



Interim Report

For the six months
ended August 3, 2002



Reitmans

Reitmans

Smart Set / Dalmys

Penningtons

RW & CO.

Addition-Elle

Addition-Elle Outlet

Thyme Maternity

To Our Shareholders

At the Board of Directors meeting held on September 12, 2002, the Board declared a 100% stock dividend of one common share for each common share outstanding and one class A non-voting share for each class A non-voting share outstanding, payable October 14, 2002 to shareholders of record September 24, 2002. In addition, a cash dividend of \$0.10 per share, after taking into account the above-noted stock dividend, was declared on each of the Corporation's outstanding common and class A non-voting shares payable on October 30, 2002 to shareholders of record October 16, 2002.

The enclosed consolidated financial statements for the six months period ending August 3, 2002 reflect the combined operations of Reitmans (Canada) Limited ("Reitmans") and Shirmax Fashions Ltd. ("Shirmax"), a wholly-owned subsidiary of Reitmans, which was acquired effective June 5, 2002. Included in these results are the results of Shirmax for nine weeks from June 5, 2002, the effective date of acquisition. Accordingly, last year's results are not comparable.

Sales for the six months ended August 3, 2002 increased 26.5% to \$327.8 million as compared with \$259.1 million for the six months ended August 4, 2001 last year. Comparable store sales increased 5.0%. Operating earnings for the six months increased 101.9% to \$26.1 million as compared with \$12.9 million last year. Net earnings after tax increased 53.2% to \$18.7 million or \$2.18 per share as compared with \$12.2 million or \$1.46 for the period last year.

Sales for the second quarter ended August 3, 2002 increased 41.3% to \$201.7 million as compared with \$142.8 million for the second quarter ended August 4, 2001 last year. Comparable store sales increased 9.1%. Operating earnings for the period increased 121.8% to \$21.2 million as compared with \$9.5 million last year. Net earnings after tax increased 70.6% to \$13.6 million or \$1.58 per share as compared with \$8 million or \$0.95 per share for the period last year.

Sales in August increased 42.0% while comparable store sales decreased 1.4%.

During the period under review, the Company opened 13 stores comprised of 5 Reitmans, 2 Smart Set and 6 Penningtons and acquired 69 Addition-Elle stores, 40 Addition-Elle Outlet stores and 66 Thyme Maternity stores; 9 stores were closed.

After the Shirmax acquisition was completed in June, we immediately embarked on a program to integrate the Shirmax operating, financial, warehousing, POS and merchandising systems onto Reitmans' platforms. This program is progressing on schedule with a targeted completion date of April 2003.

(signed)

Jeremy H. Reitman
President
Montreal, September 12, 2002

Management Discussion and Analysis

OPERATING RESULTS

The consolidated financial statements for the six months period ending August 3, 2002 reflect the combined operations of Reitmans (Canada) Limited ("Reitmans") and Shirmax Fashions Ltd. ("Shirmax"), a wholly-owned subsidiary of Reitmans, which was acquired effective June 5, 2002. Included in these results are the results of Shirmax for nine weeks from June 5, 2002, the effective date of acquisition. Accordingly, last year's results are not comparable.

Sales for the six months ended August 3, 2002 increased 26.5% to \$327,758,000 as compared with \$259,072,000 for the six months ended August 4, 2001 last year. Comparable store sales increased 5.0%. Operating earnings for the six months increased 101.9% to \$26,052,000 as compared with \$12,908,000 last year. Net earnings after tax increased 53.2% to \$18,717,000 or \$2.18 per share as compared with \$12,214,000 or \$1.46 for the period last year.

Sales for the second quarter ended August 3, 2002 increased 41.3% to \$201,730,000 as compared with \$142,816,000 for the second quarter ended August 4, 2001 last year. Comparable store sales increased 9.1%. Operating earnings for the period increased 121.8% to \$21,156,000 as compared with \$9,543,000 last year. Net earnings after tax increased 70.6% to \$13,590,000 or \$1.58 per share as compared with \$7,964,000 or \$0.95 per share for the period last year.

During the second quarter, the Company opened 3 new stores, closed 3 stores and acquired 175 stores of Shirmax. To date in the year, the Company opened 13 stores comprised of 5 Reitmans, 2 Smart Set and 6 Penningtons and acquired 69 Addition-Elle stores, 40 Addition-Elle Outlet stores and 66 Thyme Maternity stores; 9 stores were closed. Accordingly, at August 3, 2002, there were 804 stores in operation, consisting of 328 Reitmans, 147 Smart Set / Dalmys, 124 Penningtons, 28 RW & CO., 69 Addition-Elle, 41 Addition-Elle Outlet and 67 Thyme Maternity stores. An additional 36 stores are scheduled to open this year and 9 stores will be closed.

INVESTMENTS

Investments consist of marketable securities, principally high quality preferred shares. At August 3, 2002, marketable securities amounted to \$77,178,000 (market value \$78,503,000) as compared with \$72,707,000 (market value \$75,977,000) last year. Investment income amounted to \$4,975,000, composed principally of dividends and net capital gains of \$2,521,000 compared to \$5,281,000 with \$1,345,000 of net capital gains last year.

LIQUIDITY AND CAPITAL ASSETS

Shareholders' equity at August 3, 2002 amounted to \$241,107,000 or \$28.04 per share as compared to \$211,556,000 or \$25.17 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 \$91,535,000 at August 3, 2002 compared with \$93,095,000 at August 4, 2001. The major financing activities during the quarter included the securing of an \$86 million bank credit facility, which was used to fund the Shirmax acquisition cost of approximately \$87 million. The Company also paid cash dividends of \$1,720,000 or 20 cents a share and issued 13,000 Class A non-voting shares under its employee stock option plan.

The Company invested \$3,516,000 in new and renovated stores in the quarter ending August 3, 2002 and has budgeted a further \$12,000,000 for store development for fiscal 2003. These expenditures together with the payment of cash dividends and the quarterly repayments related to the bank credit facility will be funded by the Company's existing financial resources and funds derived from its operations.

The first phase of installation of the automated merchandise handling equipment in the new Montreal Distribution Centre has been completed. Progress payments of \$2,322,000 related to building construction and equipment were made during the second quarter. The Company anticipates financing the land and building using mortgage financing and the equipment using internal financial resources.

OUTLOOK

The Company has completed the acquisition of Shirmax Fashions Ltd. and full integration of all the Shirmax operating, financial, warehousing, POS and merchandising systems into Reitmans' platforms is well underway. The Company, through its seven 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.

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 six months ended		For the three months ended	
	August 3, 2002	August 4, 2001	August 3, 2002	August 4, 2001
Sales	\$ 327,758	\$ 259,072	\$ 201,730	\$ 142,816
Cost of goods sold and selling, general and administrative expenses	290,837	237,770	174,547	129,222
	36,921	21,302	27,183	13,594
Depreciation and amortization	10,869	8,394	6,027	4,051
Operating earnings	26,052	12,908	21,156	9,543
Investment income	4,975	5,281	1,994	2,696
Interest on long-term debt	587	-	587	-
Earnings before income taxes	30,440	18,189	22,563	12,239
Income taxes	11,723	5,975	8,973	4,275
Net earnings	18,717	12,214	13,590	7,964
Retained earnings at beginning of the period	213,334	193,960	216,744	195,729
Deduct:				
Dividends	3,437	3,350	1,720	1,681
Premium on purchase of Class A shares	-	812	-	-
Retained earnings at end of the period	\$ 228,614	\$ 202,012	\$ 228,614	\$ 202,012
Net earnings per share:				
Basic	\$ 2.18	\$ 1.46	\$ 1.58	\$ 0.95
Diluted	2.16	1.46	1.56	0.95

Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	For the six months ended		For the three months ended	
	August 3, 2002	August 4, 2001	August 3, 2002	August 4, 2001
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings	\$ 18,717	\$ 12,214	\$ 13,590	\$ 7,964
Adjustments for:				
Depreciation and amortization	10,869	8,394	6,027	4,051
Future income taxes	375	250	250	150
Amortization of deferred licensing revenue	(39)	-	(39)	-
Amortization of deferred financing costs	36	-	36	-
Investment income	(4,975)	(5,281)	(1,994)	(2,696)
Changes in non-cash working capital	(16,803)	(15,222)	5,893	(9,544)
	8,180	355	23,763	(75)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of marketable securities	(31,233)	(34,170)	(5,887)	(21,872)
Proceeds on sale of marketable securities	31,860	44,207	4,827	31,692
Net additions to capital assets	(20,906)	(10,782)	(6,606)	(2,418)
Investment income, excluding gain on sale of marketable securities of \$2,521 (2001 - \$1,345)	2,454	3,936	1,311	1,972
Acquisition of subsidiary including bank indebtedness	(91,803)	-	(91,803)	-
	(109,628)	3,191	(98,158)	9,374
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	(3,437)	(3,350)	(1,720)	(1,681)
Proceeds of long-term debt	86,000	-	86,000	-
Deferred financing costs	(656)	-	(656)	-
Purchase of Class A non-voting shares for cancellation	-	(878)	-	-
Repayment of long-term debt	(213)	-	(213)	-
Issue of share capital	249	1,062	249	822
	81,943	(3,166)	83,660	(859)
NET (DECREASE) INCREASE IN CASH POSITION DURING THE PERIOD	(19,505)	380	9,265	8,440
CASH POSITION AT BEGINNING OF THE PERIOD	33,862	20,008	5,092	11,948
CASH POSITION AT END OF THE PERIOD	\$ 14,357	\$ 20,388	\$ 14,357	\$ 20,388

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

Consolidated Balance Sheets

(in thousands)

	Unaudited August 3, 2002	Unaudited August 4, 2001	Audited February 2, 2002
Assets			
CURRENT ASSETS			
Cash and short-term deposits	\$ 14,357	\$ 20,388	\$ 33,862
Accounts receivable	6,573	1,964	1,912
Merchandise inventories	84,520	56,493	39,197
Prepaid expenses	15,752	10,184	10,440
Total Current Assets	121,202	89,029	85,411
INVESTMENTS	77,178	72,707	75,284
CAPITAL ASSETS	153,213	87,879	109,377
GOODWILL	41,436	-	-
OTHER ASSETS	8,742	6,903	8,121
	\$ 401,771	\$ 256,518	\$ 278,193
Liabilities and Shareholders' Equity			
CURRENT LIABILITIES			
Accounts payable and accrued items	\$ 67,340	\$ 39,168	\$ 40,785
Income taxes payable	875	4,163	9,473
Current portion of long-term debt	9,086	-	-
Total Current Liabilities	77,301	43,331	50,258
LONG-TERM DEBT	80,436	-	-
DEFERRED LICENSING REVENUE	661	-	-
FUTURE INCOME TAXES	2,266	1,631	2,356
SHAREHOLDERS' EQUITY			
Share capital	12,493	9,544	12,245
Retained earnings	228,614	202,012	213,334
Total Shareholders' Equity	241,107	211,556	225,579
	\$ 401,771	\$ 256,518	\$ 278,193

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 52 week period ended February 2, 2002.

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 August 3, 2002, 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 52 week period ended February 2, 2002 except as follows:

Effective June 5, 2002, the Company adopted, on a prospective basis, the recommendations of The Canadian Institute of Chartered Accountants relating to goodwill and other intangible assets. Under the standard, goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any.

Effective February 3, 2002, the Corporation adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants relating to stock-based compensation and other stock-based payments. Under the new standard, the Corporation has the option to use the fair value method of accounting or settlement accounting. As in prior periods, the Corporation uses settlement accounting such that transactions are reflected in the financial statements only upon the exercise of options, at the exercise price. Any consideration paid by employees on the exercise of options is credited to share capital. During the period ended August 3, 2002 no options were granted.

Deferred financing costs, included in other assets, are amortized on a straight-line basis over the term of the loan facility described in note 4.

Deferred licensing revenue is amortized on a straight-line basis over the terms of the agreements.

3. Acquisition

As previously reported, effective June 5, 2002, the Company acquired all of the outstanding common shares of Shirmax Fashions Ltd. ("Shirmax") for \$87.3 million, including acquisition costs. Shirmax is a specialty retailer of ladies' plus-size and maternity wear in Canada. The acquisition has been accounted for using the purchase method of accounting with the results of Shirmax included in the interim consolidated financial statements from the date of acquisition. The estimated fair value of the net assets acquired and consideration paid are summarized as follows:

(in thousands)	
Consideration Paid	\$ 87,273
Net Assets Acquired:	
Sundry receivables	3,934
Merchandise inventories	31,015
Capital assets	33,252
Other assets	4,608
Bank indebtedness	(4,531)
Accounts payable and accrued items	(18,049)
Long-term debt	(3,691)
Deferred licensing revenue	(701)
	<u>45,837</u>
Goodwill	\$ 41,436

4. Long-Term Debt

Long-term debt consists of the following:

- In June 2002, the Company completed a long-term financing agreement whereby up to \$86,000,000 of bank borrowings was made available under a three-year committed facility expiring in June 2005, at floating rates of interest. The facility is subject to quarterly principal repayments of \$2,000,000 during the term of the loan. At August 3, 2002, the cost of financing, including the amortization of financing costs related to the facility of \$36,492, was 3.91%. The debt is secured by a first-ranking charge on the Company's marketable securities. The terms of the banking agreement require the Company to meet certain financial covenants. The Company is in compliance with all covenants.
- Obligations under capital leases which expire at various dates to 2007, bear interest at rates between 5.49% and 7.25% total \$3,521,754. Current maturities due within one year amount to \$1,085,709.

5. Earnings Per Share

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

	For the six months ended		For the three months ended	
	August 3, 2002	August 4, 2001	August 3, 2002	August 4, 2001
Weighted average number of shares per basic earnings per share calculations	8,587,837	8,358,881	8,590,892	8,372,137
Effect of dilutive options outstanding	96,573	37,406	119,369	49,668
Weighted average number of shares per diluted earnings per share calculations	8,684,410	8,396,287	8,710,261	8,421,805

	Reitmans	Smart Set / Dalmys	Penningtons	RW & CO.	Addition-Elle	Addition-Elle Outlet	Thyme Maternity	Total
Newfoundland	14	3	3	-	1	1	1	23
Prince Edward Island	3	3	1	-	-	-	-	7
Nova Scotia	19	7	5	-	2	1	1	35
New Brunswick	17	5	3	1	1	1	2	30
Québec	82	24	23	8	20	14	16	187
Ontario	104	60	45	10	25	16	29	289
Manitoba	11	5	5	-	2	2	2	27
Saskatchewan	6	4	4	-	2	-	2	18
Alberta	36	17	16	3	8	3	7	90
British Columbia	34	19	19	6	8	3	7	96
Northwest Territories	1	-	-	-	-	-	-	1
Yukon	1	-	-	-	-	-	-	1
	328	147	124	28	69	41	67	804

804 stores across Canada



REITMANS (CANADA) LIMITED