



**GLOBAL CONSUMER  
PRODUCTS COMPANY**

SECOND QUARTER REPORT 1999



## Message to Shareholders

SIX MONTHS ENDED JUNE 30, 1999

On behalf of the Board of Directors of Dorel Industries, I am delighted to report that our growth continued as we marked our 20<sup>th</sup> consecutive quarter of operational growth for the period ended June 30, 1999. While we are pleased with the results for the quarter, there is room for improvement and we are confident the second half of the year will be even stronger.

Net earnings for the second quarter increased 39.3% to \$12.0 million from \$8.6 million last year. On a fully diluted basis, earnings per share were up 35.5% to \$0.42 from \$0.31 a year ago. Sales for the period rose 18.3% to \$206.3 million from \$174.3 million.

Net earnings for the first half of the year jumped 51.7% to \$24.3 million from \$16.0 million last year. Earnings per share rose 44.8% to \$0.84 per share, fully diluted, from \$0.58 per share, fully diluted for the six months a year ago. Sales climbed to \$452.2 million, up 35%, from \$334.9 million last year. Again, a note that last year's per share numbers have been adjusted for the two-to-one stock split last September.

RTA sales were up 18.0% to \$75.9 million, while earnings from operations jumped 52.5% to \$12.3 million from the second quarter a year ago. For the six month period, sales increased 58.6% to \$172.0 million while earnings from operations grew 64.2% to \$25.9 million.

While the second quarter is generally our slowest, increased efficiencies resulted in higher gross margins. There has been a concerted effort at all RTA facilities to improve operations. After a year of pressure caused by a heightened consumer demand for RTA products, we are now better able to handle this added business. We are continuing to increase capacities at our U.S. facilities and are producing inventory for an anticipated strong third quarter.

The new \$10 million Cornwall, Ontario facility will be fully operational in September. The existing 208,000 square foot factory is being doubled and the new addition has already made a positive impact, freeing valuable production space.

Juvenile sales for the quarter rose 31.9% to \$95.3 million, while earnings from operations were down 2.1% to \$6.8 million. During the first half, sales were up 37.1% to \$201.7 million while earnings from operations grew 6.1% to \$14.7 million.

The European market is anxiously awaiting three exciting new products from our Maxi-Miliaan unit. A new infant seat, a stroller—the *Maxi Taxi*, plus the high back booster seat, an entirely new category, are all being introduced during the third quarter. We expect a very positive reaction.

In **Home Furnishings**, sales decreased 7.0% to \$35.0 million, while earnings from operations soared 111.7% to \$1.4 million. For the six months ended June 30, 1999, sales were down 1.0% to \$78.6 million while earnings from operations jumped 134.9% to \$4.5 million.

Much of this change is a result of the closing of Leadra. While there has been a slight decrease in sales, most importantly, the segment's earnings were up sharply without the drain of Leadra. Operations have also improved and as the volume increases we anticipate further gains in Home Furnishings through the rest of this year.

The balance of the year looks very positive. Orders in hand for Q3 are strong, providing every indication this will be another record year.

YEAR 2000

As discussed in the 1998 Annual Report, the management of Dorel appreciates the importance of properly addressing the Year 2000 (Y2K) issue as it pertains to the ongoing operations of the Company. At that time, the Company stated that the issue had been broken down into four major categories: computer systems, manufacturing operations, external suppliers and customers. Each of these components is being addressed at all Dorel divisions.

As of July 31<sup>st</sup>, 1999, at least 90% of all computer systems and operational machinery have been verified as Y2K compliant. The remaining 10% will be verified by the end of September 1999. Major suppliers and customers have been surveyed to ensure that any exposure to third party failure will be minimal. Where an outside party is deemed to be at risk of non-compliance, alternatives will be available to the Company. Any costs incurred since year-end associated with the Y2K issue have been negligible and any remaining costs are not expected to have a material adverse effect on Dorel's operations or its financial results.

I wish to express appreciation to our employees for their efforts and thank you, our shareholders, for your continued interest and support.

Martin Schwartz (signed)  
President and Chief Executive Officer  
August 11, 1999.

## Consolidated Statement of Income

FOR THE SIX MONTHS ENDED JUNE 30, 1999 (unaudited)

### SALES

#### EXPENSES

Cost of sales  
Operating  
Amortization  
Research and development costs  
Interest on long-term debt  
Other interest

#### INCOME BEFORE INCOME TAXES

Income taxes

#### NET INCOME

#### EARNINGS PER SHARE

Basic\*  
Fully diluted \*

\*Adjusted to give retroactive recognition to a two-for-one stock split which became effective September 1, 1998.

## Consolidated Balance Sheet

AS AT JUNE 30, 1999 (unaudited)

### ASSETS

#### CURRENT ASSETS

Cash and cash equivalents  
Accounts receivable  
Inventories  
Prepaid expenses  
Deferred income taxes

#### CAPITAL ASSETS

EQUIPMENT UNDER CAPITAL LEASE  
DEFERRED CHARGES  
INTANGIBLE ASSETS

### LIABILITIES

#### CURRENT LIABILITIES

Bank indebtedness  
Accounts payable and accrued liabilities  
Salaries payable  
Income taxes payable  
Current portion of long-term debt and obligation under capital lease

#### LONG-TERM DEBT

OBLIGATION UNDER CAPITAL LEASE  
DEFERRED INCOME TAXES  
DEFERRED GAIN

### SHAREHOLDERS' EQUITY

CAPITAL STOCK  
RETAINED EARNINGS  
CUMULATIVE TRANSLATION ADJUSTMENT

	1999	1998
\$	452,220,249	\$ 334,914,120
	341,468,751	253,268,117
	56,699,995	44,281,276
	13,122,013	8,952,453
	1,302,557	933,796
	4,712,494	3,300,498
	122,166	352,649
	417,427,976	311,088,789
	34,792,273	23,825,331
	10,482,436	7,802,330
\$	24,309,837	\$ 16,023,001
\$	0.87	\$ 0.60
\$	0.84	\$ 0.58

	1999	1998
\$	6,802,132	\$ 25,880,666
	135,901,478	116,898,977
	162,515,756	143,667,788
	12,713,522	8,059,667
	6,202,936	2,470,873
	324,135,824	296,977,971
	135,144,178	109,954,924
	-	14,311,412
	4,446,098	5,213,922
	21,236,792	32,495,645
\$	484,962,892	\$ 458,953,874

\$	2,122,676	\$ 19,380,681
	87,373,224	75,040,851
	9,374,058	7,348,320
	11,390,172	6,964,490
	2,256,869	5,982,418
	112,516,999	114,716,760
	124,047,116	131,507,850
	-	2,158,305
	10,604,576	7,247,895
	-	158,339
	90,363,202	86,019,648
	140,143,124	107,059,169
	7,287,875	10,085,908
	237,794,201	203,164,725
\$	484,962,892	\$ 458,953,874

## Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED JUNE 30, 1999 (unaudited)

### CASH FLOWS FROM OPERATING ACTIVITIES

	1999	1998
Net income	\$ 24,309,837	\$ 16,023,001
Adjustments for:		
Amortization	13,122,013	8,952,453
Deferred income taxes	35,647	(688,825)
Gain on disposal of capital assets	-	(11,061)
	37,467,497	24,275,568
Changes in non-cash working capital:		
Increase in accounts receivable	(21,348,047)	(10,543,585)
Increase in inventories	(25,825,810)	(20,252,839)
Decrease (increase) in prepaid expenses	(1,849,235)	783,146
Increase in accounts payable and accrued liabilities	15,174,970	7,180,984
Increase in income taxes payable	5,885,357	4,992,225
Decrease in salaries payable	(2,014,531)	(550,183)
	(29,977,296)	(18,390,252)

### CASH FLOWS FROM OPERATING ACTIVITIES

7,490,201 5,885,316

### CASH FLOWS FROM FINANCING ACTIVITIES

Increase in long-term debt and obligation under capital lease	12,579,266	5,566,380
Issuance of capital stock	2,337,544	20,369,410
(Decrease) increase in bank indebtedness	(10,783,370)	9,467,678

### CASH FLOWS FROM FINANCING ACTIVITIES

4,133,440 35,403,468

### CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of subsidiary company	-	(61,082,591)
Financed by long-term debt	-	45,240,517
	-	(15,842,074)
Additions to capital assets - net	(13,625,661)	(13,298,120)
Deferred charges	(435,652)	(2,309,035)
Intangible assets	(199,166)	320,725

### CASH FLOWS FROM INVESTING ACTIVITIES

(14,260,479) (31,128,504)

### OTHER

Effect of exchange rate changes on cash	(412,318)	(1,585,414)
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### NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS

Cash and cash equivalents, beginning of period	9,851,288	17,305,800
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### CASH AND CASH EQUIVALENTS, END OF PERIOD

\$ 6,802,132 \$ 25,880,666



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- Dorel
- Ridgewood
- Cosco
- Infantino
- Dorel (U.K.)
- Maxi-Miliaan B.V.
- Ameriwood