



**DOREL INDUSTRIES INC.**

**ANNUAL INFORMATION FORM**

**For the fiscal year ended December 30, 2012**

**March 28, 2013**

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Unless otherwise indicated, all references to “dollars” and the symbol “\$” in this annual information form are to US dollars.

## CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain information included in this annual information form may constitute “forward-looking information” within the meaning of applicable Canadian securities legislation. Except as may be required by Canadian securities laws, the Company does not undertake any obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. Forward-looking information, by its very nature, is subject to numerous risks and uncertainties and is based on several assumptions which give rise to the possibility that actual results could differ materially from the Company’s expectations expressed in or implied by such forward-looking information and that the objectives, plans, strategic priorities and business outlook may not be achieved. As a result, the Company cannot guarantee that any forward-looking information will materialize. Forward-looking information is provided in this annual information form for the purpose of giving information about Management’s current expectations and plans and allowing investors and others to get a better understanding of the Company’s operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking information for any other purpose.

Forward-looking information provided in this annual information form is based on a number of assumptions that the Company believed were reasonable on the day it provided the forward-looking information. Refer, in particular, to the section of this annual information form entitled “Risk Factors” for a discussion of certain assumptions the Company has made in preparing any forward-looking information.

Factors that could cause actual results to differ materially from the Company’s expectations expressed in or implied by the forward-looking information include: general economic conditions; changes in product costs and supply channel; foreign currency fluctuations; customer and credit risk including the concentration of revenues with few customers; costs associated with product liability; changes in income tax legislation or the interpretation or application of those rules; the continued ability to develop products and support brand names; changes in the

regulatory environment; continued access to capital resources and the related costs of borrowing; changes in assumptions in the valuation of goodwill and other intangible assets and subject to dividends being declared by the Board of Directors, there can be no certainty that the Company's Dividend Policy will be maintained. These and other risk factors that could cause actual results to differ materially from expectations expressed in or implied by the forward-looking information are discussed throughout this annual information form and, in particular, under "Risk Factors".

The Company cautions readers that the risks described above are not the only ones that could impact it. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial may also have a material adverse effect on our business, financial condition or results of operations. Given these risks and uncertainties, investors should not place undue reliance on forward-looking information as a prediction of actual results.

Except as otherwise indicated, forward-looking information does not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. The Company therefore cannot describe the expected impact in a meaningful way or in the same way the Company presents known risks affecting the business.

## **CORPORATE STRUCTURE**

### **Incorporation of Dorel Industries Inc.**

Dorel Industries Inc. (the "Company") was constituted on March 5, 1962 pursuant to Part I of the *Companies Act* (Québec) under the name Dorel Co. Ltd. On May 19, 1987, the Company was continued under Part IA of the *Companies Act* (Québec), at which time certain changes were effected to its share capital, the "private company" provisions were removed from its Articles and the Company's name was changed to Dorel Industries Inc./Les Industries Dorel Inc. On October 26, 1988, the Company amalgamated with its wholly-owned subsidiary, Ridgewood Industries Ltd. On September 20, 1991, the Company filed Articles of Amendment, effective October 1, 1991, converting each issued and outstanding common share into one-half of a Class "A" Multiple Voting Share carrying ten votes per share and one-half of a Class "B" Subordinate Voting Share carrying one vote per share. The Company's head and registered office is located at 1255 Greene Avenue, Suite 300, Montreal, Québec, H3Z 2A4.

### **Subsidiaries**

Schedule A annexed hereto sets out the major companies within the organizational structure of the Company as of December 30, 2012 and the jurisdiction of incorporation of each subsidiary and the percentage of votes attaching to all voting securities of each of them beneficially owned, or controlled or directed, directly or indirectly, by the Company.

For the purposes of this annual information form, "Dorel" refers to the Company together with its subsidiaries.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

Dorel is a world class juvenile products and bicycle company as well as a North American furniture distributor. It specializes in three market segments: juvenile products, recreational/leisure and home furnishing items. Dorel's extensive product offering includes juvenile products such as infant car seats, strollers, high chairs, toddler beds, playpens, swings, furniture items and infant health and safety aids; recreational/leisure items such as bicycles, bicycling and running footwear and apparel, jogging strollers and bicycle trailers and related parts and accessories; and home furnishing items such as a wide variety of Ready-to-Assemble ("RTA") furniture for home and office use, as well as metal folding furniture, futons, mattresses, bunk beds, step stools, hand trucks, specialty ladders and other imported furniture items.

Dorel's leadership position is pronounced in both its juvenile and bicycle categories with an array of trend-setting products. In the Juvenile Segment, Dorel's branded products such as Quinny, Maxi-Cosi, Safety 1<sup>st</sup>, Infanti and Béb  Confort have a focus on safety, originality and fashion. Similarly, its highly-popular brands such as Cannondale, Schwinn, GT, Mongoose and Ironhorse as well as SUGOI Apparel have made Dorel a principal player in the bicycle marketplace. Dorel's Home Furnishings Segment markets a wide assortment of furniture products, both domestically produced and imported. Dorel relies upon innovation and marketing flair across all of its divisions.

As at the date of this annual information form, Dorel employs approximately 5,400 people in 24 countries. Operations in the United States include the Dorel Juvenile Group, which markets the Cosco and Safety 1<sup>st</sup> brands, as well as Eddie Bauer; Pacific Cycle, which markets several brands, including Schwinn, Mongoose, IronHorse, InStep KitTrax and Roadmaster; Cycling Sport Group ("CSG") which markets GT along with Cannondale; Ameriwood, Industries Inc. ("Ameriwood"), which markets RTA furniture products under the Ameriwood, SystemBuild, Altra Furniture and Ridgewood brands; Cosco Home & Office ("Cosco"), which markets home/office products under the Cosco brand. In Canada, Dorel operates Dorel Distribution Canada, Ridgewood Industries, Dorel Home Products and SUGOI Performance Apparel. Note that CSG also has operations based in Switzerland, the Netherlands, Australia, Japan, China and the UK. Dorel Europe principally markets juvenile products throughout Europe under the B    Confort, Maxi-Cosi, Quinny, Safety 1<sup>st</sup>, BABY ART and Baby Relax brands. Dorel Asia Inc. sources, and imports juvenile and home furnishings products. Dorel is the sole shareholder in Dorel Australia Pty Ltd. ("Dorel Australia"), which manufactures and distributes juvenile products in Australia and New Zealand under several local brands, the most prominent of which are Bertini and Mother's Choice. Dorel Australia also distributes many other Dorel brands in Australia. In 2009 Dorel established, and is the majority shareholder in, Companhia Dorel Brasil Produtos Infantis ("Dorel Brazil"), an operating division of the Company's Juvenile Segment. In 2011, Dorel acquired a 70% interest in an existing group of companies, known principally as Dorel Chile (formerly the Silfa Group), who owns and operates the Infanti brand in Chile, Bolivia, Peru, and Argentina. The investment also includes a retail chain of 70 Baby Infanti specialty shops, of which 54 are in Chile and 16 are in Peru. As well, in early 2012, Dorel acquired the assets of a Polish distributor and retailer of juvenile products, with two retail locations in Poland. In addition, in 2012 Dorel purchased a majority stake in businesses based in Colombia and Panama, furthering its footprint in Latin America. Dorel also has six offices in China, headquartered in Shanghai, as well as an office in Taiwan, which oversee the sourcing, engineering and logistics of Dorel's Asian supplier chain.

## **Events in the Development of the Business**

The Company was founded in Montreal, Qu     in 1962 by Mr. Leo Schwartz, who served as its President until 1992. Dorel began operations as a small manufacturer and distributor of juvenile products. By the early 1970s, Dorel had established a national sales network for its products.

In 1987, the Company completed an initial public offering in the province of Qu     of two million common shares at a price of CAD\$5.00 per share for gross proceeds of CAD\$10 million. At the same time, its common shares commenced trading on the Montreal Exchange.

The Company's common shares were initially listed on the Toronto Stock Exchange in 1990.

In September 1991, the Company's shareholders approved a share capital reorganization, pursuant to which each issued and outstanding common share was converted into one-half of a Class "A" Multiple Voting Share carrying ten votes per share and one-half of a Class "B" Subordinate Voting Share carrying one vote per share.

In December 1991, the Company completed a public offering in Canada of 2.6 million Class "B" Subordinate Voting Shares at a price of CAD\$5.75 per share for gross proceeds of CAD\$14.95 million.

In November 1997, the Company issued one million Class "B" Subordinate Voting Shares at a price of CAD\$34 per share by way of public offering in Canada. In December 1997, the Company issued an additional 75,000 Class "B" Subordinate Voting Shares at a price of CAD\$34 per share upon the exercise of an over-allotment

option by the underwriters of the public offering. The gross proceeds to the Company from the public offering and the exercise of the over-allotment option were CAD\$36.55 million.

In May 1998, Dorel acquired Ameriwood, a portion of the purchase price for Ameriwood was financed by the issuance of 460,000 Class "B" Subordinate Voting Shares at a price of CAD\$47.65 per share by way of a public offering in the United States and Canada. The net proceeds to the Company from this offering were CAD\$20.2 million.

In August 1998, the Company announced a two-for-one stock split, which became effective in September 1998.

In May 2002, the Company issued 2,929,200 Class "B" Subordinate Voting Shares at a price of CAD\$38.50 per share by way of a public offering in Canada, for gross proceeds to the Company of CAD\$112.8 million. The net proceeds of the public offering were used by the Company to reduce bank indebtedness.

In July 2002, the Company sold, through one of its subsidiaries, \$50 million 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 floating debt that was outstanding at the time. The notes were purchased by a group of institutional investors led by The Prudential Insurance Company of America.

In connection with the acquisition of Ampafrance, now known as "Dorel France", Dorel completed the sale in February 2003 of \$110 million principal amount of senior guaranteed notes. The senior guaranteed notes were purchased by a group of institutional investors including Prudential Capital Group, an institutional investment business of Prudential Financial, and Teachers Insurance and Annuity Association - College Retirement Equity Fund. Of the \$110 million, Dorel issued \$55 million of Series A Notes bearing interest at 5.09% and repaid on February 11, 2008, and \$55 million of Series B Notes bearing interest at 5.63% and repaid on February 10, 2010.

On March 7, 2007, the Company announced its intention to voluntarily delist its Class "B" Subordinate Voting Shares from the NASDAQ Global Market ("NASDAQ"). On March 19, 2007, the Company filed a notification of removal from listing on NASDAQ on Form 25 with the U.S. Securities and Exchange Commission (the "SEC"). As a result, the Class "B" Subordinate Voting Shares were delisted from NASDAQ as of March 29, 2007. The delisting of the shares from NASDAQ has not affected the listing of the Class "B" Subordinate Voting Shares on the Toronto Stock Exchange and the Class "B" Subordinate Voting Shares continued to trade on the Toronto Stock Exchange after the NASDAQ delisting became effective.

For the first time in the Company's history, on March 12, 2007, the Board of Directors declared a quarterly dividend of twelve and one-half cents (\$0.125) per share on the Class "A" Multiple Voting Shares, Class "B" Subordinate Voting Shares and Deferred Share Units of the Company. Since the original dividend declaration, the Company has paid annualized dividends in the amount of \$0.50 per share. On May 6<sup>th</sup>, 2010 the annualized dividend was increased to \$0.60 per share as a result of an increase of its quarterly dividend to fifteen cents (\$0.15) per share and on August 9, 2012, the annualized dividend was increased to \$1.20 per share as a result of an increase of its quarterly dividend to (\$0.30) per share.

On February 4, 2008, the Company acquired all the outstanding shares of Cannondale Bicycle Corporation ("Cannondale"), a leading designer, developer and manufacturer of high-end bicycles. Headquartered in Bethel, Connecticut, Cannondale is widely regarded as one of the bike industry's leading innovators. Cannondale's handcrafted bicycles have won numerous design awards and are sold worldwide. Additionally, forming part of Cannondale, was SUGOI Performance Apparel ("SUGOI") a division located in Vancouver, British Columbia. SUGOI products are used worldwide by runners, cyclists, tri-athletes and fitness enthusiasts.

In connection with the acquisition of Cannondale, an amendment to the revolving bank loans was signed on January 18, 2008. Under the revolving bank loans, the total availability was increased to \$475 million with an "accordion" feature allowing the Company to have access to an additional amount of \$50 million on a revolving basis. In line with the Company's strategy to aggressively grow its bicycle and juvenile products businesses, on June 26, 2008 Dorel's Pacific Cycle division acquired the assets of PTI Sports ("PTI"), a leading U.S. designer and distributor of bicycle parts, helmets and other accessories for a purchase price of \$29.4 million. Established in

1991, PTI has widespread distribution at the key mass and sporting goods retailers throughout North America. With a dedication to product innovation, PTI sells product with powerful, recognizable brands under license.

On August 19, 2008 the Company announced the re-opening of its Dowagiac, Michigan RTA facility where operations had been suspended as part of a restructuring plan in 2007. A production line was opened to accommodate the demand for RTA furniture product.

On January 6, 2009, the Company announced the establishment of Dorel Brazil, an operating division of the Company's Juvenile Segment. A local partner with established relations in Brazil's retail channels and with solid experience in the juvenile sector is serving as President of the company. Dorel Brazil has established the local manufacture of car seats as well as importing existing Dorel products that meet local safety standards. The Company's investment as at December 30, 2010 amounted to \$4.6 million consisting mostly of moulds and cash. A contingent consideration amounting to \$3.0 million as at December 30, 2012 (\$2.9 million in 2011) is also accrued for in order to provide for the payment to the minority shareholder for the portion the Company does not own.

On January 27, 2009, Dorel announced a further strengthening of its successful high-end European juvenile lines with the purchase of all of the outstanding shares of Belgium-based *BABY ART bvba*. Created in 2006, the Company markets its products under the BABY ART and HOPPOP brands. The BABY ART and HOPPOP lines were integrated into Dorel Europe's existing marketing plans and distribution networks. The purchase price was 4.1 million Euros or \$5.4 million and was financed through debt.

On March 17, 2009, the Company announced its intention to make a normal course issuer bid ("2009 NCIB"). Under the 2009 NCIB, Dorel was entitled to repurchase for cancellation up to 1,458,624 Class B Subordinate Voting Shares over a twelve-month period commencing March 20, 2009 and ending March 19, 2010, representing 5% of Dorel's issued and outstanding Class B Subordinate Voting Shares at the time the 2009 NCIB was announced. The purchases by Dorel were effected through the facilities of the Toronto Stock Exchange and were made at the market price of the Class B Subordinate Voting Shares at the time of the purchase. During the 2009 NCIB period the Company acquired a total of 477,980 Class B Subordinate Voting Shares at a total cost of US\$11.9 million.

During 2009, the Company announced three asset acquisitions in the Recreational/Leisure Segment. On July 15, 2009, the Company acquired certain assets of IronHorse Bicycles, including inventory, various trademarks and trade names, including the IronHorse brand, in a transaction valued at \$5.6 million. Founded in 1987 in New York, IronHorse is marketed throughout North America and internationally and is best known for its downhill and extreme trail bicycles.

On August 4, 2009, the Company acquired the assets of Sydney, Australia-based Gemini Bicycles for \$2.0 million and the acquired assets were integrated with the Company's existing Australian bicycle operations under the CSG Australia division. This division combines the Company's major Recreational/Leisure brands; Schwinn, Mongoose, Cannondale, GT and SUGOI under one operation which is being dedicated to the independent bicycle dealers ("IBD") retail bicycle channel.

On October 1, 2009, Dorel acquired certain assets of UK-based Hot Wheels and Circle Bikes, the UK's preeminent distributors of the Mongoose and GT brands. Hot Wheels has a portfolio of top selling, innovative bicycle products and components which are marketed to retail and leisure outlets throughout the UK. Circle Bikes also owns the popular Charge brand. The acquisition price was £9.8 million or \$15.6 million, including possible additional consideration contingent upon a formulaic variable price based mainly on the future earnings of the acquired business. In parallel, a new subsidiary, CSG UK, based in Poole, Dorset, was created to drive the growth of the Mongoose, GT and Cannondale brands. CSG UK is dedicated to the IBD channel and coordinates all sales, marketing, distribution and customer service to better support its growing network of dealers in the UK.

During the course of 2008 and 2009, the businesses within the Recreational/Leisure Segment were re-organized into three groups referred to as the CSG Group, the Pacific Cycle Group ("PCG") and the Apparel and Footwear Group ("AFG"). CSG services the IBD retail bicycle channel and focuses exclusively on this category principally

with the premium-oriented Cannondale and GT brands. PCG has an exclusive focus on mass merchant and sporting goods chain customers. The mass merchant product line is sold mainly under the Schwinn and Mongoose brands which are used on bicycles, parts and accessories. The main brand sold to the sporting goods chain is the IronHorse brand. In Europe and elsewhere around the world, certain brands are sold across these distribution channels and as an example, in the UK, Mongoose is a very successful IBD brand. Sales of sports apparel and related products, principally the SUGOI brand, are made by AFG through the IBDs, various sporting goods chains and specialty running stores.

## **Developments in the Past Three Years**

### **Developments in Fiscal 2010**

On March 30, 2010, the Company announced its intention to make a normal course issuer bid ("2010 NCIB"). Under the 2010 NCIB, Dorel was entitled to repurchase for cancellation up to 700,000 Class "B" Subordinate Voting Shares over a twelve-month period commencing April 1, 2010 and ending March 31, 2011, representing 2.4% of Dorel's issued and outstanding Class "B" Subordinate Voting Shares at the time the 2010 NCIB was announced. The purchases by Dorel were effected through the facilities of the Toronto Stock Exchange and were made at the market price of the Class "B" Subordinate Voting Shares at the time of the purchase. The Company acquired a total of 505,250 Class "B" Subordinate Voting Shares at a total cost of \$16.8 million pursuant to the 2010 NCIB.

On April 6, 2010, the Company announced that it secured new long-term financing by issuing \$50 million of Series "A" Senior Guaranteed Notes and \$150 million of Series "B" Senior Guaranteed Notes, bearing interest at 4.24% and 5.14%, respectively. The notes were purchased by a group of institutional investors including Prudential Capital Group, an institutional investment business of Prudential Financial, Inc. In addition, on June 16, 2010 it was announced that the Company had completed the extension of its revolving credit facility. This three-year agreement which was effective July 1, 2010 and expires July 1, 2013 was co-led by the Royal Bank of Canada and the Bank of Montreal. The facility allows for borrowing up to \$300 million and contains provisions to borrow up to an additional \$200 million.

On May 6, 2010, the Company increased its quarterly dividend to fifteen cents a share (\$0.15).

### **Developments in Fiscal 2011**

On March 31, 2011, the Company announced its intention to make a normal course issuer bid ("2011 NCIB"). Under the 2011 NCIB, Dorel was entitled since November 3, 2011 to repurchase for cancellation up to 1,420,660 Class "B" Subordinate Voting Shares (previously up to 700,000) over a twelve-month period commencing April 4, 2011 and ending April 3, 2012, representing 5% of Dorel's issued and outstanding Class "B" Subordinate Voting Shares at the time the 2011 NCIB was announced. The purchases by Dorel were effected through the facilities of the Toronto Stock Exchange and were made at the market price of the Class "B" Subordinate Voting Shares at the time of the purchase. The Company acquired a total of 746,000 Class "B" Subordinate Voting Shares at a total cost of \$17.6 million pursuant to the 2011 NCIB.

Effective July 15, 2011, the Company amended its revolving bank loans in order to extend the maturity from July 1, 2013 to July 1, 2014.

On November 3, 2011 the Company announced it had significantly increased the presence of its Juvenile Segment in Latin America by signing share purchase agreements to acquire a 70% interest in an existing group of companies, the Silfa Group (now known as Dorel Chile), who owns and operates the popular Infanti brand in Chile, Bolivia, Peru and Argentina. The transaction was completed on November 30, 2011. With this investment, Dorel entered the juvenile retail business as the transaction included the Baby Infanti chain of 52 specialty shops at the time of the acquisition (40 located in Chile and 12 located in Peru). Though initially acquiring 70%, as part of the acquisition, the Company has entered into put and call agreements with the minority interest holder for the purchase of its 30% stake. The put and call agreements are considered to have been fully executed at the time of acquisition, resulting in the assumption that the Company will purchase the remaining 30% interest in the Silfa

Group. As a result, the Company has consolidated 100% of the Silfa Group at the time of acquisition and has recognized a financial liability of \$26.1 million. As part of this accounting treatment, the Company recognizes a financial liability measured as the present value of the estimated future acquisition price of the remaining 30% stake.

## Developments in Fiscal 2012

On January 5, 2012 the Company announced that it had purchased the assets of juvenile products distributor and retailer Poltrade, based in Katowice, Poland for approximately \$2.9 million (2.3 million Euro). The acquisition has been accounted for using the acquisition method with the results of operations of the acquired business being included in the accompanying consolidated financial statements since the date of acquisition. The fair value of the assets acquired, the liabilities assumed and the consideration transferred includes an amount of approximately \$1.7 million (1.3 million Euro) allocated to customer relationships. Poltrade was the Company's distributor of juvenile products in Poland prior to the acquisition. The Company created a new division, Dorel Polska, to facilitate both brand and product category penetration in the Eastern European market as it continues to expand its global footprint in the juvenile products industry.

On April 2, 2012, the Company announced that it decided to implement a normal course issuer bid ("2012 NCIB"). Under the 2012 NCIB, Dorel is entitled to repurchase for cancellation up to 850,000 Class "B" Subordinate Voting Shares over a twelve-month period commencing April 4, 2012 and ending April 3, 2013, representing 3.1% of Dorel's issued and outstanding Class "B" Subordinate Voting Shares at the time the 2012 NCIB was announced. The purchases by Dorel are being effected through the facilities of the Toronto Stock Exchange and are at the market price of the Class "B" Subordinate Voting Shares at the time of the transaction. As of the date of this annual information form, the Company acquired a total of 629,000 Class "B" Subordinate Voting Shares at a total cost of \$16.6 million pursuant to the 2012 NCIB.

Effective April 10, 2012, the Company amended its revolving bank loans in order to extend the maturity from July 1, 2014 to July 1, 2015 and the total availability has been reduced from \$300,000 to \$260,000.

On August 9, 2012, the Board of Directors of Dorel declared an increase in the Company's quarterly dividend to \$0.30 from \$0.15 on the Class "A" Multiple Voting Shares, Class "B" Subordinate Voting Shares and Deferred Share Units (DSU) of the Company. The dividend policy was originally instituted in March 2007. At the current level, this equates to a total dividend of \$1.20 per share per annum.

As part of the acquisition of *IGC (Australia) Pty Ltd* ("IGC") in 2007 the Company had entered into a put and call agreement with the minority interest holder for the purchase of its 45% stake in IGC. In 2012, the Company exercised its option and an amount of \$6.8 million was paid as the put option liability was resolved.

On September 25, 2012 the Company signed purchase agreements acquiring a 70% interest in two juvenile product businesses that sell to customers in Colombia and Central America. The Company now operates Best Brands Group SA ("Best Brands") in Panama and Baby Universe SAS ("Baby Universe") in Colombia. This acquisition expands the Company's ownership of the Infanti brand to which the Company owns the rights in Chile, Bolivia, Peru and Argentina. The amount disbursed in 2012 related to this acquisition was \$10.4 million. The fair value of the identifiable assets acquired and liability assumed as at the date of acquisition is preliminary, and is subject to change upon the final values being determined. Though initially acquiring a 70% interest, as part of the acquisition the Company entered into a put and call agreement with the minority interest holders for the purchase of their 30% stake. The put and call agreement is considered to have been fully executed at the time of acquisition, which results in the assumption that the Company will purchase the remaining 30% interest in the companies. As a result, the Company has consolidated 100% of the acquired companies at the time of acquisition and has recognized a preliminary financial liability measured as the present value of the estimated future acquisition price of the remaining 30% stake. The initial estimate of this financial liability was established at \$7.4 million.

# NARRATIVE DESCRIPTION OF THE BUSINESS

## Operating Segments and Principal Products

Within each of Dorel's three segments, there are several operating divisions or subsidiaries. Each segment has its own President and is operated independently by a separate group of managers. Senior management of the Company coordinates the businesses of all segments and maximizes cross-selling, cross-marketing, procurement and other complementary business opportunities.

Dorel's channels of distribution vary by segment, but overall, its largest customers are major retail chains. These chains include mass merchant discount chains, department stores, club format outlets and hardware/home centres. Within the Juvenile Segment, sales are also made to independent boutiques and juvenile specialty stores. In Recreational / Leisure, the IBD network is a significant channel, along with sporting goods chains in North America.

In 2011, with its acquisition of Dorel Chile (formerly the Silfa Group), Dorel now owns and operates 70 retail stores in Chile and Peru. In addition, in early 2012, Dorel acquired the assets of Poltrade, a Polish distributor and retailer of juvenile products with two retail locations in Poland. Another growing channel of distribution for all Dorel divisions is the Internet retailer. These customers consist of both mass merchant sites such as Walmart.com and pure Internet retailers like Amazon, and require the same level of service as traditional customers.

Dorel conducts its business through a variety of sales and distribution arrangements. These consist of salaried employees; individual agents who carry the Company's products on either an exclusive or non-exclusive basis; individual specialized agents who sell products, including Dorel's, exclusively to one customer such as a major discount chain; and sales agencies which themselves employ their own sales force. All of the segments market, advertise and promote their products through the use of advertisements on-line and on Company-owned websites, in specific magazines, multi-product brochures, and other media outlets. The Company's major retail customers also advertise Dorel's products principally through circulars and brochures. In the case of Recreational/Leisure, event and team sponsorships are also an important marketing tool.

Dorel believes that its commitment to providing a high quality, industry-leading level of service has allowed it to develop successful and mutually beneficial relationships with major retailers. A high level of customer satisfaction has been achieved by fostering particularly close contacts between Dorel's sales representatives and clients. Permanent, full-service agency account teams have been established in close proximity to certain major accounts. These dedicated account teams provide these customers with the assurance that inventory and supply requirements will be met and that any issues will be immediately addressed.

Dorel is a manufacturer as well as an importer of finished goods, the majority of the latter from overseas suppliers. As such, the Company relies on its suppliers for both finished goods and raw materials and has always prided itself on establishing successful long-term relationships both domestically and overseas. The Company has established a workforce of over 250 people in mainland China and Taiwan whose role is to ensure the highest standard of quality of its products and to ensure that the flow of product is not interrupted. The on-going economic downturn has illustrated the quality of these supplier relationships in that Dorel has not been adversely affected by its supplier base and their continuing ability to service Dorel.

In addition to its solid supply chain, quality products and dedicated customer service, strong recognized consumer brands are an important element of Dorel's strategy. As examples, in North America, Dorel's Schwinn and Cannondale product lines are among the most recognized brand names in the sporting goods industry. Safety 1<sup>st</sup> is a highly regarded Dorel brand in the North American juvenile products market. Throughout Europe the Maxi-Cosi brand has become synonymous with quality car seats and in France, Béb  Confort is universally recognized and has superior brand awareness. In most of Dorel's Latin American markets, Infanti is a leading brand in the Juvenile Segment for lower to medium priced products.

These brands, and the fact that Dorel has a wide range of other brand names, allows for product and price differentiation within the same product categories. Product development is a significant element of Dorel's past

and future growth. Dorel has invested heavily in this area, focusing on innovation, quality, safety and speed to market with several design and product development centres. Over the past five years, Dorel has spent on average over \$31 million per year on new product development.

## Operating Segments

### Juvenile

The Juvenile Segment manufactures and imports products such as infant car seats, strollers, high chairs, toddler beds, playpens, swings, furniture items, and infant health and safety aids. Globally, within its principal categories, Dorel's combined juvenile operations make it the largest juvenile products company in the world. The segment has divisions in North America, Europe, Latin America, Australia and New Zealand. In addition, customers in Asia are serviced by a combination of third party distributors and Dorel employees based in China. In total, the segment sells product to almost 100 countries around the world.

Dorel Juvenile Group ("DJG") USA's operations are headquartered in Columbus, Indiana where the car seat development is centralized at the Company's state-of-the-art Dorel Technical Center for Child Safety. The North American manufacturing and car seat engineering facilities are located in Foxboro, Massachusetts and Ontario, California. With the exception of car seats, the majority of products are conceived, designed and developed at the Foxboro location. Dorel Distribution Canada ("DDC") is situated in Montreal, Québec with a sales force and showroom in Toronto, Ontario and sells to customers throughout Canada. The principal brand names in North America are Cosco, Safety 1<sup>st</sup> Maxi-Cosi, and Quinny. In addition, several brand names are used under license, such as Disney and Eddie Bauer brands. Sales are also made to customers under their own unique house brand names. Dorel Asia sells juvenile furniture to various major retailers, predominantly in the United States.

In North America, the majority of juvenile sales are made to large retailers such as mass merchants and department stores where consumers' priorities are design oriented, with a focus on safety and quality at reasonable prices. An emphasis on international brands and innovative product designs was initiated by DJG in 2011 with a focus on the medium to higher price points available at smaller boutiques and specialty stores. This North American collection, under both the Quinny and Maxi-Cosi brand names, competes with smaller niche premium product juvenile companies, and in 2012 continued to gain market recognition. There are several juvenile products companies servicing the North American market with Dorel being among the three largest along with Graco (part of the Newell Group) and Evenflo Company Inc.

Dorel Europe is headquartered in Paris, France with major product design facilities located in Cholet, France and Helmond, Holland. Sales operations along with manufacturing and assembly facilities are located in France, Holland and Portugal. In addition, sales and/or distribution subsidiaries are located in Italy, Spain, the United Kingdom, Germany, Belgium, Switzerland and Poland. In Europe, products are principally marketed under the brand names Bébé Confort, Maxi-Cosi, Quinny, Baby Relax, Safety 1<sup>st</sup>, and BABY ART.

In Europe, Dorel sells juvenile products primarily across the mid-level to high-end price points. With its well recognized brand names and superior designs and product quality, the majority of European sales are made to large European juvenile product retail chains along with independent boutiques and specialty stores. Internet retailers have become an important distribution channel in Europe and have grown to become important customers. Dorel is one of the largest juvenile products companies in Europe, competing with others such as Britax, Peg Perego, Chicco, Maclaren and Graco, as well as several smaller companies.

In Australia, Dorel owns and operates 100% of Dorel Australia which manufactures and/or distributes its products under several local brands, the most prominent of which are Bertini and Mother's Choice, as well as distributing Dorel's North American and European brands in Australia and New Zealand. Sales are made to both large retailers and specialty stores.

Dorel is also the majority shareholder in Dorel Brazil along with a local partner. Significant operations began in 2010 as Dorel Brazil began to manufacture car seats locally and import other juvenile products, such as strollers.

In November 2011 with the acquisition of a majority interest in Dorel Chile (formerly the Silfa Group), the Company acquired the popular Infanti brand in Chile, Peru, Bolivia and Argentina. Infanti is one of the most popular juvenile products brands in Latin America, and enjoys a leading position in the market, catering to all price categories with a focus on opening to mid-price points. Dorel Chile operates 70 retail locations in Chile and Peru, of which the majority are under the Baby Infanti banner. Finally, in 2012 Dorel purchased a majority stake in businesses based in Colombia and Panama, furthering its footprint in Latin America. Dorel Asia sells juvenile furniture to various major retailers. Over and above its branded sales, many of Dorel's juvenile divisions also sell products to customers which are marketed under various house brand names. In 2012 and 2011, the Juvenile Segment accounted for 42% of Dorel's revenues.

## **Recreational/Leisure**

The Recreational/Leisure Segment's businesses participate in a marketplace that totals approximately \$55 billion in retail sales annually. This includes bicycles, bicycling and running footwear and apparel, jogging strollers and bicycle trailers, as well as related parts and accessories. The breakdown of bicycle industry sales around the world is approximately 50% in the Asia-Pacific region, 22% in Europe, 12% in North America, with the balance in the rest of the world. Bicycles are sold in the mass merchant channel, at IBDs as well as in the sporting goods chains.

In the US, mass merchants have captured a greater share of the market over the past 20 years and today account for over 70% of unit sales. Despite the growth of the mass merchant channel, the IBD channel remains an important retail outlet in North America, Europe and other parts of the world. IBD retailers specialize in higher-end bicycles and deliver a level of service to their customers that the mass merchants cannot provide. Retail prices in the IBD's are much higher, reaching to over \$10,000. This compares to the mass merchant channel where the average retail price is less than \$100. The sporting goods chains sell bicycles in the mid-price range and in the US this channel accounts for less than 10% of total industry retail sales.

Brand differentiation is an important part of the bicycle industry with different brands being found in the different distribution channels. High-end bicycles and brands would be found in IBD's and some sporting goods chains, whereas the other brands can be purchased at mass market retailers. Consumer purchasing patterns are generally influenced by economic conditions, weather and seasonality. Principal competitors include Huffy, Dynacraft, Trek, Giant, Specialized, Scott and Raleigh. In Europe, the market is much more fragmented as there is additional competition from much smaller companies that are popular in different regions.

The segment's worldwide headquarters is based in Bethel, Connecticut. There are also significant operations in Madison, Wisconsin, and Vancouver, British Columbia. In addition, distribution centres are located in California and Illinois. European operations are headquartered in Oldenzaal, Holland with operations in Switzerland and the United Kingdom. Globally there are sales and distribution companies based in Australia, Japan and China. There is a sourcing operation based in Taiwan established to oversee the segment's Far East supplier base and logistics chain, ensuring that the Company's products are produced to meet the exacting quality standards that are required.

The IBD retail channel is serviced by CSG which focuses exclusively on this category principally with the premium-oriented Cannondale and GT brands. The vast majority of sales to this channel consist of bicycles, with some sales of parts and accessories. PCG has an exclusive focus on mass merchant and sporting goods chain customers and, along with bicycles and accessories, its product line also includes jogging strollers, bicycle trailers, children's electric ride-ons and some toys. The mass merchant product line of bicycles, parts and accessories are sold under several brands, the most significant being Schwinn and Mongoose. Other important brands used at varying price points include Roadmaster and Iron Horse, as well as licensed brands on children's bicycles and tricycles. Jogging strollers and bicycle trailers are sold under the InStep and Schwinn brands and children's electric ride-ons are sold mainly under KidTrax as well as certain licenses.

In Europe and elsewhere around the world, certain brands are sold across these distribution channels and as an example, in the UK, Mongoose is a very successful IBD brand. Sales of sports apparel and related products are made by AFG through the IBDs, various sporting goods chains and specialty running stores. AFG's principal

brand is SUGOI and its major competitors are Nike, Pearl Izumi, Adidas, among others, as well as some of the bicycle brands. In 2012, the Recreational/Leisure Segment accounted for 37% of Dorel's revenues (36% in 2011).

## Home Furnishings

Dorel's Home Furnishings Segment participates in the \$80 billion North American furniture industry. Dorel ranks in the top ten of North American furniture manufacturers and marketers and has a strong foothold in both North American manufacturing and importation of furniture, with a significant portion of its supply coming from its own manufacturing facilities and the balance through sourcing efforts in Asia. Dorel is also the number two manufacturer of RTA furniture in North America. Products are distributed from the Company's North American manufacturing locations as well as from several distribution facilities.

Dorel's Home Furnishings Segment consists of five operating divisions. They are Ameriwood Industries ("Ameriwood"), Altra Furniture ("Altra"), Cosco Home & Office ("Cosco"), Dorel Home Products ("DHP") and Dorel Asia. Ameriwood specializes in domestically manufactured RTA furniture and is headquartered in Wright City, Missouri. Ameriwood's manufacturing and distribution facilities are located in Tiffin, Ohio, Dowagiac, Michigan, and Cornwall, Ontario. Altra Furniture is also located in Wright City, Missouri and designs and imports furniture mainly within the home entertainment and home office categories. Cosco is located in Columbus, Indiana and the majority of its sales are of metal folding furniture, step stools, hand trucks and specialty ladders. DHP, located in Montreal, Québec, manufactures futons and baby mattresses and imports futons, bunk beds and other accent furniture. Dorel Asia specializes in sourcing upholstery and a full range of finished goods from Asia for distribution throughout North America. Major distribution facilities are also located in California, Georgia and Québec.

Despite a challenging environment, in 2012 Dorel's Home Furnishings segment kept pace in revenue with the record sales year of 2011 and once again is expected to outperform the furniture industry. Dorel has significant market share within its product categories and has a strong presence with its customer base. Sales are concentrated with mass merchants, warehouse clubs, home centres, Internet retailers and office and electronic superstores. Dorel markets its products under generic retail house brands as well as under a range of branded products, including Ameriwood, Altra, System Build, Ridgewood, DHP, Dorel Fine Furniture, and Cosco. The Dorel Home Furnishings Segment has many competitors, including Sauder Manufacturing and Whalen Furniture in the RTA category, Meco in the folding furniture category, Tricam in step stools, and Werner in ladders. In 2012, the Home Furnishings Segment accounted for 21% of Dorel's revenues (22% in 2011).

## Distribution

Dorel sells its products primarily to major retail chains. In 2012, Dorel had sales to the following: (i) mass merchant discount chains; (ii) speciality stores; (iii) department stores; (iv) club format outlets; (v) hardware/home centres; (vi) independent stores; (vii) sporting goods stores; and (viii) Internet retailers.

Dorel conducts its business through a variety of sales and distribution arrangements. These consist of salaried Dorel employees; individual agents who carry Dorel's products on either an exclusive or non-exclusive basis; individual specialized agents, who sell products, including Dorel's, exclusively to one customer such as a major discount chain; and sales agencies, which themselves employ their own sales force.

## Major Customers

For the year ended December 30, 2012, one customer accounted for over 10% of the Company's revenues, representing 28.9% of Dorel's total revenue. In 2011, this customer accounted for 29.6% of total revenues. Dorel believes that its commitment to provide a high-quality, industry-leading level of service has allowed it to develop successful and mutually-beneficial relationships with such major retailers as Wal-Mart, Target, K-Mart and Toys "R" Us. Dorel has achieved high levels of customer satisfaction by fostering particularly close contacts between its sales representatives and clients. To this end, Dorel has a permanent, full-service account team dedicated exclusively to Wal-Mart, located near Wal-Mart's headquarters in Bentonville, Arkansas. Dorel has also engaged account teams dedicated exclusively to Target, K-Mart and Toys "R" Us. These dedicated account teams give Dorel's customers the assurance that inventory and supply requirements will be met and that any problems will

be immediately addressed. The account teams also provide product and market analysis and can assist with product specification and design.

Dorel believes that its mass merchant customer's preference is to buy from fewer but larger suppliers who are able to deliver a wide range of products, provide greater security of supply and render increased levels of service. Dorel believes that its ability to deliver a wide range of products on a reliable basis, combined with its demonstrated commitment to service, provides it with an important competitive advantage in this environment.

Dorel's relationship with each of Wal-Mart, Target, K-Mart and Toys "R" Us has the additional benefit of providing Dorel with important feedback which it uses to improve its product offerings and to respond rapidly to changing market trends.

## **Foreign Operations**

In 2012, 58% of Dorel's sales took place in the United States, 6% in Canada, 25% in Europe and 11% elsewhere. In 2011, these percentages were 61% in the United States, 6% in Canada, 26% in Europe and 7% elsewhere. The origin of Dorel's sales in 2012 from its various facilities is as follows: United States 53%, Canada 11%, Europe 26% and elsewhere 10%. In 2011, these percentages were: United States 55%, Canada 11%, Europe 28% and elsewhere 6%.

## **Components**

Dorel purchases raw materials, component parts and finished goods. The main commodity items purchased for production include particleboard and plastic resins, as well as corrugated cartons. Key component parts include car seat covers, hardware, buckles and harnesses, bicycle frames and futon frames and covers. These parts are derived from textiles, and a wide assortment of metals, plastics, and wood. The Company's finished goods purchases are largely derived from steel, aluminum, resins, textiles, rubber and wood.

## **Intangible Properties**

Strong consumer brands are an important element of Dorel's strategy. For example, in North America, Dorel's Cannondale and Schwinn product lines are two of the most recognized sporting goods brand names. Safety 1<sup>st</sup> is a highly-regarded Dorel brand in the North American juvenile products market. In Europe, Béb  Confort is universally recognized and has superior brand awareness in France. Throughout Europe, the Maxi-Cosi brand is synonymous with quality car seats. In most of Dorel's Latin American markets, Infanti is a leading brand in the Juvenile segment for lower to medium priced products. These brands, and the fact that Dorel has a wide range of other brand names, allow for product and price differentiation within the same product categories. Additionally, Dorel is the sole owner of all patents, brands and manufacturing licenses for its products. The loss of any one of these patents would not have material adverse effects on Dorel's operations.

Some of the intangible assets that Dorel has include trademarks, customer relationships, a supplier relationship, patents, and a non-compete agreement. Trademarks are considered to have an indefinite useful life, customer relationships acquired as part of business combinations have useful lives ranging from 9 to 25 years, supplier relationship acquired as part of a business acquisition has a useful life of 10 years, patents have useful lives ranging from 4 to 18 years, and the non-compete agreement acquired as part of a business acquisition has a useful life of four years.

## **Cycles**

Though revenues at the operating segments within Dorel may vary in their seasonality, for the Company as a whole, variations between quarters are not significant.

## Competitive Conditions

With regards to the Juvenile Segment, Dorel is among the three largest juvenile products companies in North America, along with Graco (a part of the Newell Rubbermaid Group of companies) and Evenflo Company Inc. In Europe, Dorel is also one of the largest juvenile products companies, competing with companies such as Britax, Peg Perego, Chicco, Maclaren and Graco, as well as several smaller companies. Within its principal categories, Dorel's combined juvenile operations make it the largest juvenile products company in the world.

In the Recreational/Leisure Segment, brand differentiation is an important part of the bicycle industry with different brands being found in the different distribution channels. High-end bicycles and brands would be found in IBD's and some sporting goods chains, whereas the other brands can be purchased in mass market retailers. Consumer purchasing patterns are generally influenced by economic conditions, weather and seasonality. Principal competitors include Huffy, Dynacraft, Trek, Giant, Specialized, Scott and Raleigh. In Europe, the market is much more fragmented as there is additional competition from much smaller companies that are popular in different regions.

Dorel's Home Furnishings Segment participates in the North American furniture industry. Dorel ranks in the top ten of North American furniture manufacturers and marketers and has a strong foothold in both North American manufacturing and importation of furniture, with a significant portion of its supply coming from its own manufacturing facilities and the rest through sourcing efforts in Asia. Dorel is also the number two manufacturer of RTA furniture in North America. Products are distributed from our North American manufacturing locations as well as from several distribution facilities. The Dorel Home Furnishings Segment has many competitors including Sauder Manufacturing in the RTA category, Meco in the folding furniture category, Tricam in step stools, and Werner in ladders.

Although the diversity of products and fragmented markets of the home furnishings and recreational/leisure products industries make useful comparisons difficult, Dorel believes that the following table sets out the major competitors of each of its business segments:

| <u>Juvenile Segment</u> |                                         | <u>Recreational/Leisure Segment</u> |             | <u>Home Furnishings Segment</u> |                                     |
|-------------------------|-----------------------------------------|-------------------------------------|-------------|---------------------------------|-------------------------------------|
| <u>North America</u>    | <u>Europe</u>                           |                                     |             |                                 |                                     |
| Britax                  | Artsana<br>(Chicco, Prenatal, Neobaby)  | Accell                              | Huffy       | Dutailier                       | Talon                               |
| Bugaboo                 | Britax Romer                            | Bridgeway                           | Kent        | Lifetime                        | Tricam                              |
| Chicco                  | Bugaboo                                 | Derby                               | Raleigh     | Linon                           | Victoryland                         |
|                         | Newell                                  |                                     |             |                                 |                                     |
| Evenflo                 | Rubbermaid<br>(Graco, Aprica, Teutonia) | Dynacraft                           | Specialized | Louisville<br>Ladder Group      | Werner                              |
| Fisher Price            | Maclaren                                | Giant                               | Trek        | Meco                            | Whalen                              |
| Newell                  |                                         |                                     |             |                                 |                                     |
| Rubbermaid<br>(Graco)   | Peg Perego                              |                                     |             | Mylex                           | Z-Line                              |
| Kolcraft                | Stokke                                  |                                     |             | Sauder                          | Other imports<br>from the<br>Orient |
| Peg Perego              | Team Tex                                |                                     |             |                                 |                                     |
| Summer                  |                                         |                                     |             |                                 |                                     |
| The First Years         |                                         |                                     |             |                                 |                                     |
| Baby Trend              |                                         |                                     |             |                                 |                                     |
| Munchkin                |                                         |                                     |             |                                 |                                     |

## **Product Development**

Product development is an important element of Dorel's past and future growth. As a growing consumer products company, Dorel has invested heavily in this area, focusing on innovation, quality, safety and speed to market with several design and product development centres. Each of Dorel's operating segments generally introduces a large number of new products every year. Additionally, quality control is an essential part of Dorel's competitive position. Most products are developed to exclusive specifications and rigid safety standards, particularly with regards to the Juvenile Segment.

North American research and development is done at several locations. Except for car seat development, juvenile products are conceived, designed and developed at DJG's Foxboro, Massachusetts location. Car seat development is centralized at the Company's state-of-the-art car seat Dorel Technical Center for Child Safety in Columbus, Indiana. Car seat engineering is done at DJG's plant in Columbus, Indiana. This facility includes a 25,000 square foot area with respect to car seats and also home furnishings products carried by the Cosco Home & Office division. Furniture products and futons are conceived and developed at a design centre at Ameriwood's head office in Wright City, Missouri as well as at Dorel Home Products in Montreal, Québec. In Europe, development is carried out in Helmond, Holland and Cholet, France. Recreational products are conceived and designed principally in Bethel, Connecticut, Madison, Wisconsin and Vancouver, British Columbia.

As new product development is vital to the continued success of Dorel, the Company must make capital investments in research and development, moulds and other machinery, equipment and technology. It is expected that Dorel will invest at least \$35.0 million over the course of 2013 to meet its new product development and other growth objectives. It is expected that these capital additions will be funded by cash flow generated from existing operations.

## **Environmental Protection**

To Dorel's knowledge, all Dorel segments currently operate within existing environmental regulations. Dorel assumed certain environmental liabilities and contingencies associated with the Dowagiac, Michigan facility acquired with the purchase of Ameriwood in 1998. At December 30, 2012 the balance of the provision recognized in connection with this contingency amounts to \$170,000. Any amounts incurred in excess of the provision are not expected to have a material adverse effect on the Company.

## **Employees**

At the end of fiscal 2012, Dorel employed approximately 5,400 full-time people in 24 countries. Approximately 2,700 of these employees are based in North America, of which 900 are unionized. These unionized employees are subject to a total of five collective agreements. The majority of the remaining 2,700 employees are based in Europe and Latin America, of which 300 are unionized. These unionized employees are subject to a total of five collective agreements.

## **RISK FACTORS**

### ***General Economic Conditions***

In its over 50 year history, the Company has experienced several economic downturns and its products have proven to be ones that consumers continue to purchase. In 2012, in most of its markets, the retail environment could be characterized as poor. As a result, the majority of the Company's retail customers continued to emphasize price competitiveness as their primary focus. To provide its retail partners with value over and above competitive pricing, Dorel continued to invest in new product development and various brand support initiatives.

In the Juvenile Segment, the Company believes that demand generally remains steady as child safety is a constant priority and parents require products that fill that need. In recent years a trend has emerged that consumers were

more likely to purchase less expensive items, often at lower margins for the Company. In addition, birth rates are falling in many of the Company's markets, which also negatively affect demand.

In Recreational/Leisure, the Company believes that recent consumer trends that consider health and environmental concerns will also help buffer this segment against possible declines in overall consumer spending. In addition, Dorel offers a great assortment of product in the value priced product category available at its mass merchant customers. This means that should consumers elect to spend less on a particular recreational product, Dorel has alternatives to higher priced items.

In Home Furnishings, Dorel concentrates exclusively on value priced items and sells the majority of its products through the mass merchant distribution channel. During difficult economic times, when shopping for furniture, consumers are likely to spend less and tend to eschew furniture store outlets and shop at the mass merchants for reasonably priced items.

Should economic conditions worsen significantly or unemployment rise significantly, this could have a negative impact on the Company as consumer spending would likely be curtailed. There can be no assurance that the economies, taken as a whole, in which the Company operates will improve going forward and in the event of a substantial deterioration of these economies, the Company could be adversely affected.

### ***Product Costs and Supply***

Dorel purchases raw materials, component parts and finished goods. The main commodity items purchased for production include particleboard and plastic resins, as well as corrugated cartons. Key component parts include car seat covers, hardware, buckles and harnesses, bicycle frames and futon frames and covers. These parts are derived from textiles, and a wide assortment of metals, plastics, and wood. The Company's finished goods purchases are largely derived from steel, aluminum, resins, textiles, rubber and wood.

Raw material costs in North America and Europe were moderately higher in 2012. Resin prices fluctuated throughout the year with overall slight increases in the U.S. and resin prices were higher in Europe. Given the current level of oil pricing, increases in resin prices are probable in 2013. Particleboard prices in North America increased in 2012 and prices are forecasted to remain relatively stable in 2013.

The Company's suppliers of components and finished goods experienced stable to lower material input cost increases in 2012. The Chinese currency ("RMB") appreciated approximately 1.5% in 2012 and labour costs in China continue to increase at a rate of 10-15% per year.

Industry container freight costs were volatile in 2012 relative to 2011. Current expectations are for our container pricing to remain stable in 2013 and only slightly higher throughout our 2013 contract period.

Dorel relies on its suppliers to provide quality products on a timely basis and has always prided itself on establishing successful long-term relationships both domestically and overseas. The Company remains committed to actively working with its supplier base to ensure that the flow of product is not interrupted. Should the Company's input costs increase dramatically and/or its major existing vendors be unable to supply Dorel, this could have an adverse effect on the Company going forward.

The Company's level of profitability is impacted by its ability to manage these various input costs and adjust pricing to its customers as required.

### ***Foreign Currency Fluctuations***

Dorel uses the US dollar as its reporting currency. Dorel is subject to risk due to variations in currency values against the US dollar. Foreign currency risk occurs at two levels: transactional and translational. Transactional currency risk occurs when a given division either incurs costs or generates revenues in a currency other than its own functional currency. The Company's operations that are most affected by transactional currency risk are those that operate in the Euro zone, the United Kingdom, Canada, Latin America, Japan and Australia. Translational risk occurs upon conversion of non-US functional currency divisions' results to the US dollar for reporting purposes. Dorel's European, Latin American, Asian and Australian operations are the most significant

subsidiaries that do not use the US dollar as their functional currency, and as such translational risk is limited to those operations. The two major functional currencies in Europe are the Euro and Pound Sterling.

Dorel's European, Latin American, Asian and Australian operations are negatively affected by a stronger US dollar as portions of its purchases are in that currency, while its revenues are not. The Recreational / Leisure Segment is growing its business more quickly outside of the US and as such its exposure to fluctuations in the US dollar on both a transactional and translational basis has grown over the past three years. They are similar to the Juvenile Segment in that portions of its purchases are in US dollars, while its revenues are not. Dorel's Canadian operations within Home Furnishings benefit from a stronger US dollar as large portions of its revenues are generated in the United States and the majority of its costs are in Canadian dollars. This situation is mitigated somewhat by Dorel Distribution Canada's operations which imports US dollar denominated goods and sells to Canadian customers.

As a result, variations in the value of the US dollar against these various currencies has had an overall impact that was not significant year-over-year as these various impacts have mostly offset one another. However, these offsetting impacts occur in different segments, meaning the negative impact of a weaker US dollar occurs in the Home Furnishings Segment while the positive impact occurs mainly in the Juvenile and Recreational/Leisure Segments.

Where advantageous, the Company uses options, futures and forward contracts to hedge against these adverse fluctuations in currency. Further details on the Company's hedging strategy and the impact in the year can be found in Note 16 to the Company's year-end Consolidated Financial Statements. While the varying jurisdictions in which the Company operates help offset the possible negative impact of changes in the US dollar, a significant change in the value of the US dollar would affect future earnings.

### ***Concentration of Revenues***

For the year ended December 30, 2012, one customer accounted for over 10% of the Company's revenues, representing 28.9% of Dorel's total revenue. In 2011, this customer accounted for 29.6% of total revenues. Dorel does not have long-term contracts with its customers, and as such revenues are dependent upon Dorel's continued ability to deliver attractive products at a reasonable price, combined with high levels of service. There can be no assurance that Dorel will be able to sell to such customers on an economically advantageous basis in the future or that such customers will continue to buy from Dorel.

### ***Customer and Credit Risk***

The majority of the Company's revenue is derived from sales to major retail chains. The remainder of Dorel's sales are made mostly to specialty juvenile stores and independent bike dealers. To minimize credit risk, the Company conducts ongoing credit reviews and maintains credit insurance on selected accounts. Should certain of these major retailers cease operations, there could be a material short term adverse effect on the Company's consolidated results of operations. In the long term, the Company believes that should certain retailers cease to exist, consumers will shop at competitors at which Dorel's products will generally also be sold.

As at December 30, 2012, one customer accounted for 16.4% of the Company's total trade accounts receivable balance. This same customer accounted for 16.0% of the Company's total trade accounts receivable balance in 2011. Based on past experience, the Company believes that no significant allowance is necessary in respect of trade accounts receivable not past due and past due 0-30 days which represent 88.5% of total gross trade accounts receivable (2011 - 87.1%).

### ***Product Liability***

As with all manufacturers of products designed for use by consumers, Dorel is subject to numerous product liability claims, particularly in the United States. At Dorel, there is an ongoing effort to improve quality control and to ensure the safety of its products. The Company is insured to mitigate its product liability exposure. No assurance can be given that a judgment will not be rendered against it in an amount exceeding the amount of insurance coverage or in respect of a claim for which Dorel is not insured.

## ***Income Taxes***

The Company's current organizational structure has resulted in a comparatively low effective income tax rate. This structure and the resulting tax rate are supported by current domestic tax laws in which the Company operates and by the interpretation and application of these tax laws. The rate can also be affected by the application of income tax treaties between these various jurisdictions. Unanticipated changes to these interpretations and applications of current domestic tax laws, or to the tax rates and treaties, could impact the effective income tax rate of the Company going forward.

## ***Product and Brand Development***

To support continued revenue growth, the Company must continue to update existing products, design innovative new items, develop strong brands and make significant capital investments. The Company has invested heavily in product development and plans to keep it at the centre of its focus. In addition, the Company must continue to maintain, develop and strengthen its end-user brands. Should the Company invest in or design products that are not accepted in the marketplace, or if its products are not brought to market in a timely manner, and in certain cases, fail to be approved by the appropriate regulatory authorities, this could negatively impact future growth.

## ***Regulatory Environment***

The Company operates in certain industries which are highly regulated and as such operates within constraints imposed by various regulatory authorities. In recent years greater concern regarding product safety has resulted in more onerous regulations being placed on the Company as well as on all of the Company's competitors operating in these industries. Dorel has always operated within this environment and has always placed a great deal of resources on meeting these obligations, and is therefore well positioned to meet these regulatory requirements. However, any future regulations that would require additional costs could have an impact on the Company going forward.

## ***Liquidity and Access to Capital Resources***

Dorel requires continued access to capital markets to support its activities. Part of the Company's long-term strategy is to grow through the acquisition of complementary businesses that it believes will enhance the value of the Company for its shareholders. To satisfy its financing needs, the Company relies on long-term and short-term debt and cash flow from operations. Any impediments to the Company's ability to access capital markets, including significant changes in market interest rates, general economic conditions or the perception in the capital markets of the Company's financial condition or prospects, could have a material adverse effect on the Company's financial condition and results of operation.

## ***Valuation of Goodwill and other Intangible Assets***

As part of annual impairment tests, the value of goodwill and other indefinite life intangible assets are subject to significant assumptions, such as future expected cash flows, and assumed discount and weighted average cost of capital rates. In addition, the value of customer relationships and supplier relationship intangible assets recognized includes significant assumptions in reference to customer attrition rates and useful lives. Should current market conditions adversely affect the Company's expectations of future results, this could result in a non-cash impairment being recognized at some point in the future. Additionally, in the current market environment, some of the other assumptions could be impacted by factors beyond the Company's control. For example, more conservative risk assumptions could materially affect these valuations and could require a downward adjustment in the value of these intangible assets in the future.

The Company performs its impairment tests of goodwill and intangible assets with indefinite useful lives (trademarks) during the fourth quarter or more frequently if an impairment indicator is triggered. The Company completed a reconciliation of the sum of the estimated fair values of its cash generating units (CGU) to its market capitalization. The Company's market capitalization was determined by multiplying the number of Class "A" and Class "B" shares outstanding as at October 31, 2012 by the market price of the Company's total shares as at October 31, 2012. The accounting principles regarding goodwill acknowledge that the observed market prices of

individual trades of a company's stock (and thus its computed market capitalization) may not be representative of the fair value of the company as a whole. The Company believes that market capitalization alone does not capture the fair value of the business as a whole, or the substantial value that an acquirer would obtain from its ability to obtain control of the business. The amount of the control premium in excess of the Company's market capitalization requires significant judgment and the Company has observed recent market transactions as a guide to establish a range of reasonably possible control premiums to estimate the Company's fair value. The Company also considers the following qualitative items that cannot be accurately quantified and are based upon the beliefs of management, but provide additional support for the explanation of the remaining difference between the estimated fair value of the Company's CGUs and its market capitalization:

- The Company's stock has relatively low trading volume;
- Previously unseen pressures are in place given the global financial and economic crises.

As described above, the Company's share price and control premium are significant factors in assessing the Company's fair value for purposes of the goodwill impairment assessment. The Company's share price can be affected by, among other things, changes in industry or market conditions, including the effect of competition, changes in our results of operations, and changes in our forecasts or market expectations relating to future results. In the last 52 week range, the Company's share price has fluctuated significantly from a high of CAD\$40.50 and a low of CAD\$25.00. The Company will continue to monitor market trends in the business, the related expected cash flows and the calculation of market capitalization for purposes of identifying possible indicators of impairment. Should the Company's market capitalization decline or the Company has other indicators of impairment, the Company would be required to perform a goodwill impairment test. Additionally, the Company would then be required to review its remaining non-financial assets for impairment.

## **DIVIDENDS**

During fiscal 2012, the Company declared and paid two quarterly dividends of fifteen cents (\$0.15) per share and two quarterly dividends of thirty cents (\$0.30) per share on the Class "A" Multiple Voting Shares, Class "B" Subordinate Voting Shares and Deferred Share Units of the Company for an aggregate amount \$0.90 per share for the year, or \$28.4 million. In fiscal 2011 and 2010, these four quarterly dividends totalled \$19.5 million and \$18.9 million, respectively. Under the Company's current financing arrangements, the payment of dividends is prohibited if the Company is in default under its credit agreement. These financing arrangements also include certain customary financial covenants that may indirectly restrict the Company's ability to pay dividends.

## **DESCRIPTION OF CAPITAL STRUCTURE**

The designation of each class and series of the Company's authorized share capital is as follows:

- An unlimited number of preferred shares without nominal or par value, issuable in series (none of which are outstanding as at the date hereof), with such rights and conditions as may be determined by the Board of Directors of the Company prior to issuance thereof, carrying no voting rights, except as prescribed by law, and ranking prior to the Class "A" Multiple Voting Shares and Class "B" Subordinate Voting Shares with respect to the payment of dividends and return of capital in the event of liquidation, dissolution or other distribution of the assets of the Company for purpose of winding-up its affairs;
- An unlimited number of Class "A" Multiple Voting Shares (ten votes per share) 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, entitling their holders to participate equally with the holders of the Class "B" Subordinate Voting Shares in respect of payment of dividends, and ranking equally with the Class "B" Subordinate Voting Shares in respect of return of capital in the event of liquidation, dissolution or other distribution of the assets of the Company for purpose of winding-up its affairs; and
- An unlimited number of Class "B" Subordinate Voting Shares (one vote per share) 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” Multiple Voting Shares, entitling their holders to participate equally with the holders of the Class “A” Multiple Voting Shares in respect of payment of dividends, and ranking equally with the Class “A” Multiple Voting Shares in respect of return of capital in the event of liquidation, dissolution or other distribution of the assets of the Company for purpose of winding-up its affairs.

## MARKET FOR SECURITIES

The Company’s Class “A” Multiple Voting Shares and Class “B” Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbols DII.A and DII.B, respectively.

The following provides the price range and volume traded on the Toronto Stock Exchange of each type of security of the Company for each month of 2012:

| Month     | Class “A” Multiple Voting Shares     |          |                  | Class “B” Subordinate Voting Shares  |          |                  |
|-----------|--------------------------------------|----------|------------------|--------------------------------------|----------|------------------|
|           | Price Range<br>(in Canadian dollars) |          | Volume<br>Traded | Price Range<br>(in Canadian dollars) |          | Volume<br>Traded |
|           | Low                                  | High     |                  | Low                                  | High     |                  |
| January   | \$ 24.75                             | \$ 26.00 | 3,450            | \$ 24.59                             | \$ 26.31 | 717,988          |
| February  | \$ 25.50                             | \$ 28.05 | 3,560            | \$ 24.76                             | \$ 28.89 | 543,895          |
| March     | \$ 26.75                             | \$ 27.89 | 1,250            | \$ 26.12                             | \$ 28.45 | 470,210          |
| April     | \$ 27.84                             | \$ 30.00 | 2,822            | \$ 27.73                             | \$ 30.32 | 332,300          |
| May       | \$ 25.99                             | \$ 29.54 | 2,462            | \$ 25.00                             | \$ 29.86 | 316,164          |
| June      | \$ 25.87                             | \$ 28.25 | 6,651            | \$ 25.82                             | \$ 28.90 | 1,035,409        |
| July      | \$ 27.00                             | \$ 28.25 | 1,755            | \$ 26.23                             | \$ 28.35 | 260,688          |
| August    | \$ 27.70                             | \$ 32.50 | 10,560           | \$ 27.10                             | \$ 33.00 | 873,054          |
| September | \$ 32.07                             | \$ 34.57 | 6,610            | \$ 31.75                             | \$ 34.89 | 999,009          |
| October   | \$ 34.09                             | \$ 37.00 | 5,852            | \$ 34.00                             | \$ 37.00 | 1,194,927        |
| November  | \$ 36.38                             | \$ 38.50 | 7,850            | \$ 35.55                             | \$ 38.75 | 784,362          |
| December  | \$ 34.00                             | \$ 37.75 | 9,568            | \$ 33.97                             | \$ 37.78 | 1,078,744        |

## DIRECTORS AND SENIOR OFFICERS

As at the date of this annual information form, the name, place of residence, period during which each has served as a director where applicable, offices held with the Company and principal occupations of each of the directors and senior officers of the Company are as follows:

| <u>Name and place of residence</u>                                            | <u>Director since</u> | <u>Offices</u>                                                            | <u>Principal occupations</u>                                                                 |
|-------------------------------------------------------------------------------|-----------------------|---------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Martin Schwartz.....<br>Québec, Canada                                        | 1987                  | President, Chief Executive Officer and Director                           | President and Chief Executive Officer of the Company                                         |
| Jeff Segel.....<br>Québec, Canada                                             | 1987                  | Executive Vice-President, Sales and Marketing and Director                | Executive Vice-President, Sales and Marketing of the Company                                 |
| Alan Schwartz.....<br>Québec, Canada                                          | 1987                  | Executive Vice-President, Operations and Director                         | Executive Vice-President, Operations of the Company                                          |
| Jeffrey Schwartz.....<br>Ontario, Canada                                      | 1987                  | Executive Vice-President, Chief Financial Officer, Secretary and Director | Executive Vice-President, Chief Financial Officer and Secretary of the Company               |
| Frank Rana.....<br>Québec, Canada                                             | —                     | Vice-President, Finance and Assistant-Secretary                           | Vice-President, Finance and Assistant Secretary of the Company                               |
| Edward Wyse.....<br>Québec, Canada                                            | —                     | Vice-President, Global Procurement                                        | Vice-President, Global Procurement of the Company                                            |
| Maurice Tousson <sup>(1)(2)</sup> .....<br>Ontario, Canada                    | 1995                  | Lead Director                                                             | President and Chief Executive Officer<br>CDREM Group Inc. (retailer)                         |
| Harold P. (Sonny) Gordon,<br>Q.C. <sup>(1) (2)</sup> .....<br>Florida, U.S.A. | 2003                  | Director                                                                  | Chairman and a Director of Dundee Corporation<br>(financial services and investment company) |
| Dian Cohen <sup>(2)</sup> .....<br>Ontario, Canada                            | 2004                  | Director                                                                  | Corporate Director<br>(economic consultant)                                                  |
| Alain Benedetti, FCPA, FCA <sup>(1)</sup> .....<br>Québec, Canada             | 2004                  | Director                                                                  | Corporate Director                                                                           |
| Rupert Duchesne.....<br>Ontario, Canada                                       | 2009                  | Director                                                                  | Group Chief Executive and Director Aimia Inc.<br>(loyalty-management company)                |

(1) Member of the Audit Committee

(2) Member of the Human Resources and Corporate Governance Committee

During the last five years, each of the directors and senior officers have been engaged in their present principal occupations or in other executive capacities with the companies indicated opposite their names. The term of each of the directors listed above will expire at the next annual general meeting of shareholders of the Company.

On June 29, 2012 it was announced that effective June 30, 2012 Mr. Richard Markee had resigned from the Company's Board of Directors in order to focus on his personal business interests. Mr. Markee had been a director of the Company since 2008.

### ***Beneficial Ownership***

As at December 30, 2012, the directors and senior officers beneficially owned in the aggregate, or exercised control or direction over, directly and indirectly, 3,070,400 Class "A" Multiple Voting Shares, representing 72.7% of the issued and outstanding Class "A" Multiple Voting Shares, and 1,637,814 Class "B" Subordinate Voting Shares, representing 6.0% of the issued and outstanding Class "B" Subordinate Voting Shares of the Company.

## ***Cease Trade Orders, Bankruptcies, Penalties or Sanctions***

To the knowledge of the Company, none of the foregoing directors or executive officers of the Company is as of the date of this annual information form, or within the last ten years of the date of this annual information form, has been a director, chief executive officer or chief financial officer of any company that:

- (a) was subject to a cease trade or similar order, or an order that denied such company access to any exemption under applicable securities legislation for a period of more than 30 consecutive days (an "Order") that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of such company; or
- (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer of such company.

To the knowledge of the Company, none of the foregoing directors or executive officers of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially its control:

- (a) is, as of the date of this annual information form, or within the last ten years of the date of this annual information form, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, with the exception of: (i) Mr. Gordon, who was a director of Great Northern Paper, Inc., a private U.S. corporation, until June 3, 2002, approximately seven months before such corporation filed for an arrangement under Chapter 11 of the United States Bankruptcy Code in January 2003, followed by its liquidation in May 2003; and (ii) Mr. Duchesne, who was President and Chief Executive Officer of Aeroplan LP when Air Canada filed for protection under the *Companies' Creditors Arrangement Act* (Canada) on April 1, 2003; or
- (b) has within the last ten years of the date of this annual information form become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his, her or its assets.

To the knowledge of the Company, none of the foregoing directors or executive officers of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially its control, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

In the normal course of business activities, Dorel is subject to various legal actions, none of which involve any claim for damages exceeding ten percent, exclusive of interest and costs, of Dorel's current assets. Dorel contests these actions and believes that their resolution will not have a material adverse impact on the Company's financial condition.

During fiscal 2012, the Company (i) was not subject to any penalty or sanction imposed by a court relating to securities legislation or by a securities regulatory authority, (ii) was not subject to any other penalty or sanction imposed by a court or regulatory body that would likely be considered important to a reasonable investor in

making an investment decision, and (iii) did not enter into any settlement agreement before a court relating to securities legislation or with a securities regulatory authority.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No director or senior officer of the Company, and no person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any of the Class “A” Multiple Voting Shares or Class “B” Subordinate Voting Shares, and any of their respective associates or affiliates, has or has had a material interest, direct or indirect, in any transaction, within the three most recently completed fiscal years or during the current fiscal year, that has materially affected or is reasonably expected to materially affect the Company.

## **MATERIAL CONTRACTS**

The Company has not entered into any contract out of the ordinary course of its business during fiscal year 2012.

## **TRANSFER AGENT AND REGISTRAR**

Computershare Investor Services Inc., at its principal offices in Toronto, Ontario, is the registrar and transfer agent for the Class “A” Multiple Voting Shares and Class “B” Subordinate Voting Shares of the Company.

## **NAMES AND INTERESTS OF EXPERTS**

The Company’s external auditors are KPMG LLP, 600 de Maisonneuve Boulevard West, Suite 1500, Montreal, Québec H3A 0A3, who reported on the annual Consolidated Financial Statements as at December 30, 2012 and for the year then ended, which financial statements have been filed under Québec *Regulation 51-102 respecting Continuous Disclosure Obligations* and National Instrument 51-102 *Continuous Disclosure Obligations*. KPMG LLP is independent in accordance with auditors’ rules of professional conduct in Québec.

## **INFORMATION ON THE AUDIT COMMITTEE**

### ***Audit Committee Charter***

The Audit Committee Charter sets out the roles and responsibilities of the Audit Committee of the Company. A copy of the charter is attached hereto as Schedule B.

### ***Composition of the Audit Committee***

The Audit Committee is composed of Messrs. Alain Benedetti, FCPA, FCA Maurice Tousson and Harold P. “Sonny” Gordon, Q.C. Each member of the Audit Committee is independent and financially literate within the meaning of Québec *Regulation 52-110 respecting Audit Committees* and National Instrument 52-110 *Audit Committees*.

### ***Financial Literacy***

Each member of the Audit Committee has a good command of generally accepted accounting principles and has the ability to understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements. This section describes at greater length how these members acquired that financial literacy.

**Alain Benedetti, FCPA, FCA:** Mr. Benedetti is the retired Vice-Chairman of Ernst & Young LLP, where he worked for 34 years, most recently as the Canadian area managing partner, overseeing all Canadian operations. Prior thereto, he was the managing partner for eastern Canada and the Montreal office. Mr. Benedetti has extensive experience with both public and private companies and currently serves on the Board of Directors of Russel Metals Inc. and Imperial Tobacco Canada Limited and Chairman of the Board of Governors of Dynamic Mutual Funds. A former Chair of the Canadian Institute of Chartered Accountants, Mr. Benedetti has served on the Audit Committee of the Company since 2004 and has been its chairperson since early 2005.

**Maurice Tousson:** Mr. Tousson is currently the President and Chief Executive Officer of CDREM Group Inc., a chain of retail stores known as Centre du Rasoir or Personal Edge, a position he has held since January 2000. Mr. Tousson has held executive positions at well-known Canadian specialty stores, including Chateau Stores of Canada, Consumers' Distributing and Sports Experts, with responsibilities for operations, finance, marketing and corporate development. Mr. Tousson currently sits on the Board of Directors of several privately held companies. Mr. Tousson holds an MBA degree from Long Island University in New York.

**Harold P. "Sonny" Gordon, Q.C.:** Mr. Gordon is Chairman and a Director of Dundee Corporation since November 2001, prior to which he was Vice-Chairman of Hasbro Inc., a position he held until May 2002. Mr. Gordon has previously worked as a special assistant to a Minister of the Government of Canada, and was a managing partner of Stikeman Elliott LLP during his 28-year career as a practicing lawyer. In addition to Dorel and Dundee, Mr. Gordon also serves as Chairman and Director of the Board of Pethealth Inc.

### ***Pre-approval Policies and Procedures for Audit and Non Audit Services***

In 2003, the Audit Committee adopted a policy regarding the breadth of services provided by external auditors. This policy forbids the Company from hiring external auditors to provide certain non-auditing services. Under certain exceptions, the policy provides that the Company may hire external auditors to provide non-audit services that are not prohibited, on condition that they are pre-approved by the Audit Committee. A copy of the policy is attached hereto as Schedule C.

### ***External Auditor Service Fees (by Category)***

In 2012, the Company's auditors were KPMG, LLP. The table below represents all fees paid to the Company's auditors for the years ended December 30, 2012 and 2011:

|                         | <b>Years ended December 30</b> |                     |
|-------------------------|--------------------------------|---------------------|
|                         | <b>2012</b>                    | <b>2011</b>         |
| Audit fees .....        | \$ 1,606,749                   | \$ 2,203,500        |
| Audit-related fees..... | 87,185                         | 17,950              |
| Tax fees .....          | —                              | —                   |
| All other fees .....    | —                              | —                   |
| <b>TOTAL.....</b>       | <b>\$ 1,693,934</b>            | <b>\$ 2,221,450</b> |

1. Audit fees were charged for professional services rendered by the auditors for the audit of the Company's annual Consolidated Financial Statements or services provided in connection with certain statutory and regulatory filings or engagements.
2. Audit-related fees were charged for miscellaneous assurance and related services that are reasonably related to the performance of the audit or review of the annual Consolidated Financial Statements and are not reported as part of audit fees.

## **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness (if any), principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, that is not included herein, will be contained in the Company's Management Proxy Circular to be sent and filed in connection with the Company's annual general meeting of shareholders to be held on May 23, 2013. Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional financial information may be found in the Company's consolidated financial statements and Management's Discussion and Analysis for the fiscal year ended December 30, 2012.

# Schedule A

## Major Companies within the Dorel Industries Inc. Group As of December 30, 2012

| Name                                          | Jurisdiction of Incorporation | Percentage of Votes Attaching to Shares |
|-----------------------------------------------|-------------------------------|-----------------------------------------|
| <b><u>North America</u></b>                   |                               |                                         |
| Ameriwood Industries, Inc.                    | Delaware                      | 100%                                    |
| Ameriwood Industries, Inc.                    | Michigan                      | 100%                                    |
| Ameriwood Industries, Inc.                    | Ohio                          | 100%                                    |
| Cycling Sports Group, Inc.                    | Delaware                      | 100%                                    |
| Cannondale Sports Group, LLC                  | Delaware                      | 100%                                    |
| Dorel Juvenile Group, Inc.                    | Massachusetts                 | 100%                                    |
| Dorel Design and Development, LLC             | Indiana                       | 100%                                    |
| PCL Holdings Inc.                             | Delaware                      | 100%                                    |
| Pacific Cycle Inc.                            | Delaware                      | 100%                                    |
| Dorel Asia Inc.                               | Delaware                      | 100%                                    |
| SUGOI Performance Apparel Limited Partnership | British Columbia              | 100%                                    |
| <b><u>Europe</u></b>                          |                               |                                         |
| Cycling Sports Group GmbH                     | Switzerland                   | 100%                                    |
| Dorel (UK) Limited                            | United Kingdom                | 100%                                    |
| IBD Bikes UK Limited                          | United Kingdom                | 100%                                    |
| Maxi Miliaan B.V.                             | The Netherlands               | 100%                                    |
| Cycling Sports Group Europe B.V.              | The Netherlands               | 100%                                    |
| Dorel Germany GmbH                            | Germany                       | 100%                                    |
| Dorel France Holding SAS                      | France                        | 100%                                    |
| Dorel France Financière SAS                   | France                        | 100%                                    |
| Dorel France SAS                              | France                        | 100%                                    |
| Dorel Belgium SA                              | Belgium                       | 100%                                    |
| BabyArt BVBA                                  | Belgium                       | 100%                                    |
| Dorel Hispania SA                             | Spain                         | 100%                                    |
| Dorel Italia SpA                              | Italy                         | 100%                                    |
| Dorel Juvenile Switzerland SA                 | Switzerland                   | 100%                                    |
| Dorel Portugal - Artigos para bebé Lda        | Portugal                      | 100%                                    |
| BeBe and Co SAS                               | France                        | 100%                                    |
| AMPA 2P SAS                                   | France                        | 100%                                    |
| AMPA Développement SAS                        | France                        | 100%                                    |
| Dorel Suisse SàrlARL                          | Switzerland                   | 100%                                    |
| Dorel Hungary Ltd.                            | Hungary                       | 100%                                    |
| <b><u>Other</u></b>                           |                               |                                         |
| Dorel Consulting (Shanghai) Co., Ltd.         | People's Republic of China    | 100%                                    |
| IGC Dorel Pty Ltd                             | Australia                     | 100%                                    |
| Cycling Sports Group Australia Pty Ltd.       | Australia                     | 100%                                    |
| Cannondale Japan KK                           | Japan                         | 100%                                    |
| IGC Dorel New Zealand Limited                 | New Zealand                   | 100%                                    |

## Schedule A

### Major Companies within the Dorel Industries Inc. Group As of December 30, 2012

| Name                                     | Jurisdiction of Incorporation | Percentage<br>of Votes<br>Attaching to<br>Shares |
|------------------------------------------|-------------------------------|--------------------------------------------------|
| Companhia Dorel Brasil Produtos Infantis | Brazil                        | 70%                                              |
| Comexa Distribution Limited              | Barbados                      | 70%                                              |
| Comexa Comercializadora Extranjera SA    | Panama                        | 70%                                              |
| Comercial e Industrial Silfa S.A.        | Chile                         | 70%                                              |
| Dorel International Trade Limited        | Barbados                      | 70%                                              |
| Dorel Colombian Holdings Limited         | Barbados                      | 70%                                              |
| Best Brands Group S.A.                   | Panama                        | 70%                                              |
| Ofir S.A.                                | Panama                        | 70%                                              |
| Baby Universe SAS                        | Colombia                      | 70%                                              |
| Dorel Luxembourg Sàrl                    | Luxembourg                    | 100%                                             |
| Dorel Limited                            | Barbados                      | 100%                                             |
| Dorel Asia SRL                           | Barbados                      | 100%                                             |
| Dorel Finance Limited                    | Barbados                      | 100%                                             |

# **Schedule B**

## **DOREL INDUSTRIES INC.**

### **AUDIT COMMITTEE CHARTER**

The Audit Committee (the “Committee”) of the Board of Directors of Dorel Industries Inc. (the “Company”) assists the Board of Directors in fulfilling its oversight responsibilities relating to the quality and integrity of the accounting, auditing, and reporting practices of the Company and such other duties as directed by the Board of Directors or imposed by legislative and securities and exchange authorities.

#### **• STRUCTURE AND ORGANIZATION**

1. The Committee will be composed solely of directors who are independent of the management of the Company and are free of any relationship that, in the opinion of the Board of Directors, may interfere with their exercise of independent judgment as a Committee member, all in accordance with applicable securities and exchange regulations.
2. The membership of the Committee will consist of at least three independent members of the Board of Directors. Committee members and the Committee Chairman shall be designated by and serve at the pleasure of the Board of Directors. All members must be financially literate and at least one member shall be designated as the “financial expert” as defined by applicable legislation and regulation. The Committee shall appoint a Secretary who need not be a director of the Company.
3. The Committee shall meet at least four times per year or more frequently as circumstances require. All Committee members may attend meetings in person or via tele- or video-conference. The Committee may ask members of management, auditors or others to attend the meetings and provide pertinent information as necessary. The required quorum is a simple majority of members.
4. The Committee has the authority to maintain free and open communication with Company officers, employees, internal audit, the external auditors and outside counsel.
5. The Committee has the authority to investigate any matter brought to its attention and to retain independent counsel, accountants, or others for this purpose if, in its judgment, that is appropriate. The Committee further has the authority to set and authorize the compensation for any advisors employed by the Committee.
6. Members of the Audit Committee are prohibited from receiving any payment, either directly or indirectly, from the Company other than for the Board of Directors and its committees membership.
7. The Committee may delegate to one or more independent members the authority to pre-approve non-audit services provided that such services meet the definition pursuant to securities and exchange regulations. Such pre-approval must be presented to the Committee by the respective member at its first scheduled meeting following such pre-approval.
8. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

#### **• GENERAL RESPONSIBILITIES**

1. Meet periodically with representatives of the external auditors, the Director, Internal Audit, and management in separate sessions to discuss any matters that the Committee or these groups believe should be discussed

privately (in camera) with the Committee. Provide sufficient opportunity for the external auditors to meet with the internal auditor as appropriate without members of the management being present.

2. Submit the minutes of all Committee meetings to the Board of Directors and regularly report to the Board of Directors about Committee activities and issues that arise with respect to the quality and integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors and the performance of the internal audit function.

3. Review and reassess the adequacy of this Charter annually.

• RESPONSIBILITIES FOR ENGAGING AND MONITORING EXTERNAL AUDITORS

1. Recommend for approval by the Board of Directors and ratification by the shareholders the selection and retention of an independent firm of Chartered Accountants as external auditors, for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services; approve all compensation of the external auditors; and review and approve in advance the discharge of the external auditors.

2. Review the independence of the external auditors. In considering the independence of the external auditors, the Committee will review the nature of the services provided by the external auditors' firm and the fees charged, and such other matters as the Committee deems appropriate.

3. Arrange for the external auditors to be available to the Board of Directors at least annually to help provide a basis for the Board's approval of the external auditors' appointment.

4. Review services and related fees for work done by the external auditors in the period and newly pre-approved services since the prior meeting as well as an updated projection of the total costs for the fiscal year.

5. Pre-approve all non-audit related services to be provided by the Company's external auditors on a case-by-case basis provided that such services meet the definition pursuant to securities and exchange regulations.

6. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company.

7. Oversee the rotation of lead, concurring and other external audit partners, to the extent required by securities and exchange regulations.

8. Review at least annually, representations by the external auditors describing their internal quality-control procedures, as well as significant results arising from regulatory and professional quality-control procedures.

9. Review with the external auditors and management the audit plan, including scope and approach, of the external auditors for the current year.

• RESPONSIBILITIES FOR OVERSIGHT OF THE QUALITY AND INTEGRITY OF ACCOUNTING, AUDITING, AND REPORTING PRACTICES OF THE COMPANY

1. Review the annual audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", Annual Information Form and the Management Proxy Circular with management and the external auditors prior to release. The Committee should review each annual and interim profit or loss announcement with management (and the external auditors if desired) prior to release, filing and distribution. These discussions should cover the quality of the financial reporting, and such others matters as the Committee deems appropriate.

2. Review with management and the external auditors the results of the audit, including any difficulties encountered, and management's response and/or action plan related to any Management Letter issued by the external auditors and any significant recommendations contained therein. This will also include a review of any

restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management.

3. Ensure adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure referred to in (1), and periodically assess the adequacy of those procedures.

4. Review disclosures made by the President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Secretary during the Form 52-109F certification process about significant deficiencies and or material weaknesses in the design or operation of internal controls, or any fraud that involves management or other employees who have a significant role in the Company's internal controls.

5. Review the periodic report of the Company's Disclosure Committee, including the reassessment of its Charter annually.

6. Consider the adequacy and effectiveness of the Company's internal control system, including information technology security and control.

7. Understand the scope of internal audit's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

8. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters. Such complaints regarding questionable accounting or auditing matters are to be treated confidentially and anonymously.

9. Review and approve all related party transactions undertaken by the Company.

#### • PERIODIC RESPONSIBILITIES

1. Review periodically with management any legal and regulatory matters that may have a material impact on the Company's financial statements, compliance policies and compliance programs.

2. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.

3. Review with the chief audit executive the charter, plans, activities, staffing and organizational structure of the internal audit function and its effectiveness. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief audit executive.

4. Discuss with management the Company's major compliance policies with respect to risk assessment and risk management, including but not limited to: Code of Business Conduct, Disclosure Policy, Policy on Financial Reporting, Policy on Whistle blowing, Policy Regarding Procurement of Audit Services and Non Audit Services, Insider Trading and Blackout Periods Policy, Policy Statement on Internal Audit Services, Policy on Incident Reporting and Policy on Hiring of Employees from Independent Auditors.

5. Review the process for communicating the Code of Business Conduct to Company personnel, and for monitoring compliance therewith.

6. Perform such other functions assigned by law, the Company's charter or bylaws, or by the Board of Directors.

# Schedule C

## DOREL INDUSTRIES INC.

### POLICY REGARDING PROCUREMENT OF AUDIT SERVICES AND NON AUDIT SERVICES

The primary purpose of this Policy is to ensure that Dorel Industries Inc. (the “Company”) engages its public accountants to only provide permitted audit and non-audit services that are compatible with maintaining independence. The Company recognizes that investor confidence in public companies is based in part on the maintenance of independence, in fact and in appearance, by the public accounting firms that perform financial statement audits for those companies. The Company and its Audit Committee (the “Committee”) believe that it is prudent to establish a formal policy to define the basis upon which the external auditors may be engaged to provide audit and non-audit services. Services discussed below where external auditors are engaged require the pre-approval of the Committee, in accordance with this Policy.

This Policy applies to the Company and all corporations, subsidiaries, branches and other entities directly or indirectly owned by the Company that are included in the Company’s consolidated financial statements. This Policy is to be approved annually by the Company’s Committee or more frequently as necessary due to changes in securities regulations.

The responsibility for ensuring that the Company’s external auditor is engaged to perform only those services that are compatible with maintaining the firm’s independence from the Company rests with the:

- external auditor;
- Executive Vice-President, Chief Financial Officer and Secretary;
- Vice-President, Finance and Assistant Secretary;
- Director of Finance; and
- Audit Committee.

Annually, the Vice President, Finance and Assistant Secretary will prepare a summary of the fees paid to the external auditor for audit and other permitted services, for inclusion in the annual proxy statement.

In accordance with this Policy, all audit services and related fees have to be pre-approved by the Committee. To allow efficiency in the performance of such services, the Chairman of the Committee can act on behalf of the Committee by providing pre-approval, between meetings of the Committee. He will report such approval at the next Committee meeting.

Any questions or interpretations of such matters should be addressed to the Committee.

For the purposes of this Policy, the scope of external auditor services is classified into the following categories.

#### PERMITTED SERVICES

These services generally are highly correlated with the role of an independent auditor.

Such services include matters such as analysis and interpretation of accounting principles and their application.

#### 1. AUDIT SERVICES:

- Audits of consolidated financial statements including quarterly reviews, consultation on accounting issues, attendance at Audit Committee meetings, and use of specialists in connection with the foregoing. Assistance in the implementation of new accounting principles.

- Audits of opening balance sheets of acquired companies.
- Compliance letters, agreed-upon procedures, reviews and similar reports based on audited financial statements and the role of external auditors as independent auditors.
- Audits of financial statements and transactions that are used by lenders, filed with government and regulatory bodies and similar reports.

## **2. AUDIT RELATED SERVICES:**

- Services that result from the role of the firm as independent auditor such as reviews of securities regulator filings and letters to underwriters.
- Employee benefits plan audits and revenues of relevant filings.

## **3. TAX SERVICES:**

These services are expressly allowed under this Policy:

- Tax return and tax accrual reviews, consultations and assistance.
- Tax planning and other compliance related consultation or services.

Tax services cannot however be based on confidential transactions or aggressive interpretation of tax rules.

Fees for tax services may not be on a contingency basis.

Pre the execution of the proposed service, the external auditor is to provide a description of the proposed tax service to the Committee detailing how it could or could not hamper external auditor independence.

## **4. SPECIFIC APPROVALS:**

These services are allowed if specific pre-approval is given by the Committee:

- Employee benefit plan advisory services.
- Cash management and treasury advisory services.
- Strategic planning support (e.g., corporate, business unit, information technology).
- Forensic and other investigative services.

## **RESTRICTED SERVICES**

Restricted services are those services that may not be provided by external auditors, as they are considered by securities legislation and/or in the Company's opinion to be incompatible with the role of an independent auditor, unless it is reasonable to conclude that the results of the service would not be subject to audit procedures during an audit of the Company's financial statements. Areas of doubt must be submitted to the Committee in advance of the commitment.

- Bookkeeping or other services related to accounting records or financial statements (e.g., recording journal entries, reconciling accounts, processing data, preparing financial statements, etc.).
- Internal audit services.
- Appraisals, valuation services or fairness opinions.
- Signing tax returns (including payroll tax returns) on behalf of the Company.
- Actuarial services.
- Signing or co-signing cheques.
- Acting as an agent for the Company.

- Human resources functions (managerial position search and evaluation activities).
- Payroll services.
- Broker-Dealer services (including underwriting, promoting, investment banking and investment management).
- Maintaining custody of the Company's funds.
- Acting in a capacity equivalent to that of the Company's management or employees, or performing any decision making, supervisory or ongoing monitoring functions for the Company.
- Financial information systems design and/or implementation.
- Legal services.
- Expert witness or testimony services, except where specifically related to the Company's accounting policy, procedure, or audited financial statements.
- Providing tax services to management members (or their immediate family) who have a role in financial reporting.
- All other consulting or auditing services of any nature, except as specifically allowed in other sections above.