

**INTERIM  
CONSOLIDATED  
FINANCIAL STATEMENTS**  
(unaudited)

Three-month and nine-month periods  
ended August 31, 2008

3



## CONSOLIDATED STATEMENTS OF EARNINGS (unaudited)

(in thousands of dollars, except per-share amounts)

|  | For the nine months<br>ended August 31, |         | For the three months<br>ended August 31, |         |
|--|---|---------|--|---------|
|  | 2008                                    | 2007    | 2008                                     | 2007    |
|  | \$                                      | \$      | \$                                       | \$      |
| <b>Sales</b>   | <b>322,726</b>                          | 322,761 | <b>111,799</b>                           | 111,921 |
| Cost of sales, warehouse, selling<br>and administrative expenses     | <b>281,367</b>                          | 281,993 | <b>95,988</b>                            | 96,408  |
| <b>Earnings before the following</b>                                 | <b>41,359</b>                           | 40,768  | <b>15,811</b>                            | 15,513  |
| Interest on short-term debt, net                                     | <b>(131)</b>                            | 30      | <b>(87)</b>                              | (54)    |
| Interest on long-term debt   | <b>237</b>                              | 737     | <b>68</b>                                | 238     |
| Amortization of capital assets                                       | <b>3,182</b>                            | 2,754   | <b>1,124</b>                             | 958     |
| Amortization of intangible assets                                    | <b>726</b>                              | 699     | <b>244</b>                               | 298     |
| <b>Earnings before income taxes and<br/>non-controlling interest</b> | <b>37,345</b>                           | 36,548  | <b>14,462</b>                            | 14,073  |
| Income taxes (Note 4)  | <b>11,821</b>                           | 12,609  | <b>4,728</b>                             | 4,855   |
| <b>Earnings before non-controlling interest</b>                      | <b>25,524</b>                           | 23,939  | <b>9,734</b>                             | 9,218   |
| Non-controlling interest   | <b>157</b>                              | 205     | <b>95</b>                                | 108     |
| <b>Net earnings</b>  | <b>25,367</b>                           | 23,734  | <b>9,639</b>                             | 9,110   |
| <b>Earnings per share (Note 5)</b>                                   |   |         |  |         |
| Basic  | <b>1.11</b>                             | 1.03    | <b>0.42</b>                              | 0.39    |
| Diluted  | <b>1.11</b>                             | 1.02    | <b>0.42</b>                              | 0.39    |

See accompanying notes.

## CONSOLIDATED STATEMENTS RETAINED EARNINGS (unaudited)

(in thousands of dollars)

|   | For the nine months<br>ended August 31, |         | For the three months<br>ended August 31, |         |
|---|---|---------|--|---------|
|   | 2008                                    | 2007    | 2008                                     | 2007    |
|   | \$                                      | \$      | \$                                       | \$      |
| Balance, beginning of period                            | <b>195,511</b>                          | 168,020 | <b>201,682</b>                           | 179,412 |
| Net earnings  | <b>25,367</b>                           | 23,734  | <b>9,639</b>                             | 9,110   |
|   | <b>220,878</b>                          | 191,754 | <b>211,321</b>                           | 188,522 |
| Dividends   | <b>(5,496)</b>                          | (4,847) | <b>(1,824)</b>                           | (1,615) |
| Premium on redemption of common shares for cancellation | <b>(8,909)</b>                          | —       | <b>(3,024)</b>                           | —       |
| <b>Balance, end of period</b>                           | <b>206,473</b>                          | 186,907 | <b>206,473</b>                           | 186,907 |

See accompanying notes.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(in thousands of dollars)

|   | For the nine months<br>ended August 31, |        | For the three months<br>ended August 31, |       |
|---|---|--------|--|-------|
|   | 2008                                    | 2007   | 2008                                     | 2007  |
|   | \$                                      | \$     | \$                                       | \$    |
| <b>Net earnings</b>   | <b>25,367</b>                           | 23,734 | <b>9,639</b>                             | 9,110 |
| <b>Other comprehensive income:</b>  |   |        |  |       |
| Change in fair value of derivatives designated as cash flow hedges<br>net of income taxes             | <b>192</b>                              | (129)  | <b>162</b>                               | 134   |
| Exchange loss due to translation adjustment of net investment<br>in self-sustaining foreign operation | <b>2,033</b>                            | —      | <b>2,298</b>                             | —     |
|   | <b>2,225</b>                            | (129)  | <b>2,460</b>                             | 134   |
| <b>Comprehensive income</b>   | <b>27,592</b>                           | 23,605 | <b>12,099</b>                            | 9,244 |

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands of dollars)

|  | For the nine months<br>ended August 31, |              | For the three months<br>ended August 31, |              |
|--|---|--------------|--|--------------|
|  | 2008                                    | 2007         | 2008                                     | 2007         |
|  | \$                                      | \$           | \$                                       | \$           |
| <b>OPERATING ACTIVITIES</b>  |   |              |  |              |
| Net earnings   | 25,367                                  | 23,734       | 9,639                                    | 9,110        |
| Non-cash items   |   |              |  |              |
| Amortization of capital assets   | 3,182                                   | 2,754        | 1,124                                    | 958          |
| Amortization of intangible assets  | 726                                     | 699          | 244                                      | 298          |
| Future income taxes  | 50                                      | 140          | 59                                       | 79           |
| Foreign exchange gain on debt on US dollars                              | —                                       | (518)        | —  | (64)         |
| Non-controlling interest   | 157                                     | 205          | 95                                       | 108          |
| Stock-based compensation expense   | 791                                     | 655          | 266                                      | 236          |
|  | 30,273                                  | 27,669       | 11,427                                   | 10,725       |
| Net change in non-cash working capital<br>balances related to operations | (3,620)                                 | (11,688)     | 3,160                                    | (786)        |
|  | 26,653                                  | 15,981       | 14,587                                   | 9,939        |
| <b>FINANCING ACTIVITIES</b>  |   |              |  |              |
| Repayment of long-term debt  | (206)                                   | (501)        | —  | (198)        |
| Dividends paid   | (5,496)                                 | (4,847)      | (1,824)                                  | (1,617)      |
| Issue of common shares   | 189                                     | 255          | 12                                       | 107          |
| Redemption of common shares for cancellation                             | (9,289)                                 | —            | (3,152)                                  | —            |
|  | (14,802)                                | (5,093)      | (4,964)                                  | (1,708)      |
| <b>INVESTING ACTIVITIES</b>  |   |              |  |              |
| Business acquisitions (Note 2)   | (1,050)                                 | (4,611)      | (808)                                    | (12)         |
| Additions to capital assets  | (5,275)                                 | (3,292)      | (2,026)                                  | (862)        |
|  | (6,325)                                 | (7,903)      | (2,834)                                  | (874)        |
| Effect of exchange rate fluctuations on cash<br>and cash equivalents     | (106)                                   | —            | 101                                      | —            |
| <b>Net change in cash and cash equivalents</b>                           | <b>5,420</b>                            | <b>2,985</b> | <b>6,890</b>                             | <b>7,357</b> |
| Cash and cash equivalents, beginning of period                           | 7,879                                   | 6,964        | 6,409                                    | 2,592        |
| <b>Cash and cash equivalents, end of period</b>                          | <b>13,299</b>                           | <b>9,949</b> | <b>13,299</b>                            | <b>9,949</b> |
| <b>Supplemental information:</b>   |   |              |  |              |
| Income taxes paid  | 13,271                                  | 14,680       | 4,071                                    | 3,721        |
| Interest paid  | 144                                     | 1,332        | 1  | 580          |

See accompanying notes.

**CONSOLIDATED BALANCE SHEETS (unaudited)***(in thousands of dollars)*

|   | As at August 31,<br>2008<br>\$ | As at August 31,<br>2007<br>\$ | As at November 30,<br>2007<br>\$ |
|---|--------------------------------|--------------------------------|----------------------------------|
| <b>ASSETS</b>                                   |                                |                                |                                  |
| <b>Current assets</b>                           |                                |                                |                                  |
| Cash and cash equivalents                       | 13,299                         | 9,949                          | 7,879                            |
| Accounts receivable                             | 57,263                         | 59,800                         | 60,976                           |
| Income taxes receivable                         | 370                            | —                              | —                                |
| Inventories                                     | 105,869                        | 98,678                         | 95,971                           |
| Prepaid expenses                                | 1,258                          | 1,100                          | 732                              |
|   | 178,059                        | 169,527                        | 165,558                          |
| Capital assets                                  | 21,979                         | 19,088                         | 19,774                           |
| Intangible assets                               | 13,145                         | 14,504                         | 12,974                           |
| Goodwill  | 62,089                         | 64,174                         | 60,472                           |
|   | 275,272                        | 267,293                        | 258,778                          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>     |                                |                                |                                  |
| <b>Current liabilities</b>                      |                                |                                |                                  |
| Accounts payable and accrued liabilities        | 40,587                         | 42,849                         | 37,371                           |
| Income taxes payable                            | —                              | 196                            | 1,081                            |
| Current portion of long term debt               | 7,019                          | 6,491                          | 6,111                            |
|   | 47,606                         | 49,536                         | 44,563                           |
| Long-term debt                                  | 319                            | 7,136                          | 860                              |
| Future income taxes                             | 1,800                          | 1,982                          | 1,751                            |
| Non-controlling interest                        | 2,665                          | 2,387                          | 2,508                            |
|   | 51,390                         | 61,041                         | 49,682                           |
| <b>Shareholders' equity</b>                     |                                |                                |                                  |
| Capital stock (Note 3)                          | 17,608                         | 17,725                         | 17,800                           |
| Contributed surplus                             | 2,773                          | 1,749                          | 1,982                            |
| Retained earnings                               | 206,473                        | 186,907                        | 195,511                          |
| Accumulated other comprehensive income (Note 6) | (3,972)                        | (129)                          | (6,197)                          |
|   | 222,882                        | 206,252                        | 209,096                          |
|   | 275,272                        | 267,293                        | 258,778                          |

*See accompanying notes.*

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2008 and 2007 (in thousands of dollars, except per-share amounts) (unaudited)

### NATURE OF BUSINESS

Richelieu Hardware Ltd. (the "Company") acts as a distributor, importer, and manufacturer of specialty hardware and complementary products. These products are targeted to an extensive customer base of kitchen and bathroom cabinet, furniture, and window and door manufacturers plus the residential and commercial woodworking industry, as well as a large customer base of retailers, including hardware and renovation products superstores.

### 1) ACCOUNTING POLICIES

#### a) Accounting policies followed

The unaudited interim consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and follow the same accounting principles and methods of application as the recent audited annual consolidated financial statements. In the management opinion, these interim financial statements reflect all the adjustments required to fair presentation. These adjustments consist only of normal recurring adjustments. Operating results for the period are not necessarily indicative of the results that may be expected for the full year as the operating level of the Company is subject to seasonal fluctuations. These interim financial statements should be read in conjunction with the audited consolidated annual financial statements and the accompanying notes included in Company's annual report for the fiscal year 2007.

#### b) New accounting policies adopted

As of December 1, 2007, the Company adopted three new handbook sections issued by the Canadian Institute of Chartered Accountants (CICA):

Section 1535 "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose its objectives, policies and processes for managing capital, summary quantitative data about what it manages as capital and whether it complied with any externally imposed capital requirements to which it is subject and, if not, the consequences of such non-compliance.

Section 3862 "Financial Instruments – Disclosures" modifies the disclosure requirements for financial instruments that were included in Section 3861 "Financial Instruments – Disclosure and Presentation". The new standards require entities to provide disclosures in their financial statements that enables users to evaluate the significance of financial instruments on its financial position and performance, their nature and extent of risks to which it is exposed during the period and at the balance sheet date and how those risks are managed.

Section 3863 "Financial Instruments – Presentation" carries forward unchanged the presentation requirements of the Section 3861 "Financial Instruments – Disclosure and Presentation".

The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

### 2) BUSINESS ACQUISITIONS

On April 7, 2008, the Company acquired the principal net assets of Top Supplies Inc. for a consideration in cash of US\$200 and a balance of sale of US\$400. Based in High Point, North Carolina, this distributor of decorative and functional hardware and related products mainly serves a customer base of residential furniture manufacturers and commercial woodworkers.

On July 28, 2008, the Company acquired the principal net assets of Acroma Sales Ltd. for a total consideration of \$817, acquisition costs included. This business located in Vancouver and Kelowna in British Columbia, distributes finishing products for kitchen and furniture manufacturers.

These transactions were accounted for using the purchase method and the results of operations are included in the financial statements from the acquisition date. The purchase price allocations are as follows:

#### Summary of acquisitions

|                             | 2008<br>\$ | 2007<br>\$ |
|-----------------------------|------------|------------|
| <b>Net assets acquired</b>  |            |            |
| Current assets              | 925        | 1,501      |
| Capital assets              | 68         | 115        |
| Intangible assets           | 303        | 1,976      |
| Goodwill                    | 439        | 2,596      |
|                             | 1,735      | 6,188      |
| Current liabilities assumed | 276        | 363        |
| Net assets acquired         | 1,459      | 5,825      |
| <b>Consideration</b>        |            |            |
| Cash                        | 1,050      | 4,611      |
| Balance of sale             | 409        | 1,214      |

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2008 and 2007 (in thousands of dollars, except per-share amounts) (unaudited)

### 3) CAPITAL STOCK

#### Issued

As at August 31, 2008, capital stock outstanding amounted to 22,638,737 common shares (23,100,737 common shares as at November 30, 2007).

During the nine-month period ended August 31, 2008, the Company issued 28,700 common shares (2007 – 42,875) at a weighted average price of \$6.57 per share (2007 – \$5.96) under the share option plan. In addition, during the period, the Company through a normal course issuer bid, purchased for cancellation 490,700 common shares for a cash consideration of \$ 9,289.

#### Stock option plan

During the nine-month period, the Company granted 170,000 options (2007 – 170,500) with an weighted average exercise price of \$20.63 (2007 – \$24.76) and an average fair value of \$5.37 per option (2007 – \$7.40) as determined using the Black & Scholes option pricing model using an expected dividend yield of 1.5% (2007 – 1%), a volatility of 20% (2007 – 22%), a risk free interest rate of 3.73% (2007 – 4.17%) and an expected life of 7 years (2007 – 7 years). As at August 31, 2008, 768,300 share options were outstanding (2007 – 644,500) with exercise prices varying from \$5.15 to \$24.76 (2007 – \$4.26 to \$24.76) for a weighted average of \$20.33 (2007 – \$19.66).

For the three-month and nine-month periods ended August 31, 2008, the stock-based compensation expense amounted to \$266 (2007 – \$236) and to \$791 (2006 – \$655) respectively.

### 4) INCOME TAXES

New Canadian federal basic corporate tax rates were confirmed on December 14, 2007 to take effect on January 2008 and as a result the combined statutory rates significantly decreased for the period and this was further amplified by the reduction to the effective tax rate in the amount of \$226 applicable to the opening balance of future income taxes.

### 5) EARNINGS PER SHARE

#### THREE-MONTH PERIOD ENDED AUGUST 31

|                                  | 2008           |   |                             | 2007           |   |                             |
|----------------------------------|----------------|---|-----------------------------|----------------|---|-----------------------------|
|                                  | Earnings<br>\$ | Weighted<br>average number<br>of shares<br>(in thousands) | Earnings<br>per share<br>\$ | Earnings<br>\$ | Weighted<br>average number<br>of shares<br>(in thousands) | Earnings<br>per share<br>\$ |
| Basic net earnings               | 9,639          | 22,726  | 0.42                        | 9,110          | 23,089  | 0.39                        |
| Dilutive effect of stock options | —              | 56  | (0.00)                      | —              | 125   | (0.00)                      |
| Diluted net earnings             | 9,639          | 22,782  | 0.42                        | 9,110          | 23,214  | 0.39                        |

#### NINE-MONTH PERIOD ENDED AUGUST 31

|                                  | 2008           |   |                             | 2007           |   |                             |
|----------------------------------|----------------|---|-----------------------------|----------------|---|-----------------------------|
|                                  | Earnings<br>\$ | Weighted<br>average number<br>of shares<br>(in thousands) | Earnings<br>per share<br>\$ | Earnings<br>\$ | Weighted<br>average number<br>of shares<br>(in thousands) | Earnings<br>per share<br>\$ |
| Basic net earnings               | 25,367         | 22,888  | 1.11                        | 23,734         | 23,074  | 1.03                        |
| Dilutive effect of stock options | —              | 63  | (0.00)                      | —              | 136   | (0.01)                      |
| Diluted net earnings             | 25,367         | 22,951  | 1.11                        | 23,734         | 23,210  | 1.02                        |

For the three-month and nine-month periods ended August 31, 2008, outstanding options to purchase 592,050 and 429,050 common shares with weighted average exercise prices of \$22.41 and \$23.10 were respectively excluded from the computation of diluted earnings because their effect would have been anti-dilutive over these periods.

### 6) ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income includes the following items and the changes that occurred during the three-month and nine-month periods ended August 31, 2008 were as follows:

|  | Three months |       | Nine months |       |
|--|--------------|-------|-------------|-------|
|  | 2008         | 2007  | 2008        | 2007  |
| Opening balance  | (6,432)      | (263) | (6,197)     | —     |
| Translation adjustment of net investment in self-sustaining foreign operation                                | 2,298        | —     | 2,033       | —     |
| Change in fair value of derivatives designated as cash<br>flow hedges during the period, net of income taxes | 162          | 134   | 192         | (129) |
| Balance – end of period  | (3,972)      | (129) | (3,972)     | (129) |

## **7) FINANCIAL INSTRUMENTS**

### **Foreign currency risk**

The Company's exposure arises from purchases and sales transacted mainly in US dollars as worldwide suppliers provide most of its products and also some of its customers manufacture and export a substantial portion of their products to the American market. Slowdown in customers' activities could impact the Company's sales.

The Company through diversification of its customer base and product offering, coupled with further development of its markets, reduces global risks related to certain business segments. The Company is party to forward exchange contracts to diminish its foreign currency exposure associated to payables or to cover forecasted purchase commitments.

For the three-month and nine-month periods ended August 31, 2008, a 1% fluctuation in the Canadian dollar in relation to foreign currencies would have no material effect on the Company's net earnings due to price flexibility related to the inventory management and market specialisation. During the three-month and the nine-month periods ended August 31, 2008, foreign exchange gains of \$592 (2007 – \$4) and of \$615 (2007 – \$523) respectively were recorded in administrative charges.

### **Credit risk**

The Company is also exposed to potential loss resulting from granting of credit to its customers. To mitigate such risk, the Company has adopted a credit policy that defines the credit conditions to be met by its customers. Specific credit limit for each customer is established and regularly revised. Diversification of products and customers ensure protection against credit risk concentration. No customer accounted for over 10% of accounts receivable.

## **8) GEOGRAPHIC INFORMATION**

During the three-month and nine-month periods ended August 31, 2008, more than 82% of sales were made in Canada, while sales to foreign countries, almost entirely in the United States, amounted to \$19,867 (2007 – \$21,085) and to \$56,202 (2007 – \$62,026) respectively in Canadian dollars compared to \$19,337 (2007 – \$19,884) and to \$55,490 (2007 – \$55,726) respectively in US dollars.

As at August 31, 2008, out of a total amount of \$21,979 in capital assets (\$19,774 as at November 30, 2007), \$887 (\$915 as at November 30, 2007) are located in the USA. In addition, intangible assets located in the USA amounted to \$9,112 (\$8,815 as at November 30, 2007) and goodwill at \$20,894 (\$19,336 as at November 30, 2007).

## **9) MANAGEMENT OF CAPITAL**

The Company's objectives are as follows:

- to maintain a low debt ratio to preserve its capacity to pursue its growth both internal and by acquisition;
- to provide an adequate return to its shareholders.

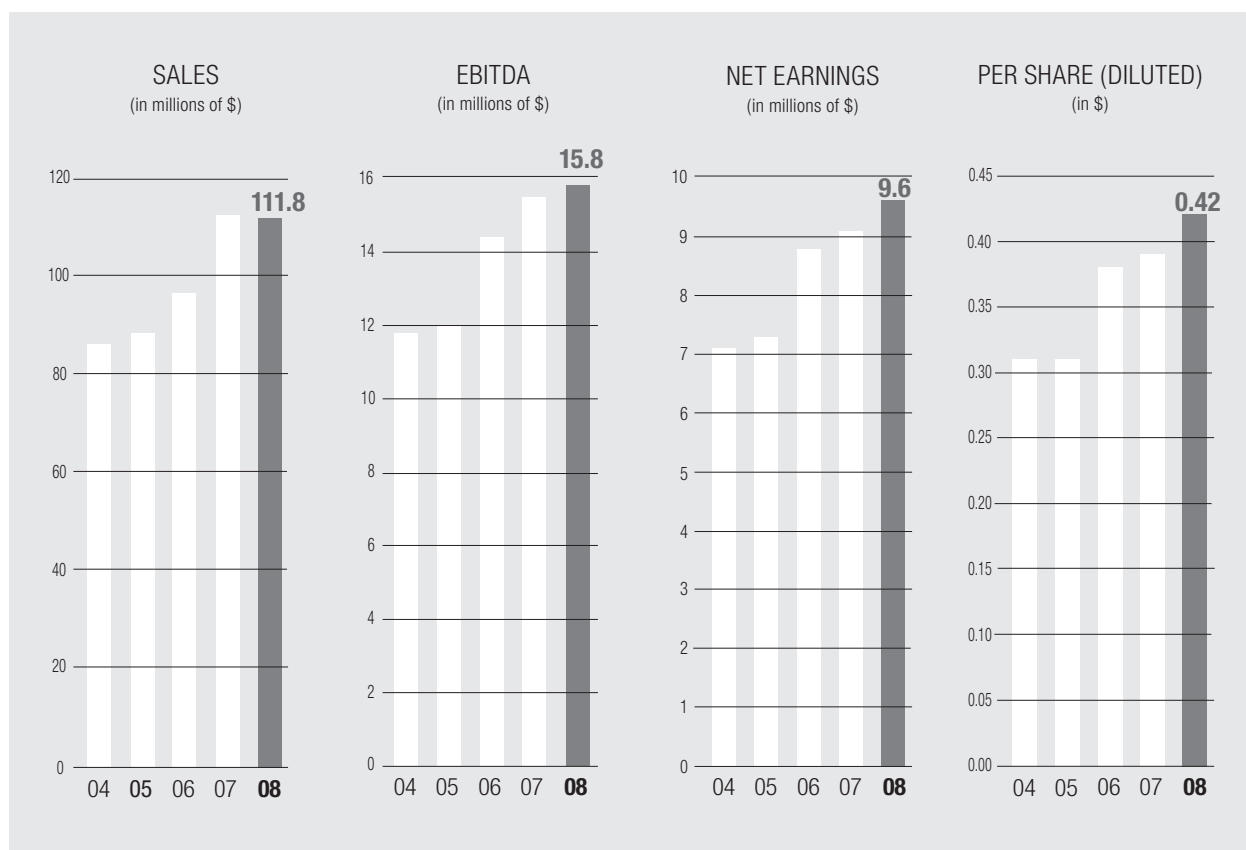
The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

For the period ended August 31, 2008, the Company achieved the following results regarding its capital management objectives:

- a debt/equity ratio: 3.3% (2007 – 6.6%) (interest-bearing debt/ shareholders' equity);
- a return on shareholders' equity of 16.6% over the last 12 months (17.0% for the 12 previous months).

The capital management objectives remain the same as for the previous fiscal year. Return on shareholders' equity is down for the last 12 months compared to the previous 12 months mainly due a greater amount of cash and cash equivalents reserved for possible acquisitions or to take advantage of the authorized share purchase programme.

**Third Quarter**  
ended August 31, 2008



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OF OPERATING RESULTS AND FINANCIAL POSITION FOR THE THIRD QUARTER AND FIRST NINE MONTHS ENDED AUGUST 31, 2008

This management's report relates to Richelieu's consolidated operating results and cash flows for the third quarter and first nine months ended August 31, 2008, in comparison with the third quarter and first nine months ended August 31, 2007, as well as its financial position at those dates. This report should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the third quarter and first nine months of 2008 as well as the analysis and notes to financial statements appearing in the 2007 Annual Report. In this management's report, "Richelieu" or the "Company" designates, as the case may be, Richelieu Hardware Ltd. and its subsidiaries and divisions, or one of its subsidiaries or divisions. Supplementary information, including certificates for the interim period ended August 31, 2008 signed by the Company's President and Chief Executive Officer and Vice-President and Chief Financial Officer, is available on SEDAR's website at [www.sedar.com](http://www.sedar.com).

The information contained in this management's report accounts for any major event occurring prior to October 2, 2008, on which date the unaudited consolidated financial statements and the management's report were approved by the Company's Board of Directors. Unless otherwise indicated, the financial information presented below, including tabular amounts, is expressed in Canadian dollars and prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The interim consolidated financial statements have not been audited or reviewed by the Company's auditors.

Richelieu uses earnings before income taxes, interest, amortization and non-controlling interest ("EBITDA") because this measure enables management to assess the Company's operational performance. This measure is a widely accepted financial indicator of a company's ability to service and incur debt. However, EBITDA should not be considered by an investor as an alternative to operating income or net earnings, an indicator of operating performance or cash flows, or as a measure of liquidity. Because EBITDA is not a standardized measurement as prescribed by GAAP, it may not be comparable to the EBITDA of other companies.

#### FORWARD-LOOKING STATEMENTS

Certain statements set forth in this management's report, including statements relating to the expected sufficiency of cash flows to cover contractual commitments, growth outlook and other statements not pertaining to past events, constitute forward-looking statements. In some cases, these statements are identified by the use of terms such as "may", "could", "might", "intend", "should", "expect", "project", "plan", "believe", "estimate" or the negative form of these expressions or other comparable variants. These statements are based on the information available at the time they are written, on assumptions made by management and on the expectations of management, acting in good faith, regarding future events, including economic conditions, exchange rate fluctuations, changes in operating expenses, the sufficiency of the Company's deliveries and the absence of unusual events requiring supplementary capital expenditures.

Although management believes these assumptions and expectations to be reasonable based on the information available at the time they are written, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to known and unknown risks and uncertainties such as those related to the industry, acquisitions, labour relations, credit, key officers, supply and product liability, as well as other factors set forth herein and in the "Risk Management" section on page 38 of the Company's 2007 Annual Report.

Richelieu's actual results could differ materially from those indicated or underlying these forward-looking statements. The reader is therefore recommended not to unduly rely on these forward-looking statements. Forward-looking statements do not reflect the potential impact of special items, any business combination or any other transaction that may be announced or occur subsequent to the date hereof. Richelieu undertakes no obligation to update or revise the forward-looking statements to account for new events or new circumstances, except where provided for by applicable legislation.

#### CHANGES IN ACCOUNTING POLICIES

In December 2006, the CICA issued three new Handbook sections regarding capital and financial instruments, i.e. Sections 1535, 3862 and 3863, which are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company applied these new standards in the first nine months ended August 31, 2008. The application of these new sections had no material effect on Richelieu's results and cash flows for the first nine months of 2008 or on its financial position as at August 31, 2008.

#### GENERAL BUSINESS OVERVIEW as at August 31, 2008

**Richelieu Hardware Ltd. is a leading North American importer, distributor and manufacturer of specialty hardware and related products.**

Its products are targeted to an extensive customer base of **kitchen and bathroom cabinet, furniture, and window and door manufacturers plus the residential and commercial woodworking industry**, as well as a large customer base of **hardware retailers, including renovation superstores**. The residential and commercial renovation industry is the Company's major source of growth.

Richelieu offers customers a broad mix of products sourced from manufacturers worldwide. The solid relationships Richelieu has built with the world's leading suppliers enable it provide customers with the latest innovative products tailored to their business needs. The Company's product selection consists of **more than 55,000 stock-keeping units (SKUs)** targeted to a base of **over 38,000 customers** who are served by **49 centres in North America** – 31 distribution centres across Canada, 16 in the United States and two manufacturing plants in Canada.

Main product categories include functional cabinet hardware and assembly products for the manufacture of furniture and kitchen cabinets, decorative hardware products, high-pressure laminates, decorative and functional panels, veneer sheets and edge-banding products, kitchen accessories, ergonomic workstation components, ceramic tiles, finishing products, whiteboards and tackboards. Richelieu also specializes in the manufacture of a wide variety of veneer sheets and edgebanding products through its subsidiary Cedan Industries Inc., and of components for the window and door industry and of mouldings through Menuiserie des Pins Ltée. In addition, some of the Company's products are manufactured in Asia according to its specifications and those of its customers.

The Company employs over 1,300 people at its head office and throughout the network, close to half of whom work in marketing, sales and customer service. Some 60% of its employees are Richelieu shareholders.

#### MISSION AND STRATEGY

Richelieu's mission is to create shareholder value and contribute to its customers' growth and success, while favouring a business culture focused on quality of service and results, partnership and entrepreneurship.

To sustain its growth and remain the leader in its specialty market, the Company continues to implement the strategy that has benefited it until now, with a focus on:

- continuing to strengthen its product selection by introducing every year an average of over 1,000 diversified products that meet its market segment needs and position it as the specialist in functional and decorative hardware for manufacturers and retailers;
- further developing its current markets in Canada and the United States with the support of a specialized sales and marketing force capable of providing customers with personalized service; and
- expanding in North America through the opening of distribution centres and through efficiently integrated, profitable acquisitions made at the right price, offering high growth potential and complementary to its product mix and expertise.

Richelieu's solid and efficient organization, highly diversified product selection and long-term relationships with leading suppliers worldwide position it to compete effectively in a fragmented market consisting mainly of a host of regional distributors who distribute a limited range of products.

## SELECTED CONSOLIDATED QUARTERLY INFORMATION (Unaudited)

Periods ended August 31

(in thousands of \$, except per-share amounts, ratio and number of outstanding shares)

|  | 3 months |         | Δ (%)  | 9 months |         | Δ (%)  |
|--|----------|---------|--------|----------|---------|--------|
|  | 2008     | 2007    |        | 2008     | 2007    |        |
| Sales  | 111,799  | 111,921 | - 0.1  | 322,726  | 322,761 | 0.0    |
| EBITDA   | 15,811   | 15,513  | + 1.9  | 41,359   | 40,768  | + 1.4  |
| EBITDA margin (%)  | 14.1     | 13.9    |        | 12.8     | 12.6    |        |
| Net earnings   | 9,639    | 9,110   | + 5.8  | 25,367   | 23,734  | + 6.9  |
| • basic per share (\$)                                     | 0.42     | 0.39    | + 7.7  | 1.11     | 1.03    | + 7.8  |
| • diluted per share (\$)                                   | 0.42     | 0.39    | + 7.7  | 1.11     | 1.02    | + 8.8  |
| Cash flows   | 11,427   | 10,725  | + 6.5  | 30,273   | 27,669  | + 9.4  |
| • per share (\$)   | 0.50     | 0.46    | + 8.7  | 1.32     | 1.19    | + 10.9 |
| Cash dividends   |          |         |        |          |         |        |
| paid on shares   | 1,824    | 1,617   | + 12.8 | 5,496    | 4,847   | + 13.4 |
| • per share (\$)   | 0.08     | 0.07    | + 14.3 | 0.24     | 0.21    | + 14.3 |
| Weighted average number of shares (diluted) (in thousands) | 22,782   | 23,214  |        | 22,951   | 23,210  |        |

## Balance sheet data

As at August 31

|   | 2008    | 2007    |        |
|---|---------|---------|--------|
| Total assets                                    | 275,272 | 267,293 | + 3.0  |
| Working capital                                 | 130,453 | 119,991 | + 8.7  |
| Shareholders' equity                            | 222,882 | 206,252 | + 8.1  |
| Return on average equity (%)                    | 16.6    | 17.0    | - 2.4  |
| Book value (\$)                                 | 9.85    | 8.93    | + 10.3 |
| Total interest-bearing debt                     | 7,338   | 13,627  | - 46.2 |
| <b>Ratio</b>                                    |         |         |        |
| Interest-bearing debt/ shareholders' equity (%) | 3.3%    | 6.6%    |        |

## OPERATING RESULTS FOR THE THIRD QUARTER AND FIRST NINE MONTHS ENDED AUGUST 31, 2008 COMPARED WITH THE THIRD QUARTER AND FIRST NINE MONTHS ENDED AUGUST 31, 2007

**Third-quarter consolidated sales** totalled \$111.8 million, remaining relatively stable compared with the third quarter of 2007 when they stood at \$111.9 million. This slight decline is due to a 0.8% negative internal growth, partially offset by a 0.7% growth from the acquisition of the distributors Top Supplies (North Carolina) and Acroma (B.C.) on April 7, 2008 and July 28, 2008 respectively – Acroma specializes in the distribution of wood finishing products. Operations in the United States posted a slowdown due to more difficult economic conditions; in addition, the erosion of the exchange rate on U.S. dollar sales converted into Canadian dollars represented a \$0.7 million decrease in sales. Were it not for the impact of the exchange rate, the period's consolidated sales would have posted a slight growth.

Sales to **manufacturers** amounted to \$92.1 million, down by \$2.6 million or 2.8% from the same quarter of 2007, caused by the aforementioned factors and less favourable export conditions for Canadian manufacturers. Conversely, sales to hardware **retailers** and renovation superstores, recorded mostly in Canada, grew by \$2.5 million or 14.6% to \$19.7 million in the third quarter of 2008.

In **Canada**, sales totalled \$91.9 million, up 1.2% over the third quarter of 2007; this increase is due to the internal growth achieved in the residential and commercial woodworking market and the hardware retailers market including renovation superstores as well as Acroma's contribution for one month. Sales in Canada accounted for 82.2% of the quarter's consolidated sales. As previously indicated, sales in the **United States** decreased to US\$19.3 million, down by US\$0.5 million or 2.8% from the corresponding quarter of 2007. This decline is due to a 5% negative internal growth, partially offset by a 2.2% growth-by-acquisition stemming from the contribution of Top Supplies. Considering the exchange rate, sales in the United States amounted to CA\$19.9 million, compared with CA\$21.1 million for the third quarter of 2007. They accounted for 17.8% of the quarter's consolidated sales.

## Sales

Periods ended August 31

| (in thousands of \$)  | 3 months |         | Δ (%) | 9 months |         | Δ (%) |
|-----------------------|----------|---------|-------|----------|---------|-------|
|                       | 2008     | 2007    |       | 2008     | 2007    |       |
| Canada                | 91,932   | 90,836  | + 1.2 | 266,524  | 260,736 | + 2.2 |
| United States (CA\$)  | 19,867   | 21,085  | - 5.8 | 56,202   | 62,025  | - 9.4 |
| (US\$)                | 19,337   | 19,884  | - 2.8 | 55,490   | 55,726  | - 0.4 |
| Average exchange rate | 1.0274   | 1.0604  |       | 1.0128   | 1.1131  |       |
| Consolidated sales    | 111,799  | 111,921 | - 0.1 | 322,726  | 322,761 | 0.0   |

**For the first nine months, consolidated sales** totalled \$322.7 million, remaining relatively stable compared with the corresponding period of 2007. Sales in the United States were slowed down by the economic conditions that have prevailed for several months; in addition, the erosion of the exchange rate on U.S. sales converted into Canadian dollars represented a \$5.6 million decrease in sales for the first nine months of the year. Were it not for the impact of the exchange rate, the period's consolidated sales would have increased by 1.7%.

Sales to **manufacturers** amounted to \$265.5 million, down by 1.3% or \$3.5 million from the comparable period of 2007, due to the factors mentioned for the third quarter. Sales to hardware **retailers** including renovation superstores increased by \$3.4 million or 6.4% to \$57.2 million.

For the first nine months of the year, sales in **Canada** totalled \$266.5 million, an increase of \$5.8 million or 2.2%, of which 1.9% came from internal growth and 0.3% from the acquisition of Sasco and Acroma. This growth was achieved in the manufacturers and hardware retailers markets including renovation superstores. Sales in Canada accounted for 82.6% of consolidated sales for the first nine months of 2008. In the **United States**, sales amounted to US\$55.5 million, a slight decrease of US\$0.2 million or 0.4% stemming from a 4.1% negative internal growth, partially offset by a 3.6% growth-by-acquisition representing the contributions of Village Square and Top Supplies. Considering the exchange rate, sales stood at CA\$56.2 million, compared with CA\$62.0 million for the first nine months of the previous year. They accounted for 17.4% of the period's consolidated sales.

## CONSOLIDATED EBITDA AND EBITDA MARGIN

Periods ended August 31

| (in thousands of \$) | 3 months |         | Δ (%) | 9 months |         | Δ (%) |
|----------------------|----------|---------|-------|----------|---------|-------|
|                      | 2008     | 2007    |       | 2008     | 2007    |       |
| Sales                | 111,799  | 111,921 | - 0.1 | 322,726  | 322,761 | 0.0   |
| EBITDA               | 15,811   | 15,513  | + 1.9 | 41,359   | 40,768  | + 1.4 |
| EBITDA margin (%)    | 14.1     | 13.9    |       | 12.8     | 12.6    |       |

**Third-quarter earnings before income taxes, interest, amortization and non-controlling interest (EBITDA)** stood at \$15.8 million, up 1.9% over the corresponding quarter of 2007. The gross profit and EBITDA margins improved overall in comparison with the third quarter of the previous year when the Company had incurred development costs in the retailers market that had temporarily impacted its profit margins. The EBITDA margin improved to 14.1% for the third quarter of 2008, up from 13.9% for the third quarter of 2007, positively affected by the U.S. exchange rate. Nevertheless, this improvement was somewhat curbed in the third quarter of 2008 by a temporary increase in operating costs arising from the relocation and merger of two major distribution centres and the relocation of another centre to enhance operational efficiency and to lower operating costs.

**Interest** was negative for the third quarter, due to the reduction by almost half in interest-bearing debt from the third quarter of 2007 and positive bank balances. **Amortization of capital assets** increased by approximately \$0.2 million, whereas **amortization of intangible assets** decreased by \$54,000.

**Income taxes** decreased by \$0.1 million to \$4.7 million, due to the reduction in the Canadian tax rate effective January 1, 2008.

**For the first nine months, earnings before income taxes, interest, amortization and non-controlling interest (EBITDA)** stood at \$41.4 million, up 1.4% over the comparable period of 2007. The gross profit and EBITDA margins improved overall compared with the same period of 2007, due primarily to the fact that they benefited from relatively stable exchange rates in relation to the previous year; the **EBITDA margin** increased to 12.8% from 12.6% in 2007. Nevertheless, this improvement was somewhat curbed by a temporary increase in operating costs arising from the relocation and merger of two major distribution centres and the relocation of another centre to enhance operational efficiency and to lower operating costs.

**Interest** decreased by approximately \$0.7 million, reflecting the major reduction in interest-bearing debt since the beginning of the year. **Amortization of capital and intangible assets** increased by some \$0.4 million and \$27,000 respectively.

**Income taxes** amounted to \$11.8 million, down by about \$0.8 million due to the aforementioned reduction in the Canadian tax rate.

| <b>CONSOLIDATED NET EARNINGS</b>              |                 |             |               |                 |             |               |
|---|-----------------|-------------|---------------|-----------------|-------------|---------------|
| Periods ended August 31                       |                 |             |               |                 |             |               |
| (in thousands of \$)                          | <b>3 months</b> |             |               | <b>9 months</b> |             |               |
|   | <b>2008</b>     | <b>2007</b> | <b>Δ (%)</b>  | <b>2008</b>     | <b>2007</b> | <b>Δ (%)</b>  |
| EBITDA  | <b>15,811</b>   | 15,513      | <b>+ 1.9</b>  | <b>41,359</b>   | 40,768      | <b>+ 1.4</b>  |
| Amortization of capital and intangible assets | <b>1,368</b>    | 1,256       |               | <b>3,908</b>    | 3,453       |               |
| Interest                                      | <b>(19)</b>     | 184         |               | <b>106</b>      | 767         |               |
| Income taxes                                  | <b>4,728</b>    | 4,855       |               | <b>11,821</b>   | 12,609      |               |
| Non-controlling interest                      | <b>95</b>       | 108         |               | <b>157</b>      | 205         |               |
| Net earnings                                  | <b>9,639</b>    | 9,110       | <b>+ 5.8</b>  | <b>25,367</b>   | 23,734      | <b>+ 6.9</b>  |
| Net profit margin (%)                         | <b>8.6</b>      | 8.1         |               | <b>7.9</b>      | 7.4         |               |
| Comprehensive income                          | <b>12,099</b>   | 9,244       | <b>+ 30.9</b> | <b>27,592</b>   | 23,605      | <b>+ 16.9</b> |

**Third-quarter net earnings** grew by 5.8% to \$9.6 million. The net profit margin improved to 8.6% of consolidated sales, compared with 8.1% for the third quarter of 2007. This increase is due to the improvement in gross profit and EBITDA margins and the reduction in interest and income taxes. **Earnings per share** amounted to \$0.42 (basic and diluted), up 7.7%, whereas the number of shares outstanding decreased by close to 1% over the past three months.

**Comprehensive income** totalled \$12.1 million, on account of a latent foreign exchange gain of \$2.3 million on translation of the financial statements of the subsidiary in the United States (changed from integrated to self-sustaining foreign operations on September 1<sup>st</sup> 2007).

**For the first nine months, net earnings** amounted to \$25.4 million, up 6.9% over the same period of 2007. The net profit margin improved to 7.9% of consolidated sales, up from 7.4% for the first nine months of 2007. As previously indicated, this increase is due to the improvement in gross profit and EBITDA margins and the reduction in interest and income taxes. **Earnings per share** grew by approximately 8% to \$1.11 (basic and diluted), compared with \$1.03 (basic) and \$1.02 (diluted) for the first nine months of 2007, whereas the number of shares outstanding decreased by 2% over the past nine months.

**Comprehensive income** totalled \$27.6 million, on account of a latent foreign exchange gain of \$2.0 million on translation of the financial statements of the subsidiary in the United States.

| <b>SUMMARY OF QUARTERLY FINANCIAL RESULTS (Unaudited)</b> |               |                |                |          |
|---|---------------|----------------|----------------|----------|
| (in thousands of \$, except per-share amounts)            |               |                |                |          |
| <b>Quarters</b>   | <b>1</b>      | <b>2</b>       | <b>3</b>       | <b>4</b> |
| <b>2008</b>   |               |                |                |          |
| Sales   | <b>96,082</b> | <b>114,845</b> | <b>111,799</b> |          |
| EBITDA  | <b>10,569</b> | <b>14,980</b>  | <b>15,811</b>  |          |
| Net earnings  | <b>6,628</b>  | <b>9,100</b>   | <b>9,639</b>   |          |
| basic per share   | <b>0.29</b>   | <b>0.40</b>    | <b>0.42</b>    |          |
| per share diluted   | <b>0.29</b>   | <b>0.40</b>    | <b>0.42</b>    |          |
| <b>2007</b>   |               |                |                |          |
| Sales   | 94,509        | 116,331        | 111,921        | 113,396  |
| EBITDA  | 10,470        | 14,784         | 15,513         | 16,333   |
| Net earnings  | 5,973         | 8,651          | 9,110          | 10,220   |
| basic per share   | 0.26          | 0.37           | 0.39           | 0.44     |
| diluted per share   | 0.26          | 0.37           | 0.39           | 0.44     |
| <b>2006</b>   |               |                |                |          |
| Sales   | 82,862        | 102,604        | 96,221         | 103,944  |
| EBITDA  | 9,060         | 14,128         | 14,353         | 15,517   |
| Net earnings  | 5,360         | 8,627          | 8,779          | 9,165    |
| basic per share   | 0.23          | 0.37           | 0.38           | 0.40     |
| diluted per share   | 0.23          | 0.37           | 0.38           | 0.39     |

**Quarterly variations in earnings** – The first quarter ending February 28 or 29 is generally the year's weakest for Richelieu in light of the smaller number of business days due to the end-of-year holiday period and a wintertime slowdown in renovation and construction work. The third quarter ending August 31 also includes a smaller number of business days due to the summer holidays, which can be reflected in the period's financial results. The second and fourth quarters respectively ending May 31 and November 30 generally represent the year's most active periods.

## FINANCIAL POSITION

### Analysis of principal cash flows for the third quarter and first nine months ended August 31, 2008

| <b>CHANGE IN CASH AND CASH EQUIVALENTS AND CAPITAL RESOURCES</b> |                 |             |                 |             |
|--|-----------------|-------------|-----------------|-------------|
| Periods ended August 31  |                 |             |                 |             |
| (in thousands of \$)   | <b>3 months</b> |             | <b>9 months</b> |             |
|  | <b>2008</b>     | <b>2007</b> | <b>2008</b>     | <b>2007</b> |
| Cash flows provided by (used for):                               |                 |             |                 |             |
| Operating activities   | <b>14,587</b>   | 9,939       | <b>26,653</b>   | 15,981      |
| Financing activities   | <b>(4,964)</b>  | (1,708)     | <b>(14,802)</b> | (5,093)     |
| Investing activities   | <b>(2,834)</b>  | (874)       | <b>(6,325)</b>  | (7,903)     |
| Effect of exchange rate fluctuations                             | <b>101</b>      | –           | <b>(106)</b>    | –           |
| Net change in cash and cash equivalents                          | <b>6,890</b>    | 7,357       | <b>5,420</b>    | 2,985       |
| Cash and cash equivalents, beginning of period                   | <b>6,409</b>    | 2,592       | <b>7,879</b>    | 6,964       |
| Cash and cash equivalents, end of period                         | <b>13,299</b>   | 9,949       | <b>13,299</b>   | 9,949       |
| Working capital  | <b>130,453</b>  | 119,991     | <b>130,453</b>  | 119,991     |
| Renewable line of credit   | <b>26,000</b>   | 26,000      | <b>26,000</b>   | 26,000      |

**Third-quarter operating activities provided cash flows** (before net change in non-cash working capital balances related to operations) of \$11.4 million or \$0.50 per share, up from compared with \$10.7 million or \$0.46 per share for the third quarter of 2007, mainly reflecting the growth in net earnings. Net change in non-cash working capital balances related to operations represented a cash inflow of \$3.2 million, as opposed to a cash outflow of \$0.8 million for the third quarter of 2007. Consequently, operating activities provided cash flows of \$14.6 million, up from \$9.9 million for the third quarter of 2007.

**Financing activities** used cash flows of \$5.0 million, compared with \$1.7 million for the third quarter of 2007. Richelieu paid \$1.8 million in shareholder dividends, up from \$1.6 million for the third quarter of 2007; this rise reflects the dividend rate increases announced on January 31 and March 27, 2008. In addition, during the third quarter, 165,900 common shares were redeemed for a cash consideration of \$3.2 million for cancellation purposes under the Company's normal course issuer bid, whereas no shares were purchased in the third quarter of the previous year.

**Investing activities** used cash flows of \$2.8 million, compared with \$0.9 million in the third quarter of the previous year. During the third quarter of 2008, the Company invested \$2.0 million in the relocation and merger of two major distribution centres and the relocation of another centre, the design and manufacture of displays for the retailers market, and the purchase of manufacturing equipment and various capital assets, including the improvement of business premises. In addition, Richelieu invested \$0.8 million to acquire the principal net assets of the distributor Acroma.

**For the first nine months, cash flows from operating activities** (before net change in non-cash working capital balances related to operations) increased by 9.4% to \$30.3 million or \$1.32 per share, up from \$27.7 million or \$1.19 per share for the first nine months of 2007, mainly reflecting the growth in net earnings. Net change in non-cash working capital balances related to operations represented a cash outflow of \$3.6 million, compared with a cash outflow of \$11.7 million for the same period of 2007. Consequently, operating activities provide cash flows of \$26.7 million, up from \$16.0 million for the first nine months of 2007.

**Financing activities** used cash flows of \$14.8 million, compared with \$5.1 million for the same period of 2007. The Company paid \$5.5 million in shareholder dividends, up from \$4.8 million for the first nine months of 2007; this rise reflects the dividend rate increases announced on January 31 and March 27, 2008. In addition, the Company purchased 490,700 common shares for a consideration of \$9.3 million under its normal course issuer bid, whereas no shares were purchased in the first nine months of 2007.

**Investing activities** used cash flows of \$6.3 million, compared with \$7.9 million in the same period of 2007. In the first nine months of the year, the Company invested \$5.3 million in the relocation and merger of two major distribution centres and the relocation of another centre, the design and manufacture of displays for the retailers market, and the purchase of manufacturing equipment and various capital assets, including the improvement of business premises. In addition, Richelieu invested \$1.1 million to acquire the principal net assets of Top Supplies and Acroma.

#### Sources of financing

As at August 31, 2008, **cash and cash equivalents** totalled \$13.3 million, up from \$9.9 million at the end of the corresponding period of 2007. The Company posted an excellent **working capital** of \$130.5 million for a current ratio of 3.7:1, compared with \$120.0 million and a 3.4:1 ratio as at August 31, 2007.

Richelieu estimates that it has the capital resources needed to fulfill its commitments and respect its ongoing obligations. Its cash flows from operating activities should suffice for the funding requirements arising from its growth strategy and its financing and investing activities planned for the year. Furthermore, Richelieu has an authorized line of credit of \$26.0 million, renewable annually and bearing interest at the bank's prime rate, as well as easy access to other outside financing if necessary.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rate will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill the Company's requirements and no unusual events will entail additional capital expenditures. This expectation also remains subject to the risks identified under "Risk Management" on page 38 of the Company's 2007 Annual Report.

#### Balance sheet analysis

##### SUMMARY BALANCE SHEET

As at August 31  
(in thousands of \$)

|                       | 2008           | 2007    |
|-----------------------|----------------|---------|
| Current assets        | 178,059        | 169,527 |
| Long-term assets      | 97,213         | 97,766  |
| <b>Total</b>          | <b>275,272</b> | 267,293 |
| Current liabilities   | 47,606         | 49,536  |
| Long-term liabilities | 4,784          | 11,505  |
| Shareholders' equity  | 222,882        | 206,252 |
| <b>Total</b>          | <b>275,272</b> | 267,293 |

#### Assets

As at August 31, 2008, **total assets** amounted to \$275.3 million, up from \$267.3 million a year earlier, an increase of 3.0%. Current assets grew by 5.0% or \$8.5 million, due primarily to a \$3.4 million growth in cash and cash equivalents and a \$7.2 million rise in inventories related to acquisitions, the new distribution centre located in Barrie, Ontario, the innovations introduced over the past 12 months, the medium and long-term agreements signed with major Canadian renovation chains and to meet future demand.

##### TOTAL INTEREST-BEARING DEBT

As at August 31  
(in thousands of \$)

|                                       | 2008            | 2007         |
|---------------------------------------|-----------------|--------------|
| Current portion of long-term debt     | 7,019           | 6,491        |
| Long-term debt                        | 319             | 7,136        |
| <b>Total</b>                          | <b>7,338</b>    | 13,627       |
| <i>less cash and cash equivalents</i> | <i>(13,299)</i> | <i>9,949</i> |
| <b>Total debt net of cash</b>         | <b>(5,961)</b>  | 3,678        |

Richelieu has reduced its **total interest-bearing debt** by almost half over the past 12 months, bringing it to \$7.3 million as at August 31, 2008. After deducting cash and cash equivalents, the Company had a **total debt-free cash situation and a surplus** of \$6.0 million as at August 31, 2008. Richelieu remains in a healthy and solid financial position, with low indebtedness and substantial cash flows generated every year, enabling it to pursue its growth and expansion, particularly through the acquisition of companies specializing in its business sector.

**Shareholders' equity** totalled \$222.9 million as at August 31, 2008, up from \$206.3 million a year earlier, a growth of 8.1% reflecting the increases of \$19.6 million in retained earnings which amounted to \$206.5 million as at August 31, 2008, and of \$1.0 million in contributed surplus, less accumulated comprehensive income of \$4.0 million. As at August 31, 2008, the **book value per share** was \$9.85, up from \$8.93 as at August 31, 2007, an increase of 10.3%.

**The total interest-bearing debt/equity ratio** stood at 3.3% as at August 31, 2008, compared with 6.6% a year earlier.

As at August 31, 2008, Richelieu's share capital consisted of 22,638,737 common shares (23,100,737 common shares as at November 30, 2007) due to the issue of 28,700 common shares under the share option plan and the purchase of 490,700 common shares for cancellation purposes, and 768,300 options (640,000 options as at November 30, 2007) were outstanding.

#### CONTRACTUAL COMMITMENTS

There were no major changes in Richelieu's contractual commitments outside the normal course of business, compared with those set forth in the Company's 2007 Annual Report. For 2008 and the foreseeable future, the Company expects cash flows from operating activities and other sources of financing to meet its ongoing contractual commitments.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rate will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill the Company's requirements and no unusual events will entail additional capital expenditures. This expectation also remains subject to the risks identified under "Risk Management" on page 38 of the Company's 2007 Annual Report.

#### FINANCIAL INSTRUMENTS

Richelieu periodically enters into forward exchange contracts to fully or partially hedge the effects of foreign currency fluctuations related to foreign-currency denominated payables or to hedge forecasted purchase transactions. The Company has a policy of not entering into derivatives for speculative or negotiation purposes and to enter into these contracts only with major financial institutions. For further information, the reader is referred to note 7 accompanying the financial statements appearing following this management's report.

#### INTERNAL CONTROL OVER FINANCIAL REPORTING

During the first nine months ended August 31, 2008, there were no changes in the Company's procedures that had or could have a material impact on its internal control over financial reporting.

#### RISK FACTORS

Risk factors are described in the "Risk Management" section on page 38 of Richelieu's 2007 Annual Report.

#### OUTLOOK

During the fourth quarter ending November 30, 2008, we will remain focused on our two-tiered development strategy: increasing our market share to drive internal growth in the United States and Canada, and completing acquisitions insofar as the opportunities are fully consistent with our objectives of operating profitability and creation of value.

The growth outlook set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rate will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill the Company's requirements and no unusual events will entail additional capital expenditures. This expectation also remains subject to the risks identified under "Risk Management" on page 38 of the Company's 2007 Annual Report.

#### SUPPLEMENTARY INFORMATION

Further information about Richelieu, including its latest Annual Information Form, is available on the System for Electronic Document Analysis (SEDAR) website at [www.sedar.com](http://www.sedar.com).



(Signed) Richard Lord  
President and  
Chief Executive Officer



(Signed) Alain Giasson  
Vice-President and  
Chief Financial Officer

October 2, 2008