

PRESS RELEASE

For Immediate Release

Source : LE CHÂTEAU INC.

Contact : Herschel H. Segal
Executive Chairman of the Board
(514) 738-7000

Maison Brison
Rick Leckner & Brian Quick
(514) 731-0000

LE CHÂTEAU REPORTS SECOND QUARTER RESULTS

- Announces New Chief Executive Officer

Montreal, September 7, 2006 – Le Château Inc. (TSX: CTU.A) today reported that sales increased by 4.2% to \$71.9 million for the second quarter ended July 29, 2006 as compared with sales of \$69.0 million for the second quarter ended July 30, 2005. Comparable store sales decreased 0.9% in the second quarter of 2006 compared to the same period last year, reflecting a marked improvement from first quarter performance.

During the second quarter, the Company completed the closure of its *JUNIOR GIRL* division and reassigned the remaining space to the Footwear and Men's divisions. Excluding *JUNIOR GIRL* sales, comparable store sales increased 2.5%, reflecting the positive growth of the Ladies, Men's and Footwear divisions. The growth achieved by each of these divisions in the second quarter was an improvement over that realized by each in the first quarter. This trend is continuing into the beginning of the third quarter of fiscal 2007. For the period July 30, 2006 to September 6, 2006, total retail sales increased 6.5% and comparable store sales increased 2.6%. Excluding the *JUNIOR GIRL* division, comparable store sales were up 8.1% during this period.

Net earnings for the second quarter were \$5.4 million or \$0.90 per share compared to \$6.2 million or \$1.05 per share for the same quarter last year. Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the second quarter were \$12.1 million or 16.9% of sales, compared to \$12.4 million or 17.9% of sales last year. Included in the second quarter expenses were approximately \$175,000 of costs relating to the Genuity assignment.

As previously announced on March 14, 2006, the Company engaged Genuity Capital Markets to assist in evaluating various strategic alternatives. These include, but are not limited to, a sale of the Company, a business combination, a capital reorganization or conversion into an income trust. While there can be no assurance that any transaction or other action will result, the Board of Directors remains committed to pursuing this process and enhancing shareholder value.

Appointment of Chief Executive Officer

The Board of Directors is pleased to announce the appointment of Ms. Jane Silverstone Segal as Chief Executive Officer. Ms. Silverstone Segal has served continuously over the past twenty-seven years in the sales and buying departments, as President, and most recently as Vice-Chairperson of the Company. Mr. Herschel Segal, the founder and former CEO, will continue to provide active strategic direction as Executive Chairman of the Board.

Chairman's Remarks

Commenting on the Company's second quarter results, Le Château's Chairman Herschel Segal said, "We are back on track to achieving our growth objectives, continuing to target margins in line with the global leaders of our industry. We have closed the under-performing *JUNIOR GIRL* division and replaced it with higher margin Footwear and Men's divisions, both of which have demonstrated marked year-over-year improvement. Our accessories division continues to lag last year's outstanding performance but we are confident that corrected measures have been taken and improved results should follow by the fourth quarter.

We have committed to a policy of larger store size, and have begun implementing it. Most importantly, with an in-depth strategic review fully completed, we are gearing up to further increase the efficiency of our product development. At the same time, cost-cutting measures will

streamline our organization and make it quicker to react. We are now focused on being a stronger merchant-driven, customer-centric company.”

Looking at the year ahead, Mr. Segal added, “With enthusiastic unity of purpose throughout the Company, I foresee further growth in our profit margins. One of our major objectives is to take the company’s 47-year tradition of vertical integration to an even higher level of rapid execution and replenishment. We now have the expertise and systems to identify trends and bring new styling to our customers within two weeks of design conception. This up-to-the-minute approach to retailing, supported by talented managers and designers, can only grow Le Château’s competitive advantage and enable us to remain distinctly ahead of the fashion curve.”

Six-month results

Sales rose 2.7% to \$133.1 million for the six months end July 29, 2006, compared to \$129.6 million last year. Comparable store sales decreased 2.4% over the same period a year ago. During the first six months of the year, the Company opened three new stores and expanded twelve existing locations, resulting in the addition of 45,000 square feet to the Le Château network.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the first six months were \$19.5 million or 14.6% of sales, compared to \$22.3 million or 17.2% of sales last year. Included in expenses for the first six months were approximately \$710,000 of costs relating to the strategic review and the Genuity assignment.

Net earnings for the six-month period were \$8.2 million or \$1.35 per share compared to \$10.9 million or \$1.84 per share the previous year.

Dividend Declaration

The Board of Directors declared a quarterly dividend of \$0.25 per Class A subordinate voting share and Class B voting share. This is the 52nd consecutive dividend declared by Le Château, and is payable on November 6, 2006 to the shareholders of record at the close of business on October 20, 2006.

Profile

Le Château is a leading Canadian brand in specialty retailing offering a broad array of contemporary fashion apparel, accessories and footwear for style-conscious women and men. The Le Château brand is synonymous with ageless fashion at accessible prices and is sold exclusively through the Company’s 190 retail locations across Canada, except for five locations in the New York City area. The Company’s outlets are primarily found in major urban shopping malls and complemented with high pedestrian-traffic, street-front locations.

The Company’s 47-year tradition of vertical integration, a design and manufacturing approach to retailing, makes it unique among Canadian fashion merchants.

Supplementary Earnings Measure

In addition to discussing earnings measures in accordance with Canadian generally accepted accounting principles (“GAAP”), this press release provides earnings before interest, income taxes, depreciation and amortization (“EBITDA”) as a supplementary earnings measure. Depreciation and amortization include the write-off of fixed assets. EBITDA is provided to assist readers in determining the ability of the Company to generate cash from operations and to cover financial charges. It is also widely used for valuation purposes.

The above measure does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies.

Forward-Looking Statements

This news release may contain forward-looking statements relating to the Company and/or the environment in which it operates that are based on the Company’s expectations, estimates and forecasts. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict and/or are beyond the Company’s control. A number of factors may cause actual outcomes and results to differ materially from those expressed. These factors include those set forth in other public filings of the Company. Therefore, readers should not place undue reliance on these forward-looking statements. In addition, these forward-looking statements speak only as of the date made and the Company disavows any intention or obligation to update or revise any such statements as a result of any event, circumstance or otherwise.

Factors which could cause actual results or events to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; changes in consumer spending; general economic conditions and normal business

le château inc.

uncertainty; customer preferences towards product offerings; seasonal weather patterns; fluctuations in foreign currency exchange rates; changes in the Company's relationship with its suppliers; interest rate fluctuations and other changes in borrowing costs; and changes in laws, rules and regulations applicable to the Company.

- 30 -

CONSOLIDATED BALANCE SHEETS

| <i>(Unaudited)</i> | As at | As at | As at |
|--|-------------------|-------------------|-------------------|
| <i>(In thousands of dollars)</i> | July 29, 2006 | July 30, 2005 | January 28, 2006 |
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | \$ 36,607 | \$ 32,799 | \$ 17,979 |
| Short-term investments | 6,000 | - | 43,083 |
| Accounts receivable and prepaid expenses | 3,312 | 3,547 | 3,746 |
| Income taxes refundable | 1,131 | - | - |
| Inventories | 40,895 | 38,165 | 35,444 |
| Total current assets | 87,945 | 74,511 | 100,252 |
| Fixed assets | 75,173 | 62,655 | 65,984 |
| | \$ 163,118 | \$ 137,166 | \$ 166,236 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current | | | |
| Accounts payable and accrued liabilities | \$ 25,386 | \$ 22,494 | \$ 27,668 |
| Dividend payable | 1,507 | 1,046 | 1,507 |
| Income taxes payable | - | 2,302 | 3,740 |
| Current portion of capital lease obligations | 2,620 | 1,443 | 2,634 |
| Current portion of long-term debt | 4,266 | 2,684 | 4,212 |
| Total current liabilities | 33,779 | 29,969 | 39,761 |
| Capital lease obligations | 3,056 | 1,596 | 4,339 |
| Long-term debt | 8,160 | 5,564 | 10,326 |
| Future income taxes | 2,313 | 1,695 | 2,365 |
| Deferred lease inducements | 4,777 | 3,720 | 4,200 |
| Total liabilities | 52,085 | 42,544 | 60,991 |
| Shareholders' Equity | | | |
| Capital stock | 27,365 | 26,856 | 27,210 |
| Contributed surplus | 954 | 122 | 458 |
| Retained earnings | 82,714 | 67,644 | 77,577 |
| Total shareholders' equity | 111,033 | 94,622 | 105,245 |
| | \$ 163,118 | \$ 137,166 | \$ 166,236 |

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| <i>(Unaudited)</i> <i>(In thousands of dollars)</i> | For the three months ended | | For the six months ended | |
|--|----------------------------|---------------|--------------------------|---------------|
| | July 29, 2006 | July 30, 2005 | July 29, 2006 | July 30, 2005 |
| Balance, beginning of period | \$ 78,789 | \$ 62,450 | \$ 77,577 | \$ 58,851 |
| Net earnings | 5,432 | 6,240 | 8,151 | 10,878 |
| | 84,221 | 68,690 | 85,728 | 69,729 |
| Dividends | 1,507 | 1,046 | 3,014 | 2,085 |
| Balance, end of period | \$ 82,714 | 67,644 | 82,714 | 67,644 |

CONSOLIDATED STATEMENTS OF EARNINGS

| <i>(Unaudited)</i> <i>(In thousands of dollars, except per share data)</i> | For the three months ended | | For the six months ended | |
|---|----------------------------|---------------|--------------------------|---------------|
| | July 29, 2006 | July 30, 2005 | July 29, 2006 | July 30, 2005 |
| Sales | \$ 71,892 | \$ 69,007 | \$ 133,079 | \$ 129,608 |
| Cost of sales and expenses | | | | |
| Cost of sales and selling, general and administrative | 59,767 | 56,635 | 113,593 | 107,347 |
| Depreciation and amortization | 3,426 | 2,715 | 6,624 | 5,335 |
| Write-off of fixed assets | 328 | 28 | 379 | 72 |
| Interest on long-term debt and capital lease obligations | 281 | 177 | 585 | 370 |
| Interest income | (392) | (208) | (803) | (394) |
| | 63,410 | 59,347 | 120,378 | 112,730 |
| Earnings before income taxes | 8,482 | 9,660 | 12,701 | 16,878 |
| Provision for income taxes | 3,050 | 3,420 | 4,550 | 6,000 |
| Net earnings | \$ 5,432 | \$ 6,240 | \$ 8,151 | \$ 10,878 |
| Net earnings per share | | | | |
| Basic | \$ 0.90 | \$ 1.05 | \$ 1.35 | \$ 1.84 |
| Diluted | 0.87 | 1.01 | 1.31 | 1.78 |
| Weighted average number of shares outstanding ('000) | 6,028 | 5,953 | 6,027 | 5,917 |

CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>(Unaudited)</i> | For the three months ended | | For the six months ended | |
|--|----------------------------|------------------|--------------------------|------------------|
| <i>(In thousands of dollars)</i> | July 29, 2006 | July 30, 2005 | July 29, 2006 | July 30, 2005 |
| OPERATING ACTIVITIES | | | | |
| Net earnings | \$ 5,432 | \$ 6,240 | \$ 8,151 | \$ 10,878 |
| Adjustments to determine net cash from operating activities | | | | |
| Depreciation and amortization | 3,426 | 2,715 | 6,624 | 5,335 |
| Write-off of fixed assets | 328 | 28 | 379 | 72 |
| Amortization of deferred lease inducements | (228) | (150) | (407) | (298) |
| Deferred lease inducements | 334 | 858 | 984 | 1,531 |
| Stock-based compensation | 232 | 122 | 496 | 122 |
| Future income taxes | (52) | - | (52) | - |
| | 9,472 | 9,813 | 16,175 | 17,640 |
| Net change in non-cash working capital items related to operations | (1,958) | (3,457) | (12,170) | (9,754) |
| Cash flows related to operating activities | 7,514 | 6,356 | 4,005 | 7,886 |
| FINANCING ACTIVITIES | | | | |
| Repayment of capital lease obligations | (653) | (347) | (1,297) | (689) |
| Repayment of long-term debt | (1,029) | (730) | (2,112) | (1,449) |
| Issue of capital stock | 153 | 228 | 155 | 463 |
| Dividends paid | (1,507) | (1,039) | (3,014) | (2,066) |
| Cash flows related to financing activities | (3,036) | (1,888) | (6,268) | (3,741) |
| INVESTING ACTIVITIES | | | | |
| Decrease in short-term investments | 31,276 | - | 37,083 | - |
| Additions to fixed assets | (4,955) | (5,261) | (16,192) | (17,331) |
| Cash flows related to investing activities | 26,321 | (5,261) | 20,891 | (17,331) |
| Increase (decrease) in cash and cash equivalents | 30,799 | (793) | 18,628 | (13,186) |
| Cash and cash equivalents, beginning of period | 5,808 | 33,592 | 17,979 | 45,985 |
| Cash and cash equivalents, end of period | \$ 36,607 | \$ 32,799 | \$ 36,607 | \$ 32,799 |
| Supplementary information: | | | | |
| Interest paid during the period | \$ 281 | \$ 177 | \$ 585 | \$ 370 |
| Income taxes paid during the period, net | 3,186 | 2,151 | 9,224 | 5,638 |

SEGMENTED INFORMATION

| <i>(Unaudited)</i> | For the three months ended | | For the six months ended | |
|----------------------------------|----------------------------|---------------|--------------------------|---------------|
| <i>(In thousands of dollars)</i> | July 29, 2006 | July 30, 2005 | July 29, 2006 | July 30, 2005 |
| Sales by country | | | | |
| Canada | \$ 69,913 | \$ 67,100 | \$ 129,305 | \$ 125,785 |
| United States | 1,979 | 1,907 | 3,774 | 3,823 |
| | \$ 71,892 | \$ 69,007 | \$ 133,079 | \$ 129,608 |
| Sales by division | | | | |
| Ladies' Clothing | \$ 39,673 | \$ 37,349 | \$ 74,619 | \$ 72,192 |
| Men's Clothing | 10,821 | 9,025 | 19,133 | 16,266 |
| JUNIOR GIRL Clothing | 407 | 2,657 | 1,589 | 5,330 |
| Footwear | 9,874 | 6,673 | 17,078 | 11,932 |
| Accessories | 11,117 | 13,303 | 20,660 | 23,888 |
| | \$ 71,892 | \$ 69,007 | \$ 133,079 | \$ 129,608 |
| Net earnings (loss) | | | | |
| Canada | \$ 5,656 | \$ 6,339 | \$ 8,765 | \$ 11,078 |
| United States | (224) | (99) | (614) | (200) |
| | \$ 5,432 | \$ 6,240 | \$ 8,151 | \$ 10,878 |
| Identifiable assets | | | | |
| Canada | \$ 158,098 | \$ 133,058 | \$ 158,098 | \$ 133,058 |
| United States | 5,020 | 4,108 | 5,020 | 4,108 |
| | \$ 163,118 | \$ 137,166 | \$ 163,118 | \$ 137,166 |