

Second Quarter Report 2001



LEADING THE WAY

Leading the Way



Message to Shareholders

I am pleased to report the results for the second quarter and six months ended June 30, 2001. Excluding the amortization of goodwill, earnings per share for the quarter were \$0.42 in 2001 versus \$0.39 last year, and earnings per share year-to-date were \$0.89 in 2001 versus \$0.79 in 2000, increases of 8% and 13% respectively. Additional results may be found in the financial statements following my comments.

We have issued a revised outlook for the balance of the current year. We now expect to earn between \$1.60 to \$1.65 per share, compared to the \$1.70 to \$1.75 range previously indicated. This compares to \$1.28 per share, before all one-time charges for fiscal 2000.

Given the current state of the North American economy, we are pleased with our results to date, particularly when we compare Dorel's performance with that of our competitors. We have undertaken many positive initiatives to maintain our growth, improve our productivity and better utilize our assets. Nonetheless, in face of the continuing economic uncertainty, we feel it is prudent to slightly reduce our forecast for the balance of the year.

2 JUVENILE

Juvenile sales for the second quarter rose 71.9% to \$131.6 million, while earnings from operations were up 23.7% to \$9.8 million. Our car seat line of products continues its success in all markets. During the first half, juvenile sales increased 72.5% to \$270.2 million while earnings from operations jumped 27.9% to \$21.5 million.

While U.S. juvenile sales were affected by retailers reducing their inventories, Dorel's European operations were particularly strong. The integration of Quint B.V. has been very successful and has surpassed our expectations. The Quinny brand is now an integral part of Maxi's operations and has already started to contribute to the bottom line. Quinny is one of Europe's fastest growing brand names in the field of high quality, sporty baby transport.

There are many exciting initiatives in the area of product development both in North America and in Europe.

Dorel Juvenile Group's (DJG) new North American logistics and distribution system is being implemented on schedule and will be completed by the end of the year. The integration of two Safety 1st warehouses and two Cosco facilities into two new DJG facilities will generate significant distribution expense savings beginning next year.

The Fort Smith wood furniture factory was closed on schedule at the end of the quarter. The Company expects to sell the remaining inventory and real estate within the parameters of the established discontinued operations reserve established in 2000.

READY-TO-ASSEMBLE FURNITURE

In the second quarter, RTA sales decreased 3.9% to \$50.2 million, while earnings from operations were up a modest 1.2% to \$8.7 million. For the six-month period, sales rose 2.3% to \$119.9 million while earnings from operations grew by 11.5% to \$20.9 million.

Retailers were aggressive in reducing their inventories, but Dorel outpaced its competition thanks to an innovative and speedy product development strategy aimed at the mass markets. The positive side to this is that we expect a sharp increase in sales during the third quarter.

HOME FURNISHINGS

In Home Furnishings, sales for the quarter increased 19.8% to \$36.9 million, while earnings from operations rose 4.7% to \$1.9 million. For the six months ended June 30, 2001, sales were up 17.9% to \$73.7 million while earnings from operations decreased 16.5% to \$2.6 million.

Sales of Cosco's folding furniture, step stools and a new line of ladders were all up. Losses were reduced at Dorel Home Products, now under the Ameriwood division. A major restructuring and cost reduction program at the Montreal futon manufacturing operation was announced on June 5th and is being implemented on plan. The Company stated things are "moving in the right direction" and anticipates further improvement going forward.

OUTLOOK

Many industries continue to face a challenging environment. While it has become quite difficult to accurately provide meaningful forecasts as we experience product demand volatility like never before, we confidently look forward to achieving again a 25% bottom line growth in 2001. As well, Dorel's European juvenile operation is increasingly becoming one of Europe's larger players and we are excited about our prospects there.

I invite you to visit our website at www.dorel.com to access our investors' conference call of August 9, 2001 should you wish to have a more detailed commentary. I wish to thank all Dorel employees headed by our strong management team for their diligent work during challenging economic times. I am extremely confident in our future.



Martin Schwartz,
President and Chief Executive Officer
August 9, 2001

Consolidated Statement of Income

For the second quarter and six months ended June 30, 2001 (unaudited)

All figures in US \$

| | Second quarter ended | | Six months ended | |
|--|----------------------|----------------|------------------|----------------|
| | June 30, 2001 | June 30, 2000 | June 30, 2001 | June 30, 2000 |
| SALES | \$ 218,618,711 | \$ 159,548,416 | \$ 463,769,039 | \$ 336,401,816 |
| EXPENSES | | | | |
| Cost of sales | 168,778,325 | 119,569,365 | 359,146,047 | 255,395,614 |
| Operating | 22,396,592 | 17,834,789 | 45,860,736 | 36,117,371 |
| Amortization | 7,971,077 | 5,390,023 | 15,712,594 | 9,586,228 |
| Research and development costs | 1,208,769 | 370,798 | 2,216,076 | 832,268 |
| Interest on long-term debt | 4,659,092 | 2,320,738 | 9,771,260 | 3,265,641 |
| Other interest | 112,859 | 390,943 | 309,098 | 443,266 |
| | 205,126,714 | 145,876,656 | 433,015,811 | 305,640,388 |
| INCOME FROM OPERATIONS | | | | |
| BEFORE INCOME TAXES | 13,491,997 | 13,671,760 | 30,753,228 | 30,761,428 |
| Income taxes | 3,437,323 | 3,493,399 | 8,566,474 | 8,661,089 |
| INCOME FROM CONTINUING OPERATIONS | 10,054,674 | 10,178,361 | 22,186,754 | 22,100,339 |
| Loss from discontinued operations | - | (722,245) | - | (1,943,181) |
| NET INCOME | \$ 10,054,674 | \$ 9,456,116 | \$ 22,186,754 | \$ 20,157,158 |
| EARNINGS PER SHARE | | | | |
| Basic | \$ 0.36 | \$ 0.34 | \$ 0.79 | \$ 0.72 |
| Fully diluted | \$ 0.35 | \$ 0.33 | \$ 0.76 | \$ 0.69 |
| Basic - from continuing operations | \$ 0.36 | \$ 0.37 | \$ 0.79 | \$ 0.79 |
| Fully diluted - from continuing operations | \$ 0.35 | \$ 0.36 | \$ 0.76 | \$ 0.76 |
| SHARES OUTSTANDING | | | | |
| Basic - weighted average | 28,156,866 | 28,115,600 | 28,147,497 | 28,126,586 |
| Fully diluted - weighted average | 29,824,701 | 29,613,600 | 29,826,596 | 29,624,586 |

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Consolidated Statement of Retained Earnings

For the six months ended June 30, 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 | 22,186,754 | 20,157,157 |
| Premium paid on repurchase of shares | - | (716,659) |
| BALANCE, END OF PERIOD | \$ 149,906,034 | \$ 130,552,410 |

Consolidated Balance Sheet

As at June 30, 2001 (unaudited)

All figures in US \$

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| | As at June 30, 2001 | As at December 30, 2000 | As at June 30, 2000 |
|--|------------------------|----------------------------|------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 2,789,720 | \$ 6,670,073 | \$ 14,010,767 |
| Accounts receivable | 109,390,026 | 126,133,383 | 126,973,239 |
| Inventories | 170,536,127 | 141,141,216 | 172,841,536 |
| Prepaid expenses | 19,448,270 | 16,073,615 | 16,346,624 |
| Deferred income taxes | 14,763,909 | 15,890,047 | 23,664,289 |
| | 316,928,052 | 305,908,334 | 353,836,455 |
| CAPITAL ASSETS | | | |
| DEFERRED CHARGES | 98,906,955 | 106,014,914 | 110,670,079 |
| INTANGIBLE ASSETS | 9,396,848 | 8,968,864 | 7,349,288 |
| DEFERRED INCOME TAXES | 155,604,043 | 152,093,682 | 159,515,599 |
| OTHER ASSETS | 1,938,172 | 1,938,172 | - |
| | 1,120,000 | 1,120,000 | - |
| | \$ 583,894,070 | \$ 576,043,966 | \$ 631,371,421 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Bank indebtedness | \$ 6,017,326 | \$ 4,759,295 | \$ - |
| Accounts payable and accrued liabilities | 84,826,993 | 101,208,431 | 108,802,551 |
| Salaries payable | 4,513,346 | 7,136,609 | 7,901,292 |
| Income taxes payable | 3,636,642 | 518,929 | 9,522,817 |
| Current portion of long-term debt | 2,536,117 | 2,537,410 | 2,571,228 |
| | 101,530,424 | 116,160,674 | 128,797,888 |
| LONG-TERM DEBT | | | |
| | 256,505,267 | 254,749,690 | 282,590,844 |
| PENSION OBLIGATION | | | |
| | 12,939,244 | 12,619,192 | 11,917,897 |
| DEFERRED INCOME TAXES | | | |
| | 2,728,748 | 2,709,775 | 14,904,079 |
| SHAREHOLDERS' EQUITY | | | |
| CAPITAL STOCK | 63,023,003 | 62,495,101 | 62,462,071 |
| RETAINED EARNINGS | 149,906,034 | 127,719,280 | 130,552,410 |
| CUMULATIVE TRANSLATION ADJUSTMENT | (2,738,650) | (409,746) | 146,233 |
| | 210,190,387 | 189,804,635 | 193,160,714 |
| | \$ 583,894,070 | \$ 576,043,966 | \$ 631,371,421 |

Consolidated Statement of Cash Flows

For the second quarter and six months ended June 30, 2001 (unaudited)

All figures in US \$

| | Second quarter ended | | Six months ended | |
|---|----------------------|----------------------|---------------------|----------------------|
| | June 30, 2001 | June 30, 2000 | June 30, 2001 | June 30, 2000 |
| CASH PROVIDED BY (USED IN): | | | | |
| OPERATING ACTIVITIES | | | | |
| Net income from continuing operations: | \$ 10,054,674 | \$ 10,178,362 | \$ 22,186,754 | \$ 22,100,338 |
| Adjustments for: | | | | |
| Amortization | 7,971,077 | 5,390,023 | 15,712,594 | 9,586,228 |
| Deferred income taxes | 872,117 | (221,855) | 1,184,237 | (265,066) |
| Loss (gain) on disposal of capital assets | (18,957) | 20 | 525,455 | (2,830) |
| | 18,878,911 | 15,346,550 | 39,609,040 | 31,418,670 |
| Changes in non-cash working capital: | | | | |
| Decrease in accounts receivable | 54,218,651 | 28,071,591 | 17,240,091 | 7,429,650 |
| Increase in inventories | (22,009,878) | (39,804,751) | (26,700,918) | (44,475,579) |
| Increase in prepaid expenses | (3,144,973) | (1,541,670) | (3,561,012) | (4,061,386) |
| Increase (decrease) in accounts payable and accrued liabilities | (28,493,841) | 17,304,386 | (18,312,203) | 23,155,199 |
| Increase (decrease) in income taxes payable | 499,332 | (129,135) | 2,609,127 | 3,319,566 |
| Increase (decrease) in salaries payable | 666,643 | (238,539) | (2,344,752) | (2,854,433) |
| | 1,735,935 | 3,661,882 | (31,069,666) | (17,486,983) |
| CASH PROVIDED BY OPERATING ACTIVITIES | 20,614,846 | 19,008,432 | 8,539,374 | 13,931,687 |
| FINANCING ACTIVITIES | | | | |
| Increase (decrease) in long-term debt | (19,552,627) | 269,377 | (8,037,937) | 8,132,079 |
| Issuance of capital stock | 233,615 | - | 528,156 | - |
| Repurchase of capital stock | - | (157,757) | - | (824,683) |
| Increase (decrease) in bank indebtedness | 586,005 | (1,855,033) | 1,606,293 | (779,418) |
| CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (18,733,007) | (1,743,413) | (5,903,488) | 6,527,978 |
| INVESTING ACTIVITIES | | | | |
| Acquisition of subsidiary company | (9,502,655) | (143,540,499) | (9,502,655) | (143,540,499) |
| Cash on hand | 547,590 | 6,860,721 | 547,590 | 6,860,721 |
| | (8,955,065) | (136,679,778) | (8,955,065) | (136,679,778) |
| Financed by long-term debt | 8,955,065 | 136,679,778 | 8,955,065 | 136,679,778 |
| | - | - | - | - |
| Additions to capital assets - net | (2,757,212) | (3,019,468) | (4,197,102) | (5,197,177) |
| Deferred charges | (1,154,682) | (3,206,946) | (2,023,559) | (3,668,749) |
| Intangible assets | (50,858) | (113,705) | (333,395) | (113,705) |
| CASH USED IN INVESTING ACTIVITIES | (3,962,752) | (6,340,119) | (6,554,056) | (8,979,631) |
| NET CASH USED IN DISCONTINUED OPERATIONS | - | (1,097,247) | - | (4,337,733) |
| Effect of exchange rate changes on cash | (940,413) | 356,722 | 37,817 | 785,657 |
| NET INCREASE (DECREASE) | (3,021,326) | 10,184,375 | (3,880,353) | 7,927,958 |
| IN CASH AND CASH EQUIVALENTS | 5,811,046 | 3,826,392 | 6,670,073 | 6,082,809 |
| Cash and cash equivalents, beginning of period | 5,811,046 | 3,826,392 | 6,670,073 | 6,082,809 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 2,789,720 | \$ 14,010,767 | \$ 2,789,720 | \$ 14,010,767 |

Notes to the Consolidated Financial Statements

As at June 30, 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 the Consolidated Financial Statements

As at June 30, 2001 (unaudited)

All figures in US \$

Note 2 - Business Acquisition

On April 27, 2001, the Company acquired all the outstanding common shares of Quint BV a developer, marketer and distributor of juvenile products including strollers and furniture and Interservice Alpha, a marketer and distributor of baby bedrooms for a total consideration of \$9.5 million, which was financed through long-term debt.

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 ('000):

| | |
|--|----------|
| Assets | |
| Cash | \$ 548 |
| Accounts receivable | 2,042 |
| Inventories | 3,118 |
| Capital assets | 276 |
| Goodwill | 8,222 |
| | <hr/> |
| | 14,206 |
| Liabilities | |
| Accounts payable and accrued liabilities | 3,915 |
| Long-term debt | 789 |
| | <hr/> |
| | 4,704 |
| | <hr/> |
| Total purchase price | \$ 9,502 |

Note 3 - Sale of Accounts Receivable

The Company sold specific accounts receivable in the amount of \$30,000,000, in a securitization transaction, of which \$2,250,000 represented retained interests. In addition, the Company retained servicing responsibilities relating to the accounts receivable sold. The transaction resulted in a net charge to income in the amount of \$167,850 during the period.

Notes to the Consolidated Financial Statements

As at June 30, 2001 (unaudited)

All figures in US \$

Note 4 - Segmented Information

For the six month period ended June 30 (All figures in thousands)

| | Juvenile | | Ready-to-Assemble | | Home Furnishings | | Eliminations | | Consolidated | |
|--|------------------|------------------|-------------------|------------------|------------------|-----------------|----------------|--------------|------------------|------------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| Sales to customers | \$ 270,158 | \$ 156,646 | \$ 119,947 | \$ 117,269 | \$ 73,664 | \$ 62,487 | \$ - | \$ - | \$ 463,769 | \$ 336,402 |
| Inter-segment sales | 8 | 32 | 2,245 | 346 | 391 | - | (2,644) | (378) | - | - |
| TOTAL OPERATING REVENUE | 270,166 | 156,678 | 122,192 | 117,615 | 74,055 | 62,487 | (2,644) | (378) | 463,769 | 336,402 |
| OPERATING PROFIT | \$ 21,479 | \$ 16,787 | \$ 20,851 | \$ 18,704 | \$ 2,580 | \$ 3,090 | | | 44,910 | 38,581 |
| Corporate expenses | | | | | | | | | 4,077 | 4,111 |
| Interest | | | | | | | | | 10,080 | 3,709 |
| Income taxes | | | | | | | | | 8,566 | 8,661 |
| INCOME FROM CONTINUING OPERATIONS | | | | | | | | | \$ 22,187 | \$ 22,100 |
| DISCONTINUED OPERATIONS | | | | | | | | | - | (1,943) |
| NET INCOME | | | | | | | | | \$ 22,187 | \$ 20,157 |
| AMORTIZATION | \$ 11,243 | \$ 4,249 | \$ 2,717 | \$ 3,453 | \$ 1,188 | \$ 1,525 | | | | |

For the three month period ended June 30 (All figures in thousands)

| | Juvenile | | Ready-to-Assemble | | Home Furnishings | | Eliminations | | Consolidated | |
|--|-----------------|-----------------|-------------------|-----------------|------------------|-----------------|----------------|--------------|------------------|------------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| Sales to customers | \$ 131,558 | \$ 76,545 | \$ 50,168 | \$ 52,211 | \$ 36,893 | \$ 30,792 | \$ - | \$ - | \$ 218,619 | \$ 159,548 |
| Inter-segment sales | - | 13 | 1,319 | 332 | 391 | - | (1,710) | (345) | - | - |
| TOTAL OPERATING REVENUE | 131,558 | 76,558 | 51,487 | 52,543 | 37,284 | 30,792 | (1,710) | (345) | 218,619 | 159,548 |
| OPERATING PROFIT | \$ 9,796 | \$ 7,917 | \$ 8,672 | \$ 8,572 | \$ 1,859 | \$ 1,439 | | | 20,327 | 17,928 |
| Corporate expenses | | | | | | | | | 2,063 | 1,545 |
| Interest | | | | | | | | | 4,772 | 2,712 |
| Income taxes | | | | | | | | | 3,437 | 3,493 |
| INCOME FROM CONTINUING OPERATIONS | | | | | | | | | \$ 10,055 | \$ 10,178 |
| DISCONTINUED OPERATIONS | | | | | | | | | - | (722) |
| NET INCOME | | | | | | | | | \$ 10,055 | \$ 9,456 |
| AMORTIZATION | \$ 5,714 | \$ 2,732 | \$ 1,313 | \$ 1,694 | \$ 661 | \$ 723 | | | | |

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.

Management's 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 second quarter and six months ended June 30, 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.

RESULTS OF OPERATIONS

Overview

Sales for the three months ended June 30, 2001 were \$218.6 million compared to \$159.5 million for the quarter ended June 30, 2000, representing an increase of 37.0%. Sales for the six months ended June 30, 2001 were \$463.8 million compared to \$336.4 million for the six months ended June 30, 2000, representing an increase of 37.9%.

Net income from continuing operations for the quarter decreased to \$10.1 million in 2001 from \$10.2 million in 2000, a decrease of 1.2%. Net income for the quarter, net of discontinued operations contained in the comparative figures, increased 6.3% from \$9.5 million to \$10.1 million. Year-to-date net income from continuing operations increased to \$22.2 million in 2001 from \$22.1 million in 2000, an increase of 0.4%. Year-to-date net income, net of discontinued operations contained in the comparative figures, increased 10.1% from \$20.2 million to \$22.2 million.

Note that under Generally Accepted Accounting Principles (GAAP), the results of the prior year 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 second quarter of 2000 by \$9.3 million and by \$20.6 million year-to-date.

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 37.0% sales growth for the quarter of \$59.1 million over 2000 came principally from the Juvenile segment that contributed \$55.1 million additional sales. Sales in the Ready-to-Assemble segment decreased \$2.0 million and sales in the Home Furnishings segment increased \$6.1 million. The year-to-date sales increase of \$127.4 million came from all three segments with increases in Juvenile, RTA and Home Furnishings of \$113.6, \$2.6 and \$11.2, respectively.

For the quarter, Juvenile segment sales were \$131.6 million in 2001 compared to \$76.5 million in 2000, an increase of 71.9%. Year-to-date sales were \$270.2 million in 2001 compared to \$156.6 million in 2000, an increase of 72.5%. 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. Included in this increase were sales from Quint B.V., based in the Netherlands, acquired in April of 2001. Quint contributed sales of \$3.8 million in the second quarter of 2001.

For the quarter, Ready-to-Assemble Furniture segment sales were \$50.2 million in 2001 versus \$52.2 million in 2000, a decrease of \$2.0 million or 3.9%. Year-to-date sales have increased 2.3% from \$117.3 million to \$119.9 million. Given the general slowdown in the retail environment and the sales decreases being experienced by others in the RTA industry, Dorel's RTA segment continues to perform well. In addition, third quarter sales are expected to increase over the second quarter.

For the quarter, sales of the Home Furnishings segment increased to \$36.9 million in 2001 from \$30.8 million in 2000, an increase of \$6.1 million or 19.8%. Year-to-date sales have increased 17.9% from \$62.5 million to \$73.7 million. The growth came from all three operating units in the segment. Sales of Dorel Home Products' line of both Dorel and Sealy branded futons, Cosco's line of folding furniture and step stools and Dorel Asia's imports all increased in sales over the prior year.

Gross Profit

For the quarter, gross profit was \$49.8 million in 2001 compared to \$40.0 million in 2000, an increase of 24.7%. As a percentage of sales, gross profit was 22.8% in 2001 as compared to 25.1% in 2000. Year-to-date, gross profit was \$104.6 million in 2001 compared to \$81.0 million in 2000, an increase of 29.2%. As a percentage of sales, gross profit was 22.6% in 2001 as compared to 24.1% in 2000.

Juvenile margins are down versus last year for the quarter and year-to-date. This decrease is being experienced in Europe as well as in North America. European margins continue to be hurt by the weak Euro. As an illustration, the Dutch Guilder as valued against the United States dollar is trading at 7% lower versus last year. In North America, the mix of products sold, pricing pressure on Safety 1st items as well as higher than expected distribution costs have reduced margins.

Year-to-date, margins in the RTA segment were relatively flat versus the prior year. However, for the quarter, margins increased over 2000. This is due principally to lowering board prices as the year progresses. Margins in the Home Furnishings segment continue to be negatively impacted by an increase in futon sales at much lower margins than in 2000, due to intense pricing pressure from competitors. Cost cutting measures have been implemented and margins in the second quarter did improve over the first.

Operating Expenses, Amortization and Research & Development

For the quarter, operating expenses, consisting primarily of selling, general and administrative expenses were \$22.4 million in 2001 compared to \$17.8 million in 2000, an increase of 25.6%. However more significantly, operating expenses as a percentage of sales were lower in 2001 compared to 2000 at 10.2% versus 11.2%. Year-to-date, operating expenses were \$45.9 million in 2001 compared to \$36.1 million in 2000, an increase of 27.0%. As a percentage of sales, expenses were 9.9% in 2001 compared to 10.7% in 2001. The dollar increase is due mainly to the inclusion of Safety 1st in the 2001 figures for six months as opposed to only one month in 2000. The reduction as a percentage of sales is due to the fact that fixed costs at all divisions are being contained despite the increased sales volumes.

For the quarter, amortization, which includes depreciation, was \$8.0 million in 2001 compared to \$5.4 million in 2000, an increase of \$2.6 million or 47.9%. Year-to-date amortization was \$15.7 million versus \$9.6 million, an increase of 63.9%. 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 subsidiary in June 2000. For the quarter, amortization of the new goodwill totalled \$1.8 million in 2001 versus \$0.6 million in 2000. Year-to-date, the figures were \$3.6 million and \$0.6 million for 2001

and 2000, respectively. The depreciation and amortization of the remaining assets acquired from Safety 1st accounted for the balance of the increase. Amortization across the other divisions remained consistent.

For the quarter, research and development costs increased by \$0.8 million to a figure \$1.2 million in 2001. Year-to-date, the expense is \$2.2 million, an increase of \$1.4 million over 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

For the quarter, total earnings from operations were \$20.3 million in 2001 compared to \$17.9 million in 2000, an increase of 13.4%. Excluding the amortization of goodwill, earnings from operations were \$22.3 million in 2001, versus \$18.6 in 2000, representing an increase of 19.9%. Year-to-date, total earnings from operations were \$44.9 million in 2001 compared to \$38.6 million in 2000, an increase of 16.4%. Excluding the amortization of goodwill, earnings from operations were \$48.8 million in 2001, versus \$39.4 in 2000, representing an increase of 23.9%.

Earnings from operations by segment were as follows:

Earnings from operations - (millions \$)

| | Second Quarter | | | Year-to-Date | | |
|------------------|----------------|--------|----------|--------------|---------|----------|
| | 2001 | 2000 | % change | 2001 | 2000 | % change |
| Juvenile | \$ 9.8 | \$ 7.9 | 23.7 % | \$ 21.5 | \$ 16.8 | 27.9 % |
| RTA | \$ 8.7 | \$ 8.6 | 1.2 % | \$ 20.9 | \$ 18.7 | 11.5 % |
| Home Furnishings | \$ 1.9 | \$ 1.4 | 29.1 % | \$ 2.6 | \$ 3.1 | (16.5) % |

Juvenile's improved performance can be attributed to all divisions where volumes and profitability met or exceeded the prior year's results. Despite lower margins, increased volumes and lower operating costs as a percentage of sales allowed for this segment to improve.

Despite lower sales, the operating profit of the RTA segment for the quarter increased slightly over last year. This was made possible through slightly higher margins and lower operating costs. For the six months ended June 30, sales were higher, margins were slightly lower, but operating costs were reduced, thus contributing to the increase in profitability. A major reason for the reduction in operating costs were the savings realized through the merging of the four RTA plants in 2000 under one administration, thereby reducing costs.

The Home Furnishings segment's operating profit is down year-to-date, but did improve for the quarter. As described above, this segment continues to experience pricing pressure on futons, the fastest growing product in the Home Furnishings segment. Cost-cutting measures have been put in place and as a result, some of the improvement in the quarter came from reduced losses at Dorel Home Products. Dorel Asia's contribution to profitability has also increased over last year.

For the quarter, total interest costs were \$4.8 million in 2001 compared to \$2.7 million in 2000, an increase of \$2.1 million and year-to-date the figure is \$10.1 million versus \$3.7 million. This increase was the direct result of higher debt levels that were required to acquire Safety 1st Inc. in June 2000. It should be noted that interest costs in 2001 versus the first quarter were down by 11% as a result of improved cash flow and lower interest rates.

Income taxes were \$3.4 million or 25.5% of income in the second quarter of 2001 compared to \$3.5 million or 25.6% of income in 2000. Year-to-date the percentages are 27.9% and 28.2% respectively. These variations in the effective tax rate are attributable to the proportionate change in pre-tax profits in the different tax jurisdictions.

For the reasons set out above, income from continuing operations for the quarter was \$10.1 million for the three months ended June 30, 2001 compared to \$10.2 million for the same period in 2000, a decrease of \$0.1 million or 1.2%. Year-to-date, income was \$22.2 million in 2001 versus \$22.1 million in 2000, an improvement of 0.4%.

LIQUIDITY AND CAPITAL RESOURCES

During the second quarter of 2001, cash flow from continuing operations before changes in non-cash working capital was \$18.9 million, as compared to \$15.3 million in 2000. This represents an improvement of \$3.6 million, or 23.5%. After funding non-cash working capital, operating activities provided cash in the amount of \$20.6 million in 2001, versus \$19.0 million in 2000, a difference of \$1.6 million. The principle source of cash from changes in non-cash working capital was the reduction of accounts receivable in the amount of \$54.2 million. A portion of the accounts receivable reduction came from a securitization transaction in which \$30 million of specific accounts receivable were sold, as disclosed in Note 3 to the Financial Statements. Higher inventory levels and a reduction in accounts payable balances offset this decrease in receivables.

As disclosed in Note 2, on April 27, 2001, the Company acquired Quint BV and Interservice Alpha, located in the Netherlands. The total cost was \$9.5 million. Net of cash acquired, the cost was \$9.0 million that was financed entirely by long-term debt. The Company's net disbursements on other investing activities in the second quarter of 2001 were \$4.0 million, a decline of \$2.3 million from the prior year.

The net cash generated in the quarter was used to pay down long-term debt in the amount of \$19.6 million. This reduction was offset by the additional funding of the Quint acquisition resulting in a net pay-down of debt from March 31, 2001 of \$10.0 million.

Year-to-date, cash flow from continuing operations before changes in non-cash working capital was \$36.9 million in 2001, as compared to \$31.4 million in 2000. This represents an improvement of \$5.5 million, or 17.5%. After funding non-cash working capital, operating activities provided cash in the amount of \$8.5 million in 2001, versus \$13.9 million in 2000, a reduction of \$5.4 million. This reduction in cash generated from operating activities was due to the timing of disbursements that offset better cash management of both accounts receivable and inventory.

Other than the Quint acquisition discussed above, the Company's net disbursements on various investing activities in 2001 year-to-date were \$6.6 million, versus \$9.0 million in 2000.

Debt levels remain substantially unchanged from year-end, having been increased by \$9.0 million in reference to the Quint acquisition and reduced by \$8.0 million paid out of cash generated in the first half of the year. Note that the higher debt levels at the end of the second quarter are consistent with the prior year as traditionally Dorel's first half generates less cash than the second. Historically, this is reversed in the latter half of the year as cash flow from operations increases.