

**PRESS RELEASE**

**LE CHÂTEAU REPORTS SECOND QUARTER RESULTS**

- Net earnings increased 56%
- Quarterly dividend increased to \$0.175 per share

**Montreal, September 8, 2008** – Le Château Inc. (TSX: CTU.A) today reported that net earnings for the second quarter ended July 26, 2008 increased 55.6% to \$9.8 million from \$6.3 million for the second quarter ended July 28, 2007. Earnings per share (basic) for the second quarter increased to \$0.39 per share from \$0.25 per share the previous year. Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the second quarter increased 18.4% to \$18.7 million or 21.0% of sales, compared to \$15.8 million or 18.9% of sales last year, resulting primarily from continued improvements in gross margins.

Sales for the second quarter increased 6.1% to \$88.7 million from \$83.6 million for the same period last year. Comparable store sales increased by 1.0% over the same period a year ago.

In June 2008, the Toronto Stock Exchange approved the Company's previously announced normal course issuer bid to purchase up to 925,148 Class A subordinate voting shares. Since June 19, 2008, the Company purchased 235,900 Class A subordinate voting shares at an average price of \$12.70 per share for a total of \$3.0 million.

**Six-month Results**

Net earnings for the six-month period increased 47.6% to \$15.5 million or \$0.62 per share from \$10.5 million or \$0.42 per share the previous year. Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the first six months increased 19.2% to \$31.0 million or 19.5% of sales, compared to \$26.0 million or 16.9% of sales last year.

Sales rose 3.4% to \$159.3 million for the six months ended July 26, 2008, compared to \$154.0 million last year. Comparable store sales decreased 1.5% versus the same period a year ago.

During the first six months of the year, the Company opened nine new stores and expanded eight existing locations, resulting in the addition of 59,000 square feet or 6.1% to the Le Château network, bringing the total floor space at end of period to 1,024,000 square feet.

**Dividend increase**

The Board of Directors has declared a quarterly dividend (constituting eligible dividends for income tax purposes) of \$0.175 per Class A subordinate voting share and Class B voting share, representing an increase of 16.7% from the previous dividend rate of \$0.15 per share. This is the 60<sup>th</sup> consecutive dividend declared by Le Château, and is payable on November 10, 2008 to the shareholders of record at the close of business on October 24, 2008.

**New Accounting Standard Implemented in 2008:**

On January 27, 2008, the Company adopted the recommendations of the following Section of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

Section 3031, Inventory, was developed based on International Financial Reporting Standards ("IFRS"). The standard was revised to provide more extensive guidance than Section 3030, to facilitate the CICA's move towards IFRS, and to reduce the number of alternatives for the measurement of inventories. Section 3031 requires inventories to be measured at the lower of cost and net realizable value. The Company previously valued its inventory at the lower of average cost and net realizable value less a normal profit margin, using the retail inventory method.

The Company has adopted this new standard retrospectively, with restatement of prior period amounts. The initial impact of measuring the inventories under the new standard was an increase to the carrying amount of opening inventories as at January 27, 2008 of \$2.9 million (\$4.4 million as at January 28, 2007). Opening retained earnings as at January 27, 2008 have been increased by \$2.0 million,

equal to the change in opening inventories net of tax of \$927,000. For the previous year, opening retained earnings as at January 28, 2007 have been increased by \$3.0 million, equal to the change in opening inventories net of tax of \$1.4 million.

The adoption of the new standard resulted in a reduction of net earnings for the second quarter ended July 26, 2008 of \$951,000 or \$0.04 per share. The carrying amount of inventories as at July 26, 2008 increased by \$840,000 to \$46.6 million. As a result of the restatement, net earnings for the second quarter ended July 28, 2007 decreased by \$597,000 or \$0.03 per share. The carrying amount of inventories as at July 28, 2007 increased by \$2.9 million to \$49.4 million. On a year to date basis, the adoption of the new standard resulted in a reduction of net earnings for the six months ended July 26, 2008 of \$1.4 million or \$0.05 per share (2007 - \$999,000 or \$0.04 per share).

## **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 218 retail locations, of which 214 are located in Canada and 4 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.

## **Non-GAAP Measures**

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 Company also discloses comparable store sales which are defined as sales generated by stores that have been opened for at least one year.

The above measures do 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**

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**CONSOLIDATED BALANCE SHEETS**

<i>(Unaudited)</i> <i>(In thousands of dollars)</i>	As at July 26, 2008	As at July 28, 2007 <i>(restated)</i>	As at January 26, 2008 <i>(restated)</i>
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 20,216	\$ 11,813	\$ 3,846
Short-term investments	53,728	32,913	66,354
Accounts receivable, prepaid expenses and other assets	6,380	5,063	6,307
Income taxes refundable	-	303	-
Inventories	46,602	49,393	45,903
<b>Total current assets</b>	<b>126,926</b>	<b>99,485</b>	<b>122,410</b>
Fixed assets	91,318	85,287	84,466
	<b>\$ 218,244</b>	<b>\$ 184,772</b>	<b>\$ 206,876</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>			
Accounts payable and accrued liabilities	\$ 27,217	\$ 28,053	\$ 30,377
Dividend payable	9,952	3,128	3,133
Income taxes payable	418	-	5,092
Derivative financial instruments	-	595	-
Current portion of capital lease obligations	1,423	1,499	1,384
Current portion of long-term debt	9,572	7,592	7,113
Future income taxes	-	930	927
<b>Total current liabilities</b>	<b>48,582</b>	<b>41,797</b>	<b>48,026</b>
Capital lease obligations	341	1,657	1,008
Long-term debt	23,095	15,783	12,689
Future income taxes	2,999	2,690	2,975
Deferred lease inducements	9,315	6,637	8,573
<b>Total liabilities</b>	<b>84,332</b>	<b>68,564</b>	<b>73,271</b>
<b>Shareholders' Equity</b>			
Capital stock	32,191	31,383	31,794
Contributed surplus	2,116	1,183	1,761
Retained earnings	99,373	84,036	99,884
Accumulated other comprehensive income	232	(394)	166
<b>Total shareholders' equity</b>	<b>133,912</b>	<b>116,208</b>	<b>133,605</b>
	<b>\$ 218,244</b>	<b>\$ 184,772</b>	<b>\$ 206,876</b>

**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 26, 2008	July 28, 2007 <i>(restated)</i>	July 26, 2008	July 28, 2007 <i>(restated)</i>
<b>Balance, beginning of period – as previously reported</b>	<b>\$ 102,396</b>	<b>\$ 78,283</b>	<b>\$ 97,914</b>	<b>\$ 76,814</b>
Adjustment to opening retained earnings resulting from adoption of new accounting standard for inventories, net of income taxes of \$927 (2007 - 3 month period \$1,211; 2007 - 6 month period \$1,400)	-	2,576	1,970	2,978
Excess of cost over stated value of Class A subordinate voting shares purchased and cancelled	(2,892)	-	(2,892)	-
Net earnings	9,821	6,305	15,466	10,486
Dividends declared	109,325	87,164	112,458	90,278
	9,952	3,128	13,085	6,242
<b>Balance, end of period</b>	<b>\$ 99,373</b>	<b>\$ 84,036</b>	<b>\$ 99,373</b>	<b>\$ 84,036</b>

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## 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 26, 2008	July 28, 2007 <i>(restated)</i>	July 26, 2008	July 28, 2007 <i>(restated)</i>
<b>Sales</b>	\$ 88,680	\$ 83,609	\$ 159,296	\$ 153,994
<b>Cost of sales and expenses</b>				
Cost of sales and selling, general and administrative	70,022	67,848	128,284	128,036
Depreciation and amortization	4,166	4,123	8,205	7,969
Write-off of fixed assets	73	1,597	173	1,597
Interest on long-term debt and capital lease obligations	494	386	928	733
Interest income	(611)	(444)	(1,310)	(932)
	74,144	73,510	136,280	137,403
Earnings before income taxes	14,536	10,099	23,016	16,591
Provision for income taxes	4,715	3,794	7,550	6,105
<b>Net earnings</b>	\$ 9,821	\$ 6,305	\$ 15,466	\$ 10,486
<b>Net earnings per share</b>				
Basic	\$ 0.39	\$ 0.25	\$ 0.62	\$ 0.42
Diluted	0.39	0.25	0.61	0.42
<b>Weighted average number of shares outstanding ('000)</b>	25,083	24,967	25,073	24,925

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(Unaudited)</i> <i>(In thousands of dollars)</i>	For the three months ended		For the six months ended	
	July 26, 2008	July 28, 2007 <i>(restated)</i>	July 26, 2008	July 28, 2007 <i>(restated)</i>
<b>Net earnings</b>	\$ 9,821	\$ 6,305	\$ 15,466	\$ 10,486
<b>Other comprehensive income</b>				
Change in fair value of forward exchange contracts	283	(349)	492	(1,178)
Realized forward exchange contracts reclassified to net earnings	(147)	583	(402)	263
Income tax (expense) recovery	(43)	(78)	(24)	309
	93	156	66	(606)
<b>Comprehensive income</b>	\$ 9,914	\$ 6,461	\$ 15,532	\$ 9,880

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(Unaudited)</i> <i>(In thousands of dollars)</i>	For the three months ended		For the six months ended	
	July 26, 2008	July 28, 2007 <i>(restated)</i>	July 26, 2008	July 28, 2007 <i>(restated)</i>
<b>OPERATING ACTIVITIES</b>				
Net earnings	\$ 9,821	\$ 6,305	\$ 15,466	\$ 10,486
Adjustments to determine net cash from operating activities				
Depreciation and amortization	4,166	4,123	8,205	7,969
Write-off of fixed assets	73	1,597	173	1,597
Amortization of deferred lease inducements	(346)	(235)	(684)	(440)
Stock-based compensation	180	(21)	453	198
Future income taxes	-	(281)	(927)	(470)
	<b>13,894</b>	<b>11,488</b>	<b>22,686</b>	<b>19,340</b>
Net change in non-cash working capital items related to operations	1,186	(3,256)	(8,516)	(10,607)
Deferred lease inducements	957	1,364	1,426	1,793
<b>Cash flows related to operating activities</b>	<b>16,037</b>	<b>9,596</b>	<b>15,596</b>	<b>10,526</b>
<b>FINANCING ACTIVITIES</b>				
Repayment of capital lease obligations	(316)	(499)	(628)	(1,183)
Proceeds of long-term debt	-	-	18,000	16,344
Repayment of long-term debt	(2,717)	(1,742)	(5,135)	(3,295)
Issue of capital stock upon exercise of options	402	862	402	1,008
Purchase of Class A subordinate voting shares for cancellation	(2,995)	-	(2,995)	-
Dividends paid	(3,133)	(3,114)	(6,266)	(24,106)
<b>Cash flows related to financing activities</b>	<b>(8,759)</b>	<b>(4,493)</b>	<b>3,378</b>	<b>(11,232)</b>
<b>INVESTING ACTIVITIES</b>				
Decrease (increase) in short-term investments	(648)	(397)	12,626	25,986
Additions to fixed assets	(3,343)	(4,613)	(15,230)	(16,210)
<b>Cash flows related to investing activities</b>	<b>(3,991)</b>	<b>(5,010)</b>	<b>(2,604)</b>	<b>9,776</b>
<b>Increase in cash and cash equivalents</b>	<b>3,287</b>	<b>93</b>	<b>16,370</b>	<b>9,070</b>
Cash and cash equivalents, beginning of period	16,929	11,720	3,846	2,743
<b>Cash and cash equivalents, end of period</b>	<b>\$ 20,216</b>	<b>\$ 11,813</b>	<b>\$ 20,216</b>	<b>\$ 11,813</b>
<b>Supplementary information:</b>				
Interest paid during the period	\$ 494	\$ 386	\$ 928	\$ 733
Income taxes paid during the period	4,753	3,576	13,151	7,689

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## SEGMENTED INFORMATION

*(Unaudited)*

*(In thousands of dollars)*

	For the three months ended		For the six months ended	
	July 26, 2008	July 28, 2007	July 26, 2008	July 28, 2007
<b>Sales by country</b>				
Canada	\$ 87,076	\$ 81,711	\$ 156,282	\$ 150,015
United States	1,604	1,898	3,014	3,979
	\$ 88,680	\$ 83,609	\$ 159,296	\$ 153,994
<b>Sales by division</b>				
Ladies' Clothing	\$ 48,932	\$ 46,808	\$ 90,592	\$ 88,228
Men's Clothing	14,944	12,503	25,809	22,257
Footwear	10,339	11,565	17,810	19,900
Accessories	14,465	12,733	25,085	23,609
	\$ 88,680	\$ 83,609	\$ 159,296	\$ 153,994
<b>Net earnings (loss)</b>				
Canada	\$ 9,841	\$ 7,737	\$ 15,571	\$ 12,127
United States	(20)	(1,432)	(105)	(1,641)
	\$ 9,821	\$ 6,305	\$ 15,466	\$ 10,486
<b>Identifiable assets</b>				
Canada	\$ 216,079	\$ 181,808	\$ 216,079	\$ 181,808
United States	2,165	2,964	2,165	2,964
	\$ 218,244	\$ 184,772	\$ 218,244	\$ 184,772