Agnew-Surpass

SHOE STORES, LIMITED

BRANTFORD — ONTARIO

A CORPORATE DIVISION OF

GENESCO

FORTY - FOURTH

ANNUAL REPORT

FOR THE YEAR ENDED

MAY TWENTY-SIX

1972

PRESIDENT'S REPORT

This 44th Annual Report summarizes a year of significant growth and improved performance and it is my pleasure to announce another successful and record year for the twelve months ended May 26, 1972.

The retail division of the Company enjoyed this year the highest sales volume and the greatest earnings in its 44 year history.

On December 31, 1971, our subsidiary company, The John Ritchie Company, Limited, sold its wholesale shoe distribution business at fair market value to an affiliated company, Genesco of Canada Co. Ltd. The purchase price has been paid in cash. As a result of this transaction, the sales of the subsidiary have decreased but its loss from manufacturing sustained last year has been eliminated this year.

The softness in the Canadian economy that we experienced last year, continued throughout this fiscal year and is still with us. This was a year marked by uncertainty in retailing generally. Inflation continues with us despite the strong measures applied by government and unemployment has risen to a distressing and unhealthy level across our great country.

In this business climate, we again had to look for greater efficiencies in our retail operation in order to prevent operational cost increases from outpacing our earnings potential.

Despite the many difficulties troubling the industry, we did achieve new levels of productivity and as a result our net earnings reached a new record high of $4.53 per share compared to last year's record net earnings of $3.57 per share (or $3.83 last year before extraordinary loss).

During the year, eight new stores were opened in fully enclosed climate-controlled Shopping Malls. Each new store has been colourfully and individually designed to reflect a dramatic shopping environment suitable for the area of its location which is of utmost importance for the success of a retailing enterprise in to-day's fashion oriented market place.

We now operate in 116 Shopping Centres located in all of our ten Provinces and these provide us with the largest share of our total business.

During this same period, we have closed six of our less profitable stores, and we plan to close a further group of unprofitable stores as their leases expire in the coming year.

Eight new stores are being opened during this current year, with a further group in various stages of negotiation.

Of the new stores planned, there will be one located in the new two-level 3 Department Store Londonderry Mall in Edmonton, Alberta, the largest shopping centre complex west of Toronto. Another will be located in the multi million, multi level, exciting Downtown Hamilton Lloyd D. Jackson Square, a redevelopment covering many city blocks of the city core. In Toronto, we will locate in the two-level 2 department store Scarborough Town Centre being developed by Canada's largest public real estate developers, Trizec Corporation Ltd., owners of Yorkdale Toronto, Ontario, Place Ville Marie, Montreal, Quebec and others across Canada.

Our employee profit-sharing plan which was inaugurated in the retail division of the Company seventeen years ago has again increased and the employees will participate in $225,832.00 of the year's profit, compared with $207,724.00 last year. Provision for this has been made in the attached financial statements.

The marked accomplishments of the past year are attributed to the dedicated efforts of the employees whose achievements have enhanced the Company's ability to progress in a most competitive and challenging industry.

At a Director's meeting of Agnew-Surpass Shoe Stores, Limited held on July 21, 1972, Mr. Robert Holland was appointed to the new position of Vice-President - Merchandising, effective August 1, 1972.

I wish to express special appreciation from management to all employees, onr many valued customers and our esteemed and hard-working suppliers, for their continued support and co-operation.

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.

Your management is continuing the practice of retaining the earnings in the business, as retained earnings have provided the capital that has been so essential for the continued expansion of our operations, which in turn has improved our financial strength.

During the year, the Company sold to Genesco Apparel Limited, 45,000 6% convertible preference shares with a par value of $100.00 each of J. A. Johnston Co. Ltd., and received in exchange therefor, 45,000 6% convertible preferred shares with the par value of $100.00 each of Genesco Apparel Limited.

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

Brantford, Ontario,
July 21, 1972.

ROBERT F. WHITBY
President

DIRECTORS

P. S. CALVESBERT Brantford, Ontario	R. M. MacDONALD Brantford, Ontario	J. W. TURNER Brantford, Ontario
K. R. GILLELAN Brantford, Ontario	W. C. O'CONNOR Nashville, Tennessee, U.S.A.	R. F. WHITBY Brantford, Ontario
DAN W. GREGORY Preston, Ontario	S. J. RUTHERFORD, C.A. Kitchener, Ontario	J. C. WHITE, B.Comm., C.A. Brantford, Ontario

OFFICERS

R. F. WHITBY
President and General Manager

DAN W. GREGORY Vice-President	J. C. WHITE, B.Comm., C.A. Vice-President and Secretary-Treasurer	P. S. CALVESBERT Vice-President - Operations
R. M. MacDONALD Vice-President - Buying	J. W. TURNER Vice-President - Buying	ROBERT HOLLAND Vice-President - Merchandising

BANKERS	REGISTRAR and TRANSFER AGENTS	AUDITORS
BANK OF NOVA SCOTIA TORONTO-DOMINION BANK	NATIONAL TRUST COMPANY LIMITED	PEAT, MARWICK, MITCHELL & CO. Chartered Accountants

AGNEW-SURPASS SHOE STORES, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY

THE JOHN RITCHIE COMPANY, LIMITED

CONSOLIDATED BALANCE SHEET

May 26, 1972

with comparative figures for 1971

ASSETS	1972	1971
Current assets:		
Cash	$ 1,078,726	973,679
Investment in short term notes, at cost	4,931,495	2,945,769
Accounts receivable	23,564	351,600
Inventory of finished goods, at the lower of cost or net realizable value	5,079,828	5,154,298
Prepaid expenses	52,406	67,353
Total current assets	11,166,019	9,492,699
Investment in preference shares of an affiliated company, at cost	4,500,000	4,500,000
Fixed assets, less accumulated depreciation and amortization (note 1):		
Buildings, machinery, furniture, fixtures and improvements to leased properties	4,043,270	3,856,035
Less accumulated depreciation and amortization	2,722,651	2,531,329
	1,320,619	1,324,706
Land	34,900	34,900
	1,355,519	1,359,606
	$17,021,538	15,352,305

LIABILITIES AND SHAREHOLDERS' EQUITY	1972	1971
Current liabilities:		
Accounts payable and accrued expenses	$ 951,065	1,041,061
Accounts payable, parent and affiliated companies	69,584	164,109
Income taxes payable	309,028	256,042
Other taxes payable	177,962	183,375
Total current liabilities	1,507,639	1,644,587
Deferred taxes on income	156,580	174,650
Shareholders' equity:		
5½% cumulative preferred shares of $10 each, redeemable 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	14,399,663	12,575,412
	15,357,319	13,533,068
Commitments and contingent liabilities (note 2)		
	$17,021,538	15,352,305

See accompanying notes to consolidated financial statements.

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 26, 1972

with comparative figures for 1971

	1972	1971
NET SALES	$22,651,060	22,438,833
Deduct:		
Cost of goods sold, selling, warehousing, general and administrative expenses	19,563,774	19,685,278
Depreciation	181,288	176,860
Amortization of improvements to leased properties	46,324	38,855
	19,791,386	19,900,993
Earnings from operations	2,859,674	2,537,840
Other income (net):		
Interest earned	159,894	125,470
Less paid to affiliated company	—	5,145
	159,894	120,325
Dividends from affiliated company	270,000	270,000
Discounts earned	21,724	21,864
	451,618	412,189
Earnings before taxes on income and extraordinary item	3,311,292	2,950,029
Taxes on income:		
Current	1,505,111	1,321,075
Deferred	(18,070)	84,000
	1,487,041	1,405,075
Earnings before extraordinary item	1,824,251	1,544,954
Extraordinary loss on sale of manufacturing plant and facilities, net of applicable deferred taxes on income amounting to $43,450	—	107,356
Net earnings (note 3)	1,824,251	1,437,598
Retained earnings at beginning of fiscal year	12,575,412	11,137,814
Retained earnings at end of fiscal year	$14,399,663	12,575,412
Earnings per share:		
Before extraordinary item	$ 4.53	3.83
Net earnings	4.53	3.57

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 26, 1972 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 26, 1972 and the results of their operations and the source and application 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 7, 1972

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 26, 1972

with comparative figures for 1971

1. Fixed assets:

The fixed assets are stated as follows:	1972	1971
At cost:		
Buildings	$ 498,619	498,619
Improvements to leased properties	848,226	804,648
At cost, less proceeds of disposals:		
Furniture and fixtures	2,696,425	2,519,768
Lasts, dies and patterns, at nominal value	—	33,000
	4,043,270	3,856,035
Land, at cost	34,900	34,900
	$4,078,170	3,890,935

2. Commitments and contingent liabilities:

The companies operate 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 26, 1972 are approximately $546,000 maturing on various dates to August 31, 1989.

The liability for past service costs under the company's pension plan remaining to be accrued is approximately $258,000 at May 26, 1972 (1971; $104,000) based on an actuarial study made as of August 1, 1971. The increase at May 26, 1972 is caused by a change in actuarial assumptions since the previous actuarial study as of July 31, 1970 as well as by an increase in membership in the plan. The amount of $258,000 is being amortized in the amount of $23,325, including interest, annually to July 31, 1976 and $22,241, including interest, thereafter to July 31, 1989.

The company was the defendent in various lawsuits at May 28, 1971 for property damages and loss of rents arising out of a fire, which are being defended by the company's insurers. The main action was for $2,500,000 but the plaintiff only presented claims of approximately $300,000 at the trial. The action was dismissed as against the company and damages were not assessed. On appeal to the Court of Appeal for Ontario, the trial decision was reversed and the plaintiff was awarded judgment. The action is now under appeal to the Supreme Court of Canada and counsel for the company's insurers are unable at this time to comment upon the final outcome. The other actions, which are for unstated damages, have been stayed pending the appeal. It is the opinion of management that the costs will be borne chiefly by the insurer.

3. The following amounts have been charged before determining net earnings:

	1972	1971
Aggregate remuneration of directors and officers (including payments to one director and officer who retired during the current fiscal year):		
10 Directors as directors (1971; 9)	$ 2,375	2,400
7 Officers as officers (1971; 4) all of whom are also directors (1971; 4)	214,327	156,717
	$ 216,702	159,117

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 26, 1972

with comparative figures for 1971

	1972	1971
Source of funds:		
From operations:		
Net earnings	$1,824,251	1,437,598
Add (deduct) items not requiring an outlay of cash:		
Depreciation and amortization	227,612	215,715
Deferred taxes on income	(18,070)	84,000
Loss on sale of manufacturing plant and facilities, less legal expenses paid $4,701	—	102,655
Loss on disposal of lasts, dies and patterns	32,800	—
Total funds provided	2,066,593	1,839,968
Application of funds:		
Purchase of fixed assets less proceeds of disposals	256,325	335,304
Increase in working capital	1,810,268	1,504,664
Working capital at beginning of year	7,848,112	6,343,448
Working capital at end of year	$9,658,380	7,848,112

See accompanying notes to consolidated financial statements.