

forty years and still **growing**



SECOND QUARTERLY REPORT

for the six months ended **JUNE 30, 2002**



message to shareholders

On behalf of the Board of Directors, I am pleased to report strong second quarter results for the period ended June 30, 2002.

Before adjusting for the changes in the goodwill amortization rules, second quarter earnings were up 48% to \$14.9 million on sales of \$240 million, a 9.8% increase over the prior year. Six-month earnings rose 38% to \$30.6 million on sales of \$495 million, up 6.7% from last year. Excluding goodwill amortization recorded in the 2001 comparative figures, second quarter earnings were up 24% from \$12.1 million. Six-month earnings rose 17% from \$26.1 million. Diluted earnings per share for the second quarter were \$0.49 and year to date were \$1.04, increases of 16.7% and 13.0% respectively. Of note is the fact that additional shares issued in the quarter had the impact of diluting Q2 results by 2 cents per share.

Cash flow management continued to improve. Cash flow from operations was \$36.3 million in the quarter versus a use of cash of \$71 million one year ago. Year-to-date cash flow from operations was \$41.4 million versus a use of cash of \$19.2 million in 2001, a \$60 million dollar improvement. This improvement along with the proceeds of our share issuance in the quarter has allowed the Company to lower net debt levels to \$110 million and its debt to equity ratio to its lowest level since 1988.

Complete financials including segmented information can be found in the MD&A section of this report.

Ready-to-Assemble

Despite a slowdown in the North American economy Dorel's Ready-to-Assemble Furniture segment performed well, particularly in view of the fact that the second quarter is traditionally the slowest in the RTA sector. This year, we were able to top the \$60 million sales level which is a first for the second quarter. Earnings for the quarter were up 28% over the prior year and year-to-date earnings have increased 10.8%.

Our major U.S. customer that recently re-organized under Chapter 11 is continuing to make up for orders that we lost at the end of last year and in early this year. The RTA division's performance was also enhanced by strong productivity improvements and favorable raw material costs. RTA remains on track to generate sales of between \$270 and \$285 million in 2002 with earnings from operations in the range of 16.5% to 17.5% of sales.

Juvenile

Second quarter sales in Juvenile were flat and earnings from operations decreased by almost 14%. In North America, sales were affected by a slowdown in car seat shipments as the industry prepared for the introduction of the new highly, safety-oriented LATCH car seats this quarter. This situation was anticipated as there is normally a reluctance by retailers to stock up in advance of new models.

Profitability in Europe was impacted by a combination of factors. There has been a general retail slowdown, particularly in Germany, which affected sales as a whole. The European market remains challenging where consumers seem particularly cautious. Despite this, demand for the Quinny brand of strollers exceeded expectations, creating certain difficulties in supplying the market. Major changes have been made to the stroller supply chain that will have the immediate effect of improving our ability to serve customers and increase sales.

We have a strong management team in Europe. This, combined with a broad product mix, better supply chains and new product will allow for continued improvement. In North America, we continue to improve our operations and our recently appointed President of the Dorel Juvenile Group USA has already initiated several important changes.

We anticipate a strong second half in Juvenile, unlike last year, which ended poorly and remain on track to meet our prior guidance of sales in the range of \$525 to \$575 million and earnings from operations of between 8.5% – 9.5%.

Home Furnishings

All business units in Home Furnishings contributed to the strong performance of the segment. Sales increased 39% in the quarter while earnings from operations were up 174%. The futon business was solidly profitable thanks to higher volumes, spectacular increases in productivity at the Montreal plant and a better control of raw material costs.

Dorel Asia, which has been slowly but surely progressing, was another strong contributor to the segment, as it continues to develop its business of designing and importing unique furniture products for North American mass merchants. An example of this was the overwhelming success of a new line of leather reclining chairs introduced during the quarter. Dorel Asia was started only three years ago and is already accounting for a large share of Home Furnishings turnaround.

Home Furnishings continues to grow in importance. Last year, it accounted for 14% of sales and only 4% of earnings from operations. This year, those figures are 17% and 11% respectively. We are maintaining our sales guidance of between \$165 and \$175 million and conservatively expect earnings from operations to be 4% to 5% of sales.

Outlook

Despite the continued turbulent economic conditions in Europe and North America, we were able to improve on last year's results. The economy continues to send conflicting signals about whether or not it will stage a recovery in the second half. Despite these uncertainties, we maintain our guidance for the 2002 fiscal year of diluted earnings per share in the range of \$1.90 to \$2.00. Our strong balance sheet allows us to be well positioned for any acquisitions that meet our criteria and business strategy.



Martin Schwartz

President and CEO
August 2002

consolidated statement of income

FOR THE SECOND QUARTER AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (IN THOUSANDS OF US DOLLARS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Second quarter ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Sales	\$ 239,992	\$ 218,619	\$ 494,974	\$ 463,769
Expenses				
Cost of sales	184,370	168,778	379,590	395,146
Operating	24,725	22,397	51,472	45,861
Amortization	6,045	5,974	12,024	11,779
Research and development costs	1,585	1,209	2,671	2,216
Interest on long-term debt	2,228	4,659	5,468	9,771
Other interest	151	113	128	309
	219,104	203,130	451,353	429,082
Income before income taxes and amortization of goodwill	20,888	15,489	43,621	34,687
Income taxes	5,992	3,437	12,997	8,567
Income before amortization of goodwill	14,896	12,052	30,624	26,120
Amortization of goodwill	–	1,997	–	3,933
Net income	\$ 14,896	\$ 10,055	\$ 30,624	\$ 22,187
Earnings per share – basic:				
Before amortization of goodwill	\$ 0.50	\$ 0.43	\$ 1.06	\$ 0.93
Net income	\$ 0.50	\$ 0.36	\$ 1.06	\$ 0.79
Earnings per share – diluted: (Note 2)				
Before amortization of goodwill	\$ 0.49	\$ 0.42	\$ 1.04	\$ 0.92
Net income	\$ 0.49	\$ 0.35	\$ 1.04	\$ 0.78
Shares outstanding				
Basic – weighted average	29,587,206	28,156,866	28,887,607	28,147,497
Diluted – weighted average	30,343,173	28,622,082	29,481,061	28,509,378

consolidated statement of retained earnings

FOR THE SIX MONTHS ENDED JUNE 30, 2002 (IN THOUSANDS OF US DOLLARS)
(UNAUDITED)

	2002	2001
Balance, beginning of period	\$ 153,223	\$ 127,719
Net income	30,624	22,187
Share issue expenses (net of income taxes - \$1,064)	(1,976)	–
Balance, end of period	\$ 181,871	\$ 149,906

See accompanying notes.

consolidated balance sheet

AS AT JUNE 30, 2002 (IN THOUSANDS OF US DOLLARS)
(UNAUDITED)

	June 30, 2002	Dec. 30, 2001	June 30, 2001
ASSETS			
Current assets			
Cash and cash equivalents	\$ 10,763	\$ 18,640	\$ 2,790
Accounts receivable (Note 3)	118,824	93,945	109,390
Inventories	158,720	152,411	170,536
Prepaid expenses	15,803	17,178	19,448
Income taxes refundable	—	5,156	—
Deferred income taxes	9,332	11,195	14,764
	313,442	298,525	316,928
Capital assets	97,164	98,366	98,907
Goodwill	153,473	151,624	152,277
Deferred charges	12,180	12,557	9,397
Intangible assets	4,124	4,055	3,327
Deferred income taxes	1,012	1,327	1,938
Other assets	2,120	2,120	1,120
	\$ 583,515	\$ 568,574	\$ 583,894
LIABILITIES			
Current liabilities			
Bank indebtedness	\$ 10,329	\$ 7,911	\$ 6,017
Accounts payable and accrued liabilities	116,092	104,873	89,341
Income taxes payable	8,261	—	3,637
Current portion of long-term debt	3,128	2,680	2,536
	137,810	115,464	101,531
Long-term debt	107,304	225,246	256,505
Pension obligation	12,991	12,879	12,939
Deferred income taxes	2,687	3,073	2,729
SHAREHOLDERS' EQUITY			
Capital stock (Note 4)	138,008	63,023	63,023
Retained earnings	181,871	153,223	149,906
Cumulative translation adjustment	2,844	(4,334)	(2,739)
	322,723	211,912	210,190
	\$ 583,515	\$ 568,574	\$ 583,894

See accompanying notes.

consolidated statement of cash flows

FOR THE SECOND QUATER AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (IN THOUSANDS OF US DOLLARS)
(UNAUDITED)

	Second quarter ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net income	\$ 14,896	\$ 10,055	\$ 30,624	\$ 22,187
Adjustments for:				
Amortization	6,045	7,971	12,024	15,712
Deferred income taxes	343	872	1,758	1,184
Loss (gain) on disposal of capital assets	(13)	(19)	(27)	525
	21,271	18,879	44,379	39,608
Changes in non-cash working capital:				
Accounts receivable	30,345	26,469	(23,588)	(10,510)
Inventories	(27,506)	(22,010)	(4,599)	(26,699)
Prepaid expenses	1,909	(3,145)	1,679	(3,561)
Accounts payable and accrued liabilities	6,749	(27,827)	10,185	(20,657)
Income taxes payable	3,601	499	13,335	2,609
	15,098	(26,014)	(2,988)	(58,818)
Cash provided by (used in) operating activities	36,369	(7,135)	41,391	(19,210)
FINANCING ACTIVITIES				
Decrease in long-term debt	(112,519)	(19,553)	(117,559)	(8,038)
Issuance of capital stock	74,454	234	74,985	528
Share issue expenses	(1,976)	–	(1,976)	–
Increase in bank indebtedness	581	586	1,302	1,606
Cash used in financing activities	(39,460)	(18,733)	(43,248)	(5,904)
INVESTING ACTIVITIES				
Acquisition of subsidiary company	–	(9,503)	–	(9,503)
Cash on hand	–	548	–	548
	–	(8,955)	–	(8,955)
Financed by long-term debt	–	8,955	–	8,955
	–	–	–	–
Proceeds from sale of accounts receivable	–	27,750	–	27,750
Additions to capital assets - net	(4,852)	(2,757)	(7,588)	(4,197)
Deferred charges	(611)	(1,155)	(1,121)	(2,024)
Intangible assets	(440)	(51)	(683)	(333)
Cash provided by (used in) investing activities	(5,903)	23,787	(9,392)	21,196
Effect of exchange rate changes on cash	3,029	(940)	3,372	38
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,965)	(3,021)	(7,877)	(3,880)
Cash and cash equivalents, beginning of period	16,728	5,811	18,640	6,670
CASH AND CASH EQUIVALENTS, END OF PERIOD	10,763	2,790	10,763	2,790

notes to the consolidated financial statements

AS AT JUNE 30, 2002 (IN THOUSANDS OF US DOLLARS)
(UNAUDITED)

NOTE 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 US dollar as the reporting currency. They have been prepared on a basis consistent with those followed in the most recent audited financial statements. 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 Annual Report for the year ended December 30, 2001.

Change in Accounting Principles

Earnings per Share

In the third quarter of 2001, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Section 3500, "Earnings per Share" which was applied retroactively with prior periods being restated. This section requires the treasury stock method be used rather than the imputed earnings method for determining the dilutive effect of warrants and options when calculating diluted earnings per share. Adoption of the new recommendations did not have a significant impact on the diluted earnings per share calculation.

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.

Currently, the Company may under various plans, grant stock options on the Company's Class "B" Subordinate Voting Shares at the discretion of the board of directors, to senior executives and certain key employees. The exercise price is the market price of the securities at the date the options are granted, less any discounts permitted by law and by regulations of the securities authorities to which the Company is subject. 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, 2002 would have been reduced by \$504 thousand or \$0.02 per share and \$252 thousand or \$0.01 cent per share respectively. Note that in the first year of application, comparative disclosures need not be provided for prior years.

Goodwill

Effective January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants Section 1581, "Business Combinations", and Section 3062, "Goodwill and Other Intangible Assets". Effective July 1, 2001, the standards require that all business combinations be accounted for using the purchase method. Also in accordance with the new standards, goodwill and intangible assets with an indefinite life are no longer amortized to income, but rather are assessed for impairment on an annual basis. As detailed on the Income Statement, goodwill amortization for the six months and second quarter of 2001 amounted to \$3.9 million or \$0.14 per share and \$2.0 million or \$0.07 per share respectively.

In addition as part of the new standard, a transitional impairment test of the goodwill's value is required as of December 30, 2001. The Company has completed its assessment and has concluded that no impairment existed as at December 30, 2001.

NOTE 1 Accounting Policies (continued)**Segmented Information**

The Company has changed the structure of its internal organization with respect to the manufacture and sale of metal and wood furniture previously reported within the Home Furnishings segment. These products are now considered part of the Ready-to-Assemble (RTA) segment. Accordingly, results for the prior period as previously reported have been restated to reflect this change and are included in the RTA segment as shown in Note 6 to these financial statements.

Reclassifications

Certain of the prior year's accounts have been reclassified to conform to the 2002 financial statement presentation.

NOTE 2 Earnings per Share

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

	Second quarter ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Weighted daily average number of Class "A" multiple and Class "B" subordinate voting shares	29,587,206	28,156,866	28,887,607	28,147,497
Dilutive effect of stock options and share purchase warrants	755,966	465,216	593,454	361,881
Weighted average number of diluted shares	30,343,173	28,622,082	29,481,061	28,509,378
Number of anti-dilutive stock options or share purchase warrants excluded from fully diluted earnings per share calculation	100,000	200,000	100,000	384,000

NOTE 3 Sale of Accounts Receivable

On June 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, 2002, the Company sold \$30.0 million of accounts receivable under this agreement and excluded this amount from the accounts receivable balance at June 30, 2002. 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, 2002, the retained interest totalled \$2.25 million.

NOTE 4 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.

NOTE 4 Capital Stock (continued)

Details of the issued and outstanding shares are as follows:

	Six months ended June 30, 2002		Year ended December 30, 2001		Six month ended June 30, 2001	
	Number	Amount ('000)	Number	Amount ('000)	Number	Amount ('000)
CLASS A MULTIPLE VOTING SHARES						
Balance, beginning of period	4,940,360	\$ 2,168	5,035,260	\$ 2,207	5,035,260	\$ 2,207
Converted from Class "A" to Class "B"	(8,200)	(3)	(94,900)	(39)	(43,100)	(18)
Balance, end of period	4,932,160	2,165	4,940,360	2,168	4,992,160	2,189
CLASS B SUBORDINATE VOTING SHARES						
Balance, beginning of period	23,230,132	60,855	23,090,232	60,288	23,090,232	60,288
Converted from Class "A" to Class "B"	8,200	3	94,900	39	43,100	18
Issuance of capital stock ⁽¹⁾	2,929,200	72,435	–	–	–	–
Issued under stock option plan	179,000	2,550	45,000	528	45,000	528
Balance, end of period	26,346,532	135,843	23,230,132	60,855	23,178,332	60,834
TOTAL CAPITAL STOCK		\$ 138,008		\$ 63,023		\$ 63,023

⁽¹⁾ Under an agreement dated April 26, 2002 between the Company and a syndicate of underwriters led by CIBC World Markets Inc., the Company agreed to sell and the underwriters agreed to purchase on May 22, 2002 2,929,200 Class "B" Subordinate Voting Shares at a price of \$CAN38.50 for an aggregate consideration of \$CAN112.8 million, all pursuant to a prospectus dated May 8, 2002.

NOTE 5 Stock Options

Under various plans, the Company may grant stock options on the Class "B" Subordinate Voting Shares at the discretion of the board of directors, to senior executives and certain key employees. The exercise price is the market price of the securities at the date the options may be granted. No option may be exercised during the first year following its granting and is exercisable, on a cumulative basis, at the rate of 25% in each of the following four years, and will expire no later than the year 2007.

The Company's stock option plan is as follows:

	Six months ended June 30, 2002		Year ended December 30, 2001		Six month ended June 30, 2001	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of period	1,402,000	\$ 13.72	1,503,000	\$ 13.72	1,503,000	\$ 13.72
Granted	884,000	20.80	15,000	16.47	15,000	16.47
Exercised	(179,000)	15.44	(45,000)	11.73	(45,000)	11.73
Cancelled	–	–	(71,000)	16.62	(47,000)	16.62
Options outstanding, end of period	2,107,000	\$ 16.50	1,402,000	\$ 13.65	1,426,000	\$ 13.72

NOTE 5 Stock Options (continued)

A summary of options outstanding at June 30, 2002 is as follows:

	Total outstanding			Total exercisable		
	Options	Exercise Price	Weighted Average Exercise Price	Weighted Average Remaining Life	Options	Weighted Average Exercise Price
	2,107,000	\$ 12.47-24.52	\$ 16.50	2.86	788,000	\$ 12.77

NOTE 6 Segmented Information

FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2002 (IN THOUSANDS OF US DOLLARS)

	Juvenile	Ready-to-Assemble	Home Furnishings	Eliminations	Consolidated
Sales to customers	\$ 130,834	\$ 62,940	\$ 46,218	\$ –	\$ 239,992
Inter-segment sales	–	–	–	(–)	–
TOTAL OPERATING REVENUE	130,834	62,940	46,218	(–)	239,992
Operating profit	\$ 10,133	\$ 11,490	\$ 4,409		26,031
Corporate expenses					2,764
Interest					2,379
Income taxes					5,992
Net income					\$ 14,896
Amortization	\$ 3,918	\$ 1,205	\$ 601		
Amortization of goodwill	\$ –	\$ –	\$ –		

FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2001 (IN THOUSANDS OF US DOLLARS)

	Juvenile	Ready-to-Assemble	Home Furnishings	Eliminations	Consolidated
Sales to customers	\$ 131,558	\$ 53,683	\$ 33,378	\$ –	\$ 218,619
Inter-segment sales	–	1,319	391	(1,710)	–
TOTAL OPERATING REVENUE	131,558	55,002	33,769	(1,710)	218,619
Operating profit*	\$ 9,796	\$ 8,919	\$ 1,612		20,327
Corporate expenses					2,063
Interest					4,772
Income taxes					3,437
Net income					\$ 10,055
Amortization	\$ 3,786	\$ 1,281	\$ 624		
Amortization of goodwill	\$ 1,928	\$ 69	\$ –		

Note that there has not been a material change in the relative value of segmented asset information nor the geographic segment information disclosed in the most recently audited annual consolidated financial statements dated December 30, 2001. As such, these amounts are not disclosed here.

* Includes goodwill amortization

NOTE 6 Segmented Information (continued)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2002 (IN THOUSANDS OF US DOLLARS)

	Juvenile	Ready-to-Assemble	Home Furnishings	Eliminations	Consolidated
Sales to customers	\$ 278,715	\$ 133,853	\$ 82,406	\$ –	\$ 494,974
Inter-segment sales	–	–	–	(–)	–
TOTAL OPERATING REVENUE	278,715	133,853	82,406	(–)	494,974
Operating profit	\$ 24,061	\$ 23,989	\$ 6,021		54,071
Corporate expenses					4,854
Interest					5,596
Income taxes					12,997
Net income					\$ 30,624
Amortization	\$ 7,992	\$ 2,304	\$ 1,119		
Amortization of goodwill	\$ –	\$ –	\$ –		
Goodwill carrying value	\$ 149,051	\$ 4,422	\$ –		

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2001 (IN THOUSANDS OF US DOLLARS)

	Juvenile	Ready-to-Assemble	Home Furnishings	Eliminations	Consolidated
Sales to customers	\$ 270,158	\$ 128,870	\$ 64,742	\$ –	\$ 463,769
Inter-segment sales	8	2,245	391	(2,644)	–
TOTAL OPERATING REVENUE	270,166	131,115	65,136	(2,644)	463,769
Operating profit*	\$ 21,479	\$ 21,519	\$ 1,912		44,910
Corporate expenses					4,077
Interest					10,080
Income taxes					8,566
Net income					\$ 22,187
Amortization	\$ 7,450	\$ 2,652	\$ 1,113		
Amortization of goodwill	\$ 3,793	\$ 140	\$ –		
Goodwill carrying value	\$ 147,632	\$ 4,645	\$ –		

*Includes goodwill amortization.

management's discussion and analysis

FOR THE SIX MONTH ENDED JUNE 30, 2002

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 six months ended June 30, 2002 and the audited consolidated financial statements and MD&A for the year ended December 30, 2001.

Note that there have been no significant changes with regards to "Corporate Objectives, Core Businesses and Strategies", "Risks" and "Critical Accounting Policies and Estimates" 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

Dorel reported improvements in sales and earnings for the quarter and the six-month period ended June 30, 2002. Before adjusting for the impact of the changes in the goodwill amortization rules, second quarter earnings were up 48% to \$14.9 million, or \$0.49 per fully diluted share versus \$0.35 a year ago. Sales were up 9.8% to \$240 million. Six-month earnings rose 38% to \$30.6 million. First half EPS fully diluted was \$1.04 compared to \$0.78 last year. Year-to-date sales totalled \$495 million, up 6.7% from last year.

Excluding goodwill amortization recorded in the 2001 comparative figures, second quarter earnings were up 24% from \$12.1 million and diluted earnings per share improved from \$0.42. Six-month earnings rose 17% from \$26.1 million and first half EPS fully diluted was up by 12 cents from \$0.92. Also of note is the fact that as a result of our share issuance during the second quarter the additional shares had the impact of diluting the 2002 second quarter results by 2 cents per share.

For the six-month period, sales have increased by 6.7%, virtually all of it from internal sales growth as opposed to increased sales from new acquisitions. The increased sales and improved operations translated into earnings from operations increasing more than 10% over last year. This combined with lower debt levels and lower interest rates has resulted in pre-tax income increasing by almost 26% over last year.

Segments

The segmented results of the Company are presented in note 6 to the interim financial statements. In percentage terms, results for the second quarter and first six months were as follows:

Segmented Results as a Percentage of Sales

	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
	% of sales	% of sales	% of sales	% of sales
JUVENILE				
Sales	100.0	100.0	100.0	100.0
Cost of Sales	76.5	76.3	75.5	76.0
Gross Profit	23.5	23.7	24.5	24.0
Operating Expenses	11.9	11.3	12.3	11.4
Amortization excluding Goodwill	3.0	2.9	2.9	2.8
Amortization of Goodwill	0.0	1.5	0.0	1.4
Research and Development	0.9	0.6	0.7	0.4
Earnings from operations	7.7	7.4	8.6	8.0

READY-TO-ASSEMBLE

Sales	100.0	100.0	100.0	100.0
Cost of Sales	74.0	74.3	74.5	75.4
Gross Profit	26.0	25.7	25.5	24.6
Operating Expenses	5.4	6.1	5.4	5.3
Amortization excluding Goodwill	1.9	2.4	1.7	2.1
Amortization of Goodwill	0.0	0.1	0.0	0.1
Research and Development	0.4	0.4	0.5	0.4
Earnings from operations	18.3	16.6	17.9	16.7

HOME FURNISHINGS

Sales	100.0	100.0	100.0	100.0
Cost of Sales	81.6	85.5	84.1	87.5
Gross Profit	18.4	14.5	15.9	12.5
Operating Expenses	7.2	7.4	6.9	7.4
Amortization excluding Goodwill	1.3	1.9	1.4	1.7
Research and Development	0.4	0.4	0.3	0.4
Earnings from operations	9.5	4.8	7.4	3.0

Juvenile

Sales in the Juvenile segment were flat in the quarter at \$131 million, while earnings from operations decreased by 13.6% to \$10.1 million compared to the second quarter one year ago. Year-to-date sales were up 3% to \$279 million, while earnings dipped 4.8% to \$24 million from \$25.3 million a year ago. In North America, sales were negatively affected by a slowdown in car seat shipments as the industry prepared for the introduction of the new LATCH car seats early in the third quarter.

In Europe, profitability was affected by a combination of factors. There has been a slowdown in retail activity in Europe, particularly in Germany, which affected sales as a whole. In contrast, despite this weaker economic environment, demand for the Quinny brand of strollers exceeded expectations, creating certain difficulties in supplying the market.

Gross margins for the quarter were slightly lower (0.2%) than in 2001 mainly due to a varying mix of sales and to the higher cost structure in place in 2002. Specifically, sales in North America were down in the second quarter versus the first by 13% resulting in lower margins and less cost absorption. In Europe, the higher costs in place as a result of the Quint acquisition in April of 2001 negatively impacted margins. For the six-month period, higher sales volumes absorbed these additional fixed costs and margins were up by 0.5 percentage points.

Operating costs as a percentage of sales were higher both for the quarter and for the six months ended June 30. In North America, the principal reason for the increased expenses were product liability costs which are tracking on plan, but as of mid-year, were running higher than the prior year at the same time. In Europe, certain promotional costs were up over last year.

Ready-to-Assemble

Dorel's Ready-to-Assemble Furniture segment posted sales of \$63 million, up 17.2% over the previous year's second quarter sales level of \$54 million. Operating earnings increased 28% to \$11.5 million. For the six-month period sales were up 4% to \$134 million while earnings were up 10.8% to \$24.0 million from \$21.7 million.

The main reason for the sales increase in both the quarter and year-to-date is that our major customer in the United States that recently re-organized under Chapter 11 continued to make up for orders that we lost near the end of 2001 and in early 2002. Gross margins improved for the quarter and year-to-date as a result of improved productivity over last year and the fact that material costs continue to remain low. For the quarter, operating costs dropped as a percentage of sales as sales volume was 17% higher over 2001. In dollar terms, operating costs were essentially flat. Year-to-date, operating costs as percentage of sales are consistent with the prior year.

Home Furnishings

Home Furnishings sales rose 39% to \$46.2 million while earnings from operations were up 174% to \$4.4 million compared to the second quarter one year ago. For the six-month period sales rose 27.3% to \$82 million while earnings jumped 215% to \$6.0 million from \$1.9 million last year. For the quarter and year-to-date all three business units in the segment showed sales increases, with more than half coming from the Dorel Asia group. Profitability improvement in both the quarter and year-to-date was most significantly impacted by Dorel Home Products' futon business. This was due to higher sales volumes, large increases in productivity and better control of raw material costs.

Gross margins improved over 2001 for the quarter and year-to-date mainly due to the positive impact of changes made at Dorel Home Products as detailed above and in the 2001 year-end MD&A. For the quarter and year-to-date, operating costs are lower as a percentage of sales due to higher sales volumes and strict cost controls at Dorel Home Products as part of the re-organization that began there in early 2001.

Other Expenses

Interest in 2002 was down compared to 2001 for both the quarter and year-to-date. This decrease was a function of lower loan balances, due to improved cash flow from operations, and from funds raised through a US\$69.4 million share issue which were received in late May. The Company also benefited from lower interest rates, as a large portion of Dorel's debt is at variable rates.

Corporate expenses remained relatively flat versus the prior year. For the quarter, the income tax rate, before the effect of non-deductible goodwill amortization, increased from 22.2% in 2001 to 28.7% in 2002. Year-to-date tax rates also increased from 24.7% to 29.8%. This increase in the effective tax rate is attributable to the proportionate change in pre-tax profits in the different tax jurisdictions in which Dorel operates. The Company expects the rate going forward to remain around 30%.

Liquidity and Capital Resources

During the second quarter of 2002, cash flow from operating activities before changes in non-cash working capital was \$21.3 million, as compared to \$18.9 million in 2001. After funding non-cash working capital, operating activities provided \$36.4 million in 2002 versus a use of cash in the amount of \$7.1 million in 2001, an improvement of \$43.4 million. This increase was due principally through improved management of accounts payable disbursements.

During the first half of 2002, cash flow from operating activities before changes in non-cash working capital was \$44.4 million, as compared to \$39.6 million in 2001. After funding non-cash working capital, operating activities provided \$41.4 million in 2002 versus a use of cash in the amount of \$19.2 million in 2001, an improvement of \$60.6 million. This increase was due principally through better management of inventory levels that rose by only \$4.6 million from year-end levels versus 2001 when inventory levels rose \$26.7 million, and from improved management of accounts payable disbursements. Accounts receivable at June 30, 2002 rose considerably from December 31, 2001 levels as is usual in the first half of the year.

The Company's net disbursements on various investing activities in 2002 were \$5.9 million for the quarter and \$9.4 million year-to-date. Excluding the impact of the sale of accounts receivable in the second quarter of 2001 which raised \$27.5 million, as described in note 3, this compares to \$4.0 million in the 2001 quarter and \$6.6 million for the six months. During the first quarter of 2001 capital assets were disposed of for \$0.9 million. Excluding these proceeds from the prior year's figure, the comparative year-to-date figure becomes \$7.5 million.

On April 26, 2002, Dorel announced that it had entered into an agreement with a syndicate of underwriters led by CIBC World Markets Inc. under which the underwriters agreed to buy and sell to the public 3.5 million of Dorel's Class B Subordinate Voting Shares. The purchase price of the shares is CAN\$38.50. Of these, 2.5 million shares are from Dorel's treasury and one million shares from members of senior management. The underwriters also had an option to purchase up to an additional 500,000 Class B Subordinate Voting Shares from treasury, exercisable at any time up to 24 hours prior to closing. On April 30, 2002, the Company filed a preliminary short form prospectus in each of the provinces of Canada with respect to this offering. At closing on May 22, 2002, the final quantity of shares issued was 2,929,200 shares for net proceeds of CAN\$108 million or US\$69.4 million. The proceeds of the issue were used to pay down existing debt.

Debt levels at June 30, 2002, net of cash on hand, were \$152.3 million lower than at the same time one year ago. The reduction over the 12-month period ending June 30, 2002 came principally from the US\$69.4 million net proceeds of the share issuance, as described above, and from cash generated from operations, less capital additions, in the amount \$77.6 million. The Company is compliant with all covenants connected with these borrowings.

Subsequent Events

Subsequent to the end of the quarter, the Company made two announcements. On July 30, 2002, we announced the sale, through one of our subsidiaries, of US\$50 million in principal amount of 6.80% Series A Senior Guaranteed Notes due July 26, 2012. The net proceeds from the sale of the Notes were used to repay existing bank indebtedness. Under the terms of the Note issuance agreement, Dorel may issue up to US\$50 million of additional Notes on or before July 26, 2005. The Notes were purchased by a group of institutional investors led by The Prudential Insurance Company of America.

On August 7, 2002, we announced that the Toronto Stock Exchange had approved our application for a normal course issuer bid. Under the normal course issuer bid, the Company will be entitled to repurchase for cancellation up to a maximum of 200,000 Class B Subordinate Voting Shares over the twelve-month period starting August 9, 2002 and ending August 8, 2003, representing 0.76% of the issued and outstanding Class B Subordinate Voting Shares. The normal course issuer bid has been instituted in that we consider that the repurchase of shares at certain market prices will be beneficial to Dorel. To the knowledge of the Company, no director, officer or insider of Dorel intends to sell his shares.