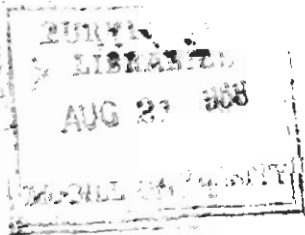


Agnew-Surpass

SHOE STORES LIMITED

BRANTFORD — ONTARIO

A CORPORATE DIVISION OF
GENESCO  *Everything to Wear*



FORTIETH
ANNUAL REPORT

FOR THE YEAR ENDED
MAY THIRTY-ONE
1968

DIRECTORS' REPORT

to the shareholders of
AGNEW-SURPASS SHOE STORES, LIMITED

It is a pleasure to submit to you the fortieth annual report of the Company and its wholly-owned subsidiary. The annual report consists of the consolidated balance sheet, consolidated statement of earnings and retained earnings and consolidated statement of source and application of funds, all for the fiscal year ended May 31, 1968, together with the comparison with the preceding year. It is noted that the 1968 fiscal year includes 371 days, compared with 364 days in the preceding year.

The consolidated sales for the year are \$21,629,864, an increase of 8% over the previous year, and consolidated net earnings after provision for taxes on income were \$883,663, an increase of 8% over the previous year. Earnings per share rose to \$2.19 per share, from \$2.03 last year. We are pleased that consolidated sales this year were at the highest level in the Company's history, and that the retail division of the Company enjoyed its best year on record, both for sales and profits. Earnings of the manufacturing subsidiary company declined under the continued pressure of higher operating costs during the year. Retail sales have continued buoyant since the fiscal year-end and we expect that our new stores, opening this Fall with a strong and aggressive image directed toward the new attitudes and desires of the Canadian consumer, will push sales to further new record highs.

Depreciation and amortization on fixed assets have been charged on the Company's books on the same basis as in prior years, and the balance sheet continues to reflect a strong financial position.

Our employee profit sharing plan was inaugurated in the retail division of the Company fourteen years ago, and this year the employees will participate in \$146,448, of the year's profit, compared with \$120,795, last year. Provision for this has been made in the attached financial statements.

Nine new stores were opened during the year and one unprofitable store was closed. There were 181 stores in operation at May 31, 1968.

In September, 1967, after forty-six years of dedicated service, Mr. Keith R. Gillelan retired from the position of President and General Manager of the Company. It is the wish of the Directors to record herein their deep appreciation for the splendid contribution that he made toward the growth and success of the Company during his many years of service.

During the year the resignations of Mr. H. H. Gibaut and Mr. W. D. Muir as Directors were received and accepted. Both of these men served with distinction for many years as officers of the John Ritchie Company Limited.

Mr. P. S. Calvesbert, Mr. S. J. Rutherford and Mr. J. W. Turner were elected to the Board of Directors during the year to fill the vacancies on the Board. Mr. R. R. Barr was appointed Assistant Secretary Treasurer of the Company during the year.

The very satisfactory results of the fiscal year could not have been achieved without the efficiency, loyal co-operation and splendid performance of our employees. It is appropriate that your Directors record their appreciation to the employees of the Company for their services, because no other factor has been of so much importance in achieving these satisfactory results.

The accounts and records of the Company have been audited by Peat, Marwick, Mitchell & Co., Chartered Accountants, and their report is presented herewith.

On behalf of the Board,

Brantford, Ontario
July 23, 1968.

R. F. WHITBY,
President.

DIRECTORS

P. S. CALVESBERT
Brantford, Ontario

J. L. EDMONDSON
Brantford, Ontario

K. R. GILLELAN
Brantford, Ontario

DAN W. GREGORY
Preston, Ontario

W. C. O'CONNOR
Nashville, Tennessee, U.S.A.

S. J. RUTHERFORD
Kitchener, Ontario

J. W. TURNER
Brantford, Ontario

R. F. WHITBY
Brantford, Ontario

J. C. WHITE, B.Comm, C.A.
Brantford, Ontario

OFFICERS

J. L. EDMONDSON
Vice-President

DAN W. GREGORY
Vice-President

R. F. WHITBY
President and General Manager

J. C. WHITE, B.Comm, C.A.
Vice-President and Secretary-Treasurer

R. R. BARR
Assistant Secretary-Treasurer

REGISTRAR and TRANSFER AGENTS

NATIONAL TRUST COMPANY LIMITED

BANKERS

BANK OF NOVA SCOTIA

AUDITORS

PEAT, MARWICK, MITCHELL & Co.
Chartered Accountants

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY

THE JOHN RITCHIE COMPANY, LIMITED

Consolidated Balance Sheet as at May 31, 1968

with comparative figures for 1967

ASSETS	1968	1967	Increase (Decrease)
Current assets:			
Cash	\$ 2,044,971	345,058	1,699,913
Short term bank deposits	2,340,000	—	2,340,000
Accounts receivable, less allowance for doubtful accounts, 1968, \$22,143; 1967, \$24,199	424,352	507,142	(82,790)
Accounts receivable, affiliated company	—	58,804	(58,804)
Demand notes and accrued interest due from an affiliated company	—	3,230,973	(3,230,973)
Inventories, at the lower of cost or net realizable value (note 2)	5,485,791	5,200,236	285,555
Prepaid expenses	70,521	79,038	(8,517)
Total current assets	10,365,635	9,421,251	944,384
Special refundable tax	46,497	45,448	1,049
Fixed assets, less depreciation and amortization (note 3):			
Buildings, machinery, furniture, fixtures and im- provements to leased properties	3,975,223	3,793,745	181,478
Less accumulated depreciation and amortization ..	2,806,211	2,670,035	136,176
Lasts, dies and patterns	1,169,012	1,123,710	45,302
Land	33,000	33,000	—
	102,170	102,170	—
Total fixed assets	1,304,182	1,258,880	45,302
	\$11,716,314	10,725,579	990,735
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,159,494	1,208,516	(49,022)
Accounts payable, parent and affiliated companies ..	57,687	27,203	30,484
Income taxes payable	459,692	299,971	159,721
Other taxes payable	158,835	131,446	27,389
Total current liabilities	1,835,708	1,667,136	168,572
Deferred income taxes (note 4)	56,800	118,300	(61,500)
Shareholders' Equity:			
5½% cumulative preferred shares of \$10 each, re- deemable at par. Authorized 10,984 shares.			
Common shares of no par value. Authorized 600,000 shares; issued 402,944 shares	957,656	957,656	—
Retained earnings	8,866,150	7,982,487	883,663
Total equity	9,823,806	8,940,143	883,663
Commitments and contingent liabilities (note 5)			
	\$11,716,314	10,725,579	990,735

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:
R. F. WHITBY, Director.
D. W. GREGORY, Director.

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY

THE JOHN RITCHIE COMPANY, LIMITED

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Fiscal year ended May 31, 1968
with comparative figures for 1967

	1968	1967	Increase (Decrease)
NET SALES	\$21,629,864	20,063,396	1,566,468
Deduct:			
Cost of goods sold, selling, warehousing, general and administrative expenses	19,596,866	18,252,616	1,344,250
Direct remuneration of directors and senior officers of which \$168,303 (1967 — \$175,562) was received by directors who are also senior officers ..	192,171	194,306	(2,135)
Depreciation	229,087	154,944	74,143
Amortization of improvements to leased properties	24,122	23,619	503
	<u>20,042,246</u>	<u>18,625,485</u>	<u>1,416,761</u>
Earnings from operations	1,587,618	1,437,911	149,707
Other income:			
Interest earned:			
From affiliated company	227,182	152,475	74,707
Other	3,131	665	2,466
	<u>230,313</u>	<u>153,140</u>	<u>77,173</u>
Discounts earned	29,196	49,736	(20,540)
	<u>259,509</u>	<u>202,876</u>	<u>56,633</u>
Earnings before taxes on income	1,847,127	1,640,787	206,340
Taxes on income:			
Current	1,024,964	784,928	240,036
Deferred (note 4)	(61,500)	37,500	(99,000)
	<u>963,464</u>	<u>822,428</u>	<u>141,036</u>
Net earnings	883,663	818,359	65,304
Retained earnings at beginning of fiscal year	7,982,487	7,164,128	818,359
Retained earnings at end of fiscal year	<u>\$ 8,866,150</u>	<u>7,982,487</u>	<u>883,663</u>

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT to the shareholders AGNEW SURPASS SHOE STORES LIMITED

We have examined the consolidated balance sheet of Agnew-Surpass Shoe Stores, Limited and its wholly-owned subsidiary, The John Ritchie Company, Limited as of May 31, 1968 and the consolidated statements of earnings and retained earnings and source and application of funds for the fiscal year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its subsidiary at May 31, 1968 and the results of their funds for the fiscal year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Ontario
July 12, 1968

PEAT, MARWICK, MITCHELL & Co.,
Chartered Accountants

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY

THE JOHN RITCHIE COMPANY, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1968

1. Principles of consolidation:

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, The John Ritchie Company, Limited and the accounts of two inactive subsidiaries of The John Ritchie Company, Limited. Intercompany transactions have been eliminated on consolidation.

2. Inventories:

The inventories are made up as follows:

	1968	1967
Finished goods	\$5,097,364	4,776,704
Work in process	51,048	52,362
Raw materials	337,379	371,170
	<u>\$5,485,791</u>	<u>5,200,236</u>

3. Fixed assets:

The fixed assets are stated as follows:

	1968	1967
At cost:		
Buildings	\$ 497,185	495,485
Improvements to leased properties	699,485	652,940
At cost, less proceeds of disposals:		
Furniture and fixtures	2,103,376	1,977,751
At depreciated values as appraised by Canadian Appraisal Company, Limited in 1928 with subsequent additions at cost:		
Buildings	225,535	225,535
Plant and machinery	357,513	350,171
Furniture and fixtures	92,129	91,863
	<u>3,975,223</u>	<u>3,793,745</u>
Lasts, dies and patterns, at nominal value	33,000	33,000
Land:		
At cost	34,900	34,900
As appraised by Canadian Appraisal Company, Limited in 1928	67,270	67,270
	<u>\$4,110,393</u>	<u>3,928,915</u>

4. Taxes on income:

The approximate amount of future income tax benefits arising from the subsidiary company's loss carry-forward for the year, which reasonably may be expected to be realized from earnings of the subsidiary in the next five years, is \$75,000. The accumulated excess of depreciation claimed for tax purposes over amounts recorded in the accounts was increased in the year with a consequent increase of \$13,500 in deferred income taxes applicable to future years. The net reduction of \$61,500 in deferred income taxes applicable to future years has been credited to consolidated earnings.

5. Commitments and contingent liabilities:

The company operates at a number of retail store locations under long-term leasing arrangements. Certain of the leases provide for payment of real estate taxes, other expenses and additional rental based upon a percentage of sales in excess of stipulated minimums. The minimum annual rentals on all real property now leased for terms expiring more than five years from May 31, 1968 are approximately \$565,000 maturing on various dates to April 30, 1983.

The company is a co-defendant in a lawsuit for property damages arising out of a fire, totalling \$2,500,000, which is being defended by the company's insurers. It is the opinion of counsel and company officials that no personal liability will devolve upon the company.

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY

THE JOHN RITCHIE COMPANY, LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Fiscal year ended May 31, 1968
with comparative figures for 1967

Source of funds:	1968	1967	Increase (Decrease)
From operations:			
Net earnings	\$ 883,663	818,359	65,304
Add charges not requiring an outlay of cash:			
Depreciation	229,087	154,944	74,143
Amortization of improvements to leased pro- perties	24,122	23,619	503
Deferred taxes on income	(61,500)	37,500	(99,000)
Total funds provided	<u>1,075,372</u>	<u>1,034,422</u>	<u>40,950</u>
Application of funds:			
Purchase of fixed assets less proceeds of disposals	298,511	90,215	208,296
Special refundable tax	1,049	41,017	(39,968)
	<u>299,560</u>	<u>131,232</u>	<u>168,328</u>
Addition to working capital	775,812	903,190	(127,378)
Working capital at beginning of year	7,754,115	6,850,925	903,190
Working capital at end of year	<u>\$ 8,529,927</u>	<u>7,754,115</u>	<u>775,812</u>

See accompanying notes to consolidated financial statements.