit) retained earnings	(38)	3
	171	128
Total liabilities and equity	$ 490	$ 510

Condensed Earnings Statement — *millions of U.S. dollars*

	1986	1985
Sales	$ 754	$ 676
Operating earnings	18	50
Interest	(38)	(40)
Merger related adjustments	(22)	(21)
Income taxes	—	(7)
Net loss	$ (42)	$ (4)
Dylex' loss (Cdn.$)	$ (22)	$ (2)

Consolidated Statement of Earnings
For the year ended January 31, 1987

thousands of dollars

	Jan. 31, 1987	Feb. 1, 1986
Sales		
Retail	$1,120,658	$ 998,657
Fashion manufacturing	87,942	83,476
Net sales	$1,208,600	$1,082,133
Earnings from operations before the following	$ 117,185	$ 114,916
Depreciation and amortization	24,404	19,951
Amortization of goodwill	378	411
Interest on long-term debt	8,897	3,329
Interest on capital lease obligations	6,485	5,667
Interest income	(7,559)	(4,847)
	32,605	24,511
Earnings before income taxes	84,580	90,405
Income taxes (note 11)	42,513	42,701
	42,067	47,704
(Loss) income from investments in associate companies	(13,615)	2,564
Minority interest in subsidiaries' earnings	(3,334)	(3,515)
Earnings before extraordinary item	25,118	46,753
Extraordinary item (note 2b)	1,115	—
Net earnings	$ 26,233	$ 46,753
Earnings per share		
Before extraordinary item	$ 0.51	$ 1.00
After extraordinary item	$ 0.53	$ 1.00

Consolidated Statement of Retained Earnings
For the year ended January 31, 1987

thousands of dollars

	Jan. 31, 1987	Feb. 1, 1986
Balance, beginning of year	$ 174,433	$ 136,607
Net earnings	26,233	46,753
Transfer from appraisal excess	22	22
	200,688	183,382
Dividends		
Common shares	482	462
Class "A" shares	8,900	8,487
Class "C" shares (note 10)	332	—
	9,714	8,949
Balance, end of year	$ 190,974	$ 174,433

Consolidated Statement of Financial Position

(Incorporated under the laws of Canada)

thousands of dollars

	Jan. 31, 1987	Feb. 1, 1986
Current assets		
Cash and short-term deposits	$ 135,282	$ 124,130
Accounts receivable (note 3)	24,780	23,100
Inventories (note 4)	144,711	135,331
Prepaid expenses	4,504	2,457
Notes and other investments due within one year	759	1,648
	310,036	286,666
Current liabilities		
Accounts payable	117,050	109,570
Income and other taxes payable	23,959	15,637
Long-term debt due within one year	1,645	1,808
Obligations under capital leases due within one year	14,104	11,942
	156,758	138,957
Working capital	153,278	147,709
Other assets		
Investments in associate companies (note 5)	215,359	138,780
Notes and other investments	4,968	5,231
Fixed assets (note 6)	67,892	52,288
Assets under capital leases (note 7)	64,551	58,670
Goodwill	13,572	13,950
	366,342	268,919
Assets employed	$ 519,620	$ 416,628
Financed by		
Other liabilities		
Long-term debt (note 8)	$ 117,788	$ 89,050
Obligations under capital leases (note 9)	51,013	45,855
Deferred income taxes	127	1,524
Minority interest	14,075	11,168
	183,003	147,597
Shareholders' equity		
Capital stock (note 10)	142,932	85,527
Excess of appraised value of fixed assets over cost	1,457	1,479
Exchange translation adjustments	1,254	7,592
Retained earnings	190,974	174,433
	336,617	269,031
Capital employed	$ 519,620	$ 416,628

Approved on behalf of the board

J. F. Kay, Director

W. Posluns, Director

Consolidated Statement of Changes in Financial Position

For the year ended January 31, 1987

	thousands of dollars	
	Jan. 31, 1987	Feb. 1, 1986
Cash at beginning of year	$ 124,130	$ 87,878
Cash provided by/used for:		
Operations:		
Earnings before extraordinary item	25,118	46,753
Depreciation and amortization	25,064	20,584
Loss (income) from investments (net of dividends received)	16,833	(1,560)
Decrease in deferred income taxes	(1,769)	(107)
Minority interest in subsidiaries' earnings	3,334	3,515
	68,580	69,185
Decrease in operating working capital excluding cash and current debt	2,695	9,320
Cash provided by operations	71,275	78,505
Financing activities:		
Increase in obligations under capital leases (net)	7,320	9,801
Proceeds from long-term debt	33,346	37,091
Decrease in long-term debt	(839)	(6,458)
Dividend to minority interest	(299)	(748)
Issue of Class "A" shares	5,910	—
Issue of Class "C" shares	51,495	—
Cash provided by financing activities	96,933	39,686
Cash available for investment activities and dividends	292,338	206,069
Investment activities:		
Increase in investments in associate companies	99,896	34,335
Fixed assets	26,035	17,877
Assets under capital leases	19,854	20,857
Acquisition of minority interest in Wet Seal	128	—
(Decrease) increase in notes and other investments	(1,181)	2,275
Exchange translation adjustments	2,610	(2,354)
Cash used for investment activities	147,342	72,990
Dividends — Cash dividends paid	9,714	8,949
	157,056	81,939
Cash at end of year	$ 135,282	$ 124,130

1. Accounting policies

Principles of consolidation The consolidated financial statements include the accounts of all divisions and subsidiaries of Dylex Limited as well as the Company's share of the assets, liabilities, sales and expenses of its unincorporated joint ventures. All significant inter-company transactions have been eliminated.

Where 50% or less of the outstanding common shares of associate companies are held, the investment is initially recorded at cost and adjusted annually to show the Company's share of earnings and dividends. The tax benefit of a loss carry-forward which arose upon the acquisition of Brooks Fashion Stores, Inc. will be taken into income on a systematic basis when realized.

Inventories Retail inventories are valued, using the retail inventory method, at the lower of cost and net realizable value, less normal profit margins. Manufacturing inventories are valued at the lower of cost (principally on a first-in, first-out basis) and net realizable value.

Fixed assets Fixed assets are recorded at cost, except for the Company's property at 637 Lake Shore Boulevard West, Toronto, which is at 1967 appraised value. The appraisal excess is being transferred to retained earnings at the rate used for the depreciation of buildings.

Depreciation is designed to amortize the fixed assets on a straight-line basis over their estimated useful lives at the following annual rates:

Buildings	2½%
Building renovations	20%
Equipment and leasehold improvements	10-20%

When fixed assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recorded in the Consolidated Statement of Earnings.

Leases Certain long-term lease transactions relating to the financing of store and other equipment are accounted for as capital leases. Assets recorded under capital leases are amortized on a straight-line basis using rates that are consistent with similar Company-owned assets. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

Goodwill The excess of purchase price over the fair market value of the net assets of subsidiaries and associate companies is being amortized on a straight-line basis over a period not exceeding forty years. Goodwill on acquisitions prior to 1974 has been written off in prior years.

Pension Plan The Dylex pension plan is a unit benefit career average plan which, based on actuarial reviews, has no unfunded liability for either past or future service benefits. All current costs are expensed as incurred.

Store opening costs All costs associated with the opening of new stores are expensed as incurred.

Foreign currency translation The accounts of self-sustaining subsidiaries and partly-owned companies denominated in foreign currencies are translated into Canadian dollars as follows:
a) assets and liabilities at the exchange rate prevailing at the balance sheet date.
b) revenues and expenses at weighted average exchange rates for the year.

Unrealized exchange differences arising on translation are recorded in the balance sheet as a component of shareholders' equity. The reduction in the balance in the current year is primarily due to fluctuations in currency rates.

Assets and liabilities of domestic operations which are denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Revenues and expenses in foreign currencies are translated at the exchange rate prevailing on the transaction date. Exchange differences are charged to income except for foreign currency denominated debt which represents an effective hedge of the Company's foreign currency investments in subsidiary and partly-owned companies. Accordingly, foreign currency translation adjustments relating to long-term debt are included with the foreign exchange translation adjustment relating to self-sustaining foreign operations.

2. Changes in ownership of associate companies

a) BR Investors Inc.

Dylex Limited ("Dylex") and BR Investors Limited Partnership ("BRILP"), of which a wholly-owned subsidiary of AEA Investors, Inc. ("AEA") is the general partner, are equivalent investors in BR Investors, Inc. ("BRI") which wholly owns Brooks Fashion Stores, Inc. ("Brooks") and Foxmoor Specialty Stores Corporation ("Foxmoor") in the United States. During the year the following transactions took place with respect to Dylex' investment in BRI.

i.) Additional Funds Invested in BRI On July 16, 1986, BRILP paid U.S.$37.5 million (CDN$51,495,000) to acquire 2,059,800 shares of newly authorized 5% cumulative Class "C" redeemable, non-participating, convertible, non-voting preference shares of Dylex ("Dylex Preferred"). The conversion privileges are described in note 10.

Following the issue of the Dylex Preferred shares, Dylex paid U.S.$75 million to acquire 750,000 shares of a newly authorized class of 6.2% cumulative preferred shares of BRI ("BRI Preferred"). BRI used these funds to reduce the long-term debt of Brooks and to increase working capital.

The BRI Preferred shares are convertible into Class "A" common shares of BRI in the ratio of 8 Class "A" common shares for each BRI Preferred share. If Dylex exercises the conversion option, BRILP has the option of acquiring up to one-half of the Class "A" common shares so acquired. The consideration to be paid by BRILP to Dylex for such shares would be due in cash or Dylex Preferred, valued at their issue price in U.S. dollars.

As of July 15, 1986, U.S.$28,419,000 of debentures owned equally by Dylex and AEA were converted into Class "A" common shares of BRI. U.S.$1,581,000 of convertible debentures of BRI held by former senior members of Brooks management were redeemed at face value by BRI for cash as part of the buy-out agreement as described below.

ii.) Buy-Out of Minority Shareholders of BRI Under an agreement dated September 30, 1986, BRI acquired the 22 percent ownership of BRI held by former senior members of BRI management for an amount equal to their initial investment. This transaction has been accounted for as a step-by-step acquisition and goodwill relating to the investment in BRI has increased by U.S.$4,826,000. As a result of this transaction, the conversion of the BRI debentures and BRI issuing common shares representing a 3% equity interest to new members of senior management, Dylex' equity interest in BRI increased from 39% to 48.5%.

Dylex guaranteed a loan to BRI from an institutional lender of up to U.S.$19 million which was used to redeem the common stock, participating preferred stock and debentures held by former management. Dylex entered into an agreement with AEA whereby the 5% cumulative dividends on the Dylex Preferred shares accruing through September 30, 1991 may be accumulated by Dylex and not paid as long as the U.S.$19 million guarantee remains in force. Should Dylex be called upon to honour any portion of the guarantee, one-half of any such payment can be offset against the accumulated unpaid dividends owing to BRILP.

iii.) Option to Acquire 100% of BRI Dylex has the option, exercisable at any time prior to October 31, 1989 of acquiring BRILP's interest in BRI for an amount equal to U.S.$70 million plus the U.S. dollar value of the Dylex Preferred held by BRILP (U.S.$37.5 million). If the option is not exercised by that date, and Dylex does not terminate the option prior to May 31, 1988, an amount of U.S.$7.5 million must be paid to BRILP.

The purchase price is to be paid either in cash or Dylex Class "A" shares. Under the cash option, the purchase price is subject to an upward adjustment if the market price of Dylex Class "A" shares exceeds CDN.$25 during the two year period following the purchase.

Dylex has also agreed to use its reasonable efforts to accomplish a public offering of Class "A" non-voting shares by not later than October 31, 1989 at a price of at least CDN.$25 per share provided that in Dylex' judgement the new public offering would not dilute Dylex' reported consolidated per share earnings for the succeeding eight fiscal quarters. The proceeds of the offering would be used to refinance or satisfy substantially all the obligations of Brooks and Foxmoor to their institutional lenders and simultaneously to acquire the entire interest of BRILP in BRI.

b) The John Forsyth Company Inc.

The ownership structure of Forsyth Trading Company was changed on November 4, 1986 from that of a partnership, in which Dylex had a one third interest, to that of an incorporated company, The John Forsyth Company Inc. (Forsyth). Each of the three partners received 2,000,000 common shares of the new corporation in consideration of their partnership interest.

In November 1986 Forsyth effected a public share offering and issued 1,500,000 shares for $8.25 each. As a result of these transactions Dylex' interest in Forsyth was reduced from 33⅓% to 26⅔% and an extraordinary gain of $1,115,000 was realized net of deferred taxes of $372,000.

3. Accounts receivable

thousands of dollars	1987	1986
Retail	$ 5,703	$ 5,373
Fashion manufacturing	12,193	12,819
Other	6,884	4,908
	$ 24,780	$ 23,100

4. Inventories

thousands of dollars	1987	1986
Retail	$130,053	$121,630
Fashion manufacturing	14,658	13,701
	$144,711	$135,331

5. Investments in associate companies

BR Investors, Inc.	48.50%
Brody's Town & Country (1967) Limited	50%
Drug World Limited	50%
Manchester Manufacturing Inc.	42%
NBO Stores, Inc.	50%
Shane Knit Limited	50%
The Shoe Shoppe Limited	50%
The John Forsyth Company Inc.	26.67%

6. Fixed assets

	thousands of dollars	
	1987	1986
Land	$ 6,979	$ 5,129
Buildings	26,826	20,233
Equipment and leasehold improvements	61,087	48,709
	94,892	74,071
Accumulated depreciation	27,000	21,783
	$ 67,892	$ 52,288

7. Assets under capital leases

	thousands of dollars	
	1987	1986
Capital leases	$127,866	$110,991
Accumulated amortization	63,315	52,321
	$ 64,551	$ 58,670

8. Long-term debt

	thousands of dollars	
	1987	1986
Term Bank Loans		
i) due July 14, 1991 (U.S. — $25,000,000)	$ 33,515	$ —
ii) due February 3, 1992 (U.S. — $25,000,000)	33,515	35,513
iii) due April 28, 1993	15,000	15,000
iv) due January 30, 1996 (U.S. — $11,000,000)	14,747	15,626
v) due January 30, 1996 (U.S. — $14,000,000)	18,768	19,887
First Mortgages on Buildings		
9½% due December 1, 1997	457	480
10½% due May 15, 1999	616	639
Other Loans		
10% debenture due February 26, 1989	653	653
Finance company notes secured by chattel mortgages	337	404
Other	1,825	2,656
	119,433	90,858
Due within one year	1,645	1,808
	$117,788	$ 89,050

Principal repayments within the next five years are as follows:

Fiscal year ending January	
1988	$ 1,645
1989	220
1990	883
1991	171
1992	33,649

The Company has entered into interest rate swap agreements for each of its floating rate Term Bank Loans for various periods ending April, 1993. These agreements fix the rate of interest paid on each loan as follows:

	Notional principal	Net semi-annual rate
i)	$25,000,000 U.S.	8.63%
ii)	$25,000,000 U.S.	11.17%
iii)	$15,000,000 CDN.	12.47%
iv)	$11,000,000 U.S.	10.03%
v)	$14,000,000 U.S.	10.03%

9. Lease commitments

The future minimum lease payments under capital and operating leases that have initial or remaining non-cancellable terms in excess of one year as at January 31, 1987 are as follows:

	thousands of dollars	
	Capital leases	Operating leases
Fiscal year ending January		
1988	$ 20,654	$ 56,199
1989	18,727	55,592
1990	15,841	53,209
1991	12,159	50,898
1992	9,102	49,068
Thereafter	7,263	209,570
Total minimum lease payments	$ 83,746	$474,536
Less amount representing imputed interest at rates varying from 9.45% to 17.0%	18,629	
Present value of obligations under capital leases	65,117	
Due within one year	14,104	
Long-term obligations under capital leases	$ 51,013	

Aggregate rentals paid on operating leases for property and equipment leases for the year ended January 31, 1987 amounted to $68,853,000 (1986 — $58,443,000).

10. Capital stock

Authorized: 6,000,000 Common shares without par value (convertible into Class "A" shares on a one-for-one basis).
Unlimited number of Class "A" non-voting, participating preference shares without par value.
1,000 Class "B" non-participating preference shares without par value.
2,250,000 Class "C" 5% cumulative, redeemable, non-participating, convertible, non-voting preference shares without par value

Issued:

	thousands of dollars	
	1987	1986
2,409,351 Common shares (1986 — 2,409,351 Common shares)	$ 1,687	$ 1,687
44,657,957 Class "A" shares (1986 — 44,280,057 Class "A" shares)	89,750	83,840
2,059,800 Class "C" shares	51,495	—
	$142,932	$ 85,527

During the year, 377,900 Class "A" shares were issued to the Trustees of the Key Employee Stock Plan for $5,910,000 cash.

On July 3, 1986, the shareholders approved the creation of a new class of 5% cumulative, redeemable, non-participating, convertible, non-voting Class "C" Preference shares without par value.

These shares are redeemable after May 31, 1988 at the Company's option upon payment of their paid up amount plus any unpaid dividends. (See also note 2a iii). After that date, the holders of the shares have the right to convert them into Class "A" shares on a one-for-one basis.

In July 1986, 2,059,800 Class "C" shares were issued to BRILP for U.S.$37,500,000 (CDN$51,495,000). As at January 31, 1987 unpaid dividends of CDN$1,079,000 were available to partially offset any amounts payable under the guarantee described in note 2a.

11. Income taxes

	1987	1986
Basic Canadian federal tax rate	46.0%	46.0%
Federal income tax abatement	(10.0)	(10.0)
Manufacturing and processing tax credits	(0.5)	(0.4)
Federal surtax	1.7	1.1
Average provincial tax rate	14.1	13.8
Inventory allowance	(0.1)	(2.4)
Other	0.4	0.1
Effective Canadian income tax rate	51.6	48.2
Adjustment for foreign operations	(1.3)	(1.0)
Combined Canadian and foreign income tax rate	50.3%	47.2%

12. Related party transactions

a. Associate companies. In the normal course of business the Company purchases merchandise from and sells merchandise to its associate companies. During the year, these purchases and sales amounted to $35,473,000 (1986 — $28,259,000) and $6,195,000 (1986 — $5,101,000), respectively. As of January 31, 1987, accounts receivable included $1,233,000 (1986 — $1,079,000) due from these companies and accounts payable included $7,096,000 (1986 — $2,464,000) due to them.

b. Other. The Company engages the services of a company, which is effectively controlled by senior officers and directors of Dylex Limited, to act on its behalf as a general contractor for the purpose of furnishing and fixturing some of its retail outlets. That company recovers its costs from Dylex Limited and receives a flat fee of $60,000 per annum for its services.

13. Contingent liabilities

In addition to the U.S.$19,000,000 loan guarantee described in note 2a, the Company has contingent liabilities to a maximum extent of CDN.$6,500,000 arising from the Key Employee Stock Plan and together with others has guaranteed the bank loans and equipment lease obligations of certain associate companies. The amounts outstanding under these additional contingencies at January 31, 1987 were CDN.$18,546,000 against which the Company holds indemnities for CDN.$2,660,000.

14. Segmented results

thousands of dollars

	Retailing		Manufacturing		Adjustments		Consolidated	
	1987	1986	1987	1986	1987	1986	1987	1986
Sales	$1,120,658	$998,657	$ 98,873	$ 95,509	$(10,931)	$(12,033)	$1,208,600	$1,082,133
Operating earnings	85,907	88,333	8,961	8,386	—	—	94,868	96,719
Interest expense	—	—	—	—	—	—	7,823	4,149
Corporate charges	—	—	—	—	—	—	2,465	2,165
Earnings before income tax	—	—	—	—	—	—	84,580	90,405
Assets at year-end	323,355	250,838	24,216	17,131	328,807	287,616	676,378	555,585
Capital expenditures and assets under capital leases for the period	41,543	36,241	2,038	1,609	2,462	1,018	46,043	38,868
Depreciation and amortization	22,316	18,570	950	902	1,138	479	24,404	19,951

Auditors' Report

Dylex Limited

To the Shareholders of
Dylex Limited

We have examined the consolidated statement of financial position of Dylex Limited as at January 31, 1987 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at January 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 31, 1987

Wm. Eisenberg & Co.
Chartered Accountants

Corporate Information

Directors

Kenneth Axelrod
Montreal, Quebec

Daniel W. Casey*
Toronto, Ontario

Gordon Edelstone
Toronto, Ontario

Donald J. Evans
Toronto, Ontario

Russell Jacobson
Willowdale, Ontario

James F. Kay†
Toronto, Ontario

Samuel F. Kay
Toronto, Ontario

David Korn C.A.
Winnipeg, Manitoba

Irving Levine†
Toronto, Ontario

Sydney B. Loftus†
Willowdale, Ontario

Irving Posluns†
Toronto, Ontario

Richard Posluns
Toronto, Ontario

Wendy Posluns
Toronto, Ontario

Wilfred Posluns*†
Don Mills, Ontario

Lionel Robins†
Toronto, Ontario

Harry Rosen
Toronto, Ontario

Schuyler M. Sigel Q.C.
Toronto, Ontario

William H. Singer†
Willowdale, Ontario

Hubert J. Stitt Q.C.*
Willowdale, Ontario

Irving Teitelbaum†
Westmount, Quebec

Donald A. Williams
Burlington, Ontario

Henry Zagdanski
Toronto, Ontario

Arthur H. Zaldin Q.C.*
Toronto, Ontario

*Member of the Audit Committee
†Member of the Executive Committee

Officers

James F. Kay
Chairman
of the Board

Wilfred Posluns
President and
Chief Executive Officer

Irving Posluns
Executive Vice-President
and Treasurer

Kenneth Axelrod
Vice-President
Manchester Clothing

David Beiles
Vice-President
Big Steel Man

Joel N. Cooper
Vice-President
Braemar

Jerome A. Corngold
Vice-President
Tobias Kotzin

Gordon Edelstone
Vice-President
Tip Top

Donald J. Evans
Vice-President
Tip Top

Conrad LeDrew
Vice-President
Big Steel Man

Gunter Leverenz
Vice-President
Distribution

Irving Levine
Vice-President
Fairweather

Sydney B. Loftus
Vice-President
Dylex Real Estate

Mickey Maklin
Vice-President
Thrifty's

Paul Mancini
Vice-President
Weston Apparel

Lionel Robins
Vice-President
Fairweather

Harry Rosen
Vice-President
Harry Rosen Men's Wear

Norman Shaw
Vice-President
M.I.S.

Harry Steinberg
Vice-President
Fairweather

Glenn A. Stonehouse
Vice-President
Thrifty's

Donald A. Williams
Secretary

David Wolpin
Vice-President
Big Steel Man

Henry Zagdanski
Vice-President
Nu-Mode Dress

Head Office
637 Lake Shore
Boulevard West
Toronto, Ontario
M5V 1A8

Transfer agent and registrar
The Royal Trust Company

Auditors
Wm. Eisenberg & Co.
Chartered Accountants

Listed on
Toronto Stock Exchange
Montreal Exchange

Ten-Year Summary

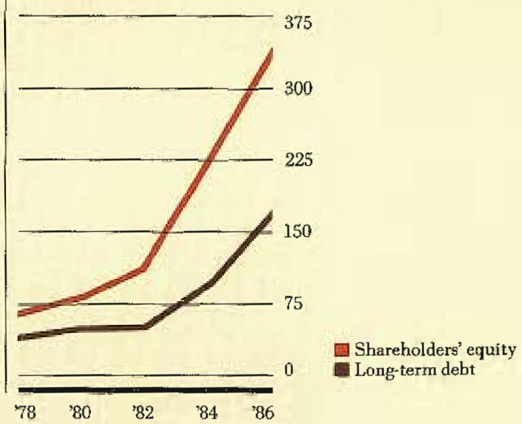
millions of dollars except per share and ratio data

Years ended January following	1986	1985	1984	1983	1982
Operating results					
Combined sales					
Retail — Women's	$1,484.2	1,325.2	545.7	307.7	268.3
— Men's	435.1	390.2	301.0	226.5	206.6
— Family	480.1	421.0	336.0	294.5	262.2
	2,399.4	2,136.4	1,182.7	828.7	737.1
Fashion manufacturing	232.4	216.1	198.0	186.9	175.8
Sales between the groups	(53.0)	(45.4)	(40.8)	(25.5)	(24.8)
Total	$2,578.8	2,307.1	1,339.9	990.1	888.1
Consisting of — Consolidated sales	$1,208.6	1,082.1	926.7	822.4	549.1
— Associate sales	1,370.2	1,225.0	413.2	167.7	339.0
	$2,578.8	2,307.1	1,339.9	990.1	888.1
Net earnings before extraordinary items	$ 25.1	46.8	41.2	31.5	17.3
Earnings per share before extraordinary items					
1st quarter	$ (0.18)	0.10	0.07	0.05	0.00
2nd quarter	(0.02)	0.16	0.14	0.10	0.02
3rd quarter	0.15	0.25	0.22	0.19	0.12
4th quarter	0.56	0.49	0.45	0.37	0.34
Total	$ 0.51	1.00	0.88	0.71	0.48
Balance sheet information					
Total working capital	$ 153.3	147.7	123.2	140.7	67.1
Total assets	$ 676.4	555.6	445.7	353.3	224.0
Shareholders' equity	$ 336.6	269.0	225.6	190.2	110.6
Average shares outstanding ('000)	48,047	46,689	46,689	44,232	35,856
Financial analysis					
Working capital ratio	2.0	2.1	2.1	2.4	2.2
Book value per share	$ 6.03	5.76	4.83	4.07	3.09
Inventory turnover	4.0	4.0	3.9	4.0	3.6
Return on average equity — percent	8.6	18.9	19.8	19.7	16.7
Debt to equity ratio	0.50:1	0.50:1	0.42:1	0.28:1	0.45:1
Retail information — includes associate companies					
Number of stores					
Women's Canada	642	576	518	471	412
Men's Canada	306	299	294	291	288
Family Canada	330	292	253	236	221
Women's U.S.	1,517	1,488	799	—	—
Men's U.S.	27	25	17	—	—
	2,822	2,680	1,881	998	921
Store space at year-end ('000 sq. ft.) — Canada	4,825	4,438	4,011	3,679	3,420
— U.S.	4,969	4,697	2,961		
Canadian sales per square foot					
Women's	$ 225	225*	215	209	197
Men's	355	323	292	258	241
Family	260	261	246	244	241
Average	$ 265	260	244	233	224
U.S.A. sales per square foot (U.S.$)					
Women's	$ 165	161	—	—	—
Men's	321	311	—	—	—

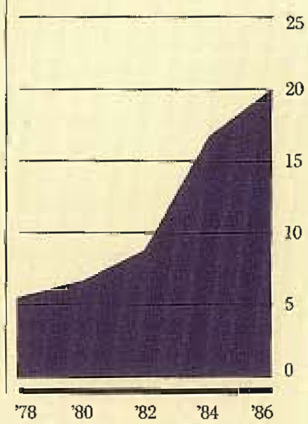
*revised figure

1981	1980	1979	1978	1977
227.4	188.4	153.2	140.5	111.8
180.6	149.5	126.9	111.4	93.2
223.1	204.8	171.6	117.9	69.9
631.1	542.7	451.7	369.8	274.9
154.9	143.5	118.5	94.7	78.1
(17.2)	(16.3)	(17.8)	(13.8)	(11.5)
768.8	669.9	552.4	450.7	341.5
495.4	459.2	371.6	329.5	271.3
273.4	210.7	180.8	121.2	70.2
768.8	669.9	552.4	450.7	341.5
16.5	12.1	9.0	12.3	8.5
0.04	(0.01)	0.01	0.04	0.03
0.07	0.02	0.00	0.03	0.02
0.13	0.15	0.13	0.13	0.09
0.22	0.18	0.11	0.15	0.10
0.46	0.34	0.25	0.35	0.24
65.8	56.9	45.8	42.1	37.9
218.3	201.1	178.3	164.6	101.3
96.5	82.0	72.3	65.3	55.1
35,706	35,556	35,556	35,556	34,956
2.1	2.0	1.9	1.8	2.2
2.69	2.31	2.03	1.84	1.55
3.9	3.7	3.0	3.1	3.1
18.5	15.6	13.1	20.4	16.8
0.49:1	0.60:1	0.60:1	0.61:1	0.13:1
357	322	297	258	206
268	251	149	142	132
213	206	188	169	128
—	—	—	—	—
—	—	—	—	—
838	779	634	569	466
3,140	2,992	2,865	2,592	2,091
184	164	141	148	135
223	187	160	154	148
216	206	192	164	121
205	185	163	155	135
—	—	—	—	—
—	—	—	—	—

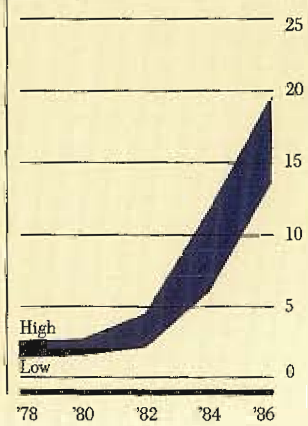
Long-Term Debt and Shareholders' Equity
$ in millions



Dividends Per Share
cents



Class 'A' Shares Market Value
dollars per share



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