

INTERIM REPORT

For the three months
ended May 5, 2001



Reitmans

Reitmans

S M A R T S E T | DALMYS

Penningtons

RW&CO.

STORES

	Reitmans	Smart Set/ Dalmys	Penningtons	RW & CO.	Total
Newfoundland	13	3	2	-	18
Prince Edward Island	3	3	1	-	7
Nova Scotia	20	7	3	-	30
New Brunswick	18	5	3	1	27
Québec	84	22	17	7	130
Ontario	102	57	41	10	210
Manitoba	9	5	5	-	19
Saskatchewan	9	4	4	-	17
Alberta	36	17	14	3	70
British Columbia	39	18	15	5	77
Northwest Territories	1	-	-	-	1
Yukon	1	-	-	-	1
	335	141	105	26	607



TO OUR SHAREHOLDERS

Sales for the first quarter (13 weeks) ended May 5, 2001 increased 18% to \$116,256,000 as compared with \$98,192,000 for the first quarter (13 weeks) ended April 29, 2000 last year. Net earnings for the period increased to \$4,250,000 or \$0.51 per share as compared with \$1,523,000 or \$0.18 per share last year. Operating earnings increased to \$3,365,000 as compared with an operating loss of \$391,000 for the period last year.

Sales increased 11% on a comparable week basis while comparable store sales increased 6%. As a result of the strong sales growth we achieved significant increases in both gross margin and operating margins in all divisions.

Sales in May increased 11% on a comparable week basis with comparable store sales increasing 7%.

During the first quarter, the Company opened 4 Reitmans, 1 Smart Set, 3 Penningtons and 3 RW & CO. stores. Five stores were closed. Accordingly, at May 5, 2001, there were 607 stores in operation, consisting of 335 Reitmans, 141 Smart Set/Dalmys, 105 Penningtons and 26 RW & CO. An additional 32 stores are scheduled to open this year and 21 stores will be closed.

At the Board of Directors meeting held on June 7, 2001, a quarterly cash dividend of 20 cents per share on all outstanding Class A non-voting and Common Shares of the capital stock of the Company was declared payable July 27, 2001, to shareholders of record as of the close of business July 13, 2001.

(signed)
Jeremy H. Reitman
President

Montreal, June 7, 2001

MANAGEMENT DISCUSSION AND ANALYSIS

THE COMPANY...
IS WELL
POSITIONED
TO COMPETE
EFFECTIVELY
IN THE CANADIAN
SPECIALTY
RETAIL MARKET

OPERATING RESULTS

Sales for the first quarter (13 weeks) ended May 5, 2001 increased 18% to \$116,256,000 as compared with \$98,192,000 for the first quarter (13 weeks) ended April 29, 2000 last year. Sales increased 11% on a comparable week basis while comparable store sales increased 6%. With all divisions increasing, particularly strong increases were realized in Penningtons (13%) and RW & CO. (19%).

As a result of the strong sales growth we achieved significant increases in both gross margin and operating margins in all divisions. Net operating earnings before interest, investment income and taxes (EBIT) increased to \$3,365,000 from a loss of \$391,000 last year, with all divisions achieving significant increases.

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INVESTMENTS

Investments consist of marketable securities, principally high quality preferred shares rated P-1. At May 5, 2001, marketable securities amounted to \$81,804,000 (market value \$86,149,000) as compared with \$78,249,000 (market value \$75,999,000) last year. Investment income in the first quarter amounted to \$2,585,000, composed principally of dividends and net capital gains of \$621,000 compared to \$2,314,000 with \$199,000 of net capital gains last year.

LIQUIDITY AND CAPITAL ASSETS

Shareholders' equity at May 5, 2001 amounted to \$204,451,000 or \$24.50 per share as compared to \$193,938,000 or \$22.35 per share last year. The Company continues to be in a strong financial position. The Company's sources of liquidity are its cash and investments in marketable securities of \$93,752,000 at

DISCUSSION AND ANALYSIS

May 5, 2001 compared with \$98,482,000 at April 29, 2000. The major financing activities during the quarter included the buy-back of 54,800 Class A non-voting shares (\$878,000) and the payment of cash dividends of \$1,669,000 or 20 cents a share. The Company also issued 16,000 Class A non-voting shares under its employee stock option plan.

The Company invested \$8,365,000 in new and renovated stores in the quarter ending May 5, 2001 and has budgeted a further \$15,000,000 for store development for fiscal 2002. These expenditures together with the payment of cash dividends will be funded by the Company's existing financial resources and funds derived from its operations.

OUTLOOK

The Company, through its four distinct operating divisions, believes that it is well positioned to compete effectively in the Canadian specialty retail market. We have continued to expand and strengthen our offshore sourcing capabilities based in Hong Kong.

We have successfully tested off-mall locations and new store designs and layouts in our Reitmans and Smart Set divisions, and will continue to implement these designs in new and renovated stores where appropriate. The Company has revised and refined its compensation policies, including comprehensive incentive-based bonus plans, to ensure that they are consistent with the stated corporate and financial goals of each division, as well as those of the overall Company. As a result of an extensive store-training program started in fiscal 1997, specific standards were developed regarding customer service, store appearance and employee conduct. At store level these measures have been combined with sales, wage cost and shrinkage targets in a focused comprehensive compensation plan. Our employees have responded very well to these new procedures.

The Company is in a strong financial position. It has excellent relationships with its vendors and suppliers, both in Canada and globally. It has invested in technology and people. The outlook remains positive.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (UNAUDITED)

(in thousands except per share amounts)	For the three months ended	
	May 5, 2001	April 29, 2000
Sales	\$ 116,256	\$ 98,192
Cost of goods sold and selling, general and administrative expenses	108,548	95,033
	7,708	3,159
Depreciation and amortization	4,343	3,550
Operating earnings (loss)	3,365	(391)
Investment income	2,585	2,314
Earnings before income taxes	5,950	1,923
Income taxes	1,700	400
Net earnings	4,250	1,523
Retained earnings at beginning of the period	193,960	185,256
Deduct:		
Dividends	1,669	1,736
Premium on purchase of Class A shares	812	-
Retained earnings at end of the period	\$ 195,729	\$ 185,043
Net earnings per share:		
Basic	\$ 0.51	\$ 0.18
Fully diluted	0.51	0.18

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	For the three months ended	
	May 5, 2001	April 29, 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 4,250	\$ 1,523
Adjustments for:		
Depreciation and amortization	4,343	3,550
Future income taxes	100	175
Investment income	(2,585)	(2,314)
Changes in non-cash working capital	(5,678)	(33,700)
	430	(30,766)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(12,298)	(1,038)
Proceeds on sale of marketable securities	12,515	6,844
Investment income, excluding gain on sale of marketable securities of \$621 (2000 - \$199)	1,964	2,115
Net additions to capital assets	(8,364)	(8,435)
	(6,183)	(514)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of share capital	240	30
Purchase of Class A non-voting shares for cancellation	(878)	-
Dividends paid	(1,669)	(1,736)
	(2,307)	(1,706)
NET DECREASE IN CASH POSITION DURING THE PERIOD	(8,060)	(32,986)
CASH POSITION AT BEGINNING OF THE PERIOD	20,008	53,226
CASH POSITION AT END OF THE PERIOD	\$ 11,948	\$ 20,240

Cash position consists of cash balances with banks and investments in short-term deposits.

CONSOLIDATED BALANCE SHEETS

(in thousands)	Unaudited May 5, 2001	Unaudited April 29, 2000	Audited February 3, 2001
ASSETS			
CURRENT ASSETS			
Cash and short-term deposits	\$ 11,948	\$ 20,240	\$ 20,008
Accounts receivable	2,548	2,475	2,556
Merchandise inventories	58,468	54,863	38,481
Prepaid expenses	9,831	6,001	8,816
Total Current Assets	82,795	83,579	69,861
INVESTMENTS	81,804	78,242	81,399
CAPITAL ASSETS	87,644	81,006	86,036
ACCRUED PENSION ASSET	6,903	5,308	6,903
FUTURE INCOME TAXES	-	2,228	-
	\$ 259,146	\$ 250,363	\$ 244,199
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued items	\$ 51,547	\$ 53,991	\$ 35,187
Income taxes payable	1,667	2,434	5,124
Total Current Liabilities	53,214	56,425	40,311
FUTURE INCOME TAXES	1,481	-	1,381
SHAREHOLDERS' EQUITY			
Share capital	8,722	8,895	8,547
Retained earnings	195,729	185,043	193,960
Total Shareholders' Equity	204,451	193,938	202,507
	\$ 259,146	\$ 250,363	\$ 244,199

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. DISCLOSURE

These interim consolidated financial statements (the "financial statements") do not contain all disclosures required by Canadian generally accepted accounting principles for annual financial statements and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the 53 week period ended February 3, 2001.

The Company's business follows a seasonal pattern, with merchandise sales traditionally being higher in the fourth quarter than in other quarterly periods due to consumer holiday buying patterns. The business seasonality results in performance for the 13 weeks ended May 5, 2001 which is not necessarily indicative of performance for the balance of the year.

2. ACCOUNTING POLICIES

These financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements for the 53 week period ended February 3, 2001 except as follows:

Effective February 4, 2001 the Company adopted, with retroactive restatement of prior periods, the new recommendations of the Canadian Institute of Chartered Accountants relating to earnings per share. The basis for calculating basic earnings per share is consistent with previous practice, however, fully diluted earnings per share is calculated using the treasury stock method instead of the imputed earnings approach. Basic and fully diluted earnings per share were not impacted by the change.

3. EARNINGS PER SHARE

The number of shares used in the earnings per share calculation is as follows:

	May 5, 2001	April 29, 2000
Weighted average number of shares per basic earnings per share calculations	8,345,626	8,677,793
Effect of dilutive options outstanding	23,969	46,759
Weighted average number of shares per diluted earnings per share calculations	8,369,595	8,724,552

4. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

