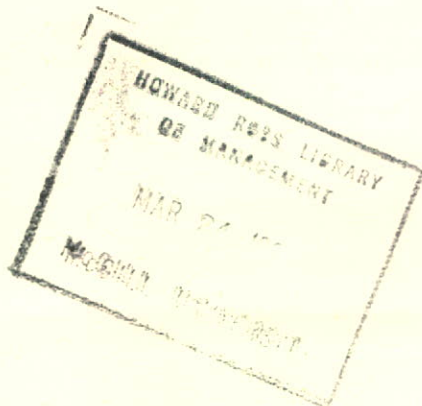


HARVEY WOODS LIMITED ANNUAL REPORT 1979





EARNINGS Your directors submit herewith the Annual Report of the Consolidated Operations of your Company for the year ended December 31, 1979. Net income for the year was \$752,000, which compares with \$895,000 for 1978. Earnings were adversely affected by higher inventory levels and interest rates. Interest expense for 1979 \$687,000, compared to \$441,000 in 1978. Taxes on income were reduced by \$92,500 (\$91,000 in 1978) as a result of the 3% allowance on opening inventory. Income per share was 28¢ - 33¢ in 1978. The directors have declared a dividend of 3¢ per share for the first half, payable June 30, 1980 to shareholders of record June 2, 1980.

1979 REVIEW A strong first quarter was followed by a market softness which continued throughout the remainder of the year. Cautious consumer attitudes and general economic conditions influenced retail sales, resulting in above normal "in store" inventories. The sales decline was further aggravated by unseasonably warm weather in the fourth quarter, a period during which the volume of shipments of your Company's products is historically strong.

1980 PROSPECTS The market conditions of the last three quarters of 1979 have persisted into the first quarter of 1980, and will result in reduced earnings for the quarter when compared with 1979. This outlook is expected to continue in the short term and has necessitated a temporary cutback in production to reduce our inventory position. It is believed that circumstances will soon permit a resumption of previous manufacturing levels.

National advertising and promotion will continue throughout 1980 to support the sale of Harvey Woods and Jockey underwear and hosiery, as well as the "John Newcombe" and "Man In Motion" sportswear programs. The Company's new Toronto sportswear plant is about to be relocated to larger and more suitable premises to permit expansion of this acquisition.

OTHER MATTERS The Ontario Government recently announced assistance of up to \$15,000,000 to the Province's textile, knitting and clothing industries. This assistance is to accelerate productivity improvement and industry modernization in Ontario. Knitting and clothing firms are potentially eligible for either:

- (i) a grant of up to a maximum of 15% of approved capital cost; or
- (ii) a grant of a smaller amount, up to a maximum of 5% of approved capital costs, combined with loan guarantees of up to 75% of approved capital costs.

Capital expenditures totalled \$822,000 in 1979; this included \$400,000 committed but unspent in 1978 and is in keeping with the Company's five year capital spending program. Expenditures over the past five years totalled \$2,500,000, of which 85-90% was to improve and update the Company's manufacturing operations.

Long term debt was reduced by \$209,000 in 1979 and particulars of the debt outstanding are provided in the notes to the Consolidated Financial Statements.

Working capital increased \$101,000 in the year and at December 31, 1979 stood at \$5,299,000. Details of the source and application of funds are shown in the Consolidated Statement of Changes in Financial Position.

SUBSIDIARIES

THOMSON RESEARCH ASSOCIATES LIMITED

Progress continues to be made in each of the four areas of this Subsidiary Company's operations. Growth was experienced in the sale of germicides, dyes, textile auxiliaries, as well as expansion in engineering and materials testing.

"Ultra-Fresh", the new international germicide trademark, has been launched and is being used by the newly appointed agents in the U.S.A.

There was a small contribution to income from the Company's recently completed 30% acquisition of Dinoval Chemicals Limited. Dinoval Chemicals, in addition to acting as agent for T.R.A., is also an agent for a wide variety of chemicals used in glass finishing, corrosion inhibition and food preservation. Dinoval also does some chemical manufacturing through its Associated Company, Contract Chemicals Limited.

KROY UNSHRINKABLE WOOLS LIMITED

The first commercially installed Kroy machine was commissioned in the U.S.A. in April and there has been some royalty income from nine months of satisfactory operation. A second installation was completed in Australia in December to run commercially in 1980. We anticipate that three more machines will be put into operation outside of Canada during this year.

ACKNOWLEDGEMENT

The dedicated efforts of all Harvey Woods and Subsidiary Companies' employees are deeply appreciated by the directors and officers, as is the support of customers, suppliers and shareholders.

On Behalf of the Board of Directors
J. D. Woods, Chairman
R. W. Meeke, President

March 17, 1980
Toronto, Ontario

HARVEY WOODS LIMITED
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET (as at December 31)

ASSETS	1979	1978
	(in thousands of dollars)	
Current:		
Cash	\$ 3	\$ 3
Accounts receivable	3,844	3,974
Inventories (note 2)	10,173	7,099
Prepaid expenses	136	208
Total current assets	14,156	11,284
Investment in Dinoval Chemicals Limited (note 3)	111	22
Fixed assets: (note 4)	6,106	5,542
Less accumulated depreciation	3,906	3,764
Total fixed assets	2,200	1,778
Total	\$16,467	\$13,084

On behalf of the Board

Roland W. Meeke, Director — John A. Young, Director

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of Harvey Woods Limited

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1979, and the consolidated statements of income, 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 consolidated financial statements present fairly the financial position of the company as at December 31, 1979 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.

Clarkson Gordon
Chartered Accountants

London, Canada.
February 26, 1980.

LIABILITIES AND SHAREHOLDERS' EQUITY**1979****1978**

(in thousands of dollars)

Current:

Due to bankers - demand loan (note 5)	\$ 5,235	\$ 2,947
Accounts payable	1,898	1,573
Accrued charges	876	930
Deferred revenue	41	82
Taxes payable	598	351
Portion of long-term debt due within one year	209	203
Total current liabilities	8,857	6,086

Long-term debt (note 6)	382	591
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Deferred income taxes	223	157
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Minority shareholders' interest	13	10
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Shareholders' equity:

Capital —

Authorized:

3,500,000 common shares without par value

Issued and fully paid:

2,677,072 common shares

Retained earnings	5,054	4,302
	6,992	6,240

Total	\$16,467	\$13,084
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CONSOLIDATED STATEMENT OF RETAINED EARNINGS (year ended December 31)

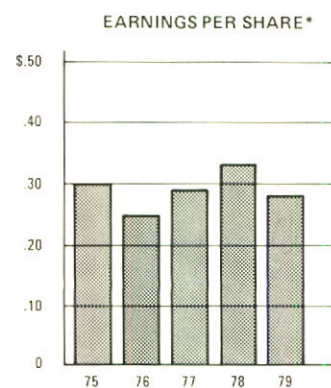
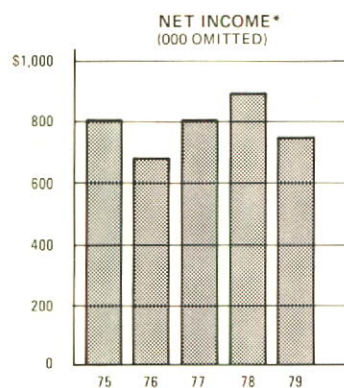
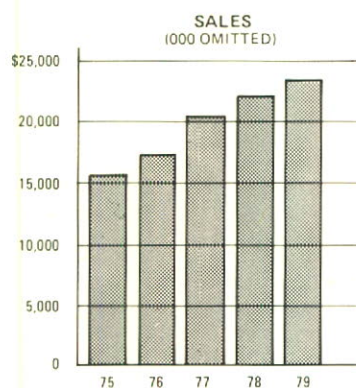
	1979	1978
	(in thousands of dollars)	
Balance, beginning of year	\$4,302	\$3,407
Net income for year	752	895
Balance, end of year	\$5,054	\$4,302

(See accompanying notes)

CONSOLIDATED STATEMENT OF INCOME (year ended December 31)

	1979	1978
	(in thousands of dollars)	
Sales	\$23,317	\$22,086
Expenses:		
Cost of sales	16,087	15,483
Marketing, general administration and shipping expenses	4,843	4,312
Depreciation	372	320
Interest - long-term debt	80	88
- other	607	353
	21,989	20,556
Operating income	1,328	1,530
Minority interest in income of subsidiary company	13	5
Income before income taxes	1,315	1,525
Income taxes - current (note 7)	497	584
- deferred	66	46
	563	630
Net income for year	\$ 752	\$ 895
Income per share	\$.28	\$.33

(See accompanying notes)



*before extraordinary items.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (year ended December 31)

	1979	1978
	(in thousands of dollars)	
Source of working capital:		
Operations —		
Net income	\$ 752	\$ 895
Add (deduct) items not involving an outlay (inflow) of working capital:		
Depreciation	372	320
Gain on disposal of fixed assets	(3)	
Minority interest in earnings of subsidiary	13	5
Provision for deferred income taxes	66	46
	1,200	1,266
Proceeds from disposal of fixed assets	31	12
	1,231	1,278
Application of working capital:		
Reduction in long-term debt	209	203
Purchase of fixed assets	822	531
Increase in investment in Dinoval Chemicals Limited	89	22
Dividends paid to minority shareholders	10	5
	1,130	761
Increase in working capital	101	517
Working capital, beginning of year	5,198	4,681
Working capital, end of year	\$5,299	\$5,198
Represented by:		
Current assets	\$14,156	\$11,284
Current liabilities	8,857	6,086
	\$ 5,299	\$ 5,198

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and in the light of information available up to February 26, 1980. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Principles of consolidation —

The consolidated financial statements include the accounts of the company and its subsidiaries, Thomson Research Associates Limited, Kroy Unshrinkable Wools Limited, Kroy Inc. and York Knitting Mills (1966) Limited. The equity method has been used to account for the 30% investment in Dinoval Chemicals Limited. All material intercompany accounts and transactions have been eliminated.

(b) Revenue recognition and accounts receivable —

Revenue from sales of products is recognized when goods are shipped to customers. Provision is made for collection losses based on the company's experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

(c) Inventories —

Inventories are stated at the lower of cost and market. Cost is computed using currently adjusted standards which approximate actual cost on a first-in, first-out basis. Market value is defined as follows:

Raw material — replacement cost
Work in process and finished goods — net realizable value

(d) Fixed assets —

Fixed assets are stated at historical cost. Normal maintenance and repair expenditures are expensed as incurred. Disposals of assets are recorded on a pool basis except for assets acquired prior to 1948, the cost of which, and related accumulated depreciation, are removed from the accounts and the resulting gain or loss is included in income.

Depreciation is provided on the declining balance basis at rates which amortize the cost over its estimated useful life, as follows:

Buildings — 5%
Equipment — 20%

(e) Deferred income taxes —

Income taxes charged to income represent both the portion currently payable and the portion which is deferred due to claiming capital cost allowance for tax purposes in amounts which exceed depreciation recorded in the accounts. The resultant deferrals of income tax are reflected on the balance sheet as deferred income taxes.

2. Inventories

	1979	1978
	(in thousands of dollars)	
Finished goods	\$ 6,185	\$ 3,782
Work in process	2,042	1,726
Raw materials and supplies	1,946	1,591
	\$10,173	\$ 7,099

3. Investment in Dinoval Chemicals Limited

During the year the company acquired approximately 30% of the total issued share capital of Dinoval Chemicals Limited, located in the United Kingdom. Details of the investment are as follows:

	(in thousands of dollars)
Shares — at cost	\$ 82
Add the company's share of income since acquisition	7
Advances	22
	\$111

4. Fixed assets

Set out below are details of fixed assets by major category:

	1979		1978	
	Assets cost at	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars)			
Land	\$ 40		\$ 40	\$ 40
Buildings	1,665	\$ 683	982	675
Equipment	4,401	3,223	1,178	1,063
	\$6,106	\$3,906	\$2,200	\$1,778

5. Bank indebtedness

As at December 31, 1979, bank indebtedness consisted of a \$5,235,000 demand loan and \$424,000 in term loans as described in note 6. The company has pledged its accounts receivable and inventories as collateral and has also issued to the bank demand debentures totalling \$4,500,000 secured by fixed and floating charges ranking subsequent to the security given under mortgages described in note 6.

Under the terms of the security, the company cannot pay dividends without the prior approval of the debenture holder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

6. Long-term debt

	1979	1978
	(in thousands of dollars)	
Bank term loans —		
(i) Bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly principal instalments of \$7,060, to April, 1982, and insured as to the repayment to the extent of 90% by the General Adjustment Assistance Board (GAAB)	\$198	\$282
(ii) Bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly instalments of \$1,605, to May, 1983, insured by GAAB as to repayment to the extent of 90%, and secured by a chattel mortgage on certain equipment	66	85
(iii) Bearing interest at 11½%, repayable after the other term loans have been fully repaid	160	160
	424	527
Other —		
(i) 8½% first mortgage bonds, issued to the company's bankers, secured by a first mortgage on the company's lands, buildings, machinery and equipment and a first floating charge on its other assets, repayable by monthly instalments of \$2,900 plus interest	53	88
(ii) 8½% second mortgage, issued to the Ontario Development Corporation, secured by a second mortgage on the company's lands, buildings, machinery and equipment and a second floating charge on its other assets, repayable by monthly blended payments of principal and interest of approximately \$6,400, maturing July, 1981	114	179
	591	794
Less portion due within one year included in current liabilities	209	203
	\$382	\$591

Principal repayments in the years 1980 to 1983 are \$209,000, \$166,000, \$47,000, and \$168,000 respectively, after which time all loans will be fully repaid.

7. Income taxes

Taxes on income for the year ended December 31, 1979 have been reduced by \$92,500 as a result of the 3% allowance on opening inventory.

8. Commitments

The company is committed to fixed asset purchases amounting to approximately \$75,000.

In addition, the company leases office space and certain equipment over remaining periods of one to six years. Under the terms of existing leases, rental payments to be charged to operations in the years 1980 to 1984 are \$179,000, \$143,000, \$124,000, \$111,000 and \$104,000 respectively.

FIVE YEAR FINANCIAL REVIEW

	1979	1978	1977	1976	1975
	(in thousands of dollars)				
Operating results:					
Sales	\$23,317	\$22,086	\$20,748	\$17,291	\$15,563
Income before extraordinary items	752	895	780	675	796
Net income	752	895	780	675	1,065
Financial position:					
Working capital	5,299	5,198	4,681	4,087	3,790
Total assets	16,467	13,084	11,238	11,001	8,781
Long term debt	591	794	993	1,187	1,375
Shareholders' equity	6,992	6,240	5,345	4,565	3,890
Capital expenditures	822	531	355	537	290
Income per share:					
— before extraordinary items	.28	.33	.29	.25	.30
— after extraordinary items	.28	.33	.29	.25	.40

Directors

W. D. Bean
P. G. Beattie Q. C.
G. D. Birks
N. H. Cruickshank
A. Davidson
R. W. Meeke
G. E. Renison
T. F. Snelgrove
J. D. Woods
John A. Young

Officers

J. D. Woods
Chairman of the Board
R. W. Meeke
President
John A. Young
Vice President and Secretary-Treasurer

Head Office

18 Vansittart Avenue, Woodstock, Ontario

Sales Executive Offices

Harvey Woods Division - 74 Victoria Street, Suite 625, Toronto, Ontario
Jockey Division - 74 Victoria Street, Suite 621, Toronto, Ontario

Transfer Agents

The Royal Trust Company

Auditors

Clarkson Gordon

Bankers

The Toronto-Dominion Bank

Counsel

McCarthy & McCarthy

Operating Locations

Toronto: Kroy Unshrinkable Wools Limited
Thomson Research Associates Limited
Sportswear Manufacturing Division
Woodstock: Underwear & Hosiery Manufacturing Divisions

Branch Sales Offices

Vancouver — Edmonton — Winnipeg — Toronto — Montreal — Quebec

Products

Hosiery — Underwear — Sweaters — Sportswear



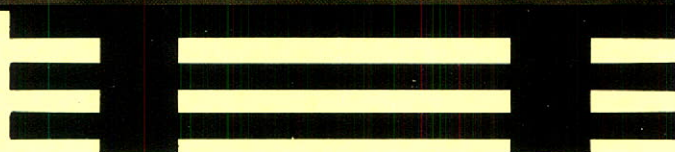
1980 ADVERTISING AND PROMOTIONAL ACTIVITIES

HARVEY WOODS MARKETING DIVISION

JOCKEY MARKETING DIVISION

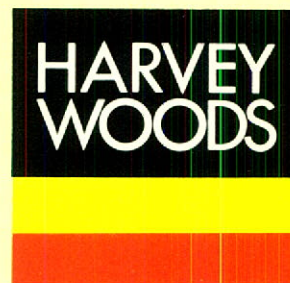
KROY UNSHRINKABLE WOOLS LIMITED

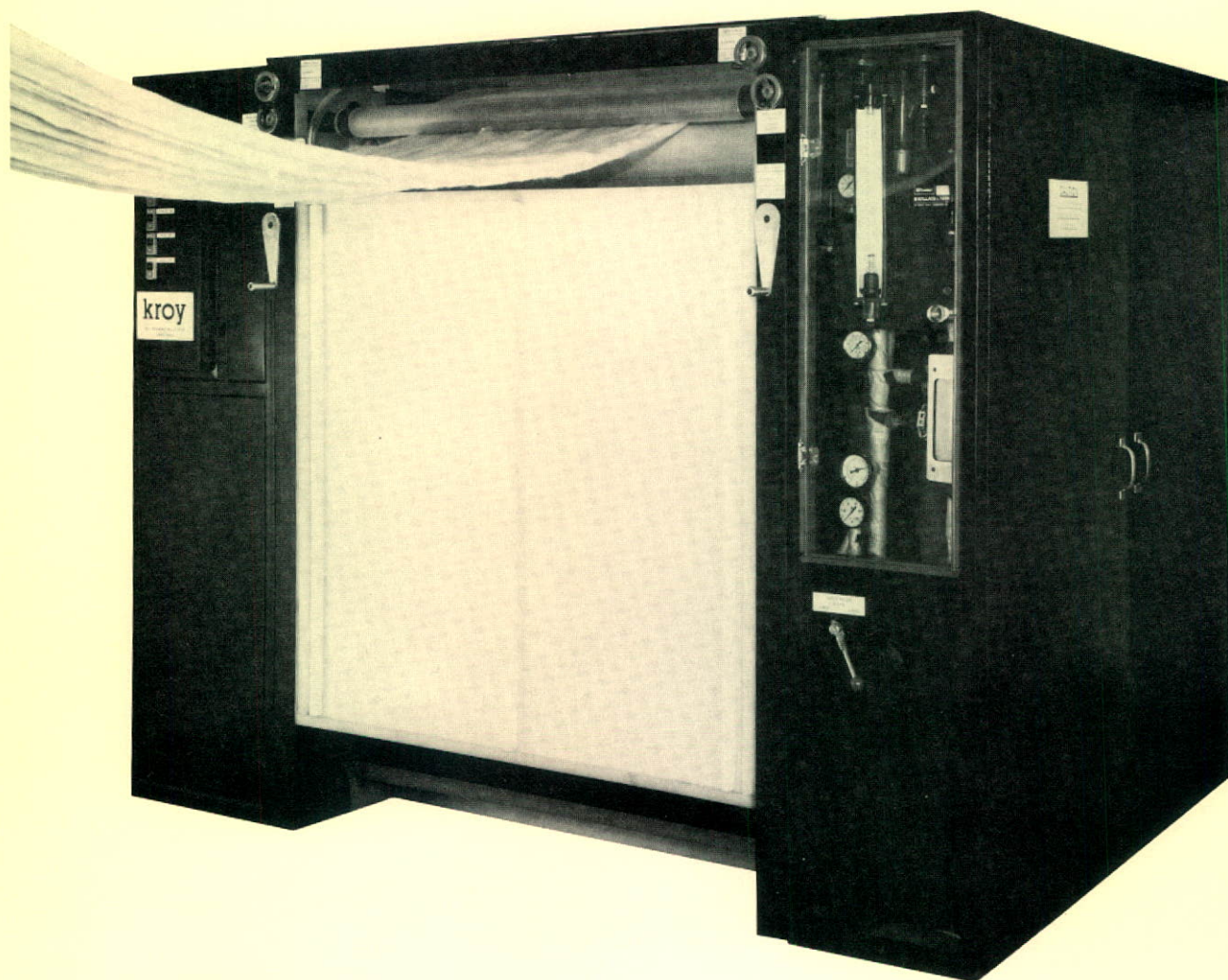
THOMSON RESEARCH ASSOCIATES LIMITED



HARVEY WOODS MARKETING

Harvey Woods will employ back lit boards for the first time in their 1980 underwear and hosiery advertising. Regarded as the top of the line in outdoor, back lit boards are estimated to deliver double the impact of regular posters, because of their superb reproduction and their location in high traffic areas in major markets across Canada. The quality profile of the illuminated boards is highly compatible with the contemporary quality image of Harvey Woods' products, and reflects Harvey Woods' commitment to advertise nationally to generate increased retailer sales.





kroy*

The latest model Kroy machine, which approximates a two metre cube in external dimensions, has all working parts fully enclosed, but easily accessible through sliding and hinge doors.

Mechanical, electrical and chemical controls are external to the machine and positioned for clear view and easy adjustment by production operators.

Production rates of 400 kilograms per hour, running at 12 metres per minute, are normal, producing wool which is completely machine washable, machine dryable and of high quality and excellent uniformity.

KROY UNSHRINKABLE WOOLS LIMITED

MAN IN MOTION®

JOCKEY®

Designed for the action minded man
A contemporary look with fully colour-coordinated tops and bottoms



JOCKEY MARKETING

Jockey's position in the mens' underwear market is well established and the marketing strategy is to maintain this position and expand upon it.

Of growing importance is Jockey's identification with active sportswear; whether tennis, racketball, running, or the need to "look the part", the Jockey collection is designed for the active-minded man. It is a contemporary look, fully colour co-ordinated for the Man in Motion.






HARVEY WOODS LIMITED
WOODSTOCK, ONTARIO

**HARVEY
WOODS**

JOCKEY®

kroy*

DURA FRESH / ULTRA FRESH®

 **John Newcombe**



HARVEY WOODS LIMITED
WOODSTOCK, ONTARIO