




This is exciting business



2002 Annual Report / Leon's Furniture Limited



Now more than ever, our homes represent a sanctuary from the frenetic pace of the outside world. Leon's Furniture Limited continues to provide our customers with the goods and services that enhance the comfort of their home environments.

Since 1909, Canadian consumers have grown to trust Leon's as their first choice for quality home furnishings at affordable prices.

President's Message

During 2002 we experienced the ever-changing landscape of retailing. The first half of the year was buoyant with sales increases flowing from a strong Canadian economy, as well as our Company's continued steady performance. The second half of the year, and in particular the fourth quarter, was another story. General consumer confidence began to worsen while unsettled international events created uncertainty in world markets.

Despite these changes, the efforts of our associates lead our Company to new records in 2002 for both sales revenues and net operating income. For the year ended December 31, 2002 sales were \$449,693,000 (\$425,687,000 in 2001) an increase of 5.6%. Net income was \$38,520,000, \$1.96 per common share (\$36,323,000, \$1.82 per common share in 2001) an increase of 7.7% per share. Total Leon's sales including \$129,192,000 of sales by Franchises were \$578,885,000 (\$545,406,000 in 2001).

We are pleased to report that new store openings in Les Saules, Quebec and Brampton, Ontario, have met expectations. Significant renovations have also been completed in Edmonton, Alberta and Richmond Hill, Ontario. Further extensive renovations are proceeding for stores in Burlington and Ottawa, Ontario. Potential new building sites have also been selected in the provinces of Ontario, Alberta and Quebec.

As pleased as we are with our results for 2002, we realize that we have to continue to improve upon the efficiencies of our operations, if we are to be successful in the difficult retail environment facing us in the year ahead. In 2003 we will complete the implementation of Radio Frequency Bar Coding for all our stores. We will be making use of new systems to better communicate with our Franchises under our operations umbrella. We will be working more diligently with our suppliers to provide even better value for our customers.

Over the years, our Company has created award winning advertising campaigns that have brought enjoyment and laughter to millions of Canadians. During the coming year, we will be unveiling the most exciting new marketing campaign we have undertaken in a long time. It will be based on the corner blocks, which support the foundation of our business: integrity and trust.

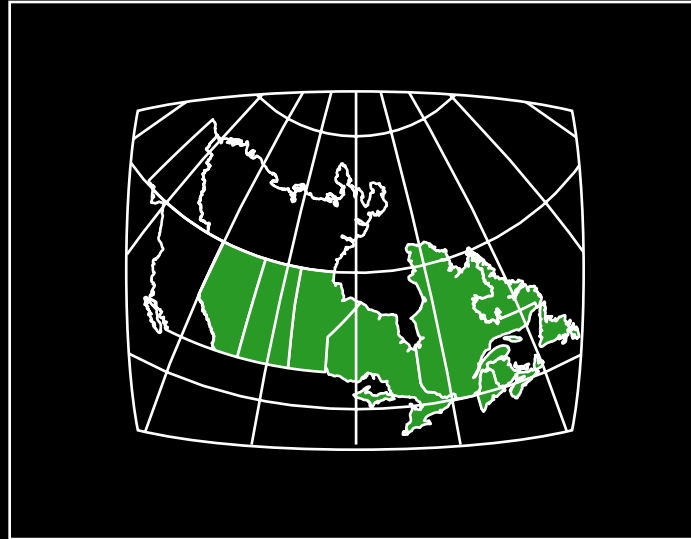
These new initiatives reflect our renewed emphasis on merchandise value, professionalism and customer care. Our associates are strongly committed to instill a sense of tremendous pride in the hearts and minds of all our customers, create peace of mind for them, and demonstrate once again, that we are truly the leaders in our field.

Although we expect the coming year to be one with many challenges, we also expect it to be filled with much promise. We appreciate the effort that our associates have made in the past and we are confident that they will lead our Company to even greater success in the future.



Terrence T. Leon
President and Chief Operating Officer

Nationwide Locations



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Alberta

Calgary
Edmonton
Medicine Hat*
Red Deer

Saskatchewan

Prince Albert*

Manitoba

Brandon*
Winnipeg

Ontario

Barrie
Bracebridge*
Brampton
Brockville*
Burlington
Chatham*
Cornwall*
Huntsville*

Kapuskasing*

Kingston*
Kitchener
London
Mississauga
Niagara-on-the-Lake
North Bay*
Orillia*
Ottawa (2)
Owen Sound*
Peterborough*
Richmond Hill
Sarnia*
Sault Ste. Marie
Sudbury
Toronto (3)
Trenton*
Welland
Windsor
Whitby

Quebec

Anjou
Greenfield Park
Laval
Ste. Foy
Vanier
Les Saules

New Brunswick

Fredericton*
Moncton*
Saint John*

Prince Edward Island

Charlottetown*

Nova Scotia

Dartmouth
Kentville*

Newfoundland

St. John's*

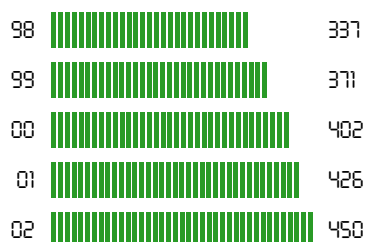
* Franchise Premises

Financial Highlights

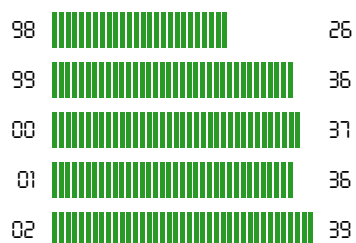
(\$ in thousands, except per share amounts)

	2002	2001	% Change
Income			
Sales	\$ 449,693	\$ 425,687	5.64%
Income before income taxes	63,731	62,845	1.4%
Provision for income taxes	25,211	26,522	-4.9%
Net income	38,520	36,323	6.0%
Cash generated from operations	36,142	33,382	8.3%
Dividends paid	18,839	7,980	136.1%
Per Common Share			
Net income	\$ 1.96	\$ 1.82	7.7%
Cash flow generated from operations	1.84	1.68	9.5%
Dividends paid	0.98	0.40	145%
Shareholders' equity at year end	11.88	10.95	8.5%

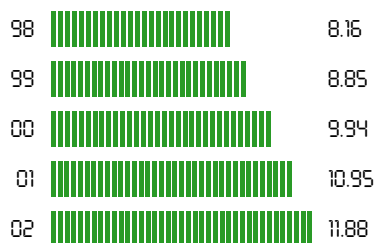
SALES (\$ IN MILLIONS)



NET INCOME (\$ IN MILLIONS)



SHAREHOLDER'S EQUITY PER COMMON SHARE





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Leon's award winning advertising combines humour, information and high production values to create an effective message to the consumer.



Leon's highly trained and professional sales associates put the customers needs first.



Our associates attend product knowledge seminars in order to provide factual information to the consumer.

We are **delivering**

As the Canadian consumer becomes more sophisticated and knowledgeable, retailers in general should also be expected to evolve if they are to succeed. Leon's has been growing, along with their customers, since 1909. When we say, "We are delivering", we mean much more than the actual movement of product.

We are delivering consistent values and services on the wide variety of products we sell. Our experienced merchandising team, work hand in hand with our suppliers to develop, design and present the best values possible to our customers. Our store associates take great pride in displaying our wares in fashionable room settings within a pleasant, clean and professional environment. Our showrooms enable shoppers to meander through a veritable wonderland of the latest designs and colours, from the worlds most trusted manufacturers. No other home furnishing retail in Canada comes close to maintaining the same multi-million dollar inventory assortment that is available in Leon's massive warehouse showrooms. As a result, our customers can enjoy instant delivery of their purchases, as opposed to the lengthy delays encountered at other retailers.

Leon's also delivers in terms of product knowledge. Our associates take great pride in their knowledge of the merchandise we offer. Ongoing factory tours and product knowledge seminars ensure that our representatives provide whatever information our customers need to have confidence in their buying decisions.

We are **customer-centric**

For nearly one hundred years, Leon's has recognized the importance of professional customer service. As a result, we are constantly evaluating ways and means of ensuring the entire shopping experience is fulfilling to our customers. The moment a customer pulls into our convenient parking areas to the actual delivery of products to their homes, they can sense our commitment to professionalism.

Strollers and play areas for children, refreshments in our cafeteria style rest areas, clean washroom facilities and wide showroom aisles, all demonstrate our care and concern for the comfort of our customers.

Whether a consumer is looking for one item or a household of products, Leon's showrooms have been designed to provide a pleasant experience. All showroom merchandise is tagged with everyday low prices as well as extensive product information, so that our customers are well informed. If additional information is required, our highly trained professional sales associates are always available.

Our state-of-the-art computer systems are able to provide instant information in regard to product availability. Once our customers make a decision, we are able to provide a wide variety of payment options most suitable for their individual needs. Over one million Canadian families enjoy the benefits of belonging to our extensive database. Throughout the year, our customers receive communications regarding special events offered by our merchandising or marketing departments. Our associates call our customers prior to delivery then follow up once delivery has been completed to inquire of any concerns. Customers are provided with a postage paid questionnaire that goes directly to the President, which allows the customer to comment on their experience. Any questions or concerns are immediately addressed by the appropriate department to ensure customer satisfaction.

Leon's is indeed very proud of the relationship that has been developed with our customers. Over the years they have discovered that our philosophy of integrity and fairness provides them with true peace of mind.



Leon's continues to develop both creative and innovative merchandising events to capture the attention of the Canadian consumer.



State-of-the-art warehousing and distribution systems create an efficient environment of inventory control that reduces costs.



Every single piece of our near hundred million dollar inventory carries a bar-coded label holding extensive product information.



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Leon's target demographic is adults aged twenty-five to forty-nine. This segment of the consumer populace tends to be homeowners with specific furnishing needs, that we strive to provide.



Our Company's greatest strength is the commitment and determination that is demonstrated by our team of over two thousand associates.



Massive renovations to existing properties and innovative designs for our new facilities, secure our leadership position in a competitive environment.

We are **growing** with you

In 1909, our founder Abla Leon opened a small dry goods store in Welland, Ontario. Abla and his wife Lena, along with the assistance of their eleven children, quickly developed a reputation of integrity, fairness and exceptional values. As that reputation grew and the number of their customers expanded, that small store could not keep up with demand. As a result, more stores were opened with family members delivering, dusting, displaying, selling and servicing the products, with the same code of ethics taught by their parents.

Now, nearly one hundred years later, second, third and fourth generations of Leons are working hand in hand with thousands of associates to continue the legacy of our founders. Fifty corporate and franchise stores now dot the Canadian landscape to provide our loyal customers with all the comforts of home. As a publicly traded Canadian Corporation, Leon's consistent growth in sales and profitability has served as a benchmark for other retailers. The tremendous pride in our storied past allows us to look forward with great confidence. Our commitment towards sustained growth at a manageable pace ensures that we will not sacrifice long-term stability for short-term gains.

Our team of dedicated associates will continue to identify potential opportunities to increase our market share by building new facilities across Canada. As owners of our real estate, we avoid the pitfalls that could arise from rental arrangements, while at the same time, enjoy the benefits of land appreciation.

Our Company continually strives to identify new opportunities to further enhance the relationships with our customers. Exciting new store designs, innovative merchandising displays, and convenient payment options should all contribute to our continued success.

However, what truly sets Leon's apart is the team of committed, loyal and professional associates who represent our Company. Their continued dedication gives us great confidence that our Company will grow and prosper for years to come.

Five Year Review

Income Statistics

(\$ in thousands, except earnings per share)

	2002	2001	2000	1999	1998
Sales	\$ 449,693	\$ 425,687	\$ 402,236	\$ 370,825	\$ 336,895
Cost of sales	261,265	248,445	234,798	217,643	199,369
Gross profit	188,428	177,242	167,438	153,182	137,526
Operating expenses (net of interest and sundry income)	108,829	99,293	91,181	81,696	78,331
Rent and property taxes	7,316	7,362	7,325	6,847	6,518
Amortization	8,552	7,742	6,933	6,401	5,649
	124,697	114,397	105,439	94,944	90,498
Income before gain on sale of property and income taxes	63,731	62,845	61,999	58,238	47,028
Gain on sale of property	–	–	2,002	5,808	908
Income before income taxes	63,731	62,845	64,001	64,046	47,936
Provision for income taxes	25,211	26,522	27,301	27,880	21,530
Net income	\$ 38,520	\$ 36,323	\$ 36,700	\$ 36,166	\$ 26,406
Common shares outstanding (000's) (weighted average)	19,589	19,926	20,365	20,151	20,098
Earnings per common share	\$ 1.96	\$ 1.82	\$ 1.80	\$ 1.79	\$ 1.31
Percent annual increase in sales	5.6%	5.8%	8.5%	10.1%	6.7%
Net income as a percentage of sales	8.6%	8.5%	9.1%	9.8%	7.8%
Dividends declared	\$ 19,392	\$ 7,986	\$ 8,258	\$ 21,960	\$ 15,787

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Balance Sheet Statistics

(\$ in thousands, except earnings per share)

	2002	2001	2000	1999	1998
Shareholders' equity	\$ 232,635	\$ 218,122	\$ 202,345	\$ 178,313	\$ 163,917
Total assets	320,439	295,675	280,656	268,581	245,270
Purchase of capital assets	24,681	18,027	19,085	19,114	14,714
Decrease in long-term debt	–	–	–	(70)	(196)
Working capital	92,240	94,492	88,913	78,324	75,259
Current ratio	2.1:1	2.2:1	2.1:1	1.9:1	1.9:1
Shareholders' equity per common share	\$ 11.88	\$ 10.95	\$ 9.94	\$ 8.85	\$ 8.16
Common share price range on the Toronto Stock Exchange					
High	\$ 35.00	\$ 25.00	\$ 24.25	\$ 24.70	\$ 22.10
Low	\$ 22.16	\$ 19.00	\$ 18.00	\$ 16.50	\$ 16.25

Management's Discussion and Analysis

For the year ended December 31, 2002, sales were \$449,693,000 (\$425,687,000 in 2001), an increase of 5.6%. Net income was \$38,520,000, \$1.96 per common share (\$36,323,000, \$1.82 per common share in 2001), an increase of 7.7% per share. Total Leon's sales including \$129,192,000 of sales by franchises, were \$578,885,000 (\$545,406,000 in 2001).

In last year's Management's Discussion and Analysis, we envisioned that the retail climate during 2002 would "provide a significant challenge to all retailers." Unfortunately, we were fairly accurate in that prediction. However, we also said that opportunities would be available to retailers with vision and initiative. We are pleased to report that our Company was able to capitalize on some of those opportunities. As a result, we are very proud to say once again, that Leon's Furniture Limited achieved record sales and profit levels in 2002. By no means, were these goals accomplished without tremendous effort from our associates across Canada.

Sales in the last quarter were up 3.2% and net income decreased by 2.7%. As is the case for most other retailers, the final quarter of the year has usually represented our strongest three-month period. Although that was the case again this year, profits in the fourth quarter were negatively impacted by non-operational items as a result of lower investment income and unrealized capital losses on investments. Even though we are pleased with the annual results, we cannot overlook the signs pointing to the continued erosion of consumer confidence that appeared during the last quarter.

Although the market in general was difficult, our Company forged ahead and accomplished many goals over the last year. Some of these accomplishments provided instant benefits, while others will serve us well for years to come. We have moved ahead with our aggressive renovation program, where significant investments are made to beautify and enhance existing showrooms. Our Edmonton warehouse showroom, which completed extensive renovations in mid-July, is now without doubt, one of the most incredible displays of home furnishings in Western Canada. Our Richmond Hill, Ontario showroom was also renovated in 2002, with a grand re-opening scheduled for the first quarter of 2003. Both the interior and exterior of this showroom were completely re-designed, and as a result, command a far more dominating presence. Significant renovations were also completed in Sault Ste. Marie, Ontario which has further helped to solidify our market share in this community. A new showroom was opened in Quebec City that geographically compliments our other existing locations. We were also very pleased to open a large warehouse showroom in Brampton, Ontario being one of Canada's fastest growing communities. Our shareholders will be pleased to know that every one of these newly opened or renovated showrooms have met or exceeded sales expectations.

Radio Frequency Bar Coding has been implemented in all locations across Canada with the exception of Quebec. The implementation of Bar Coding in Quebec will be completed before the end of the second quarter 2003. Once this implementation is completed, every piece of our vast inventory will be bar-coded in our computer system. Even though our inventory control has always been a great source of pride operationally, we believe this improvement will put our Company in a league of our own in terms of accuracy, availability, and efficiency.

In 2002 we were proud to introduce new incentive programs to our delivery associates in most of our stores. Being the last associates to deal with our customers in the buying process, the impressions left by our delivery teams are critical to customer satisfaction. We believe this program has allowed us to present a competent professional Company representative at the same time improving service levels and reducing damages. We are evaluating ways and means of providing similar incentive programs to our associates in all areas of our operation in order to reduce turnover, increase efficiencies and provide further opportunities of enhanced compensation.

The year 2003 will indeed be interesting. Your Company will continue to aggressively seek ways and means of increasing our market share wherever possible. For example, major additional renovations are planned for Ottawa, Ontario; Burlington, Ontario; Windsor, Ontario; and Halifax, Nova Scotia. Three major new building sites have been secured for Hamilton, Ontario; South Edmonton, Alberta; and Quebec City, Quebec. We anticipate initiating construction on these sites during the course of the year. We are also in the process of reviewing sites in Oakville, Woodbridge, Toronto-South and the Guelph/Cambridge area, all of which are in Ontario. We are also looking to secure a location in Saskatoon, Saskatchewan before the end of 2003. Projects now underway include Dorval, Quebec and Sarnia, Ontario. In Dorval, a suburb of Montreal, an 87,000 square foot warehouse showroom is nearing completion. We hope to celebrate its grand opening by the end of the second quarter 2003. We are very excited to announce that the store in Sarnia will represent the first new warehouse showroom constructed for a franchisee. We anticipate a summer opening for this location.

We have continued to develop both our internet and intranet computer sites. The internet site at www.leons.ca provides useful information about our Company and the products we sell. We are currently utilizing this site more as a marketing and informational vehicle for our customers. As this environment matures and we get a better understanding of our customers' expectations, we may consider selling some or all of our product categories through the internet. The intranet is also up and running as an internal enhancement to the communications with our key suppliers. The smooth flow of product orders and information will allow continued improvements in efficiencies within our merchandising departments. Overall, we are continuing to evaluate ways and means of improving our Information Technology in order to capitalize on the tremendous innovations in this area. Advancements in both hardware and software will continue to be investigated in order to ensure our Company is in the position to take advantage of opportunities as they arise.

We will continue to recognize the importance of quality associates at every level of our organization. Appropriate training, professional management guidelines and the continual education of our associates are a priority within our organization. We believe our people set us apart. Their dedication, commitment and loyalty are deeply appreciated. We will continue to seek ways and means of helping our associates become even more effective in their realm of responsibility.

Along those lines we made significant changes to our executive team at Leon's. Mark J. Leon was named Vice-Chairman. He also retains his responsibility of Chief Executive Officer. Mr. Terry Leon was named President and Chief Operating Officer. Mr. Dominic Scarangella was named Vice President and Chief Financial Officer. Mr. Edward Leon was named Vice President of Merchandising. Mr. Bob MacNelly was named Vice President of Marketing. Obviously, these associates have significant responsibility. The great expectation of leadership, on a company known for integrity, fairness, innovation and professionalism falls squarely on their shoulders. For many years they have shown great dedication and commitment to the success of our organization. They have all, in their own way, made great contributions to our past success. They have garnered the respect of those they work with by understanding the importance of mutual respect and objectivity. We have great faith, that this group, along with the team of associates they lead, will recognize the sacrifices that those before them made, and will demonstrate their own willingness to do whatever it takes to ensure our future is even more successful than our past.

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That being said, we believe 2003 will once again test the mettle of retailers across the land. Weak consumer confidence, a worrisome global situation and uncertain economics will combine to create difficult environments, to say the least. However, as one of Canada's most experienced retailers we have learned how to meet these challenges. We have learned, that somewhere in those dark clouds of uncertainty, there are opportunities on which to capitalize. It may be a difficult road ahead, especially for those who have never faced these types of obstacles. However, our foundation is solid, our walls of determination are thick, and the resolve of our people cannot be shaken. We go forward with confidence yet, we must be humble enough to recognize, that we have also been blessed through our good fortune.

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based upon estimates and judgements. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Leon's Furniture Limited (Leon's) maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable costs. Such systems are designed to provide reasonable assurance that the financial information is relevant and reliable and that Leon's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

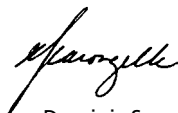
The Audit Committee is appointed by the Board and reviews the financial statements and annual report; considers the report of the external auditors; assesses the adequacy of the internal controls of the company; examines the fees and expenses for audit services; and recommends to the Board the independent auditors for appointment by the shareholders. The Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the shareholders.

These consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.



Mark J. Leon
Vice Chairman and C.E.O.

February 21, 2003



Dominic Scarangella
Vice President and C.F.O.

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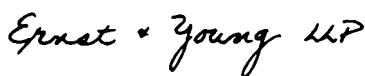
Auditors' Report

To the Shareholders of **Leon's Furniture Limited - Meubles Leon Ltée**

We have audited the consolidated balance sheets of Leon's Furniture Limited - Meubles Leon Ltée as at December 31, 2002 and 2001 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada,
February 14, 2003

Chartered Accountants

Consolidated Balance Sheets

As at December 31 (in thousands)

	2002	2001
ASSETS		
Current		
Cash and cash equivalents	\$ 29,329	\$ 19,054
Marketable securities	56,685	80,228
Accounts receivable	31,221	20,724
Inventory	55,047	51,079
Income taxes recoverable	7,563	821
Total current assets	179,845	171,906
Future income tax assets [note 3]	4,010	4,490
Capital assets, net [note 2]	136,584	119,279
	\$ 320,439	\$ 295,675
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 73,151	\$ 67,953
Customers' deposits	6,664	7,426
Dividends payable	2,520	2,035
Future income tax liabilities [note 3]	5,270	-
Total current liabilities	87,605	77,414
Redeemable share liability [note 7]	199	139
Total liabilities	87,804	77,553
Shareholders' equity		
Common shares [note 8]	9,535	9,325
Retained earnings	223,100	208,797
Total shareholders' equity	232,635	218,122
	\$ 320,439	\$ 295,675

See accompanying notes

On behalf of the Board:



Director



Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31 (in thousands, except shares outstanding and earnings per share)	2002	2001
Sales	\$ 449,693	\$ 425,687
Cost of sales	261,265	248,445
Gross profit	188,428	177,242
Operating expenses (income)		
Salaries and commissions	66,610	62,092
Advertising	27,306	27,263
Rent and property taxes	7,316	7,362
Amortization	8,552	7,742
Employee profit-sharing plan	2,483	2,361
Other operating expenses	25,807	24,790
Interest income	(2,650)	(4,178)
Other income	(10,727)	(13,035)
	124,697	114,397
Income before income taxes	63,731	62,845
Provision for income taxes ^[note 3]	25,211	26,522
Net income for the year	38,520	36,323
Retained earnings, beginning of year	208,797	192,827
Dividends declared	(19,392)	(7,986)
Excess of cost of share repurchase over carrying value of related shares ^[note 8]	(4,825)	(12,367)
Retained earnings, end of year	\$ 223,100	\$ 208,797
Weighted average number of common shares outstanding		
Basic	19,589,298	19,925,675
Diluted	19,956,335	20,265,678
Earnings per share		
Basic	\$ 1.96	\$ 1.82
Diluted	\$ 1.93	\$ 1.79

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 (in thousands)	2002	2001
OPERATING ACTIVITIES		
Net income for the year	\$ 38,520	\$ 36,323
Add (deduct) items not involving a current cash payment		
Amortization	8,552	7,742
Loss (gain) on sale of capital assets	(6)	12
Future tax expense	5,750	440
Loss (gain) on sale of marketable securities	1,278	(1,072)
	<u>54,094</u>	<u>43,445</u>
Net change in non-cash working capital balances related to operations [note 6]	(17,952)	(10,063)
Cash provided by operating activities	<u>36,142</u>	<u>33,382</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(24,681)	(18,027)
Proceeds on sale of capital assets	11	35
Purchase of marketable securities	(1,180,171)	(1,164,497)
Proceeds on sale of marketable securities	1,202,436	1,163,908
Issuance of series 2002 shares [note 7]	12,104	–
Decrease (increase) in employee share purchase loans [note 7]	(11,825)	83
Cash used in investing activities	<u>(2,126)</u>	<u>(18,498)</u>
FINANCING ACTIVITIES		
Dividends paid	(18,839)	(7,980)
Repurchase of capital stock [note 8]	(4,902)	(12,652)
Cash used in financing activities	<u>(23,741)</u>	<u>(20,632)</u>
Net increase (decrease) in cash and cash equivalents during the year	<u>10,275</u>	<u>(5,748)</u>
Cash and cash equivalents, beginning of year	19,054	24,802
Cash and cash equivalents, end of year	<u>\$ 29,329</u>	<u>\$ 19,054</u>

See accompanying notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of Leon's Furniture Limited - Meubles Leon Ltée [the "Company"] have been prepared by management in accordance with Canadian generally accepted accounting principles. The more significant of these accounting policies are summarized as follows:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

Revenue recognition

Sales are recognized as revenue for accounting purposes upon the customer either picking up the merchandise ordered or when merchandise is delivered to the customer's home.

Foreign exchange translation

Merchandise imported from the United States is recorded at its equivalent Canadian dollar value upon receipt. United States dollar accounts payable are translated at the year-end exchange rate. Gains and losses resulting from translation of United States dollar accounts payable are included in income.

Cash and cash equivalents

Cash equivalents comprise only highly liquid investments with original maturities of less than ninety days.

Marketable securities

Marketable securities, which consist primarily of bonds with maturities not exceeding eight years and an interest rate range of 2.0% to 6.0%, are stated at the lower of cost and market value. Marketable securities and equity instruments are valued at the lower of cost and market value on an aggregate basis.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Capital assets

Capital assets are initially recorded at cost. Normal maintenance and repair expenditures are expensed as incurred. Amortization is provided over the estimated useful lives of the assets using the following annual rates and bases:

Buildings	5% straight-line
Equipment	20% to 30% declining balance
Vehicles	30% declining balance
Computer hardware and software	14% straight-line
Leasehold improvements	Over the terms of the leases to a maximum of 15 years

No amortization is provided for assets under construction.

Store pre-opening costs

Store pre-opening costs are expensed as incurred.

Income taxes

The Company follows the liability method for accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per share

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method.

Fair value of financial instruments

The fair value of financial instruments held by the Company, comprising cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities, customers' deposits and redeemable share liability approximate their carrying values in these consolidated financial statements.

Stock-based compensation

The Canadian Institute of Chartered Accountants ["CICA"] issued new guidance for accounting for stock-based compensation and other stock-based payments that is effective for fiscal years beginning on or after January 1, 2002 and generally applies to awards granted on or after the date of adoption.

The Management Share Purchase Plan [the "Plan"] represents a compensatory plan under the new CICA guidance. The Company has elected not to recognize compensation costs relating to the Plan [note 7].

2. CAPITAL ASSETS

Capital assets consist of the following:

[in thousands]	2002			2001		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	\$ 41,378	\$ -	\$ 41,378	\$ 35,073	\$ -	\$ 35,073
Buildings	116,832	51,566	65,266	105,325	46,981	58,344
Equipment	17,940	11,712	6,228	16,575	10,678	5,897
Vehicles	13,994	11,533	2,461	13,513	10,680	2,833
Computer hardware and software	6,869	4,335	2,534	5,885	3,614	2,271
Leasehold improvements	26,178	7,461	18,717	21,081	6,220	14,861
	\$ 223,191	\$ 86,607	\$ 136,584	\$ 197,452	\$ 78,173	\$ 119,279

Included in the above balances are assets not being amortized with book values of approximately \$5,707,000 [2001 - \$1,895,000] due to construction in progress.

3. INCOME TAXES

Significant components of the Company's future tax assets are as follows:

[in thousands]	2002	2001
Future tax assets		
Capital assets	\$ 4,010	\$ 4,490
Total future tax assets	\$ 4,010	\$ 4,490

Significant components of the Company's current future tax liabilities are as follows:

[in thousands]	2002	2001
Current future tax liabilities		
Marketable securities	\$ (326)	\$ -
Accounts receivable	4,940	-
Inventory	656	-
Total current future tax liabilities	\$ 5,270	\$ -

Significant components of the provision for income taxes are as follows:

[in thousands]	2002	2001
Current tax expense	\$ 19,461	\$ 26,082
Future income tax expense (benefit) relating to origination and reversal of temporary differences	5,775	(1,111)
Future income tax expense (benefit) relating to tax rate reductions	(25)	1,551
Provision for income taxes	\$ 25,211	\$ 26,522

The total provision for income taxes in the consolidated financial statements is at a rate different than the combined federal and provincial statutory income tax rate of the current year for the following reasons:

	2002		2001	
Tax at combined federal and provincial tax rate	\$ 24,511	38.5%	\$ 26,018	41.4%
Tax effect of expenses that are not deductible for income tax purposes	23	-	20	-
Tax effect of non-taxable portion of loss (gain) on disposal	159	0.3	(202)	(0.3)
Future tax effect of rate reductions	(25)	-	1,551	2.5
Future tax effect of arising timing differences	(281)	(0.4)	(131)	(0.2)
Federal large corporations tax	21	-	89	0.1
Other, net	803	1.2	(823)	(1.3)
Provision for income taxes	\$ 25,211	39.6%	\$ 26,522	42.2%

4. COMMITMENTS

[a] The estimated cost to complete construction in progress at three locations [one location in 2001] amounted to approximately \$4,143,000 as at December 31, 2002 [2001 - \$2,100,000].

[b] The Company is obligated under operating leases to future minimum annual rental payments for certain land and buildings as follows:

[in thousands]

2003	\$ 389
2004	251
2005	90
2006	90
2007	90
Thereafter	255
	<u>\$ 1,165</u>

[c] The Company has issued approximately \$1,900,000 in letters of credit with respect to buildings under construction.

5. FRANCHISE OPERATIONS

As at December 31, 2002, a total of twenty-one franchises [2001 - twenty-one] were in operation representing twenty-two [2001 - twenty-two] stores. Sales by franchise stores during the year ended December 31, 2002, on which the Company earns royalty income, amounted to approximately \$129,192,000 [2001 - \$119,719,000].

6. CONSOLIDATED STATEMENTS OF CASH FLOWS

[a] The net change in non-cash working capital balances related to operations consists of the following:

[in thousands]

	2002	2001
Accounts receivable	\$ (10,497)	\$ (6,119)
Inventory	(3,968)	(1,908)
Income taxes recoverable	(6,742)	(1,706)
Accounts payable and accrued liabilities	4,017	(1,249)
Customers' deposits	(762)	919
	<u>\$ (17,952)</u>	<u>\$ (10,063)</u>

[b] Income taxes and interest paid:

[in thousands]

	2002	2001
Income taxes paid	\$ 26,904	\$ 28,583
Interest paid	\$ 4	\$ 1

[c] During the year, capital assets were acquired at an aggregate cost of \$25,862,796 [2001 - \$18,487,527], of which \$3,908,990 [2001 - \$2,726,770] is included in accounts payable and accrued liabilities as at December 31, 2002.

Directors and Officers

Board of Directors

Anthony T. Leon
Toronto

Joseph M. Leon
Doctor of Medicine
Welland

Mark J. Leon
Toronto

Edward F. Leon
Toronto

Peter B. Eby
Private Investor

Alan J. Lenczner
Barrister, Partner
in Lenczner Slaght
Royce Smith Griffin

T. Iain Ronald
Private Investor

Officers

Anthony T. Leon
Chairman of the Board

Mark J. Leon
Vice Chairman and CEO

Terrence T. Leon
President and COO

Dominic Scarangella
Vice President and CFO

Shareholder Information

Corporate Offices

45 Gordon MacKay Road
P.O. Box 1100
Station "B"
Weston, Ontario
M9L 2R8
416-243-7880

Auditors

Ernst & Young LLP
Chartered Accountants
Toronto

Registrar & Transfer Agent

CIBC Mellon Trust Company
Toronto

Listing

Leon's shares are listed on
the Toronto Stock Exchange
Ticker Symbol is LNF

Annual General Meeting

May 8, 2003
11:00 AM
Library Room, Fairmont Royal York,
100 Front Street West,
Toronto, Ontario

Please visit our website at:

www.leons.ca



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