

DYLEX

1985
Annual
Report



Across Canada and the United States, Dylex is represented by 19 specialty retail chains which provide customers with fashion and value. The company's 2,680 women's, men's and family clothing stores account for 10 percent of total Canadian apparel sales and have a significant share in the U.S. market.

Highlights

	<i>thousands of dollars except for per share and ratio data</i>		<i>percent change</i>
	1985	1984	
Operating Results†			
Combined sales			
Consolidated sales	\$1,082,133	\$ 926,676	16.8
Associate sales*	1,225,046	413,267	n.m.
	<u>\$2,307,179</u>	<u>\$1,339,943</u>	
Sales by market			
Retail: Canada			
Women's	\$ 383,471	\$ 347,067	10.5
Men's	294,547	261,920	12.5
Family	421,037	336,036	25.3
	<u>1,099,055</u>	<u>945,023</u>	16.3
Retail: United States			
Women's	941,677	198,622	n.m.
Men's	95,722	39,112	n.m.
	<u>1,037,399</u>	<u>237,734</u>	
Manufacturing	<u>170,725</u>	<u>157,186</u>	8.6
Total combined	<u>\$2,307,179</u>	<u>\$1,339,943</u>	
Net earnings	\$ 46,753	\$ 41,196	13.5
Earnings per share	\$ 1.00	\$.88	
Consolidated Financial Position			
Working capital	\$ 147,709	\$ 123,212	
Current ratio (current assets ÷ current liabilities)	2.06:1	2.06:1	
Inventory turnover (sales ÷ average inventory)	4.0	3.9	
Return on average equity (percent)	18.9	19.8	

† In Canadian dollars unless otherwise stated.

* 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.

n.m. — Not meaningful

Cover

Customers with a flair for fashion turn to the selection available at Dylex' clothing chains. The fast-paced women's wear market demands a quick response to the trends that influence our customers.

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Annual Meeting

The Annual Shareholders' Meeting will be held at 11:30 a.m., Thursday, June 12, 1986, in the Canadian Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada.



Report to Shareholders

Another successful year was achieved in 1985 during which combined sales, including sales from partially owned companies, increased to \$2.3 billion. As a result of investments in the United States made since June 1984, half of our combined sales are now derived from the U.S. market. Net earnings rose to \$47 million or \$1.00 per share from \$41 million or 88 cents per share in 1984, after adjusting for the three-for-one stock split in the second quarter of 1985. Most areas of the Canadian operations performed well with the greatest contribution to our earnings growth coming from improvement in margins in the women's wear division and strong sustained contribution to profit by our Canadian men's wear division.

Canadian Results — Combined Operations

	<i>millions of dollars</i>	
	1985	1984
Sales	\$1,241	\$1,075
Operating earnings	114	83
Interest	(10)	(2)
Income taxes	(50)	(38)
Net earnings	54	43
Dylex' earnings	46	37
Per share	\$ 0.99	\$ 0.79

It was a year of accomplishments for our chains in Canada. We opened more than 100 stores in 1985, with the family division taking up 65 percent of the new square footage. Our other divisions took advantage of shopping centre openings and expansions, particularly in Ontario, where the development of suburban areas has prompted the need for more retail space.

Led by the Fairweather chain, earnings for the Canadian women's wear division increased dramatically. Higher gross margins provided most of the gain. Town and Country has channeled its growth into the new Petites stores, 24 of which were opened in 1985. Suzy Shier also achieved better margins.

At Thrifty's, part of our family division, a fresh merchandising approach and a new store image has started to pay off in sales and earnings gains. Bi-Way's new stores were largely responsible for its 25 percent increase in sales, but expansion costs held earnings to the prior year's level.

Tip Top and Harry Rosen both produced superior performance which provided the men's wear division with its most profitable year. Big Steel Man's improvement is encouraging and we look forward to stronger results in the future.

United States Results — Combined Operations

	<i>millions of U.S. dollars</i>	
	1985	1984
Sales	\$ 777	\$ 200
Operating earnings	52	26
Interest & acquisition costs	(51)	(13)
Income taxes	(2)	(6)
Net earnings (loss)	(1)	7
Dylex' earnings (Cdn. \$)	1	4
Per share	\$ 0.01	\$ 0.09

While most of our U.S. operations were profitable at the operating earnings level, interest, acquisition costs and taxes eliminated the profits. Included in these costs are non-cash charges of \$5.7 million U.S. for goodwill amortization and \$12.5 million U.S. for additional depreciation on assets written up to fair value on acquisition. Because Dylex' percentage ownership was higher in the more profitable U.S. companies, our share of the combined results was a profit of \$1 million Canadian.

Women's wear retailing accounts for 90 percent of our combined U.S. business. Sales for Brooks Fashions, the largest chain, increased by six percent to \$436 million U.S., but declined by nine percent on a same store basis. Further expansion has been postponed until sales and margins stabilize. Focusing more clearly on target markets, sharpening store images and improving response time to fashion trends will be among the many measures taken to improve Brooks' performance. The chain's most important resources, its store locations and its people, will be drawn upon in the effort to turn the operation around.

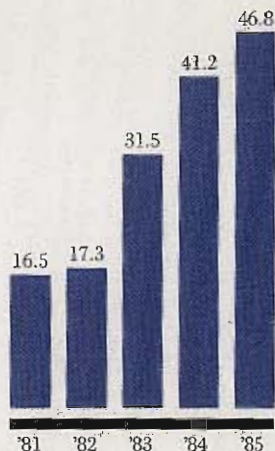
Foxmoor provided an attractive opportunity to enter the junior women's market in 607 excellent store locations. Its new president, Philip Brous, successfully responded to his mandate to reverse the chain's previous trend of sagging sales and profitability. Total sales increased by 30 percent and Dylex' share of net earnings was \$1.6 million U.S.

Our other U.S. women's chains did well in 1985. T. Edwards, a 73-store operation, had a strong showing in 1985 and ended the year with a 30 percent sales increase. Wet Seal, the Los Angeles-based chain owned by Suzy Shier, achieved store-for-store sales increases of 25 percent.

Club International, Tip Top's venture in the Chicago men's wear market, has not yet performed up to its expectations. Sales below plan and start-up charges contributed to the loss incurred. NBO, our off-price men's wear retailer, achieved total sales of \$67 million U.S. and made a contribution to earnings. Sales and earnings are expected to grow by more than ten percent in 1986.

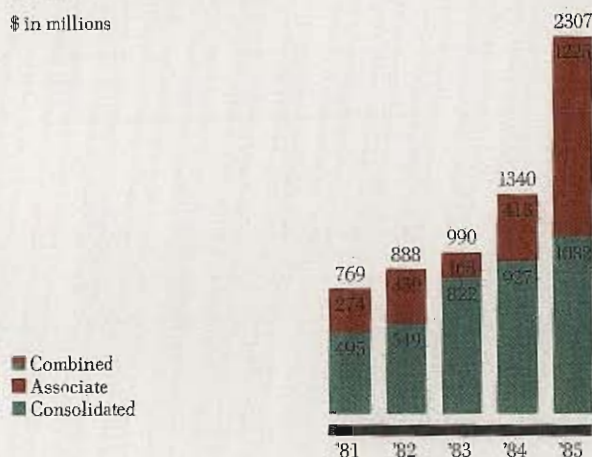
Net Earnings

\$ in millions



Sales

\$ in millions



The Year Ahead

Forecasts for 1986 indicate that demand is holding up well. We plan to open 100 stores in Canada this year, almost half of which will be in the family division.

The U.S. retail market is an extremely competitive environment. First quarter results at Brooks indicate that it is continuing to lose market share. In response to this serious situation, we have initiated steps in order to restore the profitability of the chain. We are pleased to announce the appointment of Barry Aved as President and Chief Executive Officer of Brooks. Mr. Aved has extensive experience in women's wear merchandising.

Financial Strength

The company's investments in the U.S. since June 1984 stood at \$90 million U.S. at year-end. This includes our share of the Foxmoor acquisition and new funds committed in 1985 to further the development of our U.S. interests. While total long-term debt has risen to \$135 million, the cash generated by our Canadian operations has maintained our debt/equity and working capital ratios at favourable levels. The company's working capital at year-end was \$148 million including cash resources of \$124 million.

Dividend Policy

The Board of Directors reviews the dividend rate periodically in order to provide shareholders with direct benefits from their company's earnings growth. Last May the quarterly dividend was raised to five cents, which brought the payment for 1985 to just over 19 cents per share, an increase of 15 percent from the previous year.

Appreciation

On behalf of the Board of Directors, we express thanks to all of our people whose efforts are, in large measure, responsible for the success of the Dylex organization.

Wilfred Posluns
President and Chief Executive Officer

James F. Kay
Chairman of the Board

Toronto, Ontario
April 22, 1986

Corporate Goals

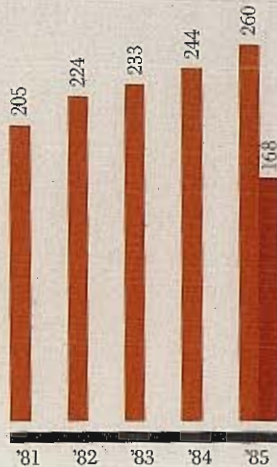
Combined Sales Per Square Foot

dollars

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.

■ Canadian Operations (C \$)
■ U.S. Operations (US \$)



Return on Average Equity

percent

Achieve a return on average equity of 20 percent.

The return achieved in 1985 was 18.9 percent. Over the past five years our progress has been upward and we remain committed to reaching this goal.

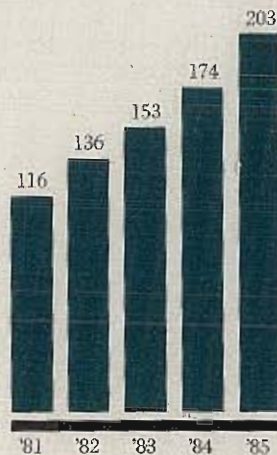


Canadian Combined Retail Sales Growth

Index 1980=100

Achieve consistent sales growth by improving productivity in existing stores and by acquiring or adding new outlets.

Our Canadian combined retail sales more than doubled over the past five years, growing at an average rate of 15.2 percent.



Financial Ratios

Maintain a strong financial position.

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

■ Debt/Equity
■ Working Capital



Combined Return on Canadian Retail Operations

percent

Earn a 10 percent pre-tax return on sales from retail operations.

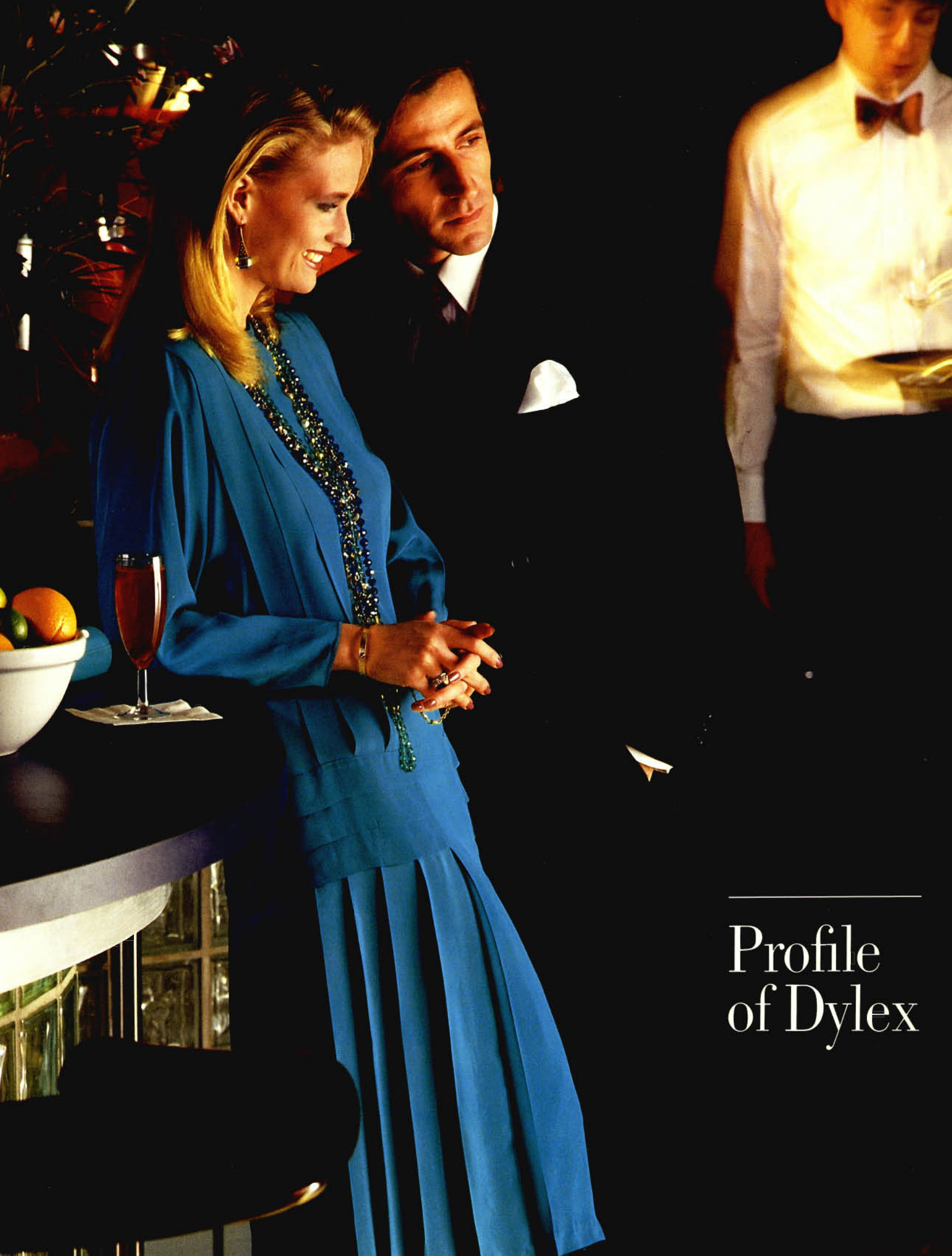
We are encouraged by the efforts of our Canadian operations to reach this still elusive target. Our recent progress has convinced us that this goal is attainable.



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.



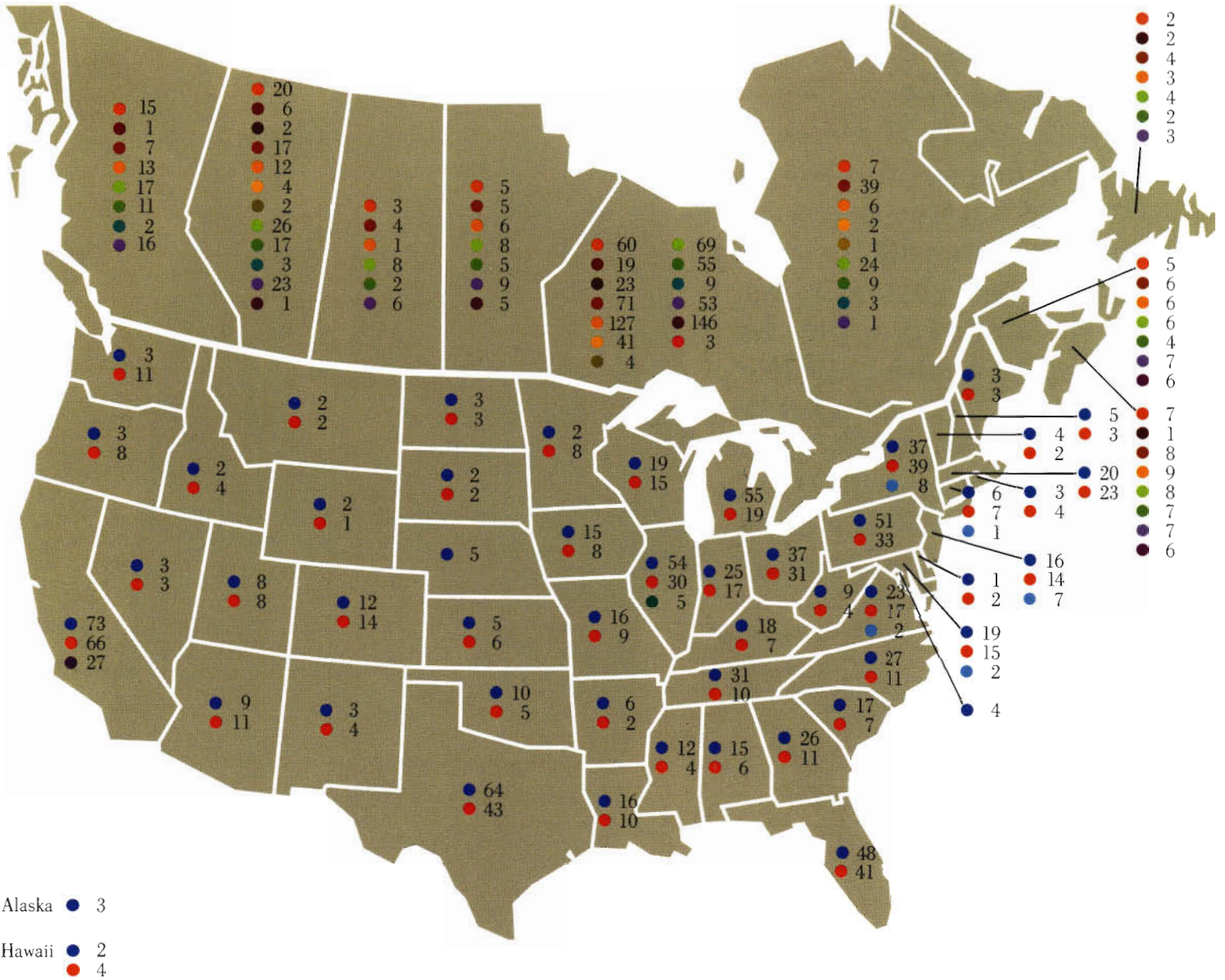
Profile
of Dylex

Market Coverage

Retailing Canada		Stores	Average Size sq. ft.
Women's	B.H. Emporium Value priced fashions for the younger shopper.	26	1,800
	Braemar Selected lines of sportswear, dresses and coats.	28	3,700
	Fairweather/Daniel Hechter Fashionable moderately priced women's clothing.	124	5,600
	Harry Rosen Women Beautiful and tasteful clothing for the professional woman.	7	1,800
	Rubys/Feathers/Fantasia/Diva Dress and casual footwear.	47	1,300
	Suzy Shier/L.A. Express Medium priced women's fashions.	161	2,600
	Town and Country/Petites Medium priced coats, dresses and sportswear.	183	2,300
	576		
Men's	Big Steel Man Moderately priced clothing for the younger man.	112	1,600
	Harry Rosen Quality apparel for the professional and executive.	17	5,200
	Tip Top Suits and accessories at reasonable prices for men of all ages.	170	3,800
	299		
Family	Bi-Way Low cost clothing and housewares for budget conscious consumers.	164	8,700
	Drug World Wide range of discount products.	3	16,000
	Thrifty's Casual wear and accessories for active lifestyles.	125	2,000
	292		
	Total Canada	1,167	
Retailing United States			
Women's	Brooks Fashions Medium priced fashions for women.	781	3,700
	T. Edwards Higher priced selected lines of apparel.	73	3,200
	Foxmoor Young women's clothing at moderate prices.	607	2,400
	Wet Seal Junior sportswear.	27	3,000
	1,488		
Men's	Club International Suits and accessories at reasonable prices for men of all ages.	5	5,000
	NBO Off-price brand name clothing.	20	10,000
	Total United States	1,513	
	Total Canada and United States	2,680	

Manufacturing

An assortment of women's and men's clothing.



Women's

Men's

Family

Canada

- Fairweather/Daniel Hechter
- B.H. Emporium
- Braemar
- Suzy Shier/L.A. Express
- Town and Country/Petites
- Rubys/Feathers/Fantasia/Diva
- Harry Rosen Women

- Tip Top
- Big Steel Man
- Harry Rosen

- Thrifty's
- Bi-Way
- Drug World

United States

- Brooks/ T. Edwards
- Foxmoor
- Wet Seal

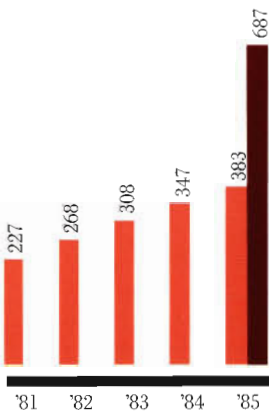
- NBO
- Club International

Women's Wear

Women's apparel contributes the largest share to Dylex' combined sales — 57 percent of the total. In this competitive retail environment characterized by quickly evolving trends, our chains consistently anticipate the fashion images that their customers want to project. As shown in the charts below, Canadian sales grew by ten percent in 1985 and operating earnings reached \$39 million. Our 1,488 stores in the United States contributed \$687 million U.S. in sales and operating earnings of \$48 million U.S.

Combined Women's Wear Sales

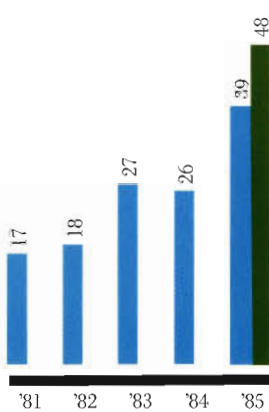
\$ in millions



■ Canadian (C\$)
■ U.S. (US\$)

Combined Women's Wear Operating Earnings

\$ in millions



■ Canadian (C\$)
■ U.S. (US\$)



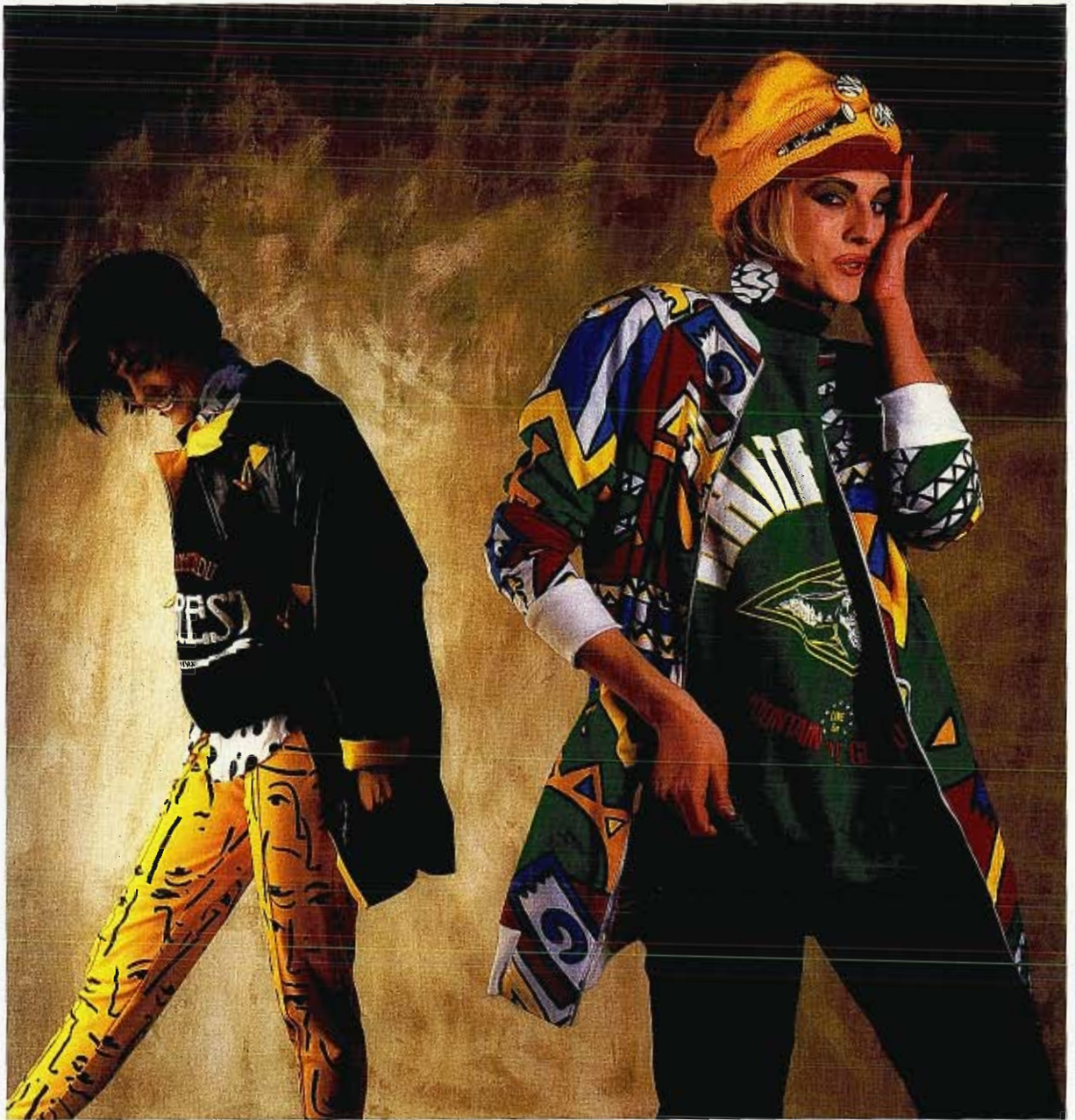
Town and Country Women with busy working and social lives find quality and fashionable style at Town and Country and its affiliated Petites stores. Expanded from 107 to 183 stores across Canada in the past five years, the chain has earned a solid reputation by offering a high level of customer service.

Harry Rosen Women Beautiful taste and workmanship are the hallmarks of Harry Rosen Women's business and leisure wear. In response to customer demand, three new stores will be added in 1986 to the existing seven outlets to better serve women across Canada in executive and professional careers.



Braemar Customers who want to make a fashion statement in both their office and leisure clothing turn to Braemar. The 28-store chain carries a wide range of apparel including private label goods to meet the needs of young career women. From 13 Ontario stores in 1981, the chain has expanded to key markets in other provinces.

Suzy Shier
The energy and freshness of Suzy Shier's merchandise appeals to the young and daring. Along with its companion L.A. Express, it offers value in sportswear, accessories and other apparel. Well represented across Canada, the chain has grown from 93 to 161 stores over the past five years.

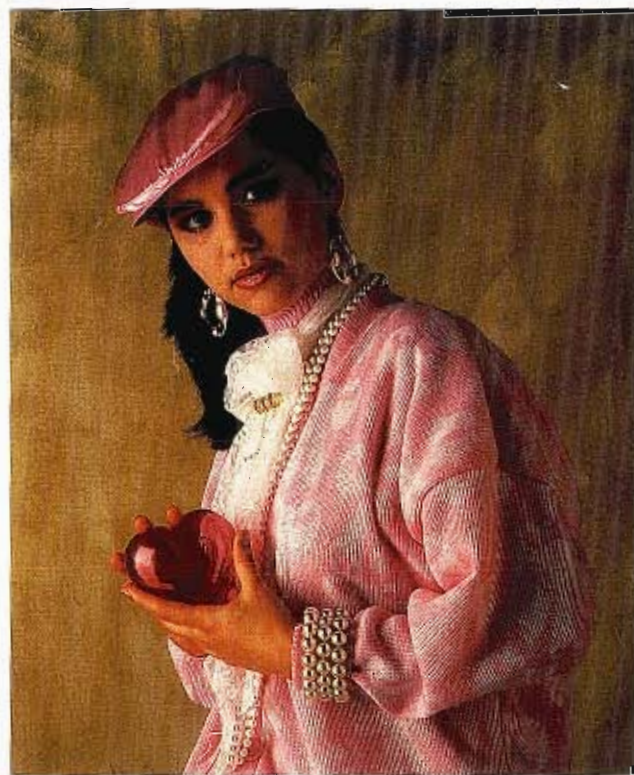


Rubys
With its sister stores Feathers, Fantasia and Diva, Rubys sells a wide range of fashion shoes. Merchandised to appeal to a broad segment of the women's market, the 47 stores feature moderately priced footwear. Now located primarily in Ontario, the chain is gradually establishing itself in regional shopping centres in other provinces.



Fairweather
Colourful presentations of sportswear and accessories create an exciting shopping environment at Fairweather that appeals to fashion-forward women. The exclusive Daniel Hechter designer label gives the stores an edge in the market. One of Dylex' original chains, Fairweather has grown from 22 stores in 1967 to 124 today, in regional shopping centres and key downtown locations across Canada.

B.H. Emporium
For the teenager, self-expression in clothing is all-important. B.H. Emporium helps its customers create an image reflecting the fashions of today. A wide selection of the most sought-after styles are available in its 26 stores across Canada.





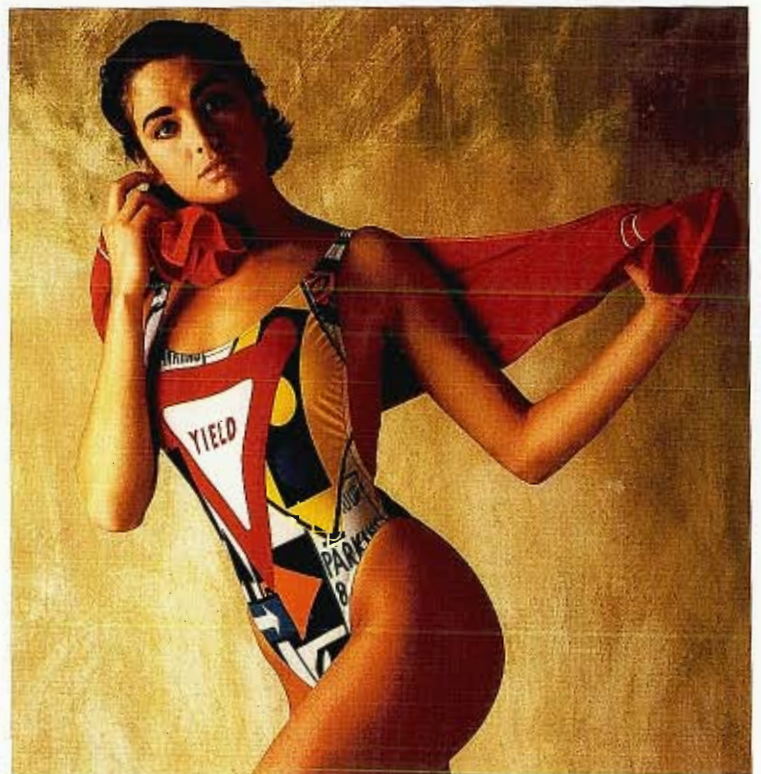
Wet Seal

Located in one of the most competitive markets in the United States, Wet Seal sells exciting sports and leisure wear to its spirited California customers. Acquired by Suzy Shier in 1984, the 27-store chain provides advance information on merchandising innovations in the U.S.

Brooks Fashions

Depth and breadth of selection is essential to the fashion conscious young woman building a wardrobe. She can find styles she wants at affordable prices in Brooks Fashions 781 stores located in regional shopping centres

throughout the United States. Its affiliated T. Edwards chain with 73 stores carries apparel at slightly higher prices.





Foxmoor

Making a personal statement through fashion is important for many young women. Combining sophistication with the vigour of colourful merchandise and bold accessories draws shoppers to Foxmoor's 607 stores throughout the United States.

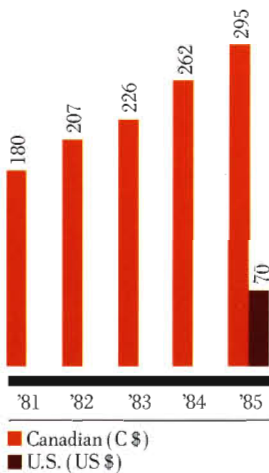
Men's Wear

Men's wear in the eighties reflects the flamboyance and energy of its customers. While Big Steel carries fashionable merchandise suitable for a younger man, Harry Rosen and Tip Top introduce subtle styling enhancements to maintain the interest of their more conservative market. This segment of Dylex' Canadian combined sales increased by 12 percent, an impressive achievement after recording a 16 percent growth in the prior year. For the first full year of operations, our U.S. stores' sales reached \$70 million U.S.



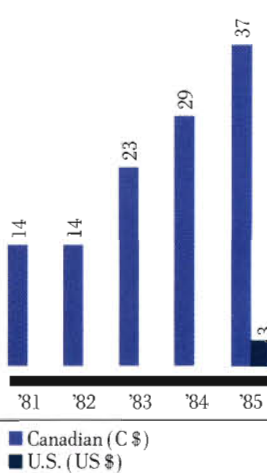
Combined Men's Wear Sales

\$ in millions



Combined Men's Wear Operating Earnings

\$ in millions



Harry Rosen Men's Wear

Reflecting an intimate knowledge of fine clothing, Harry Rosen Men's Wear maintains a high level of customer service in a rich synthesis of tradition and innovation. The 17-store chain serves the professional and executive market in Canada's major cities, providing superb tailoring and fine fabrics in business suits, and casual clothes with pizzazz.

Big Steel Man

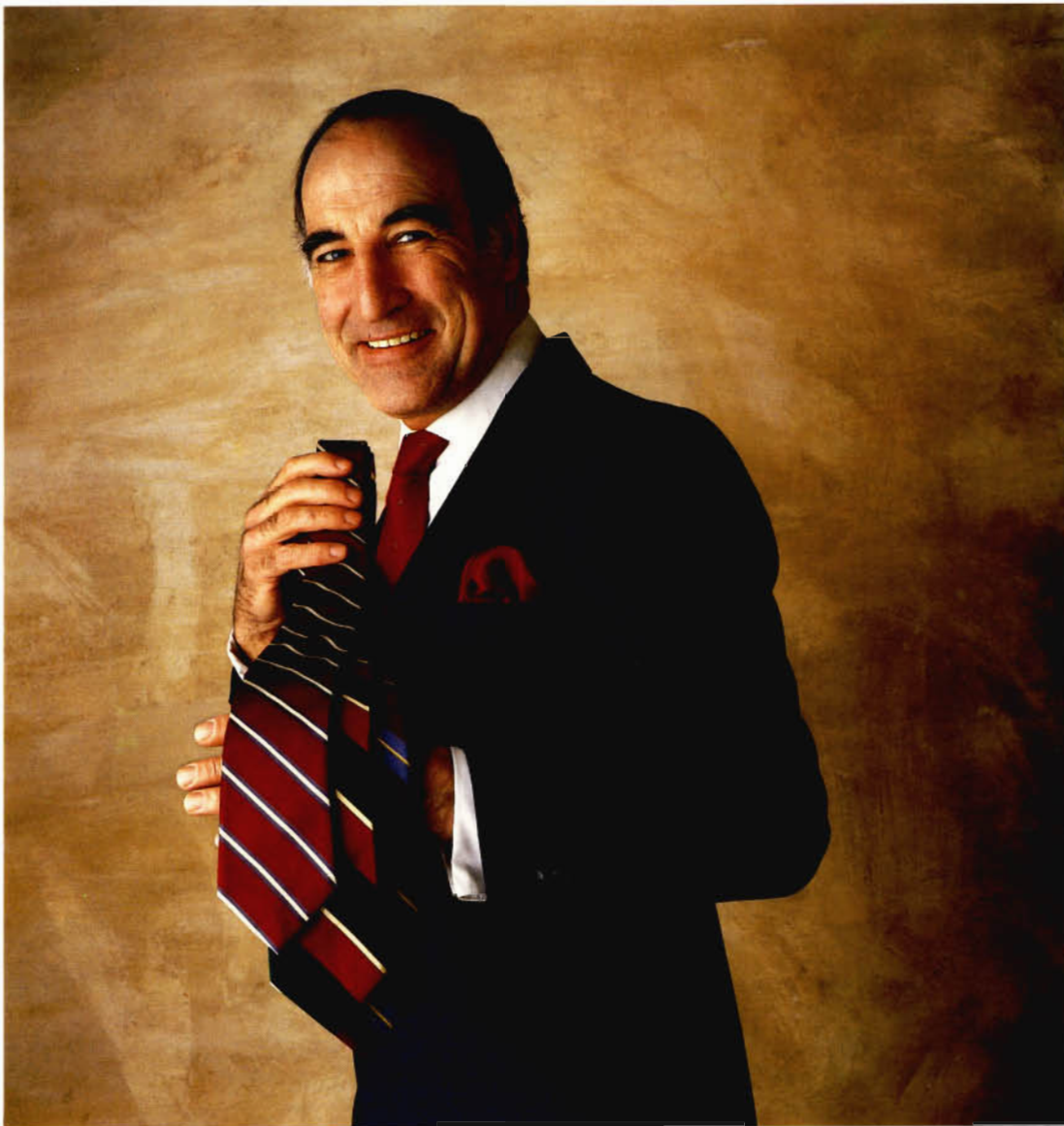
Young men's fashions for the 80s reflect a new relaxed attitude. The latest styles in a variety of patterns and textures are found at Big Steel Man. The 112 stores in shopping centres across Canada provide fashion direction and a total look for its customers in suits, sports jackets, slacks and leisure clothes.





*T*ip Top

Canada's largest and most successful men's wear retailer, Tip Top caters to the man who wants a good quality suit without fashion extremes. In the 170 stores he finds an exceptionally large selection in a choice of styles and prices. The stores present a comfortable ambiance with a full range of outer and leisure wear as well as jackets, shirts and ties to satisfy the customer's every requirement.



NBO

An off-price men's wear retailer, specializing in a full line of name-brand apparel, NBO is expanding from its New York City area base to the Washington, D.C., market. The 20-store chain plans to continue its expansion into specifically targeted regional markets.

Club

International

A new men's wear store created by Tip Top, Club International entered the Chicago market in early 1985. Five stores were opened in leading suburban shopping centres as a prelude to possible further expansion in the U.S. market.



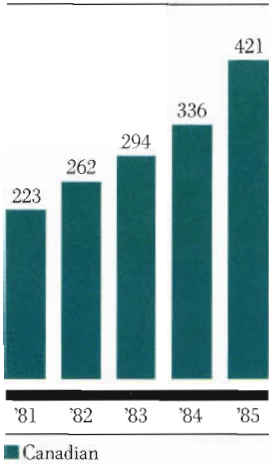
Family Stores

Our family stores located across Canada provide clothing for the entire family and a large selection of household items. This part of our business grew 25 percent in 1985, largely because the number of outlets increased from 253 to 292. We expect to further explore the potential of this market by opening another 40 stores in 1986. Sales rose to \$421 million in 1985 and earnings were \$25 million.



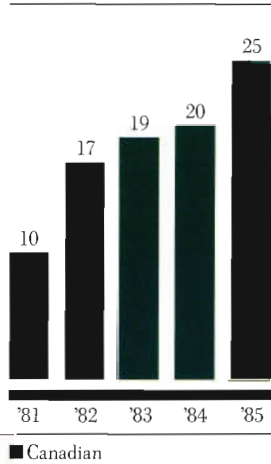
Family Stores
Sales

\$ in millions



Family Stores
Operating Earnings

\$ in millions



■ Canadian

■ Canadian

Bi-Way

Family stores for the bargain seeker, Bi-Way combines low overhead and volume purchasing to offer exceptional value on brand-name clothing, housewares and grocery items. The 164-store chain has grown from 84 stores in 1981 and is expanding to eastern and western Canada from its Ontario base.

<

Drug World
Dylex' new venture in the discount drug and beauty business, Drug World is presently seeking to expand to suitable locations. The three stores in the greater Toronto area, averaging 16,000 square feet, carry a wide selection of brand-name products in what is a relatively new merchandising concept in Canada.



Thrifty's
Attractive merchandising and an updated image are building a new following for Thrifty's 125 stores across Canada. The chain's coordinated casual wear offers young men and women the opportunity to enhance their wardrobes, consistent with a contemporary lifestyle and self-image.



Review of Operations

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 fully 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.

Combined Results

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.

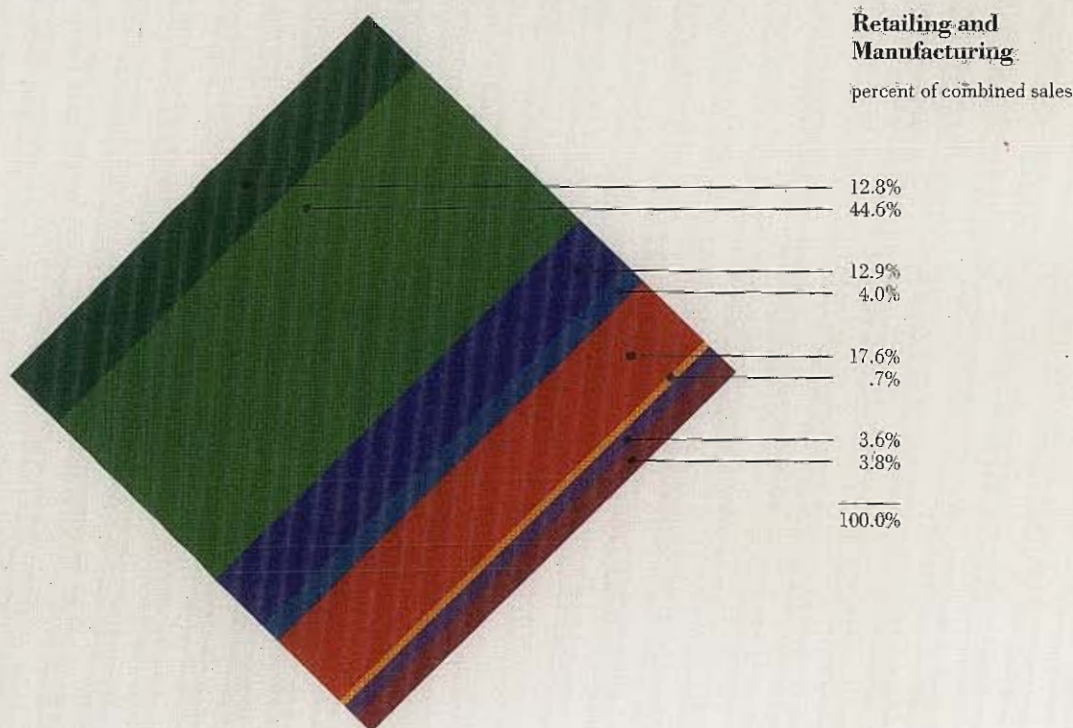
Our combined sales reached \$2.3 billion, half of which came from the United States operations. In Canada, our market share of men's and women's wear sales increased to 10.6 percent and operating earnings for the three retail divisions were up 34 percent.

Retailing

Women's	■ Consolidated	■ Unconsolidated
	B. H. Emporium Braemar Fairweather Harry Rosen (51%) Suzy Shier/L. A. Express (50.1%) Wet Seal (78% owned by Suzy Shier)	Brooks/T. Edwards (39%) Foxmoor (39%) Rubys/Feathers/Fantasia/Diva (50%) Town and Country/Petites (50%)
Men's	■ Consolidated	■ Unconsolidated
	Big Steel Man Club International Harry Rosen (51%) Tip Top Weston Apparel* Target Apparel*	NBO (50%)
Family	■ Consolidated	■ Unconsolidated
	Bi-Way Thrifty's *Integrated manufacturing	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 Kotzlin (70%)	Forsyth (33 1/3%) Manchester Manufacturing Inc. (42%) Shane Knit (50%)



Combined Sales

thousands of dollars

	1985				1984	
	Canada	U.S.	Total	Percent Change	Total	Percent Change
Women's	\$ 383,471	\$ 941,677	\$1,325,148	142.8	\$ 545,689	77.3
Men's	294,547	95,722	390,269	29.6	301,032	32.9
Family	421,037	—	421,037	25.3	336,036	14.1
Manufacturing	187,726	28,392	216,118	9.1	198,004	5.9
Less Inter-Group	(45,393)	—	(45,393)		(40,818)	
	\$1,241,388	\$1,065,791	\$2,307,179	72.2	\$1,339,943	35.3

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

Women's Wear in Canada

Women's clothing sales in Canada in 1985 increased by 12 percent, reaching \$3.8 billion. In the same period, the Consumer Price Index for women's wear rose by only 2.7 percent, resulting in real growth of 9.3 percent.

Combined sales for the Dylex women's wear chains in Canada rose 10.5 percent to \$383 million, for a 10 percent market share. Return on sales met our corporate 10 percent goal as operating earnings grew to \$39 million.

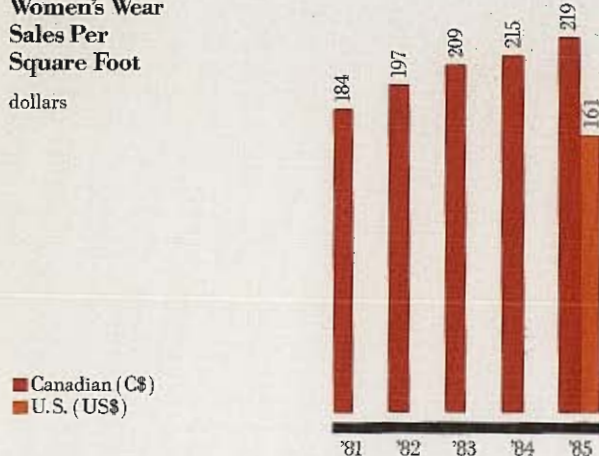
About 40 percent of our Canadian women's wear sales were contributed by Fairweather. With a total of 743,000 square feet of retailing space, its stores have a significant impact on our women's wear division. Fairweather's sales increased eight percent, almost entirely as a result of productivity gains. Higher profits were the direct result of a renewed emphasis on creating the best possible shopping environment for customers. Exciting displays and fixturing that allows floor-to-ceiling coverage have increased the visual impact of merchandise. The success of Fairweather's customer-oriented approach is illustrated by its return on sales, which climbed above 10 percent.

Included in the Fairweather organization are B.H. Emporium and Daniel Hechter, two separate retail entities which were developed to better serve their target markets. B.H. Emporium, with 26 outlets, caters to teenage customers. Daniel Hechter clothing can be found in boutiques in all Fairweather stores and in seven free-standing locations. This designer-label sportswear appeals to fashion-conscious women of all ages.

Suzy Shier and Town and Country each accounted for about 20 percent of the sales in our Canadian women's wear division. Town and Country opened 26 stores in 1985, most of which were Petites outlets. Although some of these are new locations, others are created by dividing an existing Town and Country store and providing a second retail space with its own entrance and store frontage. The two adjacent stores are usually connected to allow customers to easily shop both stores. Town and Country matched the market's performance with a 12 percent sales increase. Earnings were strong and return on sales exceeded the women's group

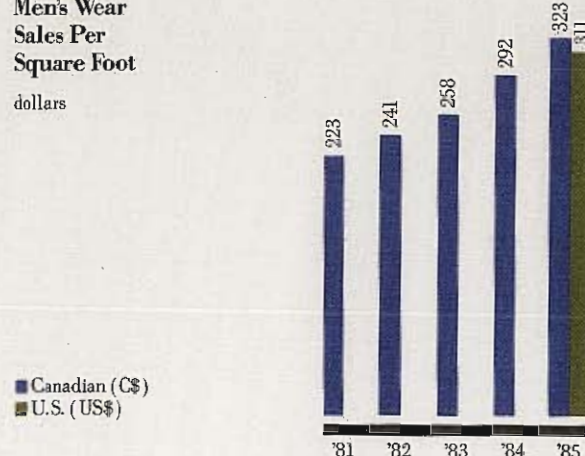
Combined Women's Wear Sales Per Square Foot

dollars



Combined Men's Wear Sales Per Square Foot

dollars



average. Suzy Shier made significant headway as gains in gross margins contributed to a higher earnings-to-sales ratio. The chain opened 14 outlets in 1985.

The remaining 20 percent of our women's wear sales in Canada are contributed by Braemar, Harry Rosen Women and Rubys. Braemar's sales increased by 18 percent, due to both productivity gains and new store openings. The in-house brand names of Diana Charles and Jeremy Scott have been strongly promoted in the chain's "Consider Braemar" advertising campaign. Harry Rosen Women, with seven outlets in Canada, has introduced brighter colours and new lines to its fine clothing for the professional. The Rubys chains can utilize fairly small retail spaces, averaging 1,300 square feet, to the maximum advantage. Sales per square foot exceeded \$380 and earnings improved.

Men's Wear in Canada

The Canadian men's wear market grew seven percent to \$2.5 billion in 1985. As demonstrated by the 2.4 percent increase in the Consumer Price Index for men's wear, very little of this gain was inflationary. In real dollars, sales for this market climbed by 4.6 percent.

Dylex men's wear chains in Canada outperformed the market. Sales increased by 12.5 percent to \$295 million, raising our share of the market from 11.0 to 11.5 percent. With earnings at \$37 million, this division's return on sales exceeded 12 percent.

Tip Top's 11 percent sales growth propelled the gain in market share. Accounting for over 60 percent of our Canadian men's wear sales, Tip Top's results dominate the group. Positioned in virtually every viable retail location in Canada, store productivity as measured by sales per square foot has become Tip Top's most important source of growth. To encourage year-round commitment to excellence, the chain rewards its top sales people in its "Club Elite" sales contest. A "Store of the Year" award is granted annually to

the employees of the store that best meets a stringent list of requirements. These are typical of the programs that Tip Top used to increase its productivity by more than 10 percent.

Harry Rosen's high standards reflect the expectations of its clientele. The chain's emphasis on quality has been the key to its continuing success. Growth in both sales and operating earnings exceeded 30 percent and sales per square foot were up 12 percent. Big Steel Man improved its profit performance with better margins and tighter expense controls.

Family Stores

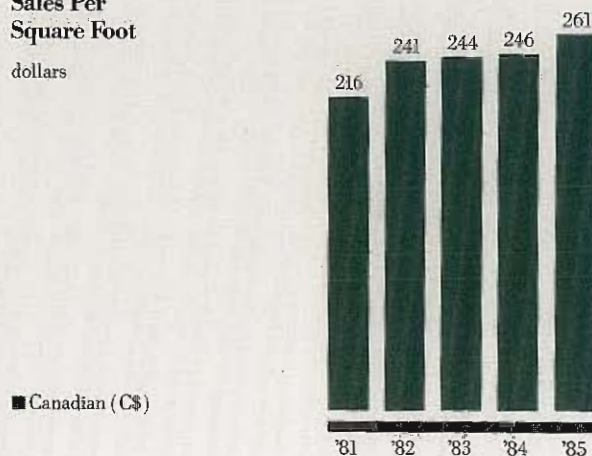
Dylex family sales rose by 25 percent to \$421 million, largely due to the addition of 30 more Bi-Way stores. Operating earnings reached \$25 million. Productivity increased to \$261 per square foot.

More than 80 percent of our family store sales are contributed by Bi-Way. The chain continued its cross-Canada growth, ending the year with 18 of its 164 outlets outside of Ontario. This trend will continue in 1986, when over 30 stores will be opened, including additional outlets in the western provinces and the Maritimes. The chain's productivity improved by six percent, but expansion costs held earnings to the prior year's level.

Thrifty's made significant gains in earnings as a result of improved margins. It has moved beyond its original "Just Pants" theme and now carries a complete range of sportswear to appeal to young men and women. Of its 125 stores, 31 have been renovated to reflect a more exciting image. An additional 13 outlets will be remodelled in 1986. Drug World, our discount drug operation, opened a third outlet in 1985. Expansion will continue as suitable locations are found.

Family Stores
Sales Per
Square Foot

dollars



■ Canadian (C\$)

Dylex Manufacturing

Combined manufacturing sales increased by nine percent to \$171 million and earnings doubled to reach \$14 million.

Forsyth Trading, which accounts for over half of this division's sales, is one-third owned by Dylex. Its principal products, men's shirts, are sold to retailers across the country. Sales were up by nine percent.

Tobias Kotzin, our U.S. manufacturer, achieved a five percent sales gain and turned around to produce a profit in 1985 as a result of tighter controls on overhead.

In Canada, San Remo introduced computerized knitting machines to add intricately knitted sweaters to its line of fashionable mens apparel. Paulman International, a manufacturer of suits for outside retailers, increased its sales by more than nine percent and improved earnings.

In women's manufacturing, Manchester Children's Wear, a manufacturer of women's coats, increased sales by more than 20 percent. Irving Posluns, another coat manufacturer, improved its results. Nu-Mode's sales of dresses increased and operating earnings were maintained at the prior year's level. Sales and earnings for National Knitting improved as the demand for women's knitted fashions increased.

Women's Wear in the United States

Foxmoor, which was acquired in March 1985, had a strong fall season and finished the year with a 30 percent sales increase. Eight additional stores will be opened in 1986 and 50 outlets will be renovated at a cost of \$90,000 U.S. per store.

The Brooks Fashions chain added 60 stores in 1985 and sales increased by six percent. Future expansion will be limited while the chain concentrates on improving productivity. Brooks was profitable at the operating level, but the return on sales did not meet projected levels.

The 73-store T. Edwards chain manages its own merchandising and store operations. Its market, the fashion conscious woman over 25, is expanding rapidly as women in the "baby boom" generation advance in the work force and gain access to larger discretionary incomes. To meet the demand in this segment, T. Edwards plans to add more than 15 stores in 1986 when annual sales are expected to exceed \$70 million U.S. Located in California, Wet Seal opened nine stores in 1985 to end the year with 27.

Men's Wear in the United States

NBO's 20 stores produced over \$60 million U.S. in sales. Operating income exceeded \$4 million U.S. In addition to its New York base, the chain has four stores in the Washington area and expects to open a fifth in 1986. Breaking ground in a new geographic region has been a challenge, but it is expected that the Washington stores will yield operating profits in the next fiscal year. Sales and earnings are expected to grow by more than 10 percent in 1986.

Club International's five Chicago stores opened in April 1985. Operating losses were the result of non-recurring startup costs and sales that were lower than expected. The chain is endeavouring to develop a customer following and is expecting improved performance in 1986.

Financial Review

The preceding review of operations is presented to provide an analysis of the underlying factors affecting the entire Dylex group (which includes the operations of associate companies in which the Dylex ownership may be 50 percent or less). The financial review is designed to provide an examination of some aspects of the consolidated financial statements.

Cash and Short-Term Deposits

Included are net investments in short-term instruments and floating rate preferred shares. Dylex' cash position rose from \$87.9 million to \$124.1 million as detailed in the consolidated statement of changes in financial position. The increase was due primarily to higher earnings and long-term debt, offset by additional investments in associate companies in the United States.

Accounts Receivable

	<i>millions of dollars</i>	
	1985	1984
Retail	\$ 5.4	\$ 4.9
Fashion manufacturing	12.8	9.7
Other	4.9	1.8
	<u>\$ 23.1</u>	<u>\$ 16.4</u>

Retail receivables mainly consist of balances due from bank credit card sales and layaway purchases by customers while trade customers provide the bulk of the fashion manufacturing receivables.

Other receivables include accrued interest receivable and amounts due from associate companies.

Inventories

	<i>millions of dollars</i>	
	1985	1984
Retail	\$121.6	\$113.7
Fashion manufacturing	13.7	16.4
	<u>\$135.3</u>	<u>\$130.1</u>
Increase (decrease) in inventory		
retail	7.0%	28.0%
fashion manufacturing	(16.7%)	(17.1%)
Turnover		
retail (at retail level)	4.0	3.8
fashion manufacturing	3.9	4.2

Investment in Associate Companies

Companies which are 50 percent or less owned 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:

	<i>millions of dollars</i>	
	1985	1984
Balance, beginning of year	\$ 97.1	\$ 13.8
Dylex' portion of the earnings of associate companies	2.5	7.3
Investments in and advances to associate companies	34.8	77.5
U.S. exchange adjustment	5.4	1.0
	<u>139.8</u>	<u>99.6</u>
Less dividends received from associate companies	1.0	2.5
Balance, end of year	<u>\$138.8</u>	<u>\$ 97.1</u>

On pages 28 and 29 are abbreviated combined financial statements of our Canadian and United States interests which include the accounts of these associate companies.

Notes and Other Investments

Notes and other investments include a contract made in 1981 with Northern Telecom Limited which has provided tax deductions resulting from research and development expenditures in prior years and will provide guaranteed royalties for another year. Also included is an investment of \$1.5 million in the shares of Strathearn House Group Limited. This investment was the result of the conversion in 1984 of Dylex' note receivable from Strathearn into non-voting Class A shares of Strathearn on the basis of one share for each \$1.00 of outstanding note. This note originated in 1972 when Dylex sold its Home Furnishings Division to Strathearn.

In addition Dylex owns another 1.9 million non-voting Class A shares in Strathearn through a 1985 transaction wherein Dylex effectively acquired non-capital losses originating with Strathearn and the Strathearn shares for a purchase price of \$2.3 million. After giving effect to the application of the non-capital losses only a nominal net cost was assigned to the acquisition of the shares.

The 3.4 million non-voting Class A shares of Strathearn held by Dylex represent approximately 29 percent of the total shares outstanding.

Fixed Assets

Major components of the \$17.9 million of new investment in fixed assets during the year included store renovations and point of sale equipment.

	millions of dollars	
	1985	1984
Land	\$ 5.1	\$ 5.1
Buildings	20.3	19.0
Equipment and leasehold improvements	48.7	35.7
	74.1	59.8
Less accumulated depreciation	21.8	17.3
	<u>\$ 52.3</u>	<u>\$ 42.5</u>

Leased Assets

Dylex has continued its established practice of financing the costs of fixturing new stores and renovating existing stores through a capital lease finance instrument. Under this system, costs of these activities are paid by the lessor, who then 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 is about \$200,000 but varies by chain, ranging from \$100,000 to \$400,000. During the year, \$20.8 million of financing was arranged in this fashion and the accompanying graphs illustrate the growth during the past few years.

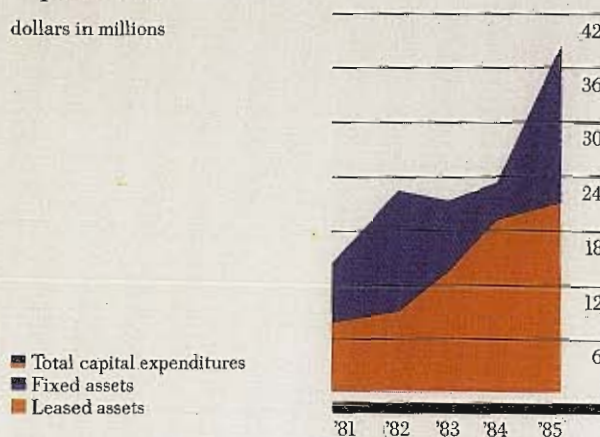
Long-Term Liabilities

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

	millions of dollars	
	1985	1984
Obligations under capital leases		
Minimum lease payments	\$ 76.8	\$ 63.9
Less: amount representing imputed interest at rates in effect at drawdowns	19.0	15.9
Present value of obligations under capital leases	57.8	48.0
Due within one year	11.9	10.3
	<u>45.9</u>	<u>37.7</u>
Long-term debt		
Amounts outstanding	90.8	57.9
Due within one year	1.8	1.7
	<u>89.0</u>	<u>56.2</u>
Total obligations under capital leases and long-term debt	<u>\$ 134.9</u>	<u>\$ 93.9</u>

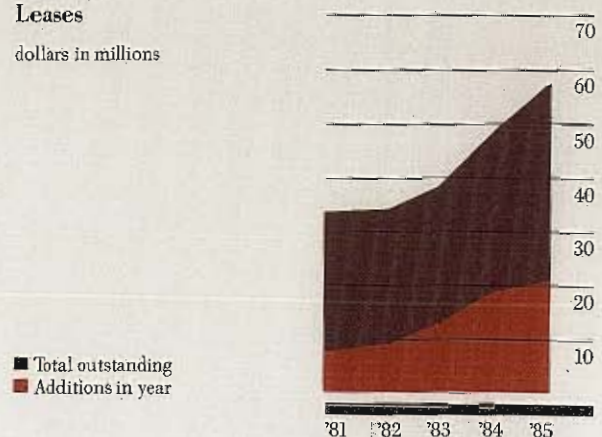
Capital Expenditures

dollars in millions



Capitalized Finance Leases

dollars in millions



Long-term liabilities increased by \$41.0 million, primarily attributable to loans totalling \$25 million U.S. used to replenish working capital depleted due to the increase in investments in the United States.

New lease obligations totalled \$21.3 million with \$18.6 million at fixed rates and the remainder at floating rates. All were for a six year term.

	<i>millions of dollars</i>	
	1985	1984
Long-term liabilities	\$ 134.9	\$ 93.9
Shareholders' equity	269.0	225.6
Debt/equity ratio	50%	42%

Minority Interest — Subsidiary Earnings

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

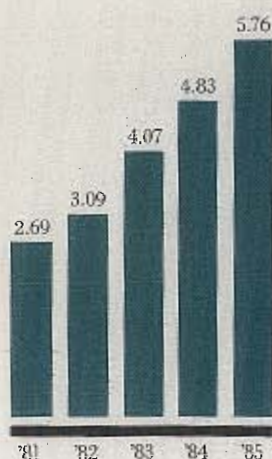
	<i>% ownership</i>
Harry Rosen Inc.	51%
Tobias Kotzin Inc.	70%
Paulman International Inc.	75%
San Remo Knitting Mills Inc.	75%
Suzy Shier Inc. (owns 78% of The Wet Seal, Inc.)	50:1%

Shareholder's Equity

	1985	1984
Shareholders' equity (millions)	\$ 269.0	\$ 225.6
Shares outstanding (thousands)	46,689	46,689
Book value per share	\$ 5.76	\$ 4.83
Return on shareholders' equity (average equity)	18.9%	19.8%

Book Value Per Share

dollars per share



Interest Expense

Total net interest expense increased by \$5.3 million to a total of \$4.1 million.

	<i>millions of dollars</i>	
	1985	1984
Long-term debt	\$ 3.3	\$ 3.0
Capital lease obligations	5.6	4.8
Other interest income	(4.8)	(9.0)
	<u>\$ 4.1</u>	<u>\$ (1.2)</u>

Interest rate swaps have been used to fix the rates on long-term liabilities and at year-end almost all of these obligations were at fixed rates.

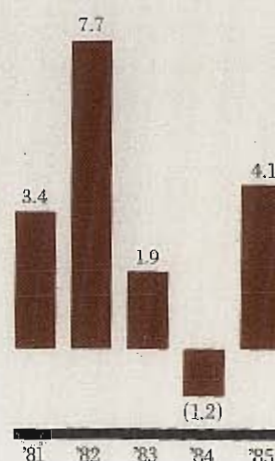
The average interest rate paid on the long-term debt in 1985 was 11.1 percent compared with 12.2 percent in 1984.

The average rate on capital lease obligations was 12.5 percent compared with 12.8 percent a year earlier.

Other interest represents net revenue in 1985 from short-term investments such as treasury bills, bankers' acceptances and other short-term money market instruments, net of interest expense.

Net Interest Expense (Income)

dollars in millions



Inflation

The Canadian Institute of Chartered Accountants has recommended that public companies report the effect that inflation and changing prices has upon their financial statements. The Institute suggests an approach which requires adjustments for each of cost of sales, depreciation expense and financing charges.

Even in the relatively high inflation years of the early 1980s, we did not agree with the recommendation because we believed that the preparation and presentation of the recommended information was highly subjective and likely to cause confusion for many readers. Now, with inflation rates at far more reasonable levels, we hold the opinion that investor interest in the inflation factor has sharply declined.

Dylex' inflation adjusted results differ only marginally from those reported in the regular historical cost based Consolidated Financial Statements.

How Dylex reacts to inflation and its impact on its target markets is a far more important consideration than the presentation of subjective pro-forma financial data. Dylex continues to offer a product mix of value at attractive price points. This is achieved through experience, innovative marketing, economies of scale and a focus on productivity throughout the organization. That Dylex achieves success in this element of performance is evident in the continuing growth in market share and margins.

Supplemental Information

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

Canadian Combined Operations

Condensed Balance Sheet

millions of dollars

	Feb. 1, 1986	Feb. 2, 1985
Current assets		
Cash and short-term deposits	\$ 98	\$ 82
Accounts receivable	32	26
Inventory	182	170
Other current assets	3	4
	<u>315</u>	<u>282</u>
Investment in U.S. operations	124	88
Fixed assets, net book value	124	108
Goodwill	15	16
Other assets	4	4
Total assets	<u>\$ 582</u>	<u>\$ 498</u>
Current liabilities		
Accounts payable	\$ 130	\$ 114
Income and other taxes payable	17	13
Current portion of long-term debt	17	15
	<u>164</u>	<u>142</u>
Long-term debt	121	108
Deferred taxes	—	3
Total liabilities	<u>285</u>	<u>253</u>
Shareholders' equity		
Dylex' portion	264	219
Partners' portion	33	26
	<u>297</u>	<u>245</u>
Total liabilities and equity	<u>\$ 582</u>	<u>\$ 498</u>

Condensed Earnings Statement

millions of dollars

	1985	1984
Sales	<u>\$1,241</u>	<u>\$1,075</u>
Operating earnings	114	83
Interest	(10)	(2)
Income taxes	(50)	(38)
Net earnings	<u>\$ 54</u>	<u>\$ 43</u>
Dylex' earnings	<u>\$ 46</u>	<u>\$ 37</u>

United States Combined Operations

Condensed Balance Sheet

millions of U.S. dollars

	Feb. 1, 1986	Feb. 2, 1985
Current assets		
Cash and short-term deposits	\$ 23	\$ 35
Accounts receivable	6	5
Inventory	104	84
Other current assets	11	10
	<u>144</u>	<u>134</u>
Fixed assets, net book value	205	148
Goodwill	228	233
Other assets	6	2
Total assets	<u>\$ 583</u>	<u>\$ 517</u>
Current liabilities		
Accounts payable	\$ 91	\$ 58
Income and other taxes payable	10	14
Current portion of long-term debt	—	21
	<u>101</u>	<u>93</u>
Long-term debt	306	277
Deferred income	—	7
Deferred taxes	1	1
Total liabilities	<u>408</u>	<u>378</u>
Shareholders' equity		
Dylex' portion	91	71
Partners' portion	84	68
	<u>175</u>	<u>139</u>
Total liabilities and equity	<u>\$ 583</u>	<u>\$ 517</u>

Dylex' investment in U.S. associate companies includes the 39 percent ownership of BR Investors Inc., a New York holding company. In 1984, BR Investors acquired 100 percent ownership of Brooks Fashion Stores, Inc. and, in 1985, BR Investors acquired the 607 store Foxmoor chain from Melville Corporation for \$48.8 million U.S. which corresponds to the fair value of the chain's net assets.

Merger related adjustments include the amortization of goodwill arising from acquisitions and increased depreciation on fair value increments to fixed assets.

Also included in 1985 is a tax benefit of \$6.9 million U.S. of a loss carry-forward arising upon the acquisition of Brooks Fashion Stores, Inc. due to stepped up inventory values for tax purposes.

Condensed Earnings Statement

millions of U.S. dollars

	1985	1984
Sales	<u>\$ 777</u>	<u>\$ 200</u>
Operating earnings	52	26
Interest	(40)	(9)
Merger related adjustments	(11)	(4)
Income taxes	(2)	(6)
Net earnings (loss)	<u>\$ (1)</u>	<u>\$ 7</u>
Dylex' earnings (Cdn. \$)	<u>\$ 1</u>	<u>\$ 4</u>

Consolidated Statement of Earnings

Dylex Limited

For the 52 weeks ended February 1, 1986

(with comparative figures for the 53 weeks ended February 2, 1985)

	<i>thousands of dollars</i>	
	Feb. 1, 1986	Feb. 2, 1985
Sales		
Retail	\$ 998,657	\$ 853,734
Fashion manufacturing	83,476	72,942
Net sales	<u>\$1,082,133</u>	<u>\$ 926,676</u>
Earnings from operations before the following charges	<u>\$ 114,916</u>	<u>\$ 80,859</u>
Depreciation and amortization	19,951	15,508
Amortization of goodwill	411	502
Interest on long-term debt	3,329	2,969
Interest on capital lease obligations	5,667	4,828
Other interest income	(4,847)	(9,002)
	<u>24,511</u>	<u>14,805</u>
Earnings before income taxes	<u>90,405</u>	<u>66,054</u>
Income taxes (note 11)	42,701	30,715
	<u>47,704</u>	<u>35,339</u>
Income from investments in associate companies	2,564	7,345
Minority interest in subsidiaries' earnings	(3,515)	(1,488)
Net earnings	<u>\$ 46,753</u>	<u>\$ 41,196</u>
Earnings per share	<u>\$ 1.00</u>	<u>\$ 0.88</u>

Consolidated Statement of Retained Earnings

For the 52 weeks ended February 1, 1986

(with comparative figures for the 53 weeks ended February 2, 1985)

	<i>thousands of dollars</i>	
	Feb. 1, 1986	Feb. 2, 1985
Balance, beginning of year	\$ 136,607	\$ 103,171
Net earnings	46,753	41,196
Transfer from appraisal excess	22	22
	<u>183,382</u>	<u>144,389</u>
Dividends		
Common shares	462	402
Class "A" shares	8,487	7,380
	<u>8,949</u>	<u>7,782</u>
Balance, end of year	<u>\$ 174,433</u>	<u>\$ 136,607</u>

Consolidated Statement of Financial Position

(Incorporated under the laws of Canada)

Dylex Limited

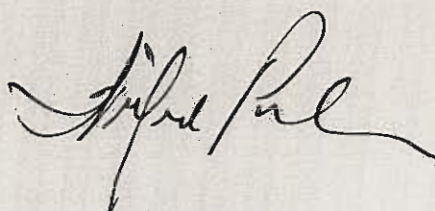
thousands of dollars

	Feb. 1, 1986	Feb. 2, 1985
Current assets		
Cash and short-term deposits	\$ 124,130	\$ 87,878
Accounts receivable (note 3)	23,100	16,363
Inventories (note 4)	135,331	130,139
Prepaid expenses	2,457	2,642
Notes and other investments due within one year	1,648	2,360
	<u>286,666</u>	<u>239,382</u>
Current liabilities		
Accounts payable	109,570	91,383
Income and other taxes payable	15,637	12,760
Long-term debt due within one year	1,808	1,729
Obligations under capital leases due within one year	11,942	10,298
	<u>138,957</u>	<u>116,170</u>
Working capital	<u>147,709</u>	<u>123,212</u>
Other assets		
Investments in associate companies (note 5)	138,780	97,091
Notes and other investments	5,231	2,710
Fixed assets (note 6)	52,288	42,527
Assets under capital leases (note 7)	58,670	49,648
Goodwill at cost less amortization	13,950	14,361
	<u>268,919</u>	<u>206,337</u>
Assets employed	<u>\$ 416,628</u>	<u>\$ 329,549</u>
Financed by		
Other liabilities		
Long-term debt (note 8)	\$ 89,050	\$ 56,183
Obligations under capital leases (note 9)	45,855	37,698
Deferred income taxes	1,524	1,631
Minority interest	11,168	8,401
	<u>147,597</u>	<u>103,913</u>
Shareholders' equity		
Capital stock (note 10)		
Common shares	1,687	1,687
Class "A" shares	83,840	83,840
Excess of appraised value of fixed assets over cost	1,479	1,501
Exchange translation adjustments	7,592	2,001
Retained earnings	174,433	136,607
	<u>269,031</u>	<u>225,636</u>
Capital employed	<u>\$ 416,628</u>	<u>\$ 329,549</u>

Approved on behalf of the board



J. F. Kay, Director



W. Posluns, Director

Consolidated Statement of Changes in Financial Position

Dylex Limited

For the 52 weeks ended February 1, 1986
(with comparative figures for the 53 weeks ended February 2, 1985)

	<i>thousands of dollars</i>	
	Feb. 1, 1986	Feb. 2, 1985
Cash at beginning of year	\$ 87,878	\$ 111,325
Cash provided by/used for:		
Operations:		
Net earnings	46,753	41,196
Depreciation and amortization	20,584	16,010
Income from investments (net of dividends received)	(1,560)	(4,822)
Decrease in deferred income taxes	(107)	(2,991)
Minority interest in subsidiaries' earnings	3,515	1,488
	69,185	50,881
Decrease (increase) in operating working capital excluding cash and current debt	9,320	(6,796)
Cash provided by operations	78,505	44,085
Financing activities:		
Increase in obligations under capital leases (net)	8,157	8,055
Proceeds from long-term debt	37,012	34,018
Decrease in long-term debt	(6,458)	(1,856)
Dividend to minority interest	(748)	(748)
Other	1,723	1,338
Cash provided by financing activities	39,686	40,807
Cash available for investment activities and dividends	206,069	196,217
Investment activities:		
Increase in investments in associate companies	34,801	77,470
Fixed assets	17,877	4,429
Assets under capital leases	20,857	18,947
Acquisition of Wet Seal shares	—	1,506
Increase (decrease) in notes and other investments	2,521	(1,398)
Exchange translation adjustments	(2,354)	(919)
Other	(712)	522
Cash used for investment activities	72,990	100,557
Dividends — Cash dividends paid	8,949	7,782
	81,939	108,339
Cash at end of year	\$ 124,130	\$ 87,878

Notes to Consolidated Financial Statements

as at February 1, 1986

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. is being 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%
Automotive	25%

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 was written off to retained earnings.

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:

- assets and liabilities at the exchange rate prevailing at the balance sheet date.
- 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.

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. Acquisition — Associate companies

On March 29, 1985, BR Investors, Inc., 39 percent owned by Dylex Limited, acquired the net assets and operations of the 614 store Foxmoor chain, a division of Melville Corporation. The cash consideration of U.S.\$48.8 million paid by BR Investors represented the fair value of the net assets acquired.

As part of the financing for this acquisition, Dylex invested a further U.S.\$13.4 million into BR Investors, Inc.

3. Accounts receivable

	thousands of dollars	
	1986	1985
Retail	\$ 5,373	\$ 4,949
Fashion manufacturing	12,819	9,656
Other	4,908	1,758
	<u>\$ 23,100</u>	<u>\$ 16,363</u>

4. Inventories

	<i>thousands of dollars</i>	
	1986	1985
Retail	\$121,630	\$113,690
Fashion manufacturing	13,701	16,449
	<u>\$135,331</u>	<u>\$130,139</u>

5. Investments in associate companies

	<i>percent ownership</i>
BR Investors, Inc. (including its own 100% owned subsidiaries, Brooks Fashion Stores, Inc. and Foxmoor Specialty Stores Corp.)	39%
Brody's Town & Country (1967) Limited	50%
Drug World Limited	50%
Forsyth Trading Company — partnership	33 ¹ / ₃ %
Manchester Manufacturing Inc.	42%
NBO Stores, Inc.	50%
Shane Knit Limited	50%
The Shoe Shoppe Limited	50%

6. Fixed Assets

	<i>thousands of dollars</i>	
	1986	1985
Land	\$ 5,129	\$ 5,101
Buildings	20,233	19,016
Equipment and leasehold improvements	48,709	35,686
	74,071	59,803
Accumulated depreciation	21,783	17,276
	<u>\$ 52,288</u>	<u>\$ 42,527</u>

7. Assets under capital leases

	<i>thousands of dollars</i>	
	1986	1985
Capital leases	\$110,991	\$ 97,795
Accumulated amortization	52,321	48,147
	<u>\$ 58,670</u>	<u>\$ 49,648</u>

8. Long-term debt

	<i>thousands of dollars</i>	
	1986	1985
Term Bank Loans (see below)		
i) due April 28, 1993	\$ 15,000	\$ 15,000
ii) due February 3, 1992 (U.S. — \$25,000,000)	35,513	33,193
iii) due January 30, 1996 (U.S. — \$14,000,000)	19,887	—
iv) due January 30, 1996 (U.S. — \$11,000,000)	15,626	—
First Mortgages on Buildings		
U.S.\$4,500,000; repaid January 31, 1986	—	5,975
9 ¹ / ₂ % due December 1, 1997	480	502
10 ¹ / ₂ % due May 15, 1999	639	661
Other Loans		
10% debenture due February 26, 1989	653	653
Finance company notes secured by chattel mortgages	404	632
Other	2,656	1,296
	90,858	57,912
Due within one year	1,808	1,729
	<u>\$ 89,050</u>	<u>\$ 56,183</u>

Principal repayments within the next five years are as follows:

1987	\$ 1,808
1988	688
1989	303
1990	880
1991	173

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 serve to fix the rate of interest paid on each loan as follows:

	<i>Notional principal</i>	<i>Net semi-annual rate</i>
i)	\$15,000,000 Cdn.	12.47%
ii)	\$25,000,000 U.S.	11.17%
iii)	\$14,000,000 U.S.	10.03%
iv)	\$11,000,000 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 February 1, 1986 are as follows:

	<i>thousands of dollars</i>	
	Capital leases	Operating leases
1987	\$ 18,668	\$ 43,660
1988	16,712	40,974
1989	14,686	39,318
1990	11,609	36,022
1991	8,001	33,250
Thereafter	7,085	147,453
Total minimum lease payments	<u>\$ 76,761</u>	<u>\$340,677</u>
Less amount representing imputed interest at rates varying from 11.0% to 17.0%	18,964	
Present value of obligations under capital leases	57,797	
Due within one year	11,942	
Long-term obligations under capital leases	<u>\$ 45,855</u>	

Aggregate rentals paid on operating leases for property and equipment leases for the year ended February 1, 1986 amounted to \$58,443,000 (1985 — \$49,591,000).

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.

Issued:

	<i>thousands of dollars</i>	
	1986	1985
2,409,351 Common shares (1985 — 803,117 Common shares)	\$ 1,687	\$ 1,687
44,280,057 Class "A" shares (1985 — 14,760,019 Class "A" shares)	83,840	83,840
	<u>\$ 85,527</u>	<u>\$ 85,527</u>

During the year, the outstanding Common and Class "A" shares were split on a 3 for 1 basis.

11. Income taxes

	1986	1985
Basic Canadian federal tax rate	46.0%	46.0%
Federal income tax abatement	(10.0)	(10.0)
Manufacturing and processing tax credits	(0.4)	(0.2)
Federal surtax	1.1	—
Average provincial tax rate	13.8	13.8
Inventory allowance	(2.4)	(2.4)
Other	0.1	0.2
Effective Canadian income tax rate	48.2	47.4
Adjustment for foreign operations	(1.0)	(0.9)
Combined Canadian and foreign income tax rate	<u>47.2%</u>	<u>46.5%</u>

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 \$28,259,000 (1985 — \$26,496,000) and \$5,101,000 (1985 — \$1,952,000) respectively. As of February 1, 1986, accounts receivable included \$1,079,000 (1985 — \$237,000) due from these companies and accounts payable included \$2,464,000 (1985 — \$227,000) 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

The Company has contingent liabilities to a maximum extent of \$1,500,000 arising from the Key Employee Stock Plan and together with others has guaranteed the bank loans and equipment lease obligations of associate companies.

The amounts outstanding under these contingencies at February 1, 1986 were \$9,570,000 against which the Company holds indemnities for \$1,849,000.

14. Segmented results

thousands of dollars

	Retailing		Manufacturing		Adjustments		Consolidated	
	1986	1985	1986	1985	1986	1985	1986	1985
Sales	\$998,657	\$853,734	\$ 95,509	\$ 85,312	\$(12,033)	\$(12,370)	\$1,082,133	\$926,676
Operating earnings	88,333	66,926	8,386	1,108	—	—	96,719	68,034
Interest (income)	—	—	—	—	—	—	4,149	(1,205)
Corporate charges	—	—	—	—	—	—	2,165	3,185
Earnings before income tax	—	—	—	—	—	—	90,405	66,054
Assets at year-end	250,838	228,014	17,131	15,223	287,616	202,482	555,585	445,719
Capital expenditures and assets under capital leases for the period	36,241	23,171	1,609	521	1,018	144	38,868	23,836
Depreciation and amortization	18,570	14,699	902	822	479	(13)	19,951	15,508

Auditors' Report

To the Shareholders of
Dylex Limited

We have examined the consolidated statement of financial position of Dylex Limited as at February 1, 1986 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 February 1, 1986 and the results of its operations and the changes in 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, 1986

Wm. Eisenberg & Co.
Chartered Accountants

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Toronto, Ontario

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Toronto, Ontario

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Toronto, Ontario

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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

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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
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Gordon Edelstone
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Vice-President
Tip Top

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Vice-President
Big Steel Man

Gunter Leverenz
Vice-President
Distribution

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Vice-President
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Sydney B. Loftus
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Mickey Maklin
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Thrifty's

Paul Mancini
Vice-President
Weston Apparel

Lionel Robins
Vice-President
Fairweather

Stewart Robins
Vice-President
Thrifty's

Harry Rosen
Vice-President
Harry Rosen Men's Wear

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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

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M5V 1A8

Transfer agent and registrar

National Trust Company

Auditors

Wm. Eisenberg & Co.
Chartered Accountants

Listed on

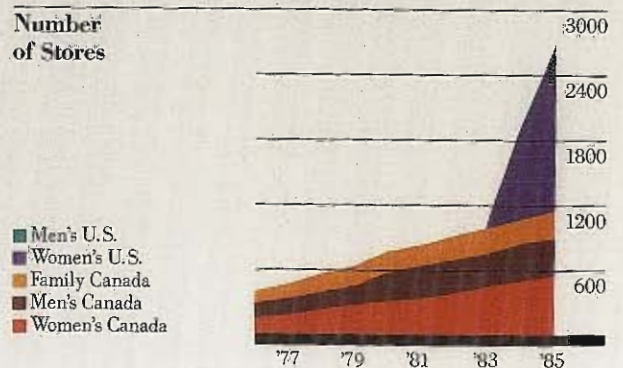
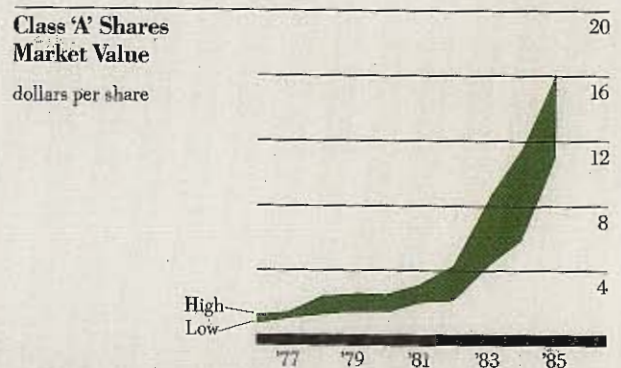
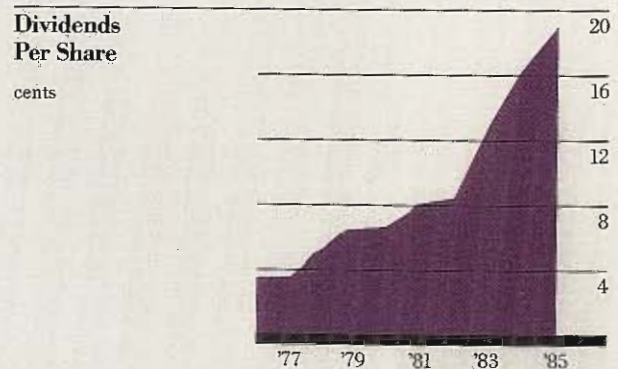
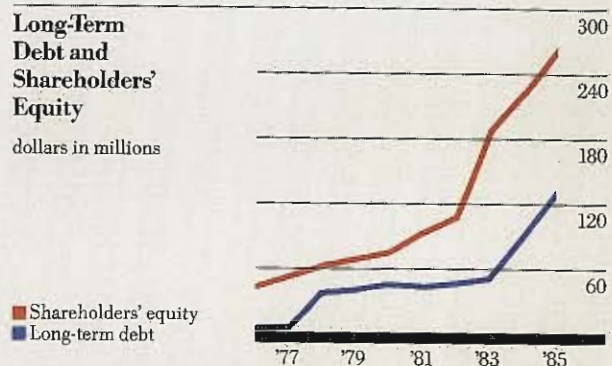
Toronto Stock Exchange
Montreal Exchange

Ten-Year Summary

millions of dollars except per share and ratio data

Years ended January following	1985	1984	1983	1982	1981
Operating results					
Combined sales					
Retail — Women's	\$1,325.2	545.7	307.7	268.3	227.4
— Men's	390.2	301.0	226.5	206.6	180.6
— Family	421.0	336.0	294.5	262.2	223.1
	2,136.4	1,182.7	828.7	737.1	631.1
Fashion manufacturing	216.1	198.0	186.9	175.8	154.9
Sales between the groups	(45.4)	(40.8)	(25.5)	(24.8)	(17.2)
Total	\$2,307.1	1,339.9	990.1	888.1	768.8
Consisting of — Consolidated sales	\$1,082.1	926.7	822.4	549.1	495.4
— Associate sales	1,225.0	413.2	167.7	339.0	273.4
	\$2,307.1	1,339.9	990.1	888.1	768.8
Net earnings before extraordinary items	\$ 46.8	41.2	31.5	17.3	16.5
Earnings per share before extraordinary items					
1st quarter	\$ 0.10	0.07	0.05	0.00	0.04
2nd quarter	0.16	0.14	0.10	0.02	0.07
3rd quarter	0.25	0.22	0.19	0.12	0.13
4th quarter	0.49	0.45	0.37	0.34	0.22
Total	\$ 1.00	0.88	0.71	0.48	0.46
Balance sheet information					
Total working capital	\$ 147.7	123.2	140.7	67.1	65.8
Total assets	\$ 555.6	445.7	353.3	224.0	218.3
Shareholders' equity	\$ 269.0	225.6	190.2	110.6	96.5
Average shares outstanding ('000)	46,689	46,689	44,232	35,856	35,706
Financial analysis					
Working capital ratio	2.1	2.1	2.4	2.2	2.1
Book value per share	\$ 5.76	4.83	4.07	3.09	2.69
Inventory turnover	4.0	3.9	4.0	3.6	3.9
Return on average equity — percent	18.9	19.8	19.7	16.7	18.5
Debt to equity	0.50:1	0.42:1	0.28:1	0.45:1	0.49:1
Retail information — includes associate companies					
Number of stores	2,680	1,881	998	921	838
Store space at year-end ('000 sq. ft.) — Canada	4,438	4,011	3,679	3,420	3,140
— U.S.	4,897	2,961			
Canadian sales per square foot					
Women's	\$ 219	215	209	197	184
Men's	323	292	258	241	223
Family	261	246	244	241	216
Total	\$ 260	244	233	224	205

1980	1979	1978	1977	1976
188.4	153.2	140.5	111.8	103.1
149.5	126.9	111.4	93.2	80.3
204.8	171.6	117.9	69.9	62.1
542.7	451.7	369.8	274.9	245.5
143.5	118.5	94.7	78.1	67.2
(16.3)	(17.8)	(13.8)	(11.5)	(10.0)
669.9	552.4	450.7	341.5	302.7
459.2	371.6	329.5	271.3	244.2
210.7	180.8	121.2	70.2	58.5
669.9	552.4	450.7	341.5	302.7
12.1	9.0	12.3	8.5	7.3
(0.01)	0.01	0.04	0.03	0.03
0.02	0.00	0.03	0.02	0.03
0.15	0.13	0.13	0.09	0.08
0.18	0.11	0.15	0.10	0.07
0.34	0.25	0.35	0.24	0.21
56.9	45.8	42.1	37.9	30.0
201.1	178.3	164.6	101.3	91.8
82.0	72.3	65.3	55.1	46.8
35,556	35,556	35,556	34,956	34,956
2.0	1.9	1.8	2.2	1.9
2.31	2.03	1.84	1.55	1.34
3.7	3.0	3.1	3.1	3.2
15.6	13.1	20.4	16.8	16.6
0.60:1	0.60:1	0.61:1	0.13:1	0.13:1
779	634	569	466	408
2,992	2,865	2,592	2,091	1,900
164	141	148	135	132
187	160	154	148	150
206	192	164	121	106
185	163	155	135	130



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