

First Quarter Report 2001



Leading the Way



Message to Shareholders

I am pleased to report our first quarter results for the period ended March 31, 2001. It is most noteworthy that we surpassed last year's record for a first quarter. I also wish to point out that under new reporting guidelines, we are offering additional disclosure in these reports in the form of a quarterly Management Discussion & Analysis section, which can be found at the end of this report.

Revenue for the first quarter jumped over 38% to \$245.2 million. Income from continuing operations was \$12.1 million compared to \$11.9 million in 2000. Earnings per share from continuing operations, fully diluted, was \$0.41 compared to last year's \$0.40.

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The increase in earnings came despite the higher interest and amortization expenses as a result of the Safety 1st acquisition in June of 2000. Excluding the amortization of goodwill, earnings per share was \$0.47 in 2001 versus \$0.40 last year, an increase of 18%.

Sales in the Juvenile segment jumped 73% to \$138.6 million, while earnings from operations increased 32% to \$11.7 million from the first quarter a year ago. Cosco's car seat business, licensing agreements and strong juvenile sales in Canada were important factors in the growth during the quarter.

This success validates our strategy of concentrating primarily on the opening to mid price-point categories, particularly at a time when the economy is weaker. The vast majority of our products are recession resistant. As a result, we experienced strong sell through at the retail level.

The extensive re-organization of the Juvenile segment is continuing. This is a year-long program and to date, has brought us closer to the desired results.

The Ready-To-Assemble furniture segment bucked the negative industry trend with an improved performance. Year-over-year, RTA sales were up 7.3% to \$69.8 million while earnings from operations rose a healthy 20% to \$12.2 million. Popular price points and a number of new product introductions attracted consumers, while lower raw material costs also contributed to the positive situation.

We are pleased with the strength of RTA, particularly in view of the overall soft industry picture. Ameriwood's focus on efficient manufacturing and aggressive sales have set us apart from our competitors.

Home Furnishings sales rose 16% to \$36.8 million while earnings from operations were down 56% to \$721 thousand compared to the first quarter a year ago. Quarter-over-quarter, earnings from operations were significantly improved. Futon sales were strong, however margins remained at unacceptable levels. Management has committed to completing a turnaround plan within the next 45 days to address this situation. An announcement will be made at this time.

OUTLOOK

We are particularly pleased that we were able to surpass last year's exceptionally strong first quarter. This is an important achievement. We are optimistic that fiscal 2001 will shape up as previously indicated with earnings per share of \$1.70 to \$1.75. The purchase of profitable Quint B.V. of Holland, a high-end baby stroller designer and marketer, will allow for a major push in Europe to significantly grow our juvenile business. In fact, it advances our entry into the mid- to high-end stroller business there by two years.

I wish to thank all our employees for their concerted efforts and invite all shareholders to our Annual & Special General Meeting, to be held at the Mount Royal Centre, 2200 Mansfield, Montreal, Quebec, at 11 A.M. on May 31, 2001.



Martin Schwartz

President and Chief Executive Officer

April 25, 2001

Consolidated Statement of Income

For the three months ended March 31, 2001 (unaudited)

All figures in US\$

	2001	2000
SALES	\$ 245,150,328	\$ 176,853,401
EXPENSES		
Cost of sales	190,367,722	135,826,249
Operating	23,464,144	18,282,582
Amortization	7,741,517	4,196,205
Research and development costs	1,007,307	461,470
Interest on long-term debt	5,112,168	944,903
Other interest	196,239	52,323
	227,889,097	159,763,732
INCOME BEFORE INCOME TAXES	17,261,231	17,089,669
Income taxes	5,129,152	5,167,690
INCOME FROM CONTINUING OPERATIONS	12,132,079	11,921,979
Loss from discontinued operations	-	(1,220,936)
NET INCOME	\$ 12,132,079	\$ 10,701,043
EARNINGS PER SHARE		
Basic	\$ 0.43	\$ 0.38
Fully Diluted	\$ 0.41	\$ 0.36
Basic - from continuing operations	\$ 0.43	\$ 0.42
Fully Diluted - from continuing operations	\$ 0.41	\$ 0.40
SHARES OUTSTANDING		
Basic - weighted average	28,138,129	28,137,572
Fully Diluted - weighted average	29,828,492	29,635,572

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Consolidated Statement of Retained Earnings

For the three months ended March 31, 2001 (unaudited)

All figures in US\$

	2001	2000
BALANCE, BEGINNING OF PERIOD	\$ 127,719,280	\$ 119,344,595
Adoption of new accounting recommendations (Note 1)	-	(8,232,683)
	127,719,280	111,111,912
Net income	12,132,079	10,701,043
Premium paid on repurchase of shares	-	(572,934)
BALANCE, END OF PERIOD	\$ 139,851,359	\$ 121,240,021

Consolidated Balance Sheet

As at March 31, 2001 (unaudited)

All figures in US\$

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	As at March 31, 2001	As at December 31, 2000	As at March 31, 2000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 5,811,046	\$ 6,670,073	\$ 3,826,392
Accounts receivable	160,624,687	126,133,383	127,028,140
Inventories	144,395,865	141,141,216	106,750,785
Prepaid expenses	16,146,204	16,073,615	13,525,696
Income taxes receivable	106,960	-	-
Deferred income taxes	15,605,090	15,890,047	12,269,763
	342,689,852	305,908,334	263,400,776
CAPITAL ASSETS			
DEFERRED CHARGES	100,745,905	106,014,914	93,527,723
INTANGIBLE ASSETS	9,314,465	8,968,864	3,616,713
DEFERRED INCOME TAXES	149,988,697	152,093,682	13,642,956
OTHER ASSETS	1,938,172	1,938,172	-
	1,120,000	1,120,000	-
	\$ 605,797,091	\$ 576,043,966	\$ 374,188,168
LIABILITIES			
CURRENT LIABILITIES			
Bank indebtedness	\$ 5,485,562	\$ 4,759,295	\$ 1,851,068
Accounts payable and accrued liabilities	113,065,129	101,208,431	58,499,232
Salaries payable	3,857,044	7,136,609	7,271,935
Income taxes payable	-	518,929	6,352,120
Current portion of long-term debt	2,536,398	2,537,410	6,170,930
	124,944,133	116,160,674	80,145,285
LONG-TERM DEBT			
	266,274,833	254,749,690	82,033,733
PENSION OBLIGATION			
	12,779,218	12,619,192	11,803,016
DEFERRED INCOME TAXES			
	2,619,762	2,709,775	15,108,081
SHAREHOLDERS' EQUITY			
CAPITAL STOCK	62,789,509	62,495,101	62,485,874
RETAINED EARNINGS	139,851,359	127,719,280	121,240,021
CUMULATIVE TRANSLATION ADJUSTMENT	(3,461,723)	(409,746)	1,372,158
	199,179,145	189,804,635	185,098,053
	\$ 605,797,091	\$ 576,043,966	\$ 374,188,168

Consolidated Statement of Cash Flows

For the three months ended March 31, 2001 (unaudited)

All figures in US\$

	2001	2000
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income from continuing operations	\$ 12,132,079	\$ 11,921,979
Adjustments for:		
Amortization	7,741,517	4,196,205
Deferred income taxes	312,120	(43,211)
Loss (gain) on disposal of capital assets	544,412	(2,850)
	20,730,128	16,072,123
Changes in non-cash working capital:		
Increase in accounts receivable	(36,978,560)	(20,641,943)
Increase in inventories	(4,691,040)	(4,670,828)
Increase in prepaid expenses	(416,039)	(2,519,716)
Increase in accounts payable and accrued liabilities	12,954,172	5,850,813
Increase (decrease) in income taxes payable	(662,739)	3,448,701
Decrease in salaries payable	(3,011,395)	(2,615,894)
	(32,805,601)	(21,148,867)
CASH USED IN OPERATING ACTIVITIES	(12,075,473)	(5,076,744)
FINANCING ACTIVITIES		
Increase in long-term debt	11,514,690	7,862,702
Issuance of capital stock	294,541	-
Repurchase of capital stock	-	(666,926)
Increase in bank indebtedness	1,020,288	1,075,614
CASH PROVIDED BY FINANCING ACTIVITIES	12,829,519	8,271,390
INVESTING ACTIVITIES		
Additions to capital assets	(1,439,890)	(2,177,709)
Deferred charges	(868,877)	(461,803)
Intangible assets	(282,537)	-
CASH USED IN INVESTING ACTIVITIES	(2,591,304)	(2,639,512)
NET CASH USED IN DISCONTINUED OPERATIONS	-	(3,540,486)
Effect of exchange rate changes on cash	978,231	428,935
NET DECREASE IN CASH AND CASH EQUIVALENTS	(859,027)	(2,556,417)
Cash and cash equivalents, beginning of year	6,670,073	6,082,809
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,811,046	\$ 3,526,392

Notes to Consolidated Financial Statements

As at March 31, 2001 (unaudited)

All figures in US\$

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Note 1 - Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) using the U.S. dollar as the reporting currency. They have been prepared on a basis consistent with those followed in the most recent audited financial statements. These unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report for the year ended December 30, 2000.

The Company had historically presented its financial statements in Canadian dollars. Effective January 1, 2000, as a result of the Company's increasing economic activity in the United States, the U.S. dollar was adopted as the Company's reporting currency. The comparative financial information presented here has been restated using the translation of convenience method. For periods up to and including March 31, 2000, the Canadian dollar financial statements of the Company have been restated in U.S. dollars using the December 30, 1999 closing exchange rate.

Change in Accounting Principles

- Employee future benefits

Effective January 1, 2000, the Company adopted the recommendation of the Canadian Institute of Chartered Accountants (CICA) Section 3461 "Employee Future Benefits" which has been applied retroactively without restating prior years. This section requires an entity to recognize the cost of retirement benefits and post-employment benefits in the reporting period in which an employee has provided the service that gives rise to the benefits. The cumulative effect of adopting the new recommendations at January 1, 2000, was to decrease retained earnings by \$6.1 million, increase deferred income tax assets by \$4.8 million and increase the accumulated post retirement benefit obligation by \$12.0 million.

- Income taxes

Effective January 1, 2000, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Section 3465, "Income Taxes" which has been applied retroactively without restating prior years. This section requires future income tax assets and liabilities to be computed based on differences between the carrying amount of balance sheet items and their corresponding tax values using the enacted income tax rate in effect at the balance sheet date. The cumulative effect of adopting the new recommendations at January 1, 2000 was to decrease retained earnings and to increase deferred income tax liabilities by \$2.1 million.

Reclassifications

Certain of the prior year's accounts have been reclassified to conform to the 2001 financial statement presentation.

Notes to Consolidated Financial Statements

For the three month period ending March 31, 2001 (All figures in thousands of U.S. \$)

Note 2 - Segmented Information

Industry Segments

	Juvenile		Ready-to-Assemble		Home Furnishings		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Sales to customers	\$ 138,599	\$ 80,100	\$ 69,780	\$ 65,058	\$ 36,771	\$ 31,695	\$ -	\$ -	\$ 245,150	\$ 176,853
Inter-segment sales	8	19	926	14	-	-	(934)	(33)	-	-
TOTAL OPERATING REVENUE	138,607	80,119	70,706	65,072	36,771	31,695	(934)	(33)	245,150	176,853
OPERATING PROFIT	\$ 11,683	\$ 8,870	\$ 12,179	\$ 10,133	\$ 721	\$ 1,650			24,583	20,653
Corporate expenses									2,014	2,566
Interest									5,308	997
Income taxes									5,129	5,168
INCOME FROM CONTINUING OPERATIONS									12,132	11,922
Discontinued operations									-	(1,221)
NET INCOME									\$ 12,132	\$ 10,701
AMORTIZATION	\$ 5,529	\$ 1,516	\$ 1,405	\$ 1,759	\$ 527	\$ 802				

Note that there has not been a material change in the relative value of segmented asset information disclosed in the most recently audited annual consolidated financial statements dated December 30, 2000. As such, these amounts are not disclosed here.

Managements' Discussion and Analysis of Financial Conditions and Results of Operations (« MD & A ») should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2001 and the audited consolidated financial statements and MD & A for the year ended December 30, 2000.

Note that there have been no significant changes with regards to Risks and Uncertainties and Currency Exposure to those outlined in the annual MD & A contained in the Company's 2001 Annual Report. As such, they are not repeated herein.

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RESULTS OF OPERATIONS

Overview

Sales for the three months ended March 31, 2001 were \$245.2 million compared to \$176.9 million for the quarter ended March 31, 2000, representing an increase of 38.6%. Net income from continuing operations increased to \$12.1 million in 2001 from \$11.9 million in 2000, an increase of 1.8%. Net income, net of discontinued operations contained in the comparative figures, increased 13.4% from \$10.7 million in 2000.

Note that under Generally Accepted Accounting Principles (GAAP), the results of the prior quarter for discontinued operations are reclassified as a one-line item on the income statement. The effect of the discontinuation of three of the Company's operations was to lower previously reported sales for the first quarter of 2000 by \$17.2 million.

The Company also changed its reporting currency from Canadian dollars to U.S. dollars during the second quarter of fiscal 2000. This change was made to more accurately reflect the fact that the majority of the Company's activities are carried out in U.S. dollars. By using the U.S. dollar as the reporting currency, results more accurately reflect the true operating results and position of the Company.

Sales

The 38.6% sales growth of \$68.3 million over 2000 came from all three business segments of the Company. The Juvenile segment provided the most dramatic increase in sales with an increase of \$58.5 million. However, the Ready-to-Assemble and Home Furnishing segments also contributed with increases of \$4.7 million and \$5.1 million respectively.

Juvenile segment sales were \$138.6 million in 2001 compared to \$80.1 million in 2000, an increase of 73.0%. The majority of this increase relates to the additional sales as a result of the Safety 1st acquisition in June of 2000. However, sales of existing product lines, excluding Safety 1st items, were also higher, most notably in strollers and car seats. Sales of Dorel's European Juvenile operations were also up over the prior year.

The Ready-to-Assemble Furniture segment grew from sales of \$65.1 million in 2000 to \$69.8 million in 2001, an increase of \$4.7 million or 7.3%. Despite the general slowdown being experienced by others in the RTA industry, Dorel is enjoying continuing success at both of RTA's major customers, Wal-Mart and K-Mart. New SKU's have been added at both of these accounts.

Sales of the Home Furnishings segment increased to \$36.8 million in 2001 from \$31.7 million in 2000, an increase of \$5.1 million or 16.0%. Most of the growth came from the Dorel Home Products' line of both Dorel and Sealy branded futons. Dorel Home Products' line of home office furniture and Cosco's line of folding furniture and step stools also increased in sales over the prior year, though less dramatically than the futons.

Gross Profit

Gross profit was \$54.8 million in 2001 compared to \$41.0 million in 2000, an increase of 33.5%. As a percentage of sales, gross profit was 22.3% in 2001 as compared to 23.2% in 2000. In 2001, raw material costs did not vary significantly from levels experienced in 2000. Labour costs were also consistent year-over-year.

Margins in both the RTA and Juvenile segments were relatively flat versus the prior year. However, margins in Home Furnishings were negatively impacted by an increase in futon sales at much lower margins than in the first three months of 2000. Some cost cutting measures have been implemented to address the situation. However, extreme pricing pressure from competitors based in the Orient continues and the Company is seeking further solutions to bring margins back to acceptable levels. As outlined in our press release dated April 25th, management has committed to outlining a turnaround plan within 45 days, at which time an announcement will be made.

Operating Expenses, Amortization and Research & Development

Operating expenses, consisting primarily of selling, general and administrative expenses were \$23.5 million in the first three months of 2001 compared to \$18.3 million in 2000, an increase of 28.3%. This increase is due mainly to the inclusion of Safety 1st in the 2001 figures. However, more significantly, operating expenses as a percentage of sales were lower in 2001 compared to 2000 at 9.6% versus 10.3%. This reduction is due to the fact that fixed costs at all divisions are being contained despite the increased sales volumes. Synergies between Safety 1st and Dorel were realized in the first quarter of 2001, mainly in administration.

Amortization, which includes depreciation, was \$7.7 million in 2001 compared to \$4.2 million in 2000, an increase of \$3.5 million or 84.5%. This increase was a direct result of the addition of capital assets at Safety 1st and the amortization of the goodwill created upon the acquisition of the new subsidiary. This amortization of the new goodwill totaled \$1.8 million and the amortization of the remaining assets accounted for the balance of the increase. Amortization across the other divisions remained consistent.

Research and development costs increased by \$0.5 million to \$1.0 million in 2001 versus 2000. This increase was mainly due to additional spending in the Juvenile segment for products for the North American market.

Earnings from Operations and Net Income

Total earnings from operations were \$24.6 million in 2001 compared to \$20.7 million in 2000, an increase of 19.0%. Included in this figure in 2001 is goodwill amortization in connection with the acquisition of Safety 1st. Excluding this figure, earnings from operations were \$26.4 million in 2001, representing an increase of 27.5%. The operating profit of the RTA segment was \$12.2 million in 2001 compared to \$10.1 million in 2000, an increase of 20.2%. This increase can be attributed to the greater sales volume coupled with the operating costs being maintained at the same levels as in 2000. The operating profit of the Juvenile products segment was \$11.7 million in 2001 compared to \$8.9 million in 2000, representing an increase of 31.7%. This increase can be attributed mainly to increased sales volumes and improved performance at the Cosco division and by the addition of the Safety 1st operation. The Home Furnishings segment experienced an operating profit of \$0.7 million in 2001 compared to \$1.7 million in 2000, a decrease of 56.3%. As described above, this decrease in profitability is as a result of the continued pricing pressure on futons, the fastest growing product in the Home Furnishings segment.

Total interest costs were \$5.3 million in 2001 compared to \$1.0 million in 2000, an increase of \$4.3 million. This increase was directly the result of higher debt levels that were required to acquire Safety 1st Inc. in June 2001.

Income taxes were \$5.1 million or 29.7% of income in 2001 compared to \$5.2 million or 30.2% of income in 2000. This decrease in the effective tax rate is attributable to the proportionate change in pre-tax profits in the different tax jurisdictions.

For the reasons set out above income from continuing operations was \$12.1 million for the three months ended March 31, 2001 compared to \$11.9 million for the same period in 2000, an increase of \$0.2 million or 1.8%.

LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2001, cash flow from continuing operations before changes in non-cash working capital was \$20.7 million, as compared to \$16.1 million in 2000. This represents an increase of \$4.6 million. After funding non-cash working capital, operating activities used cash in the amount of \$12.1 million in 2001 versus \$5.1 million in 2000, a difference of \$7.0 million. This increased use of cash was due principally to a higher balance in accounts receivable in 2001, which increased by \$37.0 million versus the December year-end balance sheet. This higher level of receivables was due strictly to the higher sales volumes. Collection days were maintained at the same levels as the prior year. This increase in receivables was partially offset by better control of inventory levels and longer payment terms on accounts payable.

The Company's net disbursements on various investing activities in 2001 were \$2.6 million, a figure consistent with the prior year. During the current quarter, capital assets with a net book value of \$1.4 million were disposed of, on which a loss of \$0.5 million was recorded.

The above uses of cash were funded by long-term debt that increased by \$11.5 million versus year-end. Note that an increase in debt is consistent with the prior year as traditionally Dorel's first quarter entails the use of cash. Historically, this use of cash is reversed in the latter half of the year as the increases in non-cash working capital balances are reversed and cash flow from operations becomes positive.