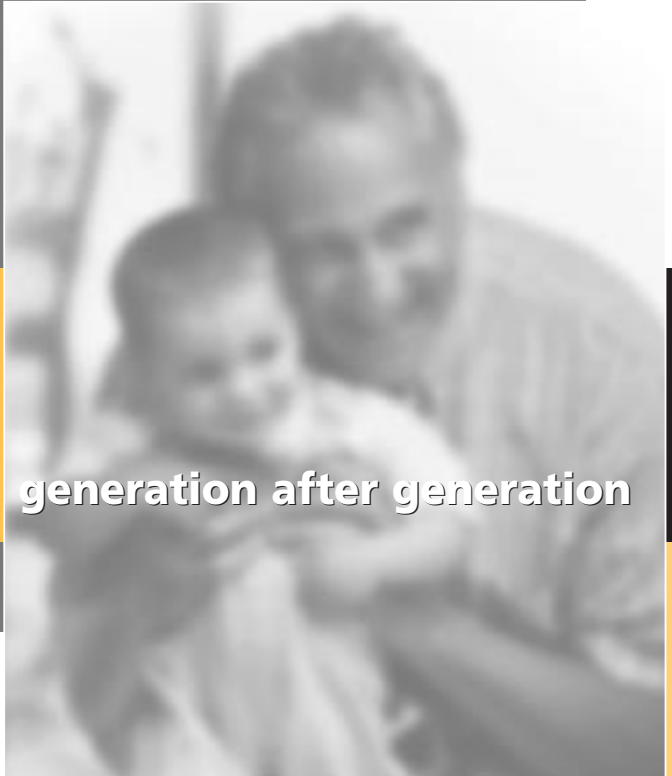


SECOND QUARTERLY REPORT for the six months ended June 30, 2003



**performance: generation after generation**



2003 QUARTERLY REPORT



**DOREL INDUSTRIES INC.**  
**CONSOLIDATED BALANCE SHEET**  
**ALL FIGURES IN THOUSANDS OF US \$**

	As at June 30, 2003 (unaudited)	As at June 30, 2002 (unaudited)	As at December 30, 2002 (audited)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 19,816	\$ 10,763	\$ 54,450
Funds held by ceding insurer	12,248	-	11,298
Accounts receivable (Note 3)	149,403	118,824	98,267
Inventories	184,153	158,720	142,157
Prepaid expenses	12,618	11,298	10,465
Future income taxes	11,276	9,332	11,114
	<u>389,514</u>	<u>308,937</u>	<u>327,751</u>
Capital assets	123,182	97,164	95,374
Goodwill	367,059	153,473	155,669
Deferred charges	15,309	12,180	14,111
Intangible assets	5,331	4,124	5,818
Future income taxes	-	1,012	-
Other assets	11,117	6,625	11,400
	<u>\$ 911,512</u>	<u>\$ 583,515</u>	<u>\$ 610,123</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Bank indebtedness	\$ 3,737	\$ 10,329	\$ 8,346
Accounts payable and accrued liabilities	188,434	116,092	131,805
Income taxes payable	5,864	8,261	11,721
Current portion of long-term debt	2,810	3,128	2,061
	<u>200,845</u>	<u>137,810</u>	<u>153,933</u>
Long-term debt (Note 5)	272,912	107,304	83,301
Pension obligation	13,515	12,991	13,213
Future income taxes	5,673	2,687	5,670
Other long-term liabilities	6,029	-	-
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock (Note 6)	145,935	138,008	138,446
Retained earnings	248,067	181,871	212,660
Cumulative translation adjustment	18,536	2,844	2,900
	<u>412,538</u>	<u>322,723</u>	<u>354,006</u>
	<u>\$ 911,512</u>	<u>\$ 583,515</u>	<u>\$ 610,123</u>

See accompanying notes

**DOREL INDUSTRIES INC.**  
**CONSOLIDATED STATEMENT OF INCOME**  
**ALL FIGURES IN THOUSANDS OF US \$, EXCEPT PER SHARE AMOUNTS**

	<u>Second quarter ended</u>		<u>Six months ended</u>	
	<u>June 30, 2003</u> (unaudited)	<u>June 30, 2002</u> (unaudited)	<u>June 30, 2003</u> (unaudited)	<u>June 30, 2002</u> (unaudited)
SALES	\$ 264,740	\$ 239,992	\$ 541,626	\$ 494,974
EXPENSES				
Cost of sales	188,404	184,370	390,869	379,590
Operating	39,972	24,725	74,713	51,472
Amortization	7,039	6,045	14,302	12,024
Research and development costs	2,089	1,585	3,882	2,671
Interest on long-term debt	4,202	2,228	7,313	5,468
Other interest	264	151	260	128
	<u>241,970</u>	<u>219,104</u>	<u>491,339</u>	<u>451,353</u>
Income before income taxes	22,770	20,888	50,287	43,621
Income taxes	6,509	5,992	14,777	12,997
NET INCOME	<u>\$ 16,261</u>	<u>\$ 14,896</u>	<u>\$ 35,510</u>	<u>\$ 30,624</u>
EARNINGS PER SHARE: (Note 4)				
Basic	<u>\$ 0.51</u>	<u>\$ 0.50</u>	<u>\$ 1.12</u>	<u>\$ 1.06</u>
Diluted	<u>\$ 0.50</u>	<u>\$ 0.49</u>	<u>\$ 1.10</u>	<u>\$ 1.04</u>
SHARES OUTSTANDING:				
Basic - weighted average	<u>31,688,074</u>	<u>29,587,206</u>	<u>31,581,570</u>	<u>28,887,607</u>
Diluted - weighted average	<u>32,422,777</u>	<u>30,343,173</u>	<u>32,317,008</u>	<u>29,481,061</u>

See accompanying notes

**DOREL INDUSTRIES INC.**  
**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**  
**ALL FIGURES IN THOUSANDS OF US \$**

	<b>Six months ended</b>	
	<b>June 30, 2003</b> <b>(unaudited)</b>	<b>June 30, 2002</b> <b>(unaudited)</b>
BALANCE, BEGINNING OF PERIOD	\$ 212,660	\$ 153,223
Net income	35,510	30,624
Premium paid on repurchase of shares (Note 6)	(103)	-
Share issue expenses (net of income taxes - \$1,064)	-	(1,976)
BALANCE, END OF PERIOD	<u>\$ 248,067</u>	<u>\$ 181,871</u>

**DOREL INDUSTRIES INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**ALL FIGURES IN THOUSANDS OF US \$**

CASH PROVIDED BY :	Second quarter ended		Six months ended	
	June 30, 2003 (unaudited)	June 30, 2002 (unaudited)	June 30, 2003 (unaudited)	June 30, 2002 (unaudited)
<b>OPERATING ACTIVITIES</b>				
Net income from continuing operations:	\$ 16,261	\$ 14,896	\$ 35,510	\$ 30,624
Adjustments for:				
Amortization	7,039	6,045	14,302	12,024
Deferred income taxes	47	343	(22)	1,758
Funds held by ceding insurer	(949)	-	(949)	-
Gain on disposal of capital assets	(333)	(13)	(464)	(27)
	22,065	21,271	48,377	44,379
Changes in non-cash working capital:				
Accounts receivable	26,643	30,345	9,032	(23,588)
Inventories	(13,531)	(27,506)	(9,815)	(4,599)
Prepaid expenses	(977)	1,909	(1,364)	1,679
Accounts payable and accrued liabilities	(11,011)	6,749	(2,840)	10,185
Income taxes payable	1,592	3,601	(9,294)	13,335
	2,716	15,098	(14,281)	(2,988)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>24,781</b>	<b>36,369</b>	<b>34,096</b>	<b>41,391</b>
<b>FINANCING ACTIVITIES</b>				
Increase (decrease) in long-term debt	6,869	(112,519)	12,174	(117,559)
Repayment of balance of sale	(27,759)	-	(27,759)	-
Issuance of capital stock	2,739	74,454	7,515	74,985
Share issue expenses	-	(1,976)	-	(1,976)
Repurchase of capital stock	-	-	(129)	-
Increase (decrease) in bank indebtedness	(8,096)	581	(7,530)	1,302
<b>CASH USED IN FINANCING ACTIVITIES</b>	<b>(26,247)</b>	<b>(39,460)</b>	<b>(15,729)</b>	<b>(43,248)</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of subsidiary company	-	-	(247,198)	-
Cash on hand	-	-	7,207	-
	-	-	(239,991)	-
Financed by long-term debt	-	-	173,000	-
Balance of sale and other amounts payable	-	-	29,395	-
	-	-	(37,596)	-
Additions to capital assets - net	(6,847)	(4,852)	(9,846)	(7,588)
Deferred charges	(1,707)	(611)	(4,245)	(1,121)
Intangible assets	0	(440)	(245)	(683)
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(8,554)</b>	<b>(5,903)</b>	<b>(51,932)</b>	<b>(9,392)</b>
Effect of exchange rate changes on cash	(1,141)	3,029	(1,069)	3,372
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(11,161)</b>	<b>(5,965)</b>	<b>(34,634)</b>	<b>(7,877)</b>
Cash and cash equivalents, beginning of period	30,977	16,728	54,450	18,640
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 19,816</b>	<b>\$ 10,763</b>	<b>\$ 19,816</b>	<b>\$ 10,763</b>

See accompanying notes

**Notes to the Consolidated Financial Statements**  
**As at June 30, 2003**  
**All figures in thousands of US\$, except share amounts (Unaudited)**

**1. Accounting Policies**

**Basis of Presentation**

The accompanying 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 with the exception of the Company's principal Canadian operations as detailed below. These consolidated financial statements do not include all of the information and notes 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 audited financial statements for the year ended December 30, 2002.

**Change in Accounting Principles**

Change in Functional Currency of the Company's Principal Canadian Operations

Effective, January 1, 2003, the Company's principal Canadian operations have changed their functional currency to the U.S. dollar from the Canadian dollar. This change was made as result of the increasing proportion of operating, financing and investing transactions within the Canadian operations that are denominated in U.S. dollars. As a result of this change all of the monetary assets and liabilities of the Company's non-European operations denominated in currencies other than the U.S. dollar are translated at the rates of exchange prevailing at the balance sheet dates. Other assets and liabilities denominated in currencies other than the U.S. dollar are translated at the exchange rates prevailing when the assets were acquired or the liabilities incurred. Revenues and expenses denominated in currencies other than the U.S. dollar are translated at the approximate rate of exchange in effect on the date of the transaction. Foreign exchange gains and losses are included in the determination of net earnings. The Company's European operations will continue to maintain the Euro as their functional currency.

Prior to January 1, 2003, the Company's Canadian operations' functional currency was the Canadian dollar. However effective January 1, 2000, the Company had adopted the U.S. dollar as its reporting currency for its consolidated results. Accordingly, the Canadian operations' financial statements from January 1, 2000 to December 30, 2002 have been translated from Canadian dollars into U.S. dollars using the current rate method. Gains and losses resulting from translation of the financial statements were included in the cumulative translation adjustment in shareholders' equity. As a result of the change in the functional currency to U.S. dollars adopted in 2003, the components of the cumulative translation account pertaining to the Canadian operations will not change.

Stock Based Compensation

Effective January 1, 2002 the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Section 3870, "Stock-Based Compensation and other Stock-Based Payments". This new section is similar to existing U.S. GAAP requirements covered by the United States Financial Accounting Standards Board standard SFAS No. 123 and by the guidelines of Accounting Principles Board Opinion No. 25 in that it establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

**Notes to the Consolidated Financial Statements (continued)**  
**As at June 30, 2003**  
**All figures in thousands of US\$, except share amounts (Unaudited)**

**1. Accounting Policies (continued)**

Currently under various plans the Company may grant, at the discretion of the board of directors, stock options on the Company's Class "B" Subordinate Voting Shares to members of the board, senior executives and certain key employees. The exercise price is the market price of the securities at the date the options are granted. Section 3870 encourages companies to apply the fair value based method of accounting to all employee stock-based compensation plans, but requires them to do so only for specific types of stock-based payments, of which the Company has none.

Therefore, the Company has elected not to record any related compensation expense in the Company's results of operations. Had the Company elected to recognize compensation costs based on the fair value at the date of grant consistent with the provisions of the guidelines, the Company's net income and earnings per share for the six months and quarter ending June 30, 2003 would have been reduced by \$493 or \$0.02 per share and \$413 or \$0.02 per share respectively. For the six months and quarter ending June 30, 2002 net income would have been reduced by \$504 or \$0.02 per share and \$252 or \$0.01 per share respectively.

Goodwill

Goodwill represents the excess of the purchase price over the fair values assigned to identifiable net assets acquired of subsidiary companies. Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants new recommendations under Section 3062, "Goodwill and Other Intangible Assets". The new rules require that goodwill with an indefinite life will no longer be amortized to income. Instead, the Company must determine at least once annually whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairment is then recorded as a separate charge against income and a reduction of the carrying value of goodwill. As of the last impairment test date in October 2002, an impairment adjustment in the carrying value of goodwill was not required.

**Segmented Information**

Effective January 1, 2003, the Company has changed the way in which it reports its operating segments. The Ready-to-Assemble and Home Furnishing segments as previously reported are now combined into one segment that is referred to as Home Furnishings. The operating units within these two segments have become increasingly integrated in the way they are operated and in the way they are reported internally. This change is in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which considers the similar nature of the customers, products, production processes and distribution channels employed by the business units that make up these two segments.

**Reclassifications**

Certain of the prior year's accounts have been reclassified to conform to the 2003 financial statement presentation.

**Notes to the Consolidated Financial Statements (continued)**  
**As at June 30, 2003**  
**All figures in thousands of US\$, except share amounts (Unaudited)**

**2. Business Acquisition**

On February 14, 2003, the Company acquired all the outstanding common shares of Ampa Development SAS (Ampafrance) a developer, manufacturer, marketer and distributor of juvenile products including strollers, car seats and other juvenile products for a total consideration of \$247.2 million, including all related acquisition costs. The majority of the acquisition cost was financed through long-term debt with the balance being paid with cash on hand. In addition, a balance of sale of \$27.8 million was incurred and subsequently paid in the month of June.

The combination has been recorded under the purchase method of accounting with the results of operations of the acquired business being included in the accompanying consolidated financial statements since the date of acquisition.

The assets acquired and liabilities assumed consist of the following:

**Assets**

Cash	\$ 7,207
Accounts receivable	56,081
Inventories	29,396
Capital assets	25,540
Other assets	979
Goodwill	<u>198,130</u>
	<u>317,333</u>

**Liabilities**

Accounts payable and other current liabilities	64,203
Long-term debt and other long-term liabilities	<u>5,932</u>
	<u>70,135</u>

Total purchase price **\$ 247,198**

Allocation of the purchase price in a major business acquisition necessarily involves a number of estimates as well as gathering information over a number of months following the date of acquisition. Given the timing of the acquisition, the Company has performed only a preliminary evaluation of Ampafrance's assets and liabilities. The Company will be continuing to evaluate the value of these assets and liabilities and accordingly there will be changes to the assigned values.

**Notes to the Consolidated Financial Statements (continued)**  
**As at June 30, 2003**  
**All figures in thousands of US\$, except share amounts (Unaudited)**

**3. Sale of Accounts Receivable**

On September 22, 2001, the Company entered into an agreement with a third party to sell \$30 million of eligible accounts receivable at a discount. Under this agreement, the Company acts as the servicer of the receivable and is permitted to sell, on a revolving basis, additional eligible accounts receivable to the extent amounts are collected on previously sold receivables. As of June 30, 2003, the Company had sold \$27.8 million of accounts receivable under this agreement and excluded this amount from the accounts receivable balance at June 30, 2003. The Company also recorded a retained interest in the sold receivables representing the estimated fair value retained at the date of sale. At June 30, 2003, the retained interest totalled \$750 thousand. Subsequent to the quarter-end, the Company elected not to renew this agreement.

**4. Earnings per share**

The following table provides a reconciliation between the number of basic and fully diluted shares outstanding:

	<u>Second Quarter Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Weighted daily average number of Class A Multiple and Class B Subordinate Voting Shares	31,688,074	29,587,206	31,581,570	28,887,607
Dilutive effect of stock options and share purchase warrants	<u>734,703</u>	<u>755,967</u>	<u>735,438</u>	<u>593,454</u>
Weighted average number of diluted shares	<u><u>32,422,777</u></u>	<u><u>30,343,173</u></u>	<u><u>32,317,008</u></u>	<u><u>29,481,061</u></u>
Number of anti-dilutive stock options or share purchase warrants excluded from fully diluted earnings per share calculation	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>

**5. Long-term debt**

Effective February 10, 2003, the Company issued \$55 million of Series "A" Senior Guaranteed Notes and \$ 55 million of Series "B" Senior Guaranteed Notes, bearing interest at 5.09% and 5.63%, respectively, with principal repayments due on February 11, 2008 and February 10, 2010. These notes are in addition to those outlined in the Company's year end financial statements dated December 30, 2002 which as of June 30, 2003 total \$82 million.

Effective March 31, 2003 the Company obtained a \$250 million unsecured credit facility. This facility replaced the Company's previous facility disclosed in the Company's year end financial statements dated December 30, 2002. As at June 30, 2003, an amount of \$80.9 million relating to this facility was included in long-term debt.

**Notes to the Consolidated Financial Statements (continued)**  
**As at June 30, 2003**  
**All figures in thousands of US\$, except share amounts (Unaudited)**

**6. Capital Stock**

The capital stock of the Company is as follows:

Authorized

- An unlimited number of preferred shares without nominal or par value, issuable in series.
- An unlimited number of Class "A" Multiple Voting Shares without nominal or par value, convertible at any time at the option of the holder into Class "B" Subordinate Voting Shares on a one-for-one basis.
- An unlimited number of Class "B" Subordinate Voting Shares without nominal or par value, convertible into Class "A" Multiple Voting Shares, under certain circumstances, if an offer is made to purchase the Class "A" shares.

Details of the issued and outstanding shares are as follows:

	As at June 30, 2003		As at December 30, 2002		As at June 30, 2002	
	Number	Amount	Number	Amount	Number	Amount
<u>Class A Multiple Voting Shares</u>						
Balance, beginning of period	4,909,460	\$2,156	4,940,360	\$2,168	4,940,360	\$2,168
Converted from Class A to Class B	(29,100)	(13)	(30,900)	(12)	(8,200)	(3)
Balance, end of period	4,880,360	2,144	4,909,460	2,156	4,932,160	2,165
<u>Class B Subordinate Voting Shares</u>						
Balance, beginning of period	26,396,232	136,290	23,230,132	60,855	23,230,132	60,855
Converted from Class A to Class B	29,100	13	30,900	12	8,200	3
Issuance of capital stock (1)	200,000	3,974	2,929,200	72,435	2,929,200	72,435
Issued under stock option plan	237,500	3,541	216,000	3,037	179,000	2,550
Repurchase of capital stock	(5,000)	(26)	(10,000)	(49)	-	-
Balance, end of period	26,857,832	143,791	26,396,232	136,290	26,346,532	135,843
TOTAL CAPITAL STOCK		<u>\$145,935</u>		<u>\$138,446</u>		<u>\$138,008</u>

(1) On January 20 Hasbro exercised 200,000 warrants for total proceeds of \$3,974. This was under an agreement as outlined in Note 15 of Dorel's Financial Statements for the year ended December 30, 2002.

**Notes to the Consolidated Financial Statements (continued)**  
**As at June 30, 2003**  
**All figures in thousands of US\$, except share amounts (Unaudited)**

**7. Segmented Information**

**Industry Segments**

**For the six-month period ended June 30, 2003**  
**(In Thousands of US Dollars)**

	Total		Juvenile		Home Furnishings	
	2003	2002	2003	2002	2003	2002
Sales	\$ 541,625	\$ 494,974	\$ 333,860	\$ 278,714	\$ 207,765	\$ 216,260
Cost of sales	390,869	379,591	230,862	210,529	160,007	169,062
Operating expenses	67,383	47,227	52,926	34,243	14,457	12,984
Research and development	3,883	2,671	3,084	1,889	799	782
Amortization	13,610	11,415	10,523	7,992	3,087	3,423
Earnings from Operations	65,880	54,070	<u>\$ 36,465</u>	<u>\$ 24,061</u>	<u>\$ 29,415</u>	<u>\$ 30,009</u>
Interest	7,573	5,594				
Corporate expenses	8,021	4,855				
Income taxes	14,776	12,997				
Net income	<u>\$ 35,510</u>	<u>\$ 30,624</u>				

**For the second quarter ended June 30, 2003**  
**(In Thousands of US Dollars)**

Sales	\$ 264,740	\$ 239,992	\$ 167,959	\$ 130,834	\$ 96,781	\$ 109,158
Cost of sales	188,403	184,370	114,283	100,048	74,120	84,322
Operating expenses	36,042	22,282	28,930	15,566	7,112	6,716
Research and development	2,090	1,585	1,781	1,169	308	416
Amortization	6,876	5,724	5,462	3,918	1,414	1,806
Earnings from Operations	31,329	26,031	<u>\$ 17,502</u>	<u>\$ 10,133</u>	<u>\$ 13,827</u>	<u>\$ 15,898</u>
Interest	4,466	2,380				
Corporate expenses	4,093	2,763				
Income taxes	6,509	5,992				
Net income	<u>\$ 16,261</u>	<u>\$ 14,896</u>				

**Notes to the Consolidated Financial Statements (continued)**  
**As at June 30, 2003**  
**All figures in thousands of US\$, except share amounts (Unaudited)**

**7. Segmented Information (cont.)**

**The continuity of goodwill by business is as follows:**

	Total		Juvenile		Home Furnishings	
Balance, beginning of year	\$ 155,669	\$ 151,624	\$ 151,247	\$ 147,202	\$ 4,422	\$ 4,422
Additions	198,130	-	198,130	-	-	-
Foreign exchange	13,260	1,849	13,260	1,849	-	-
Balance, end of period	\$ 367,059	\$ 153,473	\$ 362,637	\$ 149,051	\$ 4,422	\$ 4,422

**Geographic Segments- Sales Origin**

	For the six-month period ended June 30				For the second quarter ended June 30			
	2003		2002		2003		2002	
	\$	%	\$	%	\$	%	\$	%
Canada	\$ 73,212	13.5%	\$ 73,638	14.9%	\$ 34,171	6.3%	\$ 37,639	15.7%
United States	316,486	58.4%	363,550	73.4%	143,363	26.5%	171,134	71.3%
Other foreign countries	151,927	28.1%	57,786	11.7%	87,206	16.1%	31,219	13.0%
Total	\$ 541,625	100.0%	\$ 494,974	100.0%	\$ 264,740	100.0%	\$ 239,992	100.0%