

**PRESS RELEASE**

**LE CHÂTEAU REPORTS SECOND QUARTER RESULTS**

**Montreal, September 10, 2007** – Le Château Inc. (TSX: CTU.A) today reported that sales increased 16.3% to \$83.6 million for the second quarter ended July 28, 2007 as compared with \$71.9 million for the second quarter ended July 29, 2006. Comparable store sales increased by 11.7% versus the same period a year ago.

Net earnings for the second quarter increased 27.1% to \$6.9 million or \$0.28 per share from \$5.4 million or \$0.23 per share for the same period last year. Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the second quarter increased 37.2% to \$16.6 million or 19.9% of sales, compared to \$12.1 million or 16.9% of sales last year.

**Six-month Results**

Sales rose 15.7% to \$154.0 million for the six months ended July 28, 2007, compared to \$133.0 million last year. Comparable store sales increased 11.1% over the same period a year ago. During the first six months of the year, the Company opened 11 new stores, closed one store and expanded 10 existing locations, resulting in the addition of 57,000 square feet or 6.7% to the Le Château network.

Net earnings for the six-month period were \$11.5 million or \$0.46 per share, compared to \$8.2 million or \$0.34 per share the previous year. Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the first six months increased 40.8% to \$27.4 million or 17.8% of sales, compared to \$19.5 million or 14.6% of sales last year.

**Third quarter of fiscal 2008**

For the first six weeks ended September 8, 2007, total retail sales have increased 4.0% and comparable store sales have decreased 1.0% over the same period a year ago.

**Dividend declaration**

The Board of Directors has declared a quarterly dividend (constituting eligible dividends for income tax purposes) of \$0.125 per Class A subordinate voting share and Class B voting share. This is the 56<sup>th</sup> consecutive dividend declared by Le Château, and is payable on November 12, 2007 to the shareholders of record at the close of business on October 26, 2007.

**Stock split**

At the annual meeting of shareholders held on June 27, 2007, the shareholders approved the split of the Class A subordinate voting shares and Class B voting shares on a four-for-one basis. The record date for the split was July 18, 2007 and shares began trading on an "as split" basis at the opening of business on July 16, 2007. All share and per share information presented reflect the effects of the stock split.

**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 208 retail locations, of which 203 are located in Canada and 5 in the New York City area. The Company's outlets are primarily found in major urban shopping malls, complemented with high pedestrian-traffic, street-front locations. In addition, the Company has 8 stores under license in the Middle East.

The Company's 48-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 for public companies in our industry.

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 business initiatives and whether such business 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 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.

**For further information**

Emilia Di Raddo, CA, President (514) 738-7000  
Johnny Del Ciancio, CA, Vice-President, Finance, (514) 738-7000  
Maison Brison: Rick Leckner, (514) 731-0000  
Source: Le Château Inc.

# le château inc.

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands of dollars)

|  | As at<br>July 28, 2007 | As at<br>July 29, 2006 | As at<br>January 27, 2007 |
|--|------------------------|------------------------|---------------------------|
| <b>ASSETS</b>                            |                        |                        |                           |
| <b>Current</b>                           |                        |                        |                           |
| Cash and cash equivalents                | \$ 11,813              | \$ 36,607              | \$ 2,743                  |
| Short-term investments                   | 32,913                 | 6,000                  | 58,899                    |
| Accounts receivable and prepaid expenses | 5,063                  | 3,312                  | 4,457                     |
| Income taxes refundable                  | 303                    | 1,131                  | -                         |
| Inventories                              | 46,484                 | 40,895                 | 40,967                    |
| <b>Total current assets</b>              | <b>96,576</b>          | <b>87,945</b>          | <b>107,066</b>            |
| Fixed assets                             | 85,287                 | 75,173                 | 78,643                    |
|  | <b>\$ 181,863</b>      | <b>\$ 163,118</b>      | <b>\$ 185,709</b>         |

## LIABILITIES AND SHAREHOLDERS' EQUITY

### Current

|  |               |               |               |
|--|---------------|---------------|---------------|
| Accounts payable and accrued liabilities     | \$ 28,053     | \$ 25,386     | \$ 32,870     |
| Dividend payable                             | 3,128         | 1,507         | 20,992        |
| Income taxes payable                         | -             | -             | 833           |
| Derivative financial instruments             | 595           | -             | -             |
| Current portion of capital lease obligations | 1,499         | 2,620         | 2,051         |
| Current portion of long-term debt            | 7,592         | 4,266         | 4,392         |
| <b>Total current liabilities</b>             | <b>40,867</b> | <b>33,779</b> | <b>61,138</b> |
| Capital lease obligations                    | 1,657         | 3,056         | 2,288         |
| Long-term debt                               | 15,783        | 8,160         | 5,934         |
| Future income taxes                          | 2,690         | 2,313         | 2,891         |
| Deferred lease inducements                   | 6,637         | 4,777         | 5,284         |
| <b>Total liabilities</b>                     | <b>67,634</b> | <b>52,085</b> | <b>77,535</b> |

### Shareholders' Equity

|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Capital stock                          | 31,383            | 27,365            | 30,221            |
| Contributed surplus                    | 1,183             | 954               | 1,139             |
| Retained earnings                      | 82,057            | 82,714            | 76,814            |
| Accumulated other comprehensive income | (394)             | -                 | -                 |
| <b>Total shareholders' equity</b>      | <b>114,229</b>    | <b>111,033</b>    | <b>108,174</b>    |
|  | <b>\$ 181,863</b> | <b>\$ 163,118</b> | <b>\$ 185,709</b> |

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Unaudited)

(In thousands of dollars)

|                               | For the three months ended |                  | For the six months ended |                  |
|-------------------------------|----------------------------|------------------|--------------------------|------------------|
|                               | July 28, 2007              | July 29, 2006    | July 28, 2007            | July 29, 2006    |
| Balance, beginning of period  | \$ 78,283                  | \$ 78,789        | \$ 76,814                | \$ 77,577        |
| Net earnings                  | 6,902                      | 5,432            | 11,485                   | 8,151            |
|                               | 85,185                     | 84,221           | 88,299                   | 85,728           |
| Dividends declared            | 3,128                      | 1,507            | 6,242                    | 3,014            |
| <b>Balance, end of period</b> | <b>\$ 82,057</b>           | <b>\$ 82,714</b> | <b>\$ 82,057</b>         | <b>\$ 82,714</b> |

# le château inc.

## CONSOLIDATED STATEMENTS OF EARNINGS

*(Unaudited)*

*(In thousands of dollars, except per share data)*

|   | For the three months ended |               | For the six months ended |               |
|---|----------------------------|---------------|--------------------------|---------------|
|   | July 28, 2007              | July 29, 2006 | July 28, 2007            | July 29, 2006 |
| <b>Sales</b>  | \$ 83,609                  | \$ 71,892     | \$ 153,994               | \$ 133,079    |
| <b>Cost of sales and expenses</b>                           |                            |               |                          |               |
| Cost of sales and selling, general and administrative       | 66,970                     | 59,767        | 126,567                  | 113,593       |
| Depreciation and amortization                               | 4,123                      | 3,426         | 7,969                    | 6,624         |
| Write-off of fixed assets                                   | 1,597                      | 328           | 1,597                    | 379           |
| Interest on long-term debt and capital lease obligations    | 386                        | 281           | 733                      | 585           |
| Interest income   | (444)                      | (392)         | (932)                    | (803)         |
|   | 72,632                     | 63,410        | 135,934                  | 120,378       |
| Earnings before income taxes                                | 10,977                     | 8,482         | 18,060                   | 12,701        |
| Provision for income taxes                                  | 4,075                      | 3,050         | 6,575                    | 4,550         |
| <b>Net earnings</b>   | \$ 6,902                   | \$ 5,432      | \$ 11,485                | \$ 8,151      |
| <b>Net earnings per share</b>                               |                            |               |                          |               |
| Basic   | \$ 0.28                    | \$ 0.23       | \$ 0.46                  | \$ 0.34       |
| Diluted   | 0.27                       | 0.22          | 0.45                     | 0.33          |
| <b>Weighted average number of shares outstanding ('000)</b> | 24,967                     | 24,111        | 24,925                   | 24,108        |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*(Unaudited)*

*(In thousands of dollars)*

|  | For the three months ended |               | For the six months ended |               |
|--|----------------------------|---------------|--------------------------|---------------|
|  | July 28, 2007              | July 29, 2006 | July 28, 2007            | July 29, 2006 |
| <b>Net earnings</b>  | \$ 6,902                   | \$ 5,432      | \$ 11,485                | \$ 8,151      |
| <b>Other comprehensive income</b>                                |                            |               |                          |               |
| Change in fair value of forward exchange contracts               | (306)                      | -             | (595)                    | -             |
| Realized forward exchange contracts reclassified to net earnings | 540                        | -             | (320)                    | -             |
| Income tax expense (recovery)                                    | (78)                       | -             | 309                      | -             |
|  | 156                        | -             | (606)                    | -             |
| <b>Comprehensive income</b>                                      | \$ 7,058                   | \$ 5,432      | \$ 10,879                | \$ 8,151      |

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Unaudited)*

*(In thousands of dollars)*

|  | For the three months ended |                  | For the six months ended |                  |
|--|----------------------------|------------------|--------------------------|------------------|
|  | July 28, 2007              | July 29, 2006    | July 28, 2007            | July 29, 2006    |
| <b>OPERATING ACTIVITIES</b>  |                            |                  |                          |                  |
| Net earnings   | \$ 6,902                   | \$ 5,432         | \$ 11,485                | \$ 8,151         |
| Adjustments to determine net cash from operating activities        |                            |                  |                          |                  |
| Depreciation and amortization                                      | 4,123                      | 3,426            | 7,969                    | 6,624            |
| Write-off of fixed assets  | 1,597                      | 328              | 1,597                    | 379              |
| Amortization of deferred lease inducements                         | (235)                      | (228)            | (440)                    | (407)            |
| Stock-based compensation   | (21)                       | 232              | 198                      | 496              |
| Future income taxes  | -                          | (52)             | -                        | (52)             |
|  | 12,366                     | 9,138            | 20,809                   | 15,191           |
| Net change in non-cash working capital items related to operations | (4,134)                    | (1,958)          | (12,076)                 | (12,170)         |
| Deferred lease inducements   | 1,364                      | 334              | 1,793                    | 984              |
| <b>Cash flows related to operating activities</b>                  | <b>9,596</b>               | <b>7,514</b>     | <b>10,526</b>            | <b>4,005</b>     |
| <b>FINANCING ACTIVITIES</b>  |                            |                  |                          |                  |
| Repayment of capital lease obligations                             | (499)                      | (653)            | (1,183)                  | (1,297)          |
| Proceeds of long-term debt   | -                          | -                | 16,344                   | -                |
| Repayment of long-term debt  | (1,742)                    | (1,029)          | (3,295)                  | (2,112)          |
| Issue of capital stock   | 862                        | 153              | 1,008                    | 155              |
| Dividends paid   | (3,114)                    | (1,507)          | (24,106)                 | (3,014)          |
| <b>Cash flows related to financing activities</b>                  | <b>(4,493)</b>             | <b>(3,036)</b>   | <b>(11,232)</b>          | <b>(6,268)</b>   |
| <b>INVESTING ACTIVITIES</b>  |                            |                  |                          |                  |
| Decrease (increase) in short-term investments                      | (397)                      | 31,276           | 25,986                   | 37,083           |
| Additions to fixed assets  | (4,613)                    | (4,955)          | (16,210)                 | (16,192)         |
| <b>Cash flows related to investing activities</b>                  | <b>(5,010)</b>             | <b>26,321</b>    | <b>9,776</b>             | <b>20,891</b>    |
| <b>Increase in cash and cash equivalents</b>                       | <b>93</b>                  | <b>30,799</b>    | <b>9,070</b>             | <b>18,628</b>    |
| Cash and cash equivalents, beginning of period                     | 11,720                     | 5,808            | 2,743                    | 17,979           |
| <b>Cash and cash equivalents, end of period</b>                    | <b>\$ 11,813</b>           | <b>\$ 36,607</b> | <b>\$ 11,813</b>         | <b>\$ 36,607</b> |
| <b>Supplementary information:</b>                                  |                            |                  |                          |                  |
| Interest paid during the period                                    | \$ 386                     | \$ 281           | \$ 733                   | \$ 585           |
| Income taxes paid during the period                                | 3,576                      | 3,186            | 7,689                    | 9,924            |

# le château inc.

## SEGMENTED INFORMATION

(Unaudited)

(In thousands of dollars)

|                            | For the three months ended |               | For the six months ended |               |
|----------------------------|----------------------------|---------------|--------------------------|---------------|
|                            | July 28, 2007              | July 29, 2006 | July 28, 2007            | July 29, 2006 |
| <b>Sales by country</b>    |                            |               |                          |               |
| Canada                     | \$ 81,711                  | \$ 69,913     | \$ 150,015               | \$ 129,305    |
| United States              | 1,898                      | 1,979         | 3,979                    | 3,774         |
|                            | \$ 83,609                  | \$ 71,892     | \$ 153,994               | \$ 133,079    |
| <b>Sales by division</b>   |                            |               |                          |               |
| Ladies' Clothing           | \$ 46,808                  | \$ 40,080     | \$ 88,228                | \$ 74,619     |
| Men's Clothing             | 12,503                     | 10,821        | 22,257                   | 20,722        |
| Footwear                   | 11,565                     | 9,874         | 19,900                   | 17,078        |
| Accessories                | 12,733                     | 11,117        | 23,609                   | 20,660        |
|                            | \$ 83,609                  | \$ 71,892     | \$ 153,994               | \$ 133,079    |
| <b>Net earnings (loss)</b> |                            |               |                          |               |
| Canada                     | \$ 8,334                   | \$ 5,656      | \$ 13,126                | \$ 8,765      |
| United States              | (1,432)                    | (224)         | (1,641)                  | (614)         |
|                            | \$ 6,902                   | \$ 5,432      | \$ 11,485                | \$ 8,151      |
| <b>Identifiable assets</b> |                            |               |                          |               |
| Canada                     | \$ 178,899                 | \$ 158,098    | \$ 178,899               | \$ 158,098    |
| United States              | 2,964                      | 5,020         | 2,964                    | 5,020         |
|                            | \$ 181,863                 | \$ 163,118    | \$ 181,863               | \$ 163,118    |