

## Message to shareholders

We are pleased to report that we achieved a first-quarter sales record and excellent net earnings. For the three months ended February 28, 2007, our sales grew by 14.1% and our net earnings by 11.4%. We ended the period in solid financial health and well positioned to pursue our growth.

The acquisitions made in the past year, specifically Nystrom Group (Ontario), Kiika International (Pennsylvania), Specialty Supplies Inc. (Florida) and L.B. Brass (New York), largely contributed to the period's growth. We also achieved significant internal growth in the first quarter, reflecting the efficient integration of our prior acquisitions and the selling synergies developed with these operations. Our growth also attests to our market development efforts, innovation in our product offering, as well as the benefits of the previous two years' investments in our marketing programs, the expansion of our distribution centres, our showroom improvements and our optimized transactional website [www.richelieu.com](http://www.richelieu.com).

Our U.S. operations posted strong sales growth of 74% in U.S. dollars, due mainly to the acquisitions made in dynamic markets; they accounted for 18.9% of our first-quarter consolidated sales, compared with 12.4% for the corresponding period of 2006. Our strongest growth in all our North American network was achieved in the residential and commercial woodworking and the cabinet makers markets, which remain strong and offer great growth potential in North America. Furthermore, Nystrom's contribution and solid internal growth raised our sales by 11.7% in the retailers market.

Subsequent to the end of the quarter, on March 7, 2007, we closed another acquisition in the United States, namely **Village Square Cabinet Supply**, a Nashville, Tennessee based distributor that mainly serves a customer base of cabinet makers. This transaction, which is our seventh acquisition in the United States since 2003, enabled us to penetrate a new market close to other regions in which we were already present, which will favour selling synergies. Integrating these new operations will add annual sales of about US\$7 million to our revenues, immediately contribute to our earnings and bring our network to 15 distribution centres in the United States. We are also opening a distribution centre in Barrie, Ontario, which has one of the fastest-growing populations in Canada. That will bring our network to 47 centres in North America.

### **NEXT DIVIDEND PAYMENT**

At its meeting on March 29, 2007, the Board of Directors approved the payment of a quarterly dividend of \$0.07 per share. This dividend is payable on April 26, 2007 to shareholders of record as at April 12, 2007.

# Management's discussion and analysis of operating result and financial position for the first quarter ended February 28, 2007

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This management's report relates to Richelieu's consolidated operating results and cash flows for the first quarter ended February 28, 2007, in comparison with the first quarter ended February 28, 2006, as well as the Company's financial position as at February 28, 2007 compared with November 30, 2006. This report should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the first quarter of 2007 as well as analysis and notes to financial statements appearing in the 2006 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 February 28, 2007, 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 which occurred prior to March 29, 2007, on which date the 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, forecast sales and earnings growth 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 and relate, by their very nature, to known and unknown risks and uncertainties such as economic conditions, exchange rate fluctuations and other factors set forth in the "Risk Management" section on page 33 of the management's report included in the Company's 2006 Annual Report as well as its Annual Information Form.

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

Effective December 1, 2006, the Company adopted the new recommendations of Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3865, *Hedges*, and Section 1530, *Comprehensive Income*, issued by the Canadian Institute of Chartered Accountants (CICA). These new sections contain standards for recognition and measurement for financial instruments, establish standards for hedge accounting and introduce a new measurement of results – comprehensive income – which is the change in equity or net assets of an enterprise during a period from transactions from non-owner sources.

The retroactive application of these new standards without restatement of prior-year financial statements had no material impact on the consolidated financial statements for the first quarter ended February 28, 2007. For further details, the reader is referred to note 2 accompanying the interim consolidated financial statements that follow this management's report.

## GENERAL BUSINESS OVERVIEW as at March 29, 2007

**Richelieu Hardware Ltd. is Canada's leading distributor, importer and manufacturer of specialty hardware and complementary products. The Company also ranks among the top players in its specialty market in North America.**

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 one of the Company's major sources of growth.

Richelieu offers customers a broad mix of products sourced primarily from European and North American manufacturers. The solid relationships Richelieu has built with the world's leading suppliers enable it to provide customers with the latest innovative products tailored to their business needs. The Company's product selection consists of **more than 50,000 stock-keeping units** targeted to a base of **over 37,000 customers** who are served by **47 distribution centres** in North America – 30 distribution centres across Canada, 15 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 edgebanding products, kitchen accessories, ergonomic workstation components, ceramic tiles, 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. (Cedan), and of components for the window and door industry and of mouldings through Menuiserie des Pins Ltée (Menuiserie des Pins).

The Company employs over 1,200 people at its head office and throughout the network, close to half of whom work in marketing, sales and customer service. Some 50% 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 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 especially 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 February 28,	2007	2006	Δ (%)
(in thousands of \$, except per-share amounts, ratio and number of outstanding shares)			
Sales	<b>94,509</b>	82,862	<b>+ 14.1</b>
EBITDA	<b>10,470</b>	9,060	<b>+ 15.6</b>
EBITDA margin	<b>11.1%</b>	10.9%	
Net earnings	<b>5,973</b>	5,360	<b>+ 11.4</b>
• basic per share	<b>0.26</b>	0.23	<b>+ 13.0</b>
• diluted per share	<b>0.26</b>	0.23	<b>+ 13.0</b>
Cash flows	<b>7,190</b>	6,462	<b>+ 11.3</b>
Dividends			
Per share	<b>0.07\$</b>	0.06\$	<b>+ 16.7</b>
Weighted average number of shares outstanding (diluted)	<b>23,206</b>	23,305	
<b>Balance Sheet Data</b>			
Total assets	<b>245,237</b>	205,532	
Shareholders' equity	<b>191,194</b>	166,135	
Book value per share	<b>8.29</b>	7.17	
Interest-bearing debt	<b>13,496</b>	3,169	
<b>Ratio</b>			
Interest-bearing debt/ shareholders' equity	<b>7.1%</b>	1.9%	

## OPERATING RESULTS FOR THE FIRST QUARTER ENDED FEBRUARY 28, 2007 COMPARED WITH THE FIRST QUARTER ENDED FEBRUARY 28, 2006

**Consolidated sales** totalled \$94.5 million, representing a first-quarter record. They grew by 14.1%, of which 4.3% came from internal growth and 9.8% from the acquisition of Nystrom Group (Ontario), Kiika International (Pennsylvania), Specialty Supplies Inc. (Florida) and L.B. Brass (New York). The period's internal growth is particularly satisfactory since the first quarter is generally the weakest period of the year. It was fuelled among others by the new marketing programs rolled out in our markets over the last two years.

Sales to **manufacturers** posted an excellent increase of 14.6%, of which 3.7% was due to internal growth and 10.9% to the aforementioned acquisitions – they accounted for 82.0% of the period's consolidated revenues. Sales to hardware **retailers** including renovation superstores grew by 11.7%, of which 6.6% reflects internal growth and 5.1% the contribution of the February 2006 acquisition of Nystrom whose customers consist specifically of retailers and renovation superstores operating in Ontario.

Richelieu recorded sales of \$76.6 million in **Canada** for the first quarter of 2007. Of this 5.6% increase, 4.6% was due to internal growth and 1.0% to the acquisition of Nystrom. They accounted for 81.1% of the period's consolidated sales. This growth came mainly from sales to residential and commercial woodworkers and furniture manufacturers.

Thanks to its acquisitions in recent months, the Company achieved strong first-quarter sales growth in the **United States**. U.S. sales totalled \$17.9 million (US\$15.4 million), compared with \$10.3 million (US\$8.9 million) for the first quarter of 2006, an increase of 74% in Canadian and U.S. dollars, primarily in the cabinet makers and the residential and commercial woodworking markets.

#### SUMMARY OF QUARTERLY RESULTS (Unaudited)

(in thousands of \$, except per-share amounts)

Quarters	1	2	3	4
<b>2007</b>				
Sales	94,509			
EBITDA	10,470			
Net earnings	5,973			
basic	0.26			
diluted	0.26			
<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	0.23	0.37	0.38	0.40
diluted	0.23	0.37	0.38	0.39
<b>2005</b>				
Sales	76,056	92,560	88,032	93,529
EBITDA	8,260	12,241	11,952	13,332
Net earnings	4,874	7,422	7,251	8,141
basic	0.21	0.32	0.31	0.35
diluted	0.21	0.32	0.31	0.35

**Earnings before income taxes, interest, amortization and non-controlling interest (EBITDA)** totalled \$10.5 million, a significant increase of 15.6%. Profit margins remain most satisfactory. The gross profit margin improved over the corresponding quarter of 2006, whereas the **EBITDA profit margin** rose to 11.1% from 10.9%, under the positive impact of a higher-margin product mix, the acquisitions' contribution and a further improvement in the U.S. operations' profitability.

**Interest** was up by \$0.2 million as a result of the increase in debt consisting primarily of balances of purchase price payable on four acquisitions closed during the previous year. **Amortization of capital assets** with limited useful lives accounted for last year amounted to \$0.2 million for the first quarter.

**Income taxes** totalled \$3.2 million, up 16.0% due mainly to the increase in earnings and the rise in income taxes related to Richelieu's growing U.S. operations.

Owing to the aforementioned factors, **net earnings** rose 11.4% to \$6.0 million; as a percentage of consolidated sales, they worked out to 6.3%, compared with 6.5% for the first quarter of 2006. **Earnings per share** grew to \$0.26 (\$0.26 diluted), up 13.0%, whereas the number of shares and options outstanding did not vary significantly over the past 12 months.

#### FIRST-QUARTER LIQUIDITY AND FINANCIAL RESOURCES

##### Operating activities

**Cash flows from operating activities** (before net change in non-cash working capital balances related to operations) grew to \$7.2 million or \$0.31 per share, up from \$6.5 million or \$0.28 per share for the first quarter of the previous year, an increase of 11.3% reflecting primarily the growth in net earnings. Net change in non-cash working capital balances related to operations used cash flows of \$9.7 million due primarily to a \$5.9 million increase in inventories in anticipation of upcoming periods. Operating activities therefore used cash flows of \$2.5 million, whereas they had provided cash flows of \$2.5 million for the comparable period last year.

##### Financing activities

Richelieu paid dividends totalling \$1.6 million to shareholders in the first quarter, up from \$1.4 million for the equivalent quarter of 2006. This \$0.2 million growth reflects the 16.7% increase in the dividend rate announced on January 26, 2007. The Company also repaid \$0.1 million in interest-bearing debt, compared with a total of \$1.4 million in the first quarter of 2006. Richelieu did not purchase any common shares in the first quarter of 2007, as opposed to the first quarter of 2006 when it redeemed shares for an amount of \$0.3 million. Thus, financing activities used cash flows of \$1.7 million, compared with \$3.1 million for the same quarter of 2006.

##### Investing activities

The Company invested \$1.4 million in various capital expenditures in the first quarter, specifically for the purchase of equipment and improvement of business premises, compared with \$0.6 million for the same period of last year. It should also be noted that during the first quarter of 2006, the Company had completed three acquisitions that represented a \$14.3 million investment. Therefore, investing activities for the first quarter ended February 28, 2007 used cash flows of \$1.4 million, compared with \$14.9 million in 2006.

**Cash and cash equivalents** totalled \$1.3 million as at February 28, 2007.

## FINANCIAL POSITION AS AT FEBRUARY 28, 2007

The Company remains in an excellent financial position, with low indebtedness and substantial cash flows regularly generated by its operations, which should enable it to meet its financial obligations and to pursue its expansion and growth (see "Forward-Looking Statements"). Principal changes in balance sheet items between November 30, 2006 and February 28, 2007 reflect the quarter's internal growth.

As at February 28, 2007, Richelieu had an excellent **working capital** of \$108.2 million for a current ratio of 3.5:1, compared with \$103.9 million and a ratio of 3.2:1 at the end of the previous year on November 30, 2006.

**Total interest-bearing debt** amounted to \$13.5 million as at February 28, 2007, versus \$13.6 million as at November 30, 2006. This debt consists primarily of balances of purchase price payable on four business acquisitions completed in 2006, composed of a current portion of \$6.7 million and a long-term debt of \$6.6 million bearing interest at rates of up to 7.25% and maturing on various dates until 2008.

**Shareholders' equity** totalled \$191.2 million at the end of the first quarter, up 2.5% from \$186.6 million as at November 30, 2006, due mainly to the \$4.4 million increase in retained earnings which amounted to \$172.4 million as at February 28, 2007. **The book value per share** grew to \$8.29 as at February 28, 2007, compared with \$8.09 three months earlier. **The interest-bearing debt/equity ratio** improved to 7.1% from 7.3% as at November 30, 2006.

As at February 28, 2007, **Richelieu's share capital** consisted of 23,067,862 common shares (23,052,612 common shares as at November 30, 2006) due to the issue of 15,250 common shares under the share option plan, and 688,500 options (535,200 options as at November 30, 2006) were outstanding.

### EVENTS SUBSEQUENT TO FEBRUARY 28, 2007: NEW ACQUISITION IN THE UNITED STATES AND OPENING OF A DISTRIBUTION CENTRE IN ONTARIO

On March 7, 2007, the Company acquired the operating assets of **Village Square Cabinet Supply**. Located in Nashville, Tennessee, this distributor of decorative and functional hardware, kitchen accessories and related products, primarily serves a customer base of cabinet makers. This acquisition raises Richelieu's annual sales by about US\$7 million, immediately contributes to its earnings and adds a 15<sup>th</sup> distribution centre to its U.S. network.

Richelieu is also opening a distribution centre in Barrie, Ontario, which has one of the fastest-growing populations in Canada. That will bring its network to 47 centres in North America.

## 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 2006 Annual Report.

For 2007 and the foreseeable future, management expects cash flows from operating activities and other sources of financing to meet Richelieu's ongoing contractual commitments. This expectation is based on the assumptions that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will meet the Company's requirements and no unusual events will entail additional capital expenditures. Richelieu remains subject to the risks set forth in the "Risk Management" section of the management's report included in its 2006 Annual Report.

## RISK FACTORS

Risk factors are described in the "Risk Management" section of the management's report included in Richelieu's 2006 Annual Report.

## GROWTH OUTLOOK

In upcoming periods, we will further develop our North American markets, pursue the integration of our latest acquisitions and build selling synergies with these new operations. As we do every year, we will also continue to expand and diversify our product offering by introducing additional innovations. We are in an excellent financial position and remain on the lookout for acquisition opportunities in both Canada and the United States. In the second quarter, we will reap the benefits of the acquisitions closed in the last few months and expect to achieve solid internal growth. This expectation is based on the assumptions that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will meet the Company's requirements and no unusual events will entail additional capital expenditures. This expectation also remains subject to the risks set forth in the "Risk Management" section of the management's report included in its 2006 Annual Report.

## SUPPLEMENTARY INFORMATION

Further information about Richelieu, including its latest Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval (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

March 29, 2007

# Consolidated statements of earnings and retained earnings (unaudited)

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

For the three months ended February 28,

	2007	2006
	\$	\$
<b>Sales</b>	<b>94,509</b>	82,862
Cost of sales, warehouse, selling and administrative expenses	<b>84,039</b>	73,802
<b>Earnings before the following</b>	<b>10,470</b>	9,060
Interest on short-term debt, net	<b>(12)</b>	69
Interest on long-term debt	<b>245</b>	22
Amortization of capital assets	<b>903</b>	861
Amortization of intangible assets	<b>201</b>	—
<b>Earnings before income taxes and non-controlling interest</b>	<b>9,133</b>	8,108
Income taxes	<b>3,151</b>	2,716
<b>Earnings before non-controlling interest</b>	<b>5,982</b>	5,392
Non-controlling interest	<b>9</b>	32
<b>Net earnings</b>	<b>5,973</b>	5,360
Retained earnings, beginning of period	<b>168,020</b>	144,430
Premium on redemption of common shares for cancellation	<b>—</b>	(293)
Dividends	<b>(1,615)</b>	(1,390)
<b>Retained earnings, end of period</b>	<b>172,378</b>	148,107
<b>Earnings per share (Note 4)</b>		
Basic	<b>0.26</b>	0.23
Diluted	<b>0.26</b>	0.23

See accompanying notes.

# Consolidated statements of comprehensive income (unaudited)

(in thousands of dollars)

For the three months ended February 28,

	2007	2006
	\$	\$
<b>Net earnings</b>	<b>5,973</b>	5,360
Other comprehensive income, net of income tax		
Change in fair value of derivatives designated as cash flow edge	<b>(10)</b>	—
<b>Comprehensive income</b>	<b>5,963</b>	5,360

See accompanying notes.



# Consolidated statements of cash flows (unaudited)

(in thousands of dollars)

For the three months  
ended February 28,

	2007	2006
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net earnings	5,973	5,360
Non-cash items		
Amortization of capital assets	903	861
Amortization of intangible assets	201	—
Non-controlling interest	9	32
Future income taxes	(75)	75
Stock-based compensation expense	184	134
	7,195	6,462
Net change in non-cash working capital balances related to operations	(9,716)	(3,993)
	(2,521)	2,469
<b>FINANCING ACTIVITIES</b>		
Issue of common shares (Note 3)	78	35
Dividends paid	(1,615)	(1,390)
Redemption of common shares for cancellation	—	(304)
Repayment of long-term debt	(277)	(179)
Increase (decrease) in bank loans	138	(1,262)
	(1,676)	(3,100)
<b>INVESTING ACTIVITIES</b>		
Business acquisitions	—	(14,252)
Additions to capital assets	(1,432)	(635)
	(1,432)	(14,887)
<b>Net change in cash and cash equivalents</b>	<b>(5,629)</b>	<b>(15,518)</b>
Cash and cash equivalents at beginning	6,964	20,103
<b>Cash and cash equivalents at the end</b>	<b>1,335</b>	<b>4,585</b>
<b>Supplemental information</b>		
Income taxes paid	6,455	3,605
Interest paid	155	99

See accompanying notes.

# Consolidated balance sheets

(in thousands of dollars)

	As at February 28, 2007 \$ (unaudited)	As at February 28, 2006 \$ (unaudited)	As at November 30, 2006 \$ (audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	1,335	4,585	6,964
Accounts receivable	56,134	51,035	57,443
Income taxes receivable	970	126	—
Inventories	92,664	78,242	86,784
Prepaid expenses	535	892	541
	<b>151,638</b>	134,880	151,732
Capital assets	18,993	19,073	18,463
Intangible assets	13,026	—	13,227
Goodwill	61,580	51,579	61,580
	<b>245,237</b>	205,532	245,002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank loans	138	648	—
Accounts payable and accrued liabilities	36,594	32,418	38,425
Income taxes payable	—	—	2,334
Current portion of long term debt	6,721	1,344	7,064
	<b>43,453</b>	34,410	47,823
Long-term debt	6,637	1,177	6,571
Future income taxes	1,762	1,849	1,842
Non-controlling interest	2,191	1,961	2,182
	<b>54,043</b>	39,397	58,418
<b>Shareholders' equity</b>			
Capital stock (Note 3)	17,548	17,410	17,470
Contributed surplus (Note 3)	1,278	618	1,094
Retained earnings	172,378	148,107	168,020
Accumulated other comprehensive income (Note 5)	(10)	—	—
	<b>191,194</b>	166,135	186,584
	<b>245,237</b>	205,532	245,002

See accompanying notes.



# Notes to interim consolidated financial statements

February 28, 2007 and 2006 (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.

During the period ended February 28, 2007, the Company’s sales to foreign countries, almost entirely directed to the United States, amounted to \$17,901 (2006 – \$10,307) in Canadian dollars and to \$15,432 (2006 – \$8,918) in US dollars.

As at February 28, 2007, out of a total amount of \$18,993 in capital assets (\$18,463 as at November 30, 2006), \$844 (\$876 as at November 30, 2006) are located in the USA. In addition, intangible assets related to the USA amounted to \$8,870 (\$8,964 as at November 30, 2006) and goodwill at \$20,528 stood at the same amount since November 30, 2006.

## 1) ACCOUNTING POLICIES

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, except for the new accounting policies described in note 2. In 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 2006.

## 2) CHANGES IN ACCOUNTING POLICIES

Since December 1<sup>st</sup>, 2006, the Company adopted the new recommendations of Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3865, *Hedges*, and Section 1530, *Comprehensive Income*, issued by the Canadian Institute of Chartered Accountants (CICA). These new sections contain standards for recognition and measurement for financial instruments, establish standards for hedge accounting and introduce a new measurement of results – comprehensive income – which is the change in equity or net assets of an enterprise during a period from transactions from non-owner sources.

The adoption of these standards requires classifying all financial assets, liabilities and derivatives of the Company for which clearly defined rules determine the standards to be applied. In accordance with the standards in these new CICA handbook sections, all derivative financial instruments used will be recorded in the balance sheet at their fair value. Depending on financial instruments’ classification, specific standards are applied. The Company has implemented the following classifications:

- Cash and cash equivalents are classified as “Financial Assets held for Trading”. They are presented at their fair value and the gains/losses arising on the revaluation at each period end are included in consolidated income. The carrying value of cash and cash equivalents is a reasonable estimate of their fair value due to their short term maturity.
- Accounts receivable are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the company, the measured amount generally corresponds to cost due to their short term maturity.

# Notes to interim consolidated financial statements

February 28, 2007 and 2006 (in thousands of dollars, except per-share amounts) (unaudited)

## 2) CHANGES IN ACCOUNTING POLICIES (CONTINUED)

- Derivative financial instruments that are designated as treasury hedges are included in "Assets and liabilities available for sale". They are presented at their fair value, representing the approximate amount the Company would receive or pay on settlement of these contracts at spot rates, and the gains/losses arising from the revaluation at the end of each period are included in comprehensive income.
- Bank loan, accounts payable and accrued liabilities and long-term debt are classified as "Other financial liabilities". They are initially presented at their fair value. Subsequent measurements are at cost, net of amortization, using the effective interest rate method. For the company, that value corresponds to cost either as a result of their short term maturity or the floating rate nature of some loans or because management estimates that the loans payable with fixed interest rates have no significant difference between their fair value and their carrying value, based on rates currently available to the Company on loans with similar terms and remaining maturities.

Retroactive adoption of these new standards without restating prior years involved no restatement of the opening balance of accumulated other comprehensive income relating to derivative financial instruments that are designated as treasury hedges. The financial liability relating to derivative financial instruments is included in "Accounts payable and accrued liabilities" in the consolidated balance sheet.

## 3) CAPITAL STOCK

### Issued

As at February 28, 2007, capital stock outstanding amounted to 23,067,862 common shares (23,052,612 common shares as at November 30, 2006).

During the period ended February 28, 2007, the Company issued 15,250 common shares (2006 – 4,700) at a weighted average price of \$5.13 per share (2006 – \$7.50) under the share option plan.

### Stock option plan

During the period, on January 26, 2007, the Company granted 170,500 options (80,000 on January 25, 2006) with an exercise price of \$24.76 (2006 – \$22.43) and a fair value of \$7.40 per option (2006 – \$7.70) as determined using the Black & Scholes option pricing model using an expected dividend yield of 1% (2006 – 1%), a volatility of 22% (2006 – 25%), a risk free interest rate of 4.17% (2006 – 4.15%) and an expected life of 7 years (2006 – 8 years). As at February 28, 2007, 688,500 share options were outstanding (2006 – 552,450) with exercise prices varying from \$4.26 to \$24.76 (2006 – \$4.26 to \$22.43) for a weighted average of \$19.24 (2006 – \$16.91).

For the 3-month period ended February 28, 2007, the stock-based compensation expense amounted to \$184 (2006 – \$134).

# Notes to interim consolidated financial statements

February 28, 2007 and 2006 (in thousands of dollars, except per-share amounts) (unaudited)

## 4) EARNINGS PER SHARE

### 3-MONTH PERIOD ENDED FEBRUARY 28

	2007			2006		
	Earnings \$	Weighted average number of shares (in thousands)	Earnings per share \$	Earnings \$	Weighted average number of shares (in thousands)	Earnings per share \$
Basic net earnings	5,973	23,060	0.26	5,360	23,169	0.23
Dilutive effect of stock options	—	146	—	—	136	—
Diluted net earnings	5,973	23,206	0.26	5,360	23,305	0.23

For the period ended February 28, 2007, outstanding options to purchase 170,500 common shares with an exercise price of \$24.76 were excluded from the computation of diluted earnings because their effect would have been anti-dilutive.

## 5) ACCUMULATED OTHER COMPREHENSIVE INCOME

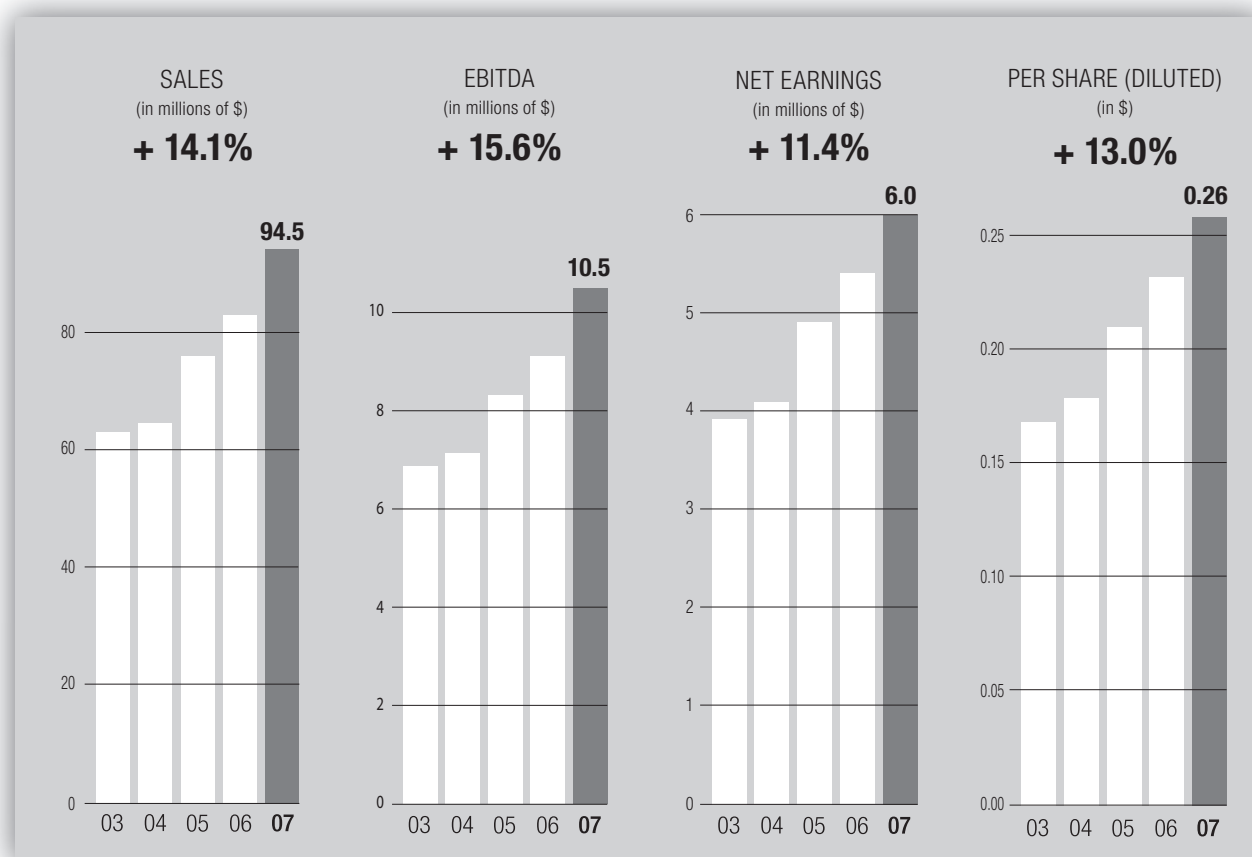
Derivative financial instruments that are designated as treasury hedges constitute the sole item of Accumulated other Comprehensive Income. The change that occurred during the period was as follows:

	2007	2006
Adjusted opening balance due to the new accounting policies regarding financial instruments, net of income taxes	—	—
Change in fair value during the period, net of income taxes	(10)	—
Balance - end of period	(10)	—

## 6) SUBSEQUENT EVENTS

On March 7, 2007, the Company acquired the main operating assets of Village Cabinet Supply for a total consideration of US\$4.3 millions, of which US\$3.4 millions in cash and a balance of sale of US\$0.9 millions. Based in Nashville, Tennessee, this distributor of hardware and related products mainly serves a customer base of kitchen cabinet manufacturers.

**First Quarter**  
ended February 28, 2007



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