

INTERIM REPORT

For the six months
ended August 4, 2001



Reitmans

TO OUR SHAREHOLDERS

Sales for the six months ended August 4, 2001 increased 9% to \$259,072,000 as compared with \$237,251,000 for the six months ended July 29, 2000 last year. Sales increased 8% on a comparable week basis while comparable store sales increased 5%. Net earnings for the six months increased 33% to \$12,214,000 or \$1.46 per share as compared with \$9,152,000 or \$1.06 per share last year. Operating earnings increased 60% to \$12,908,000 as compared with \$8,053,000 for the period last year.

Sales for the second quarter ended August 4, 2001 increased 3% to \$142,816,000 as compared with \$139,059,000 for the second quarter ended July 29, 2000 last year. Sales increased 6% on a comparable week basis while comparable store sales increased 2%. Net earnings for the period increased 4% to \$7,964,000 or \$0.95 per share as compared with \$7,629,000 or \$0.88 per share last year. Operating earnings increased 13% to \$9,543,000 as compared with \$8,444,000 for the period last year.

Sales in August increased 9% on a comparable week basis with comparable store sales increasing 5%.

During the second quarter, the Company opened 7 new stores and closed 8 stores. During the year to date, the Company opened 18 stores comprised of 5 Reitmans, 4 Smart Set, 4 Penningtons and 5 RW & CO.; 13 stores were closed. Accordingly, at August 4, 2001, there were 606 stores in operation, consisting of 328 Reitmans, 144 Smart Set/Dalmys, 106 Penningtons and 28 RW & CO. An additional 35 stores are scheduled to open this year and 18 stores will be closed.

The Company has begun construction of a new distribution centre. Located in Ville St-Laurent, a suburb of Montreal, the facility comprises 330,000 square feet on a land area of 1,100,000 square feet, at an estimated total cost of \$30,000,000. With completion scheduled for June 2003, this facility will be able to service over 1,000 stores in an efficient manner.

At the Board of Directors meeting held on September 12, 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 October 26, 2001, to shareholders of record as of the close of business October 12, 2001.

(signed)
Jeremy H. Reitman
President

Montreal, September 12, 2001

MANAGEMENT DISCUSSION AND ANALYSIS

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

OPERATING RESULTS

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INVESTMENTS

Investments consist of marketable securities, principally high quality preferred shares rated P-1. At August 4, 2001, marketable securities amounted to \$72,707,000 (market value \$75,977,000) as compared with \$84,833,000 (market value \$84,530,000) last year. Investment income amounted to \$5,281,000, composed principally of dividends and net capital gains of \$1,345,000 compared to \$4,899,000 with \$925,000 of net capital gains last year.

LIQUIDITY AND CAPITAL ASSETS

Shareholders' equity at August 4, 2001 amounted to \$211,556,000 or \$25.17 per share as compared to \$198,961,000 or \$23.05 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

MANAGEMENT DISCUSSION AND ANALYSIS

\$93,095,000 at August 4, 2001 compared with \$99,262,000 at July 29, 2000. The major financing activities during the quarter included the issuance of 54,800 Class A non-voting shares under its employee stock option plan and the payment of cash dividends of \$1,681,000 or 20 cents a share.

The Company has committed to the construction of a new Montreal distribution facility, commencing in the third quarter. This new, state-of-the-art complex will comprise approximately 1.1 million square feet of land and a 330,000 square foot distribution centre, with the capacity to service up to 1,000 store locations. The Company has budgeted approximately \$18,000,000 for land and building with a further \$12,000,000 for equipment. Construction is expected to be completed by May 2002 with full operating capacity by June 2003. The Company anticipates financing the project using internal financial resources and funds derived from its operations.

The Company invested \$9,325,000 in new and renovated stores for the six months ended August 4, 2001 and has budgeted a further \$9,000,000 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 BALANCE SHEETS

(in thousands)

	Unaudited August 4, 2001	Unaudited July 29, 2000	Audited February 3, 2001
ASSETS			
CURRENT ASSETS			
Cash and short-term deposits	\$ 20,388	\$ 14,429	\$ 20,008
Accounts receivable	1,964	1,525	2,556
Merchandise inventories	56,493	53,020	38,481
Prepaid expenses	10,184	6,006	8,816
Total Current Assets	89,029	74,980	69,861
INVESTMENTS	72,707	84,833	81,399
CAPITAL ASSETS	87,879	83,546	86,036
ACCRUED PENSION ASSET	6,903	5,308	6,903
FUTURE INCOME TAXES	-	703	-
	\$ 256,518	\$ 249,370	\$ 244,199
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued items	\$ 39,168	\$ 49,945	\$ 35,187
Income taxes payable	4,163	464	5,124
Total Current Liabilities	43,331	50,409	40,311
FUTURE INCOME TAXES	1,631	-	1,381
SHAREHOLDERS' EQUITY			
Share capital	9,544	8,838	8,547
Retained earnings	202,012	190,123	193,960
Total Shareholders' Equity	211,556	198,961	202,507
	\$ 256,518	\$ 249,370	\$ 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 August 4, 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 significantly impacted by the change.

3. 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 4, 2001	July 29, 2000	August 4, 2001	July 29, 2000
Weighted average number of shares per basic earnings per share calculations	8,358,881	8,657,233	8,372,137	8,636,672
Effect of dilutive options outstanding	37,406	47,443	49,668	48,127
Weighted average number of shares per diluted earnings per share calculations	8,396,287	8,704,676	8,421,805	8,684,799

4. COMPARATIVE FIGURES

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

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (UNAUDITED)

(in thousands except per share amounts)

Sales
Cost of goods sold and selling, general and administrative expenses
Depreciation and amortization
Operating earnings
Investment income
Earnings before income taxes
Income taxes
Net earnings
Retained earnings at beginning of the period
Deduct:
Dividends
Premium on purchase of Class A shares
Retained earnings at end of the period
Net earnings per share:
Basic
Fully diluted

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES
Net earnings
Adjustments for:
Depreciation and amortization
Future income taxes
Investment income
Changes in non-cash working capital
CASH FLOWS FROM INVESTING ACTIVITIES
Purchases of marketable securities
Proceeds on sale of marketable securities
Investment income, excluding gain on sale of marketable securities of \$1,345 (2000 - \$925)
Net additions to capital assets
CASH FLOWS FROM FINANCING ACTIVITIES
Issue of share capital
Purchase of Class A non-voting shares for cancellation
Dividends paid
NET INCREASE (DECREASE) IN CASH POSITION DURING THE PERIOD
CASH POSITION AT BEGINNING OF THE PERIOD
CASH POSITION AT END OF THE PERIOD

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

For the six months ended		For the three months ended	
August 4, 2001	July 29, 2000	August 4, 2001	July 29, 2000
\$ 259,072	\$ 237,251	\$ 142,816	\$ 139,059
237,770	221,804	129,222	126,771
21,302	15,447	13,594	12,288
8,394	7,394	4,051	3,844
12,908	8,053	9,543	8,444
5,281	4,899	2,696	2,585
18,189	12,952	12,239	11,029
5,975	3,800	4,275	3,400
12,214	9,152	7,964	7,629
193,960	185,256	195,729	185,043
3,350	3,462	1,681	1,726
812	823	-	823
\$ 202,012	\$ 190,123	\$ 202,012	\$ 190,123
\$ 1.46	\$ 1.06	\$ 0.95	\$ 0.88
1.46	1.05	0.95	0.88

For the six months ended		For the three months ended	
August 4, 2001	July 29, 2000	August 4, 2001	July 29, 2000
\$ 12,214	\$ 9,152	\$ 7,964	\$ 7,629
8,394	7,394	4,051	3,844
250	1,700	150	1,525
(5,281)	(4,899)	(2,696)	(2,585)
(15,222)	(34,991)	(9,544)	(1,291)
355	(21,644)	(75)	9,122
(34,170)	(11,289)	(21,872)	(10,251)
44,207	11,230	31,692	4,386
3,936	3,974	1,972	1,859
(10,782)	(16,756)	(2,418)	(8,321)
3,191	(12,841)	9,374	(12,327)
1,062	30	822	-
(878)	(880)	-	(880)
(3,350)	(3,462)	(1,681)	(1,726)
(3,166)	(4,312)	(859)	(2,606)
380	(38,797)	8,440	(5,811)
20,008	53,226	11,948	20,240
\$ 20,388	\$ 14,429	\$ 20,388	\$ 14,429

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	19	7	3	-	29
New Brunswick	18	5	3	1	27
Québec	82	23	18	8	131
Ontario	100	59	41	10	210
Manitoba	10	5	5	-	20
Saskatchewan	7	4	4	-	15
Alberta	35	17	14	3	69
British Columbia	39	18	15	6	78
Northwest Territories	1	-	-	-	1
Yukon	1	-	-	-	1
	328	144	106	28	606

