

Annual Information Form

Le Château Inc.

For the fiscal year ended January 31, 2004

June 2, 2004

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1. Incorporation

1.1 The Company

Château Stores Ltd. was incorporated under the *Companies Act (Québec)* on November 17, 1959. On June 9, 1969, an affiliated company, Le Château Design Ltd., was incorporated under the *Canada Corporations Act*. On April 17, 1973, Le Château Design Ltd. changed its name by supplementary letters patent to Château Stores of Canada Ltd., and at that time, Château Stores of Canada Ltd. acquired all the outstanding shares of Château Stores Ltd. from Herschel H. Segal and a minority shareholder. Over a period of time, the operations carried on by Château Stores Ltd. were transferred to its parent, Château Stores of Canada Ltd. Château Stores of Canada Ltd. was continued under the *Canada Business Corporations Act* on January 27, 1977.

The Company had its Initial Public Offering on December 3, 1983, issuing 922,300 Class A subordinate voting shares.

On July 6, 2000, Château Stores of Canada Ltd. changed its name to Le Château Inc.

The head office and principal place of business of Le Château Inc. is located at 5695 Ferrier, Town of Mount Royal, Québec, H4P 1N1, tel. (514) 738-7000.

Le Château Inc. owns 100% of the common shares of its U.S. subsidiary, Château Stores Inc., incorporated under the laws of the state of Delaware.

In this Annual Information Form the “Company” and “Le Château” refer collectively to Le Château Inc. and its subsidiary.

2. Business of the Company

2.1 General Business Development

2001

- Ø Sales rose 16.4% to \$187.5 million in fiscal 2001-2002 resulting in net earnings of \$1.9 million. Comparable store sales increased 14.2% for the year.
- Ø Improved sales productivity with a 16% increase in sales per square foot.
- Ø Investments were made to strengthen the brand image, the management team, and infrastructure.

2002

- Ø Net earnings in fiscal 2002-2003 reached \$7.6 million or \$1.52 per share, compared to \$1.9 million or \$0.38 per share the previous year.
- Ø Sales increased 16.1% to \$217.7 million from \$187.5 million due in large part to an 18.4% increase in comparable store sales.
- Ø Le Château's strategy was to further reposition its brand, elevate the quality of its products while broadening its customer base to offer the most innovative blend of fashion and value. Through increased marketing efforts across Canada, and a clear and broader based product offering, Le Château has captured even further the attention of style-conscious women and men aged 15 to 55.

2003

- Ø Net earnings in fiscal 2003-2004 reached \$10.6 million or \$2.07 per share, compared to \$7.6 million or \$1.52 per share the previous year.
- Ø Sales increased 4.2% to \$226.8 million from \$217.7 million, while comparable store sales increased 0.6%.

2.2 Description

2.2.1 Profile

Le Château is a leading Canadian specialty retailer offering fashion-forward apparel, accessories and footwear to style-conscious women and men. Our brand's success is built on quick identification of and response to fashion trends through our design, product development and vertically integrated operations.

2. Business of the Company [Cont'd]

Le Château brand name clothing is largely designed and developed within our vertically integrated operations. Our brand name merchandise is sold exclusively through our 154 retail locations, which average 3,500 square feet in size. In addition, the Company operates eleven Le Château Fashion Outlet Stores. All stores are located in Canada, except for four locations in the New York City area.

Le Château, committed to research, design and product development, manufactures approximately 45% of the Company's goods in its own Canadian production facilities.

2.2.2 The Retail Network

The Company leases store locations both in shopping malls and in downtown areas where pedestrian traffic is heavy. The following table summarizes the geographic distribution of Le Château stores, as at January 31, 2004.

Province	Stores	Square Footage
Ontario	54	203,983
Québec	46	217,707
British Columbia	20	75,293
Alberta	20	67,798
Manitoba	6	24,050
Nova Scotia	6	12,669
New Brunswick	4	13,209
Saskatchewan	4	12,467
Newfoundland	1	2,500
Total Canada	161	629,676
Total United States	4	22,506
Total Le Château stores	165	652,182

Of the \$226.8 million in total sales for the fiscal year ended January 31, 2004, stores situated in Canada accounted for \$219.2 million, or 97% of consolidated sales, while stores situated in the United States accounted for \$7.6 million. Ontario accounted for 35% of total sales, while Québec accounted for 28% of the Company's sales.

Lease expirations, excluding options to renew, are as follows: 12 leases expire later in 2004, and the remainders expire in years ranging from 2005 to 2015. The building in which the store on St. Jean Street in Québec City is located, is owned by the Company.

2. Business of the Company [Cont'd]

In the normal course of business, the Company is continually looking for promising locations to strengthen its market penetration. Store performance is analyzed regularly. When a store does not meet Company growth criteria, and when corrective measures are not effective, the store in question is closed, usually when the lease for the location expires.

The geographic distribution of store openings and closings over the past three years has been as follows:

	Fiscal 2003-2004	Fiscal 2002-2003	Fiscal 2001-2002
Canada			
Openings	6	1	2
Closings	-2	0	-2
Net Change	+4	+1	+0
Number of stores in Canada	161	157	156
U.S.			
Openings	0	0	0
Closings	0	0	-1
Net Change	+0	+0	-1
Number of stores in the U.S.	4	4	4
Total number of stores	165	161	160

Le Château believes that its stores are a direct link to the customer. It is, therefore, vital that the shop atmosphere reflects the dynamism, energy, and style that Le Château symbolizes. Customers are not just buying clothes, but endorsing the Le Château brand image. The Company endeavors to make each location look and feel more like a privately owned street boutique, reflecting the uniqueness of both the market and its clothing. The store decor is a way of enhancing the merchandise, creating confidence in the product and effectively connecting the consumer with the brand. Shop personnel, an integral part of a store's ambiance, further strengthen the Le Château image, and, for this reason, the Company continues to prioritize and nurture a more informed, empowered and ultimately more dynamic staff.

2. Business of the Company [Cont'd]

For the year ended January 31, 2004, the Company invested approximately \$14.4 million in capital expenditures, of \$8.8 million was for the opening of 6 new stores and the renovation of 18 existing stores, with the balance used for investments in information technology, which included a new point of sale system launched in fiscal 2005. By comparison, capital expenditures in the previous year were \$9.0 million, of which \$7.6 million was for the opening of 1 new store and the renovation of 16 stores.

Where possible and profitable, stores are expanded into adjacent space during renovation; thereby further adding to sales. The pace of the renovation program depends on the Company's ongoing financial results. Projected capital expenditures for fiscal 2004-2005 are approximately \$17 million, of which approximately \$15.5 million is intended to be used for the opening of 6 to 10 new stores and the renovation of 20 to 25 existing stores and the balance of \$1.5 million for investments in information technology. Management expects to be able to continue financing the Company's activities and most of its capital expenditures through cash flow from operations and, if necessary, can draw upon its financial resources, which include cash and cash equivalents of approximately \$22 million at year-end, as well as a revolving line of credit of \$16 million with a Canadian chartered bank. Part of the projected capital expenditures could also be financed through a \$6 million long-term debt facility.

Annual sales per square foot is one of several indicators of store performance, and is a function of the number of units sold, and also the markdowns that are necessary to sell the goods.

	Fiscal 2003-2004 \$	Fiscal 2002-2003 \$	Fiscal 2001-2002 \$
Sales/sq. ft.	367	374	319
Sales/sq. ft. *	386	391	338

* Excluding Le Château outlet stores.

Breakdown of sales according to type of merchandise (as a percentage of total retail sales):

	Fiscal 2003-2004 %	Fiscal 2002-2003 %	Fiscal 2001-2002 %
Clothing and Accessories	93	93	92
Footwear	7	7	8
	100	100	100

2. Business of the Company [Cont'd]

2.2.3 Manufacturing and Distribution

DESIGN AND PRODUCT DEVELOPMENT

Fashion design has always been one of Le Château's major strengths and management recognizes the need to maintain and build upon this. Catering to the demands of a young-spirited, fashion-conscious clientele means staying on the cutting edge.

In order to satisfy the specific needs of its customers, the Company designs and develops entire collections of clothing, footwear and accessories to be sold under its own "Le Château" label. The Company's fashion, design and manufacturing departments contain the essential "Research and Development" ingredients needed for brand building. Le Château maintains its awareness of changing fashions through a program of in-depth research of world-wide fashion trends. The Company's in-house design capability allows it to adapt these trends to the needs of its demographic market in a timely manner. Thus, the Company is able to offer clothing, footwear and accessories that are at the forefront of changing fashions. Le Château's continual brand appeal is the result of close links between designing, buying, manufacturing and selling – a quick response to market demands.

MANUFACTURING

Le Château's vertically integrated approach makes it unique, as a major retailer in Canada that not only designs and develops, but also manufactures its own brand name clothing. The Company's state-of-the-art production facilities, which include CAD/CAM systems and three robotic cutting systems, have long provided it with several key competitive advantages – short lead times and flexibility; improved cost control; the ability to give its customers what they want, when they want it; allowing the Company to remain connected to the market throughout changing times.

Le Château manufactures its exclusively designed apparel at its own 92,896 square foot leased facilities or arranges for the manufacture of these products through other suppliers in Canada and abroad. Goods manufactured by Le Château are cut in its facilities in Montreal and then sent out to be assembled and sewn by independent contractors in the province of Québec.

The goods are quality controlled throughout the manufacturing process and are sent to the Company's distribution facility for final quality inspection before being shipped to stores.

2. Business of the Company [Cont'd]

Le Château's internal manufacturing process is comprised of the following steps:

- Ø design;
- Ø selecting and buying fabric and trimmings;
- Ø sample making;
- Ø pattern making, marking and grading;
- Ø fabric cutting; and
- Ø final quality control inspections.

As with many apparel manufacturers today, Le Château contracts its sewing needs out to various third parties. The Montreal area is one of North America's largest centres of apparel manufacturing. Hence, Le Château's access to Montreal's large supply of manufacturing capacity and skilled, apparel workers allows the Company to manufacture locally in a cost-effective manner. Of the approximately 30 subcontractors used by Le Château for garment construction and stitching, none accounts for more than 15% of the Company's production.

The Company's manufacturing process makes use of state-of-the-art computerized equipment for:

- Ø making patterns using computer assisted design ["CAD"] technology;
- Ø grading patterns using computer assisted manufacturing ["CAM"] technology;
- Ø optimizing the use of raw materials;
- Ø embroidering patterns on fabrics;
- Ø spreading fabric for cutting; and
- Ø robotic cutting of fabrics.

2. Business of the Company [Cont'd]

2.2.4 Sources of Supply

In addition to manufacturing goods in its own facility, Le Château also buys from other Canadian manufacturers, imports goods directly, and buys from Canadian importers. By managing these four elements according to market developments, the Company maximizes its operating flexibility. The Company's sources of supply include over 500 companies which are located in Canada, the United States, Europe and the Far East. The Company has a diversified network of supplier relationships, with its largest suppliers accounting for less than 10% of the Company's annual purchases.

The following table indicates the breakdown of Le Château's clothing merchandise by source:

	Fiscal 2003-2004 %	Fiscal 2002-2003 %	Fiscal 2001-2002 %
Manufacturing	43	45	50
Imports	50	48	40
Canadian suppliers	7	7	10
	100	100	100

Le Château has traditionally preferred to manufacture its apparel in-house, because it gives the Company the best combination of control, flexibility and speed to respond to market changes. However, the Company increases the proportion of its apparel manufactured by other Canadian companies when demand surges unexpectedly and/or the cost of doing so is favourable. In general, Le Château prefers to manufacture domestically to take advantage of the ability to both test products and come to market quickly thereafter.

2. Business of the Company [Cont'd]

2.2.5 Human and Material Resources

As at January 31, 2004, Le Château employed 2,564 employees, of which 1,315 were full time employees and 1,249 were part time employees.

The Company is not a party to any collective bargaining contract with respect to its employees and the Company considers its employee relations to be highly satisfactory.

2.2.6 Marketing Strategy

Le Château's marketing strategy is based on selecting the right merchandise and offering appropriate quantities at optimal prices in order to maximize profitability. In order to accomplish this, Le Château conducts extensive market testing of its merchandise on an ongoing basis. The Company also relies extensively on its POS system, which collects sales information for each store and for each product by size, colour and style. Management uses this information on a daily basis to decide on upcoming orders, and depending on market conditions, whether to manufacture merchandise in-house, import the goods or buy them on the domestic market.

Merchandise quality is also an important element of the Company's marketing strategy. The Company has quality controls in place to ensure that the price-to-quality ratio of its merchandise is satisfactory to its customers.

Le Château's fully networked management information systems provide integration of merchandising, POS, manufacturing and financial systems. The Company's vertically integrated approach relies on these systems to achieve cost efficiencies and improve responsiveness to changing market trends and a more demanding consumer. Le Château invests continually in information technology, a key to maintaining its position as a leading provider of fashion.

2. Business of the Company [Cont'd]

2.2.7 Intangible Rights

The Company is the registered owner of approximately 60 trademarks in Canada and 22 in the United States. The Company considers that some of its registered trademarks have significant value in the marketing of its merchandise.

2.2.8 Competition

In Le Château's core business of avant-garde clothing, the Company competes with one-store specialty boutiques as well as with retail specialty chains.

As compared with the one-store specialty boutiques, Le Château believes that it can offer considerably more selection and better prices due to its in-house manufacturing facilities and its larger resources to research emerging trends. Le Château also benefits from a strong brand name and a well-researched store concept that enhances the look of its clothing and makes it easier for customers to find the items they are looking for.

As compared with other retail chains [including new entrants from the United States], Le Château offers an exclusive selection of avant-garde clothing and an excellent price-to-quality ratio.

Overall, management believes that Le Château has the assets required to retain its niche in the Canadian retail clothing market. These include: appropriate systems and management expertise to react quickly to market trends, a well defined and distinct retail concept, a strong brand name, flexible manufacturing operations and a new store format that suits the tastes of today's consumers.

2.2.9 Seasonal Variations

The Company's business follows a seasonal pattern, with retail sales traditionally being higher in the third and fourth quarters due to the back-to-school period and the Christmas season, respectively. Traditionally, sales between the months of August and January account for approximately 56% of Le Château's business volume while the first quarter (February, March and April) is typically the slowest at 20% of total sales.

3. Selected Financial Information

3.1 Financial Information for Last Three Years

[In thousands of dollars except for per-share amounts]	Fiscal years ended in January,		
	2004	2003	2002
	\$	\$	\$
Sales	226,766	217,660	187,540
Earnings before income taxes	17,123	12,375	4,010
Net earnings	10,648	7,562	1,852
• Per share - Basic	2.07	1.52	0.38
• Per share - Diluted	1.98	1.45	0.37
Total assets	94,546	80,519	69,915
Long-term debt ⁽¹⁾	4,580	1,978	1,958
Dividends	0.40	0.40	0.40

⁽¹⁾ Including capital lease obligations. Excluding current portion of debt and deferred lease inducements.

3.2 Management's Discussion and Analysis

Management's discussion and analysis on pages 5 to 11 of Le Château's 2003 Annual Report is incorporated by reference in this Annual Information Form.

3.3 Dividend Policy

During fiscal 2003-2004, Le Château continued, for the tenth consecutive year, with its policy of paying quarterly dividends on the Class A Subordinate Voting and Class B Voting Shares. Total dividends per Class A and Class B share amounted to \$0.10 per quarter or \$0.40 in fiscal 2003-2004.

On April 30, 2004, the Board of Directors approved a 50% increase in the quarterly dividend, from \$0.10 to \$0.15 per share, payable on June 7, 2004 to shareholders of record at the close of business on May 21, 2004.

The Class A shareholders are entitled to a non-cumulative preferential dividend of \$0.05 per share, after which the Class B shareholders are entitled to a non-cumulative dividend of \$0.05 per share; any further dividends declared in a fiscal year must be declared and paid in equal amounts per share on all the Class A and Class B Shares then outstanding without preference or distinction.

3. Selected Financial Information [Cont'd]

3.4 Quarterly Information

Quarterly Results	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
[In thousands of dollars except per share amounts]	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Sales	45,270	42,960	54,180	51,597	57,763	60,434	69,553	62,669	226,766	217,660
Earnings before income taxes	826	667	4,153	3,888	6,120	4,946	6,024	2,874	17,123	12,375
Net earnings	381	343	2,543	2,422	3,810	3,009	3,914	1,788	10,648	7,562
Per share - basic	0.08	0.07	0.50	0.49	0.74	0.60	0.75	0.36	2.07	1.52
Per share - diluted	0.07	0.07	0.48	0.47	0.71	0.57	0.72	0.34	1.98	1.45
Number of stores at end of Quarter	163	160	164	161	165	161	165	161		

4. Market for Securities

The Class A subordinate voting shares of Le Château Inc. are listed on the Toronto Stock Exchange under the symbol CTU.A.

5. Directors and Officers

The names, municipalities of residence, and principal occupations of the Board of Directors of the Company, as well as the number of shares owned or controlled by each one as at June 2, 2004 appear in the following table.

Name	Principal	Director Since	Number and Class of Shares of the Company	
			Class A Subordinate Voting Shares	Class B Shares
Herschel H. Segal ^{(1) (2)} (Montreal)	Chairman and Chief Executive Officer of the Company	1969	570	2,980,000
Jane Silverstone, B.A.LLL ⁽²⁾ (Montreal)	Vice-Chairman of the Board of the Corporation	1983	333,360	40,000
Emilia Di Raddo, CA ⁽²⁾ (Montreal)	President and Secretary of the Company	2000	40,000	—
A.H.A. Osborn (England)	Chief Executive Officer of Alexon Group plc (apparel retailing)	1999	30,600	—
Herbert E. Siblin, CM, FCA ^{(2) (3) (4) (5)} (Montreal)	President Siblin & Associates Ltd. (management consultants)	2000	10,000	—
William Cleman ^{(2) (3) (4) (5)} (Montreal)	Principal of Cleman Consulting Inc. (management consultants)	2002	1,000	—
David Martz ^{(2) (3) (4) (5)} (Montreal)	Principal of Martz Management Inc. (management consultants)	2002	1,000	—

- (1) Rainy Day Investments Ltd. owns 19,000 Class B Shares and is the sole shareholder of 125387 Canada Inc. which owns 2,961,000 Class B Shares. These Class B Shares represent 98.7% of the issued and outstanding Class B Shares. Mr. Segal owns all of the issued and outstanding voting shares of Rainy Day Investments Ltd.
- (2) Member of the Executive Committee of the Board.
- (3) Member of the Audit Committee of the Board.
- (4) Member of the Corporate Governance Committee of the Board.
- (5) Member of Compensation Committee of the Board
- (6) The information as to shares beneficially owned, controlled or directed, not being within the knowledge of the Corporation, has been furnished by the respective directors individually.

5. Directors and Officers [Cont'd]

The term of each director expires at the close of the annual meeting of shareholders, unless such director is re-elected at such meeting.

As a group, the directors and senior officers of the Corporation beneficially own, directly or indirectly, or have control or direction over approximately 18% of the Class A subordinate voting and 100% of the Class B voting shares.

The following is a list of the Company's officers.

Herschel H. Segal

Chairman of the Board and Chief Executive Officer

Jane Silverstone, B.A.LLL

Vice-Chairman of the Board

Emilia Di Raddo, CA

President and Secretary

Betty Berliner

Senior Vice-President, Buying and Merchandising

Franco Rocchi

Vice-President, Sales and Operations

6. Additional Information

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interest of insiders in material transactions, if applicable, is contained in the Management Proxy Circular dated June 2, 2004. Other information is included in the Company's audited consolidated financial statements and the notes thereto for the fiscal year ended January 31, 2004 as well as the Company's 2003 Annual Report and other publicly filed documents. Such documents and other publicly filed documents are available on the website www.sedar.com. They can also be obtained from the Secretary of the Company at the head office of the Company at 5695 Ferrier, Town of Mount Royal, Québec H4P 1N1.