

Management's Discussion and Analysis of Operating Results and Financial Position for the Second Quarter and First Six Months Ended May 31, 2007

This management's report relates to Richelieu's consolidated operating results and cash flows for the second quarter and first six months ended May 31, 2007 in comparison with the second quarter and first six months ended May 31, 2006, as well as the Company's financial position as at May 31, 2007, compared with November 30, 2006. This report should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the second quarter and first six months of 2007 as well as the 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 May 31, 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.

The information contained in this management's report accounts for any major event occurring prior to July 9, 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 second quarter ended May 31, 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 May 31, 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 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 50,000 stock-keeping units** targeted to a base of **over 38,000 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, 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. (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. More than 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 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.

OPERATING RESULTS FOR THE SECOND QUARTER ENDED MAY 31, 2007 COMPARED TO THE SECOND QUARTER ENDED MAY 31, 2006

Consolidated sales amounted to \$116.3 million, an increase of 13.4%, of which 4.5% was due to internal growth and 8.9% to the acquisition of Specialty Supplies Inc. (Florida), L.B. Brass (New York) and Village Square Cabinet Supply (Tennessee), respectively on October 17, 2006, October 30, 2006 and March 5, 2007.

Sales to **manufacturers** totalled \$97.5 million, an excellent increase of \$13.6 million or 16.2%, of which 5.3% came from internal growth and 10.9% from the aforementioned acquisitions – they accounted for 84% of consolidated sales for the second quarter of 2007. All of Richelieu's markets contributed to this growth, specifically cabinet makers, the commercial and residential woodworking industry, and home and office furniture manufacturers, with a greater contribution by cabinet makers and woodworkers, in both Canada and the United States. Sales to hardware **retailers** including renovation superstores increased by \$0.1 million from the corresponding period of 2006, to \$18.8 million.

Sales in **Canada** totalled \$94.0 million, up by \$3.0 million or 3.3% due to internal growth. They accounted for 80.8% of the period's consolidated sales. In the **United States**, second-quarter sales almost doubled to \$22.3 million (US\$19.8 million), compared with \$11.6 million (US\$10.2 million) for the second quarter of 2006. Of this excellent increase of 92.1% in Canadian dollars and 93.4% in U.S. dollars, 19.5% came from internal growth and 73.9% from the acquisition of Specialty Supplies, L.B. Brass and Village Square Cabinet Supply.

SELECTED CONSOLIDATED QUARTERLY INFORMATION (Unaudited)

Periods ended May 31,	3 months		Δ(%)	6 months		Δ(%)
	2007	2006		2007	2006	
(in thousands of \$, except per-share amounts, ratio and number of outstanding shares)						
Sales	116,331	102,604	+ 13.4	210,840	185,466	+ 13.7
EBITDA	14,784	14,128	+ 4.6	25,255	23,189	+ 8.9
Net earnings	8,651	8,627	+ 0.3	14,624	13,987	+ 4.6
• basic per share	0.37	0.37		0.63	0.60	+ 5.0
• diluted per share	0.37	0.37		0.63	0.60	+ 5.0
Cash flows	10,203	9 819	+ 3.9	17,398	16,280	+ 6.9
Dividends						
Per share	\$ 0.07	\$ 0.06		\$ 0.14	\$ 0.12	
Weighted average number of shares outstanding (diluted)	23,211	23,272		23,208	23,288	
Balance Sheet Data						
Total assets	255,489	212,606				
Shareholders' equity	198,281	173,203				
Book value per share	8.59	7.48				
Interest-bearing debt	13,881	2,320				
Ratio						
Interest-bearing debt/ shareholders' equity	7.0%	1.3%				

Earnings before income taxes, interest, amortization and non-controlling interest (EBITDA) increased by 4.6% to \$14.8 million. The **EBITDA profit margin** remained satisfactory, despite a 1.1% decrease from the equivalent period of the previous year. It worked out to 12.7%, down from 13.8% in the second quarter of 2006. This variation reflects the decline in the gross profit margin resulting primarily from the major increase in raw material costs – as well as from the sudden devaluation of the Canadian dollar in relation to the U.S. dollar and the Euro in late 2006 and early 2007 when the Company acquired products for which the selling prices were not rapidly adjusted accordingly. Then, at the end of the quarter, the appreciation in the Canadian dollar in relation to the U.S. dollar and the Euro brought about a \$0.5 million exchange gain (as opposed to a \$0.1 million exchange loss for the corresponding period of 2006), which just partially offset the higher costs resulting from the two aforementioned factors.

Interest was up by \$0.4 million as a result of the increase in debt consisting primarily of balances of purchase price payable on the previous year's acquisitions. **Amortization of intangible assets** with limited useful lives accounted for last year amounted to \$0.2 million for the second quarter. **Income taxes** totalled \$4.6 million, relatively the same level as in the second quarter of 2006.

As a result of these various factors, **net earnings** increased by 0.3% to \$8.7 million. That works out to 7.4% as a percentage of consolidated sales, compared with 8.4% for the second quarter of 2006. **Earnings per share** remained stable at \$0.37 (\$0.37 diluted), whereas the number of shares and options outstanding did not vary significantly over the past 12 months.

SUMMARY OF QUARTERLY RESULTS (unaudited)
(in thousands of \$, except per-share amounts)

Quarters	1	2	3	4
2007				
Sales	94,509	116,331		
EBITDA	10,470	14,784		
Net earnings	5,973	8,651		
basic	0.26	0.37		
diluted	0.26	0.37		
2006				
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
2005				
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

The first quarter ended February 28 or 29 is generally the year's slowest period for Richelieu, since it includes fewer business days because the end of the year holidays. In addition, there can be a slowdown in renovation and construction work in the wintertime. The third quarter ended August 31 also comprises fewer business days as a result of the summer holidays, which could have an impact on the period's results. As for the second and fourth quarters ended May 31 and November 30 respectively, they generally represent the most active periods and are conducive to a major increase in financial results.

SECOND-QUARTER LIQUIDITY AND FINANCIAL RESOURCES

Operating activities

Cash flows from operating activities (before net change in non-cash working capital balances related to operations) increased by 3.9% to \$10.2 million or \$0.44 per share, up from \$9.8 million or \$0.42 per share for the second quarter of the previous year. Net change in non-cash working capital balances related to operations used cash flows of only \$1.2 million, as opposed to \$6.5 million for the equivalent period of last year since the inventory procurement was completed earlier this year. Consequently, operating activities provided cash flows of \$9.0 million, compared with \$3.3 million for the corresponding period a year earlier.

Financing activities

Richelieu paid dividends totalling \$1.6 million to shareholders in the second quarter, up from \$1.4 million for the corresponding quarter of 2006. This growth reflects the 16.7% increase in the dividend rate announced on January 26, 2007. The Company also repaid \$0.2 million in interest-bearing debt, compared with a total of \$0.8 million in the second quarter of 2006. Richelieu did not purchase any common shares during the period, as opposed to the second quarter of 2006 when it redeemed shares for an amount of \$0.4 million. Thus, financing activities used cash flows of \$1.7 million, compared with \$2.6 million for the equivalent quarter of 2006.

Investing activities

Richelieu invested \$4.6 million in the acquisition of two distributors during the second quarter, specifically the principal net assets of Village Square Cabinet Supply and Sasco Products Limited. The Company also invested \$1.0 million in various capital expenditures during the period, notably for the purchase of equipment and improvement of business premises, up from \$0.6 million for the corresponding quarter of the previous year.

OPERATING RESULTS FOR THE FIRST SIX MONTHS ENDED MAY 31, 2007 COMPARED TO THE FIRST SIX MONTHS ENDED MAY 31, 2006

Consolidated sales totalled \$210.8 million, an increase of 13.7%, of which 4.4% came from internal growth and 9.3% from the acquisition of Nystrom Group, Kiika International, Specialty Supplies, L.B. Brass and Village Square Cabinet Supply. This growth was generated by all of Richelieu's markets and was sustained, among others, by the major investments the Company has made in its sales and marketing programs over the past two years.

Sales to **manufacturers** amounted to \$174.2 million, posting an excellent increase of 14.9%, of which 4.0% came from internal growth and 10.9% from the aforementioned acquisitions – they accounted for 83% of the period's consolidated sales. Sales to hardware **retailers** including renovation superstores were up by 8.3% over the corresponding period of 2006.

Richelieu recorded sales of \$169.9 million in **Canada** for the first half month of the current year, an increase of 3.9% resulting primarily from internal growth. They accounted for 80.6% of the period's consolidated sales. In the **United States**, sales totalled \$40.9 million (US\$35.8 million), up from \$21.9 million (US\$19.1 million) for the first half of 2006, an increase of 86.9% in Canadian dollars and 87.3% in U.S. dollars, of which 15.6% came from internal growth and 71.7% from acquisitions. It should be noted that this growth was achieved in all of Richelieu's markets, but with major increases in the cabinet makers and the residential and commercial wood-working segments where sales almost doubled.

Earnings before income taxes, interest, amortization and non-controlling interest (EBITDA) grew by 8.9% to \$25.3 million. Profit margins remained satisfactory, sustained by the acquisitions' contribution and a further improvement in the U.S. operations' profitability. **The EBITDA profit** margin worked out to 12.0%, down slightly by 0.5% from the equivalent period of the previous year. This decline is due to the major factors that had an impact on the second-quarter margin, specifically the major increase in raw material costs and the sudden devaluation of the Canadian dollar in relation to the U.S. dollar and the Euro in late 2006 and early 2007 when the Company acquired products for which selling prices were not rapidly adjusted accordingly. Subsequently, at the end of the period, the appreciation in the Canadian dollar in relation to the U.S. dollar and the Euro resulted in a \$0.5 million exchange gain (compared with an exchange loss of \$6,000 for the corresponding six months of 2006), which just partially offset the higher costs resulting from the two aforementioned factors.

Interest was up by \$0.6 million as a result of the increase in the debt consisting primarily of balances of purchase price payable on the previous year's acquisitions. **Amortization of intangible assets** with limited useful lives accounted for last year amounted to \$0.4 million for the first six months of the current year.

Income taxes totalled \$7.8 million, compared with \$7.3 million for the first six months of the previous year.

Owing to the aforementioned factors, **net earnings** increased by 4.6% to \$14.6 million. That works out to 6.9% as a percentage of consolidated sales, compared with 7.5% for the first half of 2006. **Earnings per share** amounted to \$0.63 (\$0.63 diluted), an increase of 5.0%, whereas the number of shares and options outstanding did not vary significantly over the past 12 months.

LIQUIDITY AND FINANCIAL RESOURCES FOR THE FIRST HALF OF 2007

Operating activities

Cash flows from operating activities (before net change in non-cash working capital balances related to operations) increased by 6.9% to \$17.4 million or \$0.75 per share, up from \$16.3 million or \$0.70 per share for the first half of the previous year, primarily as a result of the net earnings growth. Net change in non-cash working capital balances related to operations totalled \$10.9 million, up just slightly since inventories did not post a significant increase as they did in the same period of 2006. Operating activities therefore provided cash flows of \$6.5 million in the first half of 2007, compared with \$5.8 million for the equivalent period of 2006.

Financing activities

Richelieu paid dividends totalling \$3.2 million to shareholders in the first half of 2007, up from \$2.8 million for the comparable period of 2006. This \$0.5 million growth reflects the increase in the dividend rate announced in January 2007. Richelieu did not purchase any common shares during the period, as opposed to the first six months of 2006 when it redeemed shares for \$0.7 million. Thus, financing activities used cash flows of \$3.4 million, compared with \$5.7 million for the first half of 2006.

Investing activities

Richelieu invested \$4.6 million in the acquisition of two distributors, specifically the principal net assets of Village Square Cabinet Supply and Sasco Products Limited, and \$2.4 million in various capital expenditures, notably for the purchase of equipment and improvement of business premises. Investing activities therefore used cash flows of \$7.0 million in the first six months of 2007, down from \$15.5 million in the first half of the previous year, of which \$14.3 million had been allocated to the acquisition of three distributors.

As at May 31, 2007, the Company had **cash and cash equivalents** of \$2.6 million.

FINANCIAL POSITION AS AT MAY 31, 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. Principal changes in balance sheet items as at May 31, 2007 mainly reflect the period's growth and the two acquisitions closed since the beginning of the year, specifically Village Square Cabinet Supply and Sasco Products Limited. **Total assets** amounted to \$255.5 million, up 4.3% over \$245.0 million at the end of the previous year on November 30, 2006.

As at May 31, 2007, Richelieu had an excellent **working capital** of \$111.5 million for a current ratio of 3.4:1, up from \$103.9 million and a ratio of 3.2:1 as at November 30, 2006.

Total interest-bearing debt amounted to \$13.9 million as at May 31, 2007, compared with \$13.6 million as at November 30, 2006. As previously indicated, this debt consists primarily of balances of purchase price payable on acquisitions closed in 2006, composed of a current portion of \$6.7 million and a long-term portion of \$7.2 million bearing interest at rates of up to 7.25% and maturing on various dates until 2008.

Shareholders' equity totalled \$198.3 million at the end of the first half, versus \$186.6 million as at November 30, 2006, up by 6.3% due primarily to the \$11.4 million increase in retained earnings which amounted to \$179.4 million as at May 31, 2007. **The book value per share** grew to \$8.59 as at May 31, 2007, compared with \$8.09 as at November 30, 2006. **The interest-bearing debt/equity ratio** improved to 7.0% from 7.3% as at November 30, 2006.

As at May 31, 2007, Richelieu's share capital consisted of 23,079,362 common shares (23,052,612 common shares as at November 30, 2006) due to the issue of 26,750 common shares under the share option plan, and 677,000 options (536,200 options as at November 30, 2006) 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 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 rate 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

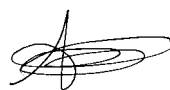
While we remain on the lookout for further expansion opportunities in both Canada and the United States, we will pursue the integration of our recent acquisitions by focusing on the selling synergies with these new businesses. The introduction of innovations and our product mix will also continue to be a priority. A further improvement in profitability throughout our organization and the quality of our customer service will remain major drivers of our growth. Thus, we are currently pursuing various projects to improve our operational performance, such as optimizing our distribution management system and our transactional website. We expect to achieve satisfactory growth in our various markets within the next quarters. This expectation is based on the assumptions that economic conditions and exchange rate 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.

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.



(Signed) Richard Lord
President and Chief Executive Officer



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

July 9, 2007