Contents Consolidated Financial Statements

Consolidated Income Statement

from 1 January to 31 December

CHF 1000	Note	2005	2006
Net sales	3	**1 347 597**	**1 323 647**
Cost of goods	16.1	(525 369)	(505 227)
Gross profit from fashion retail		**822 228**	**818 420**
In % of net sales		**61.0%**	**61.8%**
Personnel expenses	4	(299 033)	(299 553)
Rental expenses	5	(201 071)	(210 915)
Advertising and promotion expenses	6	(104 507)	(101 540)
General operating expenses	7	(89 329)	(92 805)
Other operating income	8	36 893	29 451
Total operating expenses		**(657 047)**	**(675 362)**
Operating earnings before depreciation (EBITDA)		**165 181**	**143 058**
In % of net sales		**12.3%**	**10.8%**
Depreciation		(54 784)	(55 064)
Impairment	9	(1 745)	(76 311)
Operating earnings (EBIT)		**108 652**	**11 683**
In % of net sales		**8.1%**	**0.9%**
Financial income	10	862	890
Financial expenses	11	(11 918)	(11 140)
Exchange gains/(losses), net		937	(890)
Profit before income tax		**98 533**	**543**
In % of net sales		**7.3%**	**0.0%**
Tax	12	(28 464)	(20 223)
Net profit of the year		**70 069**	**(19 680)**
In % of net sales		**5.2%**	**(1.5%)**
Basic earnings per share	13	**8.25**	**(2.32)**
Diluted earnings per share	13	**8.12**	**(2.32)**

The notes on pages 6 to 41 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

as of 31 December

CHF 1000	Note	31.12.2005	31.12.2006
Assets			
Current assets			
Cash and cash equivalents	14	59 678	41 756
Receivables and advance payments	15	36 362	44 335
Inventories	16	247 843	280 627
Total current assets		**343 883**	**366 718**
Long-term assets			
Tangible assets	17	402 775	424 625
Financial assets	18	679	696
Intangible assets	19	151 853	77 821
Deferred tax assets	12	13 168	14 900
Total long-term assets		**568 475**	**518 042**
Total assets		**912 358**	**884 760**
Liabilities and shareholders' equity			
Current liabilities			
Short-term financial liabilities	20	5 367	7 187
Trade payables		55 461	60 317
Other liabilities and accruals	21	68 466	69 582
Current tax liabilities		12 430	8 879
Total current liabilities		**141 724**	**145 965**
Long-term liabilities			
Lease liabilities	22	51 455	46 475
Provisions	23	7 884	7 927
Deferred tax liabilities	12	40 344	40 892
Mortgages	24	93 400	93 240
Loans	25	48 365	61 596
Total long-term liabilities		**241 448**	**250 130**
Shareholders' equity			
Share capital less treasury shares	26, 27	67 968	46 006
Other reserves		173 789	173 789
Retained earnings		287 429	268 870
Total shareholders' equity		**529 186**	**488 665**
Total liabilities and shareholders' equity		**912 358**	**884 760**

The notes on pages 6 to 41 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

from 1 January to 31 December

CHF 1000	Note	2005	2006
Net profit for the year		**70 069**	**(19 680)**
Adjustments: Taxes	12	28 464	20 223
Exchange (gains)/losses, net		(937)	890
Financial expenses	11	11 918	11 140
Financial income	10	(862)	(890)
Depreciation and impairment	9, 19	56 529	131 375
Profit on disposal of assets		(5 502)	(19)
Other non-cash expenses		975	1 202
Change in long-term provisions		(1 247)	(219)
Operating earnings before changes in working capital		**159 407**	**144 022**
Change in short-term receivables, advance payments and prepaid expenses		(5 720)	(7 805)
Change in inventories		27 621	(25 974)
Change in current liabilities		1 604	118
Operating earnings after changes in working capital		**182 912**	**110 361**
Financial income received		862	890
Financial expenses paid		(11 647)	(10 362)
Taxes paid		(29 154)	(27 393)
Cash flow from operating activities		**142 973**	**73 496**
Investments in intangible assets	19.1	(2 087)	(1 547)
Investments in tangible assets	17.1	(49 930)	(71 102)
Disposals of tangible assets		10 670	344
Investments in financial assets	18	(507)	0
Net cash provided/(used) by investing activities		**(41 854)**	**(72 305)**
Change in bank loans: Additions	25.2	110 000	172 500
Repayments	25.2	(195 000)	(160 000)
Change in finance lease liabilities		(5 015)	(5 441)
Purchase of treasury shares	27	(9 163)	(9 989)
Disposals of treasury shares	27	2 719	4 256
Change in mortgages	24	17 840	(160)
Distribution to shareholders	28	(8 521)	(17 037)
Net cash provided/(used) by financing activities		**(87 140)**	**(15 871)**
Net increase/(decrease) in cash and cash equivalents		**13 979**	**(14 680)**
Net cash and cash equivalents at the beginning of the period	14	**46 642**	**59 678**
Effect of exchange rate changes		(943)	(3 985)
Net increase/(decrease) in cash and cash equivalents		13 979	(14 680)
Net cash and cash equivalents at the end of the period	14	**59 678**	**41 013**

The notes on pages 6 to 41 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Group Equity

CHF 1000	Note	Share capital	Treasury shares	Share premium reserve	Retained earnings	Currency translation differences	Valuation financial instruments	Valuation share option scheme	Total
Balance 1.1.2005		**88 000**	**(13 756)**	**173 789**	**232 471**	**(12 123)**	**(3 647)**	**1 194**	**465 928**
Cash flow hedges, net of tax	31.1						7 316		7 316
Currency translation differences						(137)			(137)
Net income/(expense) recognized directly in equity					**0**	**(137)**	**7 316**		**7 179**
Net profit for the year 2005					70 069				70 069
Total recognized income for 2005					**70 069**	**(137)**	**7 316**		**77 248**
Value of granted options	29							975	975
Value of exercised/expired options	29				377			(377)	0
Disposals of treasury shares	27		2 887		(168)				2 719
Purchase of treasury shares	27		(9 163)						(9 163)
Dividends paid	28				(8 521)				(8 521)
Balance 31.12.2005		**88 000**	**(20 032)**	**173 789**	**294 228**	**(12 260)**	**3 669**	**1 792**	**529 186**

CHF 1000	Note	Share capital	Treasury shares	Share premium reserve	Retained earnings	Currency translation differences	Valuation financial instruments	Valuation share option scheme	Total
Balance 1.1.2006	26	**88 000**	**(20 032)**	**173 789**	**294 228**	**(12 260)**	**3 669**	**1 792**	**529 186**
Cash flow hedges, net of tax	31.1						(3 782)		(3 782)
Currency translation differences						4 509			4 509
Net income/(expense) recognized directly in equity					**0**	**4 509**	**(3 782)**		**727**
Net loss for the year 2006					(19 680)				(19 680)
Total recognized income for 2006					**(19 680)**	**4 509**	**(3 782)**		**(18 953)**
Value of granted options	29							1 202	1 202
Value of exercised/expired options	29				850			(850)	0
Disposals of treasury shares	27		5 064		(808)				4 256
Purchase of treasury shares	27		(9 989)						(9 989)
Par value reduction	28	(17 600)	563						(17 037)
Balance 31.12.2006	26	**70 400**	**(24 394)**	**173 789**	**274 590**	**(7 751)**	**(113)**	**2 144**	**488 665**

The notes on pagesx 6 to 41 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 Basis of consolidation

1.1 General information

Charles Vögele Holding AG, together with its subsidiary companies, forms the Charles Vögele Group, an independent European fashion retail group with sales outlets in Switzerland, Germany, Austria, Belgium, the Netherlands, Slovenia, Hungary, Poland and the Czech Republic.

Charles Vögele Holding AG is a joint stock corporation that is domiciled in Pfäffikon SZ, Switzerland, and listed on the SWX Swiss Exchange.

1.2 Preparation of the financial statements

The consolidated financial statements in this report are based on the individual financial statements of Charles Vögele Group companies, which are all prepared in accordance with standard Group guidelines. The Group's accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS).

1.3 Changes in accounting policies

The following new IFRS standards, amendments to existing standards and interpretation of existing standards, valid since 1 January 2006, have been applied, but do not have any significant effects on these annual financial statements:

– IAS 19: Employee benefits (actuarial gains and losses, group-wide commitments and disclosure rules)
– IAS 39: Recognition and measurement of financial instruments (conversion and first use, hedging intra-group transactions, choice of valuation at fair value, and financial guarantees)
– IAS 21: Exchange rate differences from net investments in a foreign business (see Note1.7)
– IFRS1: First-time adoption of IFRS (not relevant to the Charles Vögele Group)
– IFRS 6: Exploration and evaluation of mineral resources (not relevant to the Charles Vögele Group)
– IFRIC 4: Determining whether an agreement implies a leasing relationship
– IFRIC 5: Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds (not relevant to the Charles Vögele Group)

The following new and amended IFRS standards and interpretations were approved, but will only come into effect for future reporting periods and were not applied in advance to these financial statements:

– IFRIC 7: Accounting in high-inflation countries (not relevant to the Charles Vögele Group)
– IFRIC 8: Applicability of IFRS 2 Share-based payment (applicable from 2007 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
– IFRIC 9: Reassessment of embedded derivatives (applicable from 2007 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
– IFRIC 10: Interim reporting and impairment losses (applicable from 2007 financial year; implications for the Charles Vögele Group's accounts are currently being examined)

- IFRS 7: Financial instruments: disclosures
  (applicable from 2007 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
- IFRIC 11: IFRS 2 – Group and treasury share transactions
  (applicable from 2008 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
- IFRIC 12: Agreement on service concessions
  (applicable from 2008 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
- IFRS 8: Segment reporting
  (applicable from 2009 financial year; implications for the Charles Vögele Group's accounts are currently being examined)

1.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of Charles Vögele Holding AG and its Swiss and international Group companies.

Capital consolidation is performed using the purchase method in accordance with the "new valuation" method, meaning that the acquisition cost of investments due for consolidation is set off against their proportionate operating equity capital at the time of acquisition.

Assets and liabilities as well as the expenses and income of the companies in which Charles Vögele Holding AG has a direct or indirect voting interest exceeding 50%, or other form of controlling interest, are included in full in the consolidated financial statements. The interest of minority shareholders in net assets and net income is disclosed separately in the consolidated balance sheet and income statement. The Charles Vögele Group does not have any minority shareholders.

The Charles Vögele Group does not have any associated companies (minority stake with voting rights of 20–50%).

Intercompany receivables and payables, income and expenses between companies included in the consolidation, and intercompany profits within the Group are eliminated.

The companies included in the consolidation are detailed in Note 35.

1.5 Scope of consolidation

There were no changes in the scope of consolidation in the 2006 financial year.

Changes in 2005: In July 2005 a new Group company, Charles Vögele trgovina s tekstilom d.o.o., was established in Ljubljana for the Group's entry into the Slovenian market. Preparations for the pilot markets in Poland, the Czech Republic and Hungary led to the foundation of Charles Voegele Polska Sp. z o.o. in Warsaw, Charles Voegele Ceská s.r.o. in Prague, and Charles Vögele Hungária Kereskedelmi Kft. in Budapest. All four of these new companies are sales organizations whose shares are 100% owned by Charles Vögele Holding AG and which are fully consolidated.

1.6 Segment reporting

The Group is divided into "Sales Organizations" and "Central Services". The "Sales Organizations" comprises the sales organizations with their branches and related sales logistics operation and are subdivided into the following segments: Switzerland, Germany, Austria, Belgium/Netherlands and Eastern Europe. The Eastern Europe segment comprises the new expansion and pilot markets of Slovenia, Poland, Hungary and the Czech Republic.

The centralized services of the Group relating to the fashion trade are brought together in the "Central Services". The major centralized Group services include purchasing and purchasing logistics, information technology, finance, accounting, controlling, treasury, internal and external communications, advertising and brand management.

The Charles Vögele Group is a centrally managed group with a flat organizational structure operating solely in the fashion trade. The centralization and scalability of the concept are fundamental cornerstones of the Group's strategy. To cover central service costs, the sales organizations are charged with an arms-length markup of 15% on the purchase price of products sold.

1.7 Foreign currency translation

The consolidated financial statements are prepared in CHF, which is the Charles Vögele Group´s functional and reporting currency. For the individual Group companies, the relevant national currency is the functional currency.

Foreign currency transactions are translated into the functional currency at the exchange rate prevailing on the date of the transaction. Gains and losses that result from foreign currency transactions, or from the translation at the year-end rate of monetary assets and liabilities denominated in foreign currencies, are recorded in the income statement.

On consolidation, all assets and liabilities in balance sheets prepared in foreign currencies are translated into the Group's reporting currency using year-end exchange rates. Income and expenses recorded in income statements prepared in foreign currencies are translated into the Group's reporting currency at average rates of exchange for the year. Exchange differences arising from those translations are allocated directly to retained earnings in the balance sheet. The average rates of exchange for the year are not significantly different from the transaction rates. Foreign currency differences arising from the valuation of long-term loans with equity character between Group companies are – like net investments in a foreign operation – recorded under equity, with no effect in the income statement, until repayment.

When a group company is sold, the accrued foreign exchange effects booked to equity capital are offset against the net sales proceeds and charged to the income statement.

The following CHF exchange rates are used for the Group's major currencies:

2006	ISO code	Unit	Balance sheet	Income statement
Euro	EUR	1	1.61	1.57
Hong Kong	HKD	1	0.16	0.16
USA	USD	1	1.22	1.25
Slovenia	SIT	100	0.67	0.66
Hungary	HUF	100	0.64	0.60
Poland	PLN	100	41.97	40.42
Czech Republic	CZK	100	5.84	5.56

2005	ISO code	Unit	Balance sheet	Income statement
Euro	EUR	1	1.55	1.55
Hong Kong	HKD	1	0.17	0.16
USA	USD	1	1.32	1.25
Slovenia	SIT	100	0.65	0.65
Hungary	HUF	100	0.61	0.62
Poland	PLN	100	40.34	38.52
Czech Republic	CZK	100	5.36	5.20

1.8 Net sales and revenue recognition

Net sales include all revenues from the sale of goods, less discounts, sales tax and deductions including credit card commissions and other price concessions. Earnings are recorded at the cash desk when the goods are handed over to customers.

1.9 Cost of goods

The cost of goods includes the purchase price (before discounts) plus transport and other procurement costs for products sold in the period under review, inventory differences, changes in value adjustments on stocks and processing costs of new garments. This cost item includes no personnel costs.

1.10 Employee pension plans

Within the Charles Vögele Group there are various defined benefit and defined contribution pension plans based on the regulations of the different countries concerned.

For defined benefit pension plans the coverage surplus or deficit recorded in the balance sheet is equivalent to the present value of defined benefit obligations (DBO) on the balance sheet date less the fair value of plan assets. The DBO is calculated each year by an independent actuary using the projected unit credit method. Actuarial gains and losses as well as alterations to asset limits are immediately booked to the income statement under personnel expenses. Coverage deficits are recorded on the balance sheet as provisions. If there is a coverage surplus, the future economic benefit of this surplus is assessed and a value adjustment made if necessary.

For defined contribution plans, the Group pays contributions to a public or private pension insurance scheme either on the basis of a legal or contractual obligation, or voluntarily. The Group has no further payment obligations beyond the payment of these contributions. Contributions are recorded under personnel expenses when they fall due.

1.11 Advertising

Advertising expenses are recorded in the income statement on the date the advertisement is published.

1.12 Financial expenses

Interest costs are charged directly to the income statement.

1.13 Cash and cash equivalents

Cash and cash equivalents include cash held at stores and cash balances from current business activity with original maturities of less than three months. Cash held on sight at banks is managed through a group-wide cash-pooling system. Foreign currency positions are valued at the rate as of 31 December.

1.14 Receivables and advance payments

Receivables and advance payments are recognized at the nominal value less necessary value adjustments. A value adjustment is made when it becomes likely that it will not be possible to collect the whole nominal sum.

1.15 Inventories

Inventories are valued at the lower of cost or net realizable value. Purchase costs include the actual purchase price plus imputed transport and other procurement costs, less discounts received, and are defined on the basis of the average cost method. The net realizable value is the estimated sales revenue that can be achieved in normal business, less the necessary variable sales cost. An inventory valuation system is used to take into account the ageing structure of the inventory. Foreign currency items are converted at the exchange rate on the date of the transaction or at the realized exchange rate of the purchased goods.

1.16 Tangible assets

Land and buildings

Land and buildings include properties in Switzerland that are used mainly as stores, as well as distribution centres in Switzerland, Austria and Germany. Land and buildings were accounted for at acquisition cost as part of the first full consolidation in 1997. Subsequent valuations have been at fair value less accumulated depreciation for buildings and any impairments (see Note 1.19 "Impairment of assets"). This valuation is periodically checked by an independent external expert. Buildings are depreciated on a straight-line basis over a period of 40 years. Buildings in leasehold are depreciated over the leasehold period up to a maximum of 40 years. Land is not depreciated.

Equipment

Equipment includes store fittings, technical warehouse equipment, computer hardware, office fixtures and fittings and other tangible assets used in operations. They are capitalized if the company derives a future economic benefit associated with them. Valuation is at acquisition cost less accumulated depreciation and impairments if necessary (see Note 1.19 "Impairment of assets"). The depreciation period is carried out using the straight-line method and is normally based on useful operating life as follows:

Building and equipment such as fixtures and fittings of stores, warehouses and offices	10 years
Computer hardware	5 years

1.17 Financial assets

Financial assets (loans, securities and investments) are shown in the balance sheet at fair value. Any changes in value are recorded in the income statement.

1.18 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition of a company or of business activities in the form of net assets over the fair value of the Group's share of the net identifiable assets of the acquired company or business activities at the date of acquisition. From 2005, goodwill is no longer depreciated regularly but is subject to an annual impairment test even if no evidence of an impairment exists (see Note 1.19 "Impairment of assets").

Other intangible assets

Other intangible assets include IT software, trademarks and licenses. They are capitalized if the company derives a future economic benefit from them and their historical purchase costs can be valued reliably. IT software developed in-house is not shown in the balance sheet; the personnel expenses of own staff are recognized as costs in the income statement when they occur.

Other intangible assets have a defined useful life and are carried at cost less accumulated depreciation and any impairments (see Note 1.19 "Impairment of assets"). IT software and licenses are depreciated using the straight-line method over five years; trademarks are depreciated over their useful life.

1.19 Impairment of assets

All capitalized assets are reviewed annually for indications that the carrying amount may not be recoverable. When there is evidence of impairment, an impairment test is carried out. An impairment test is also carried out on goodwill positions even if there is no evidence of impairment (see Note 1.18 "Goodwill"). This test identifies the recoverable amount; if this is less than the carrying amount, an impairment cost equivalent to the difference between the carrying amount and the recoverable amount is charged to the income statement as an impairment cost.

Recoverable amount

The higher of the value in use and the fair value less costs to sell.

Value in use

The present value of estimated future cash flow that can be expected from the continued use of the asset and from its disposal at the end of its useful life.

Fair value less costs to sell

The amount for which an asset can be sold in a transaction under normal market conditions between reasonable contracting parties, minus the costs of the sale.

1.20 Deferred taxes

Deferred taxes, which are calculated using the liability method, are used for all temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the IFRS financial statements. Deferred taxes are determined using tax rates (and tax laws) that apply on the balance sheet date, or that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets from loss carry-forwards are recognized to the extent that it is probable that a taxable profit will be available in the foreseeable future against which the temporary differences can be utilized.

Deferred tax liabilities arising from temporary differences relating to investments in subsidiaries are applied, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

1.21 Short-term bank loans

Bank current accounts, bank advances and short-term bank loans are shown under the position "Short-term financial liabilities" if the contracted term is shorter than twelve months. Liabilities in foreign currencies are valued using the rate as of 31 December.

1.22 Trade payables

Trade payables are valued at the foreign exchange rate as of 31 December. At the time of payment, cash discounts earned are recognized as "Operating financial income" in the income statement.

1.23 Borrowings

Borrowings include short-term financial liabilities, liabilities from finance leases, mortgages and loans. They are recognized initially at fair value, net of transaction costs incurred. They are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as financial expenses in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as short-term liabilities as long as the contractual term is less than twelve months and the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

1.24 Provisions

Provisions are recognized in the balance sheet when a current liability arises based on an event which has occurred in the past, when it is likely that a drain of resources will occur if the liability is met, and when the amount of the liability can be assessed reliably.

If interest represents a significant part of the expected expenses, the provisions are recognized on a discounted value basis.

1.25 Leasing

Finance leasing

Leasing objects that are financed over the assessed useful life of the asset, and where ownership is transferred to the Group after expiry of the usually non-cancelable contract, are carried as finance leases under tangible assets. The acquisition costs are depreciated using the straight-line method over the useful life of the asset. The liabilities are recorded on the balance sheet at discounted present value. All leasing commitments not included under finance leasing are classified as operating leasing.

Operating leasing

Operating leasing includes leases where all risks and opportunities associated with ownership of the asset rest with an independent third party. Operating lease payments are charged to the income statement.

1.26 Treasury shares

The costs of treasury shares of Charles Vögele Holding AG purchased by any Group company are deducted from the Group's shareholders' equity (see "Treasury shares" under the consolidated statement of changes in Group equity) until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, the difference between the proceeds and the original purchase price is included as retained earnings in the Group's equity capital with no effect on the income statement.

1.27 Valuation of share option plan

The Group operates an equity-settled, share-based compensation plan (see Note 29). The fair value of issued options is recognized proportionaly over the vesting period under personnel expenses in the income statement and under shareholders' equity. Fair value is assessed using the Enhanced American Model (EA Model), which accords with generally accepted valuation methods for determining share option prices and which takes into account all the factors and assumptions that reasonable contracting market participants would consider when setting prices. When options are exercised or expire, the fair value originally booked to shareholders' equity is charged against retained earnings.

1.28 Financial instruments and financial risk management

Financial instruments comprise all financial assets (cash and cash equivalents, receivables and advance payments without tax credits, as well as financial assets and instruments) and financial liabilities (short-term and long-term bank debt, trade payables, other liabilities and accruals, financial leasing and mortgages). Where the market values of the individual financial assets and liabilities are not dislosed separately, these values approximate to the carrying amounts shown in the consolidated balance sheet. Transactions are accounted for on the date they are fulfilled.

Transactions with financial instruments may lead to certain financial risks being taken over by the company itself or transferred to a third party. The financial risks for the Charles Vögele Group are essentially limited to foreign exchange risk, interest rate risk, liquidity risk and credit risk. As part of the risk management policies, financial risks – involving the chance of losses or gains – are monitored continuously.

Foreign exchange risk

This risk arises from changes in foreign exchange rates. In order to limit foreign exchange risk resulting from the purchase of goods in USD, the Group enters into forward foreign exchange contracts and currency swaps. These cover almost 100% of the foreign currency requirements based on planned purchases of goods. Foreign exchange rate risks arising from foreign currency cash positions are monitored continuously and hedged if required. Other foreign exchange risks are hedged if required.

Interest rate risk

The interest rate risk arising from fluctuations in market interest rates is compensated to a certain extent by the staggered maturities of bank loans. Current interest rates and the rate adjustment deadlines are listed separately in the detailed explanations of individual balance sheet positions.

Liquidity risk

The Group's refinancing risk is managed by binding long-term partners into its financing activities and considerations. Short- and long-term financing is secured by continuously reviewing funding requirements in the light of current and future business developments. Liquidity risk is reduced through the cash flow generated from trading activities.

Credit risk

The Group carries a low risk of credit default as the receivables resulting from current business activities are paid mainly in cash or by third-party debit or credit cards. The risks connected with cash payments (money transportation) are manageable and minimized by the careful selection of partners. Risks resulting from prepayments to suppliers or from claims resulting from faulty delivery of merchandise are taken into account through periodic monitoring of the corresponding value adjustments.

Hedging instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. With the exception of derivative financial instruments which meet the requirements of a cash flow hedge, all adjustments are recognized in financial income.

In order to recognize a transaction as a hedge, the Charles Vögele Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, including the risk management strategy and an assessment of effectiveness.

The Charles Vögele Group uses hedge accounting for cash flow hedges which are classified as highly effective, for which the effect can be measured reliably and for which future cash flows have a high probability to occur.

The effective portion of changes in the fair value of the hedging instrument, designated as a cash flow hedge is recognized in equity. The ineffective portion of the change in value is recognized in the income statement.

The amounts shown under shareholders' equity are charged to the income statement in the period in which the underlying transaction is also booked, except in the case of non-monetary assets in the initial valuation.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

1.29 Critical accounting estimates and assumptions

When preparing the consolidated financial statements, estimates and assumptions have to be made which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These estimates and assumptions are continuously reviewed. Estimates have to be changed when the circumstances on which they were based change, or if new information or additional findings come to light. Such changes are made in the reporting period in which the estimate was altered.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Goodwill

In accordance with the accounting and valuation methods stated in Notes 1.18 and 1.19, the Group tests annually whether the goodwill carried in the balance sheet has suffered an impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations are based on assumptions about the expected free cash flow (see Note 19.2).

Income tax

In order to determine the assets and liabilities from current and deferred income taxes, estimates have to be made because there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Some of these estimates are based on interpretation of existing tax laws and rules. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will influence the income tax and deferred tax provisions in the period in which such determination is made (see Note 12).

Legal cases

Charles Vögele Group is involved in a number of legal cases. It sets up provisions for ongoing and pending lawsuits if independent experts are of the opinion that a financial risk is tangible and the amount at risk can be evaluated (see Note 23). Additional accruals are set up to cover estimated costs for legal expenses. The estimated risk connected with these pending lawsuits is covered in full.

Inventories

At the balance sheet date, estimations have to be made for measurement of inventories. Beside the existing inventory valuation system, which takes into account the aging structure of the inventory, the net realizable value is estimated. The estimations are considering intended special discounts and other measures and are based on the most reliable evidence available to estimate the net realizable amount (see Note 1.15 and 16.1).

2 Segmentreporting
Fiscal year 2006

CHF 1000	Sales organizations	Central services	Consolidation entries	Group
Net sales	1 323 647	686 823	(686 823)	1 323 647
Operating earnings before depreciation (EBITDA)	75 517	75 980	(8 439)	143 058
EBITDA in % of net sales	5.7%	11.1%	–	10.8%
Operating earnings (EBIT)	(48 160)	68 506	(8 663)	11 683
EBIT in % of net sales	(3.6%)	10.0%	–	0.9%
Depreciation	47 366	7 474	224	55 064
Impairment	76 311	0	0	76 311
Cash flow from operating activities	20 344	51 491	1 661	73 496
Operating assets[1]	720 735	197 898	(97 151)	821 482
Operating liabilities[2]	186 870	61 455	(110 498)	137 827
Tangible assets[3]	403 062	21 563	0	424 625
Net investments	53 672	17 439	0	71 111

CHF 1000	Switzerland	Germany	Austria	Belgium/ Netherlands	Eastern Europe	Total sales organizations
Net sales	451 396	451 050	248 543	157 993	14 665	1 323 647
Operating earnings before depreciation (EBITDA)	63 842	3 553	13 783	(3 911)	(1 750)	75 517
EBITDA in % of net sale	14.1%	0.8%	5.5%	(2.5%)	(11.9%)	5.7%
Operating earnings (EBIT)	47 204	(15 916)	7 095	(84 293)	(2 250)	(48 160)
EBIT in % of net sales	10.5%	(3.5%)	2.9%	(53.4%)	(15.3%)	(3.6%)
Depreciation	15 964	18 582	6 457	5 863	500	47 366
Impairment	674	887	231	74 519	0	76 311
Cash flow from operating activities	41 406	(6 555)	72	(7 529)	(7 050)	20 344
Operating assets[1]	295 942	229 159	99 164	79 024	17 446	720 735
Operating liabilities[2]	54 836	62 266	47 392	18 134	4 242	186 870
Tangible assets[3]	198 192	112 253	45 873	37 025	9 719	403 062
Net investments	17 659	14 576	5 351	6 782	9 304	53 672

[1] Trade receivables, inventories, other receivables without financing characteristics, tangible and intangible assets
[2] Trade payables, provisions and other payables without financing characteristics
[3] Tangible assets are included in the position "Operating assets"

Fiscal year 2005

CHF 1000	Sales organizations	Central services	Consolidation entries	Group
Net sales	1 347 597	660 541	(660 541)	1 347 597
Operating earnings before depreciation (EBITDA)	96 688	61 298	7 195	165 181
EBITDA in % of net sales	7.2%	9.3%	–	12.3%
Operating earnings (EBIT)	46 374	55 352	6 926	108 652
EBIT in % of net sales	3.4%	8.4%	–	8.1%
Depreciation	48 569	5 947	268	54 784
Impairment	1 745	0	0	1 745
Cash flow from operating activities	97 012	79 943	(33 982)	142 973
Operating assets[1]	751 012	148 253	(62 926)	836 339
Operating liabilities[2]	167 683	54 926	(90 798)	131 811
Tangible assets[3]	391 681	11 094	0	402 775
Net investments	44 088	5 671	0	49 759

CHF 1000	Switzerland	Germany	Austria	Belgium/ Netherlands	Total sales organizations
Net sales	477 355	464 749	258 200	147 293	1 347 597
Operating earnings before depreciation (EBITDA)	77 196	4 525	20 775	(5 808)	96 688
EBITDA in % of net sale	16.2%	1.0%	8.0%	(3.9%)	7.2%
Operating earnings (EBIT)	59 244	(15 516)	14 517	(11 871)	46 374
EBIT in % of net sales	12.4%	(3.3%)	5.6%	(8.1%)	3.4%
Depreciation	17 386	18 862	6 258	6 063	48 569
Impairment	566	1 179	0	0	1 745
Cash flow from operating activities	66 581	20 156	15 400	(5 125)	97 012
Operating assets[1]	292 007	222 908	88 750	147 347	751 012
Operating liabilities[2]	51 316	57 906	38 396	20 065	167 683
Tangible assets[3]	197 986	112 620	46 097	34 978	391 681
Net investments	13 778	11 888	8 754	9 668	44 088

[1] Trade receivables, inventories, other receivables without financing characteristics, tangible and intangible assets
[2] Trade payables, provisions and other payables without financing characteristics
[3] Tangible assets are included in the position "Operating assets"

3 Net sales

CHF 1000	2005	2006
Sales	1 353 446	1 333 197
Reductions in sales	(5 849)	(9 550)
Net sales	**1 347 597**	**1 323 647**

4 Personnel expenses

CHF 1000	2005	2006
Wages and salaries	246 927	245 237
Social security costs	42 002	42 802
Other personnel expenses	10 104	11 514
Total	**299 033**	**299 553**

4.1 Defined contribution retirement plans

As a consequence of the merger of the two Dutch subsidiaries on 1 January 2004 the remaining merged company Charles Vögele (Netherlands) B.V. had an independent industry pension plan treated as a defined contribution scheme and a second pension plan treated as a defined benefit scheme, which was integrated into the existing industry pension plan at the end of 2005. For the industry pension plan there is no reliable basis for allocating the plan's assets to the individual participating companies. Therefore this plan is treated in these financial statements as a defined contribution plan.

The cost of pension liabilities charged through personnel expenses in Belgium and the Netherlands amounted to CHF 1.9 million in 2006 and CHF 1.9 million in 2005.

4.2 Defined benefit retirement plans

All Swiss Group companies have legally separate pension schemes with an independent external provider who carries full reinsurance cover. According to local law these are defined contribution plans, but are treated as defined benefit plans under IFRS as of 2005.

The actuarial valuations are based on the following weighted average assumptions:

	2005	2006
Discount rate	3.5%	3.5%
Expected return on plan assets	4.3%	4.3%
Expected future salary increases	1.0%	1.0%
Expected future pension increases	0.5%	0.5%
Actuarial base	EVK 2000	EVK 2000
Average retirement age in years	M65 / F64	M65 / F64
Life expectancy at assumed retirement age in years	M18 / F21	M18 / F21

The pension liablities and plan assets are as follows:

CHF 1000	2005	2006
Present value of funded obligation (DBO), as of 1 January	**(73 376)**	**(80 929)**
Service cost	(6 705)	(7 592)
Interest cost	(2 803)	(3 098)
Benefits paid	1 955	6 240
Present value of funded obligation (DBO), as of 31 December	**(80 929)**	**(85 379)**
Fair value of plan assets, as of 1 January	**71 968**	**83 426**
Expected return on plan assets	3 059	3 546
Employees' contributions	3 423	3 538
Employer's contributions	3 614	4 050
Benefits paid	(1 955)	(6 240)
Actuarial gain (loss) on plan assets	3 317	300
Fair value of plan assets, as of 31 December	**83 426**	**88 620**

The expenses recognized in the income statement that result from the actuarial calculation of the liabilities of defined benefit retirement plans are as follows:

CHF 1000	2005	2006
Service cost	6 705	7 592
Interest cost	2 803	3 098
Expected return on plan assets	(3 059)	(3 546)
Actuarial gain (loss) on plan assets	(3 317)	(300)
One-off recognition of under-/(over-)coverage from change in pension plans	438	0
Not capitalized portion of the over-coverage	2 497	744
Net periodic pension cost	**6 067**	**7 588**
Employees' contributions	(3 423)	(3 538)
Expenses recognized in the income statement	**2 644**	**4 050**

Premiums owed are actuarially calculated and are based on prevailing conditions.

The surpluses and deficits shown in the balance sheet for coverage of staff pension liabilities of defined benefit retirement plans are as follows:

CHF 1000	31.12.2005	31.12.2006
Present value of funded obligations (DBO)	(80 929)	(85 379)
Fair value of plan assets	83 426	88 620
Over-/(under-)coverage	**2 497**	**3 241**
Not capitalized portion of the over-coverage	(2 497)	(3 241)
Over-/(under-)coverage recognized in the balance sheet	**0**	**0**
Experience adjustments on plan liabilities	0	0
Experience adjustments on plan assets	3 317	300

The above surplus concerns the Swiss pension scheme. Legal requirements restrict the utilization of overfunded amounts in legally separate benefit plans. Since no future economic benefit to the employer is foreseeable, the over-coverage was not capitalized in the balance sheet.

Movements in the net liabilities for the defined benefit retirement plan shown in the balance sheet are as follows:

CHF 1000	2005	2006
Net liability in balance sheet, as of 1 January	2031	0
Expense recognized in the profit and loss statement	2644	4050
Employer's contributions	(4675)	(4050)
Net liability in balance sheet, as of 31 December	**0**	**0**

The asset allocation for pension assets is as follow:

	2005	2006
Cash	5.0%	3.7%
Bonds	58.7%	54.1%
Equities	27.1%	31.2%
Property	9.2%	11.0%
Other	0.0%	0.0%
Total	**100.0%**	**100.0%**

The number of the company's own shares included in the pension assets as of 31.12.2006 is 82; CHF 7 962 (as of 31.12.2005: 17; CHF 1 692).

The effective return on assets was CHF 3.8 million (previous year CHF 6.4 million). The expected employer contributions for the 2007 financial year are estimated at CHF 4.1 million.

The pension liabilities of the German and Austrian Group companies are governed by the various national regulations and are defined benefit schemes. No calculation based on IFRS or adjustment of provisions for future liabilities are made, because in the context of the consolidated financial statements the liabilities relate to an insignificantly small group of 16 employees only (2005: 18 employees). The 2006 income statements of Group companies were charged with contributions amounting to CHF 0.1 million (2005: CHF 0.1 million).

5 Rental expenses

CHF 1000	2005	2006
Rent	154890	161139
Incidental expenses, cleaning, maintenance	46181	49776
Total	**201 071**	**210 915**

The CHF 9.8 million year-on-year increase in rental expenses is due primarily to the expansion of the branch network, index adjustments and price rises relating to ancillary premises costs.

6 Advertising and promotion expenses

Advertising and promotion expenses include costs for product-oriented advertising, sales promotion, public relation and market research by external providers. The CHF 3.0 million year-on-year fall is mainly due to the greater marketing activities in 2005 surrounding the Group's 50th anniversary. Advertising and promotion expenses are charged to the income statement on the date of appearance.

7 General operating expenses

General operating expenses include operating lease expenses amounting to CHF 3.1 million (2005: CHF 3.8 million). Operating leases mainly concern vehicles and cash register systems.

8 Other operating income

CHF 1000	2005	2006
Operating financial income	27 451	26 514
Operating real estate income, net	1 693	1 803
Redemption compensation less costs for store closings	1 649	775
Profit on disposal of assets available-for-sale	3 559	0
Compensation for legal cases	1 600	272
Other income	941	87
Total	**36 893**	**29 451**

Operating financial income includes vendor discounts from accounts payable less the cost of cash deposits from cash transactions in stores and bank fees.

9 Impairment

CHF 1000	2005	2006
Impairment losses for store fixtures and fittings of branch closures planned during the next years	1 745	1 882
Impairment of goodwill (see note 19.2)	0	74 429
Total	**1 745**	**76 311**

10 Financial income

CHF 1000	2005	2006
Interest income	855	883
Interest income from securities	7	7
Total	**862**	**890**

11 Financial expenses

CHF 1000	2005	2006
Interest expenses on current accounts and loans	5 901	5 210
Interest charges on mortgages	2 997	3 037
Interest on leases	3 020	2 893
Total	**11 918**	**11 140**

12 Tax

12.1 Composition of tax expense

CHF 1000	2005	2006
Current income taxes	25 647	18 676
Change in deferred taxes	2 697	(272)
Tax from previous years	(143)	1 819
Other taxes	263	0
Total tax expense	**28 464**	**20 223**

12.2 Analysis of tax expense

CHF 1000	2005	2006
Profit before income taxes	98 533	543
Taxes on current profit calculated on the expected weighted average group tax rate of 22% (2005: 22%)	21 677	119
Reconciliation: – Effect of change in tax rates on deferred taxes in the balance sheet	148	(1 368)
– Effect of deferred tax assets not capitalized, net	11 636	28 695
– Impairment of capitalized tax loss carry-forwards	4 515	0
– Effect of weighting of the different actual tax rates	(9 874)	(9 495)
– Effect of other non-taxable transactions	242	269
– Taxes from previous years	(143)	1 819
– Adjustments of deferred taxes from previous years	0	184
– Other taxes	263	0
Total tax expense	**28 464**	**20 223**

The table above shows the numerical reconciliation between the expected and the reported tax expense. The difference between reported and expected tax expense is accounted for primarily by the non-capitalization of deferred taxes of CHF 17.7 million on the impairment cost of goodwill in the Netherlands (see Note 19.2)

12.3 Deferred taxes in the balance sheet

CHF 1000	31.12.2005 Assets	31.12.2005 Liabilities	31.12.2006 Assets	31.12.2006 Liabilities
Deferred taxes from: – Various receivables	2	0	2	0
– Inventories	7 406	(22 563)	9 117	(20 002)
– Goodwill	14 660	(444)	30 974	0
– Other long-term assets	0	(14 332)	4	(13 805)
– Real estate	0	(11 174)	0	(10 800)
– Trade payables	0	(10)	0	0
– Intercompany loans	3 337	0	3 451	0
– Accruals	873	(1 086)	248	(319)
– Provisions	1 341	0	1 388	0
– Treasury shares	322	0	158	0
– Loss carry-forwards	95 562	0	101 824	0
Total deferred taxes, gross	**123 503**	**(49 609)**	**147 166**	**(44 926)**
Impairment of deferred tax assets	(101 070)	0	(128 232)	0
Total deferred taxes	**22 433**	**(49 609)**	**18 934**	**(44 926)**
Offset of assets and liabilities	(9 265)	9 265	(4 034)	4 034
Total deferred taxes, net	**13 168**	**(40 344)**	**14 900**	**(40 892)**

12.4 Change in deferred taxes, net

CHF 1000		2005	2006
Total deferred tax assets/(tax liabilities), net, as of 1 January		**(23 165)**	**(27 176)**
Effect of exchange rates		62	236
Recognized in income statement:	– Change in tax rates from previous years	(148)	1 368
	– Adjustments of deferred taxes from previous years	0	(184)
	– Impairment of deferred tax assets	(4 515)	0
	– Changes in temporary differences	1 966	(912)
Recognized in balance sheet:	– Changes in deferred taxes on valuation of financial instruments (see Note 31.1)	(1 376)	676
Total deferred tax assets/(tax liabilities), net, as of 31 December		**(27 176)**	**(25 992)**

The calculation of deferred taxes is based on future (if known) national tax rates. The effectively owed deferred tax is calculated on the main temporary differences.

12.5 Tax-relevant loss carry-forwards

CHF 1000	31.12.2005	31.12.2006
Expiring in the next 5 years	0	9 533
Expiring in 5 to 9 years	0	63 704
Available without limitation	269 443	227 634
Total tax loss carry-forwards	**269 443**	**300 871**
Calculated potential tax assets thereof	95 562	101 818
Valuation allowances	(90 122)	(96 192)
Net tax asset from loss carry-forwards	**5 440**	**5 626**

The table above shows the tax-relevant loss carry-forwards, which largely represent market entry costs and are capitalized if sufficient taxable profit is likely to be generated in the foreseeable future. During the 2006 financial year, as a result of tax audits, tax-relevant loss carry-forwards worth about CHF 16 million (previous year CHF 153 million) with a tax effect of about CHF 6 million (previous year CHF 45 million) were disallowed. However, the resulting deferred tax assets had already been written off in previous years. Nevertheless, it was possible to convert a portion of the approximately CHF 72 million (with a tax effect of CHF 21 million) of the loss carry-forwards disallowed in the 2005 financial year into amortizations, which can be offset against future tax results.

The new tax loss carry-forwards arising in the 2006 and 2005 financial years were written off as it is not certain that they can be used in the foreseeable future. During the 2005 financial year, deferred tax assets from tax loss carry-forwards capitalized in previous years were written down by CHF 4.5 million.

The capitalized net tax assets of CHF 5.6 million as of 31.12.2006 (31.12.2005: CHF 5.4 million) are available without limitation.

13 Earnings per share

		2005	2006
Net income	CHF 1 000	70 069	(19 680)
Weighted average number of basic shares	number	8 496 402	8 488 332
Adjustment for potentially dilutive share options	number	130 941	120 816
Weighted average number of shares for diluted earnings per share	number	8 627 343	8 609 148
Basic earnings per share	CHF	**8.25**	**(2.32)**
Diluted earnings per share	CHF	**8.12**	**(2.32)**

Owing to the reported net loss, the figure for diluted earnings per share for the 2006 financial year is the same as the undiluted figure.

14 Cash and cash equivalents

CHF 1000	31.12.2005	31.12.2006
Petty cash, postal account balances and cash at banks	59 725	41 847
Clearing accounts of points of sale	(47)	(91)
Total cash and cash equivalents recognized in the balance sheet	**59 678**	**41 756**
Short-term bank overdrafts (see Note 20)	0	(743)
Total cash and cash equivalents recognized in the cash flow statement	**59 678**	**41 013**

The average interest rate on postal account balances and cash at banks, which have maturities of less than three months, was 1.0% (2005: 0.3%).

15 Receivables and advance payments

CHF 1000	31.12.2005	31.12.2006
Receivables from credit card sales	3 875	5 446
Advance payments of incidental rental expenses	1 149	1 792
Advance payments for advertising campaigns	2 936	3 318
Derivatives at fair value	4 938	1 389
Compensation from legal cases	1 600	0
Tax credits: – Sales taxes	9 571	13 716
– Income taxes	2 494	5 925
– Reclaimable withholding taxes	111	25
Various other receivables and accruals	9 688	12 724
Total	**36 362**	**44 335**

16 Inventories

CHF 1000	31.12.2005	31.12.2006
Current inventory, gross	274 227	288 973
Inventory valuation allowance	(71 269)	(66 704)
Current inventory (current and previous seasons), net	**202 958**	**222 269**
Upcoming season	44 642	58 024
Heating oil	243	334
Total	**247 843**	**280 627**

16.1 Value adjustments on inventories

CHF 1000	2005	2006
Balance, as of 1 January	**(75 524)**	**(71 269)**
Offset against purchase price	0	984
Release of value adjustments affecting cost of goods	10 434	5 285
Creation of value adjustments affecting cost of goods	(5 425)	0
Release of value adjustments affecting operating financial income (discounts)	(393)	(139)
Effect of exchange rates	(361)	(1 565)
Balance, as of 31 December	**(71 269)**	**(66 704)**

The additional non-systematic value adjustments of CHF 3.0 million made in financial year 2004 and CHF 5.4 million made in 2005 were used over the course of 2006 for special offers and reduced by approximately CHF 3.5 (previous year CHF 2.6 million). The cost of goods was thus reduced by this amount in 2006. The release of the rest of the value adjustments during the two financial years resulted mainly from the systematic inventory valuation system.

17 Tangible assets

17.1 Changes in values

CHF 1000	Land	Buildings	Equipment	Total
Balance 1.1.2005				
Acquisition cost	59 641	213 450	515 896	788 987
Accumulated depreciation / impairment	(9 399)	(72 698)	(300 965)	(383 062)
Net book amount 1.1.2005	**50 242**	**140 752**	**214 931**	**405 925**
Year 2005				
Opening net book amount	50 242	140 752	214 931	405 925
Effect of exchange rates	42	301	1 040	1 383
Additions	507	449	49 930	50 886
Disposals	0	0	(3 186)	(3 186)
Depreciation	0	(5 681)	(44 807)	(50 488)
Impairment	0	0	(1 745)	(1 745)
Closing net book amount	**50 791**	**135 821**	**216 163**	**402 775**
Balance 31.12.2005				
Acquisition cost	60 190	214 318	478 903	753 411
Accumulated depreciation / impairment	(9 399)	(78 497)	(262 740)	(350 636)
Net book amount 31.12.2005	**50 791**	**135 821**	**216 163**	**402 775**
Year 2006				
Opening net book amount	50 791	135 821	216 163	402 775
Effect of exchange rates	211	1 379	5 379	6 969
Additions	0	302	70 800	71 102
Disposals	0	0	(1 538)	(1 538)
Depreciation	0	(5 555)	(46 246)	(51 801)
Impairment	0	0	(1 882)	(1 882)
Reclassification	0	56	(1 056)	(1 000)
Closing net book amount	**51 002**	**132 003**	**241 620**	**424 625**
Balance 31.12.2006				
Acquisition cost	60 401	217 608	514 116	792 125
Accumulated depreciation / impairment	(9 399)	(85 605)	(272 496)	(367 500)
Net book amount 31.12.2006	**51 002**	**132 003**	**241 620**	**424 625**

See Note 9 for information about impairment costs.

As of 31 December 2006, CHF 104.9 million of the land and buildings are pledged as security for mortgages (31 December 2005: CHF 104.9 million).

17.2 Finance leases

The carrying amount of tangible assets includes the following leased assets:

CHF 1000	Land	Buildings	Equipment	Total
Acquisition cost	6 133	56 426	18 308	80 867
Accumulated depreciation	0	(14 965)	(7 557)	(22 522)
Balance 31.12.2005	**6 133**	**41 461**	**10 751**	**58 345**
Additions 2005	507	449	0	956
Acquisition cost	6 341	58 348	18 207	82 896
Accumulated depreciation	0	(17 165)	(9 190)	(26 355)
Balance 31.12.2006	**6 341**	**41 183**	**9 017**	**56 541**
Additions 2006	0	0	0	0

Financial leases for land and buildings includes Charles Vögele Group's distribution centres in Lehrte and Sigmaringen in Germany, as well as in Kalsdorf in Austria. Furnishings and fittings relating to the warehouses and offices of these locations are included in leased assets and classified as "Equipment". The additions in 2005 relate to enhancements to the goods distribution centres. In 2006 there were no additions or disposals.

18 Financial assets

CHF 1000	Loans	Securities	Investments	Total
Balance 1.1.2005				
Acquisition cost	0	49	170	219
Accumulated impairments	0	(49)	0	(49)
Net book amount 1.1.2005	**0**	**0**	**170**	**170**
Year 2005				
Opening net book amount	0	0	170	170
Effect of exchange rates	2	0	0	2
Additions	507	0	0	507
Disposals	0	0	0	0
Impairments	0	0	0	0
Closing net book amount	**509**	**0**	**170**	**679**
Balance 31.12.2005				
Acquisition cost	509	49	170	728
Accumulated impairments	0	(49)	0	(49)
Net book amount 31.12.2005	**509**	**0**	**170**	**679**
Year 2006				
Opening net book amount	509	0	170	679
Effect of exchange rates	17	0	0	17
Additions	0	0	0	0
Disposals	0	0	0	0
Impairments	0	0	0	0
Closing net book amount	**526**	**0**	**170**	**696**
Balance 31.12.2006				
Acquisition cost	526	49	170	745
Accumulated impairments	0	(49)	0	(49)
Net book amount 31.12.2006	**526**	**0**	**170**	**696**

The position "Investments" comprises interests in non-consolidated companies (mainly parking garages) with shareholdings below 20%.

The addition of loans worth CHF 0.5 million in the 2005 financial year relates to the financing of a piece of land under a financial lease contract (see Note 17.2).

19 Intangible assets

19.1 Changes intangible assets

CHF 1000	Goodwill	Other intangible assets	Total
Balance 1.1.2005			
Acquisition cost	145 924	26 101	172 025
Accumulated depreciation	0	(20 535)	(20 535)
Net book amount 1.1.2005	**145 924**	**5 566**	**151 490**
Year 2005			
Opening net book amount	145 924	5 566	151 490
Effect of exchange rates	525	2	527
Additions	0	2 087	2 087
Disposals	0	(28)	(28)
Depreciation	0	(2 223)	(2 223)
Impairments	0	0	0
Closing net book amount	**146 449**	**5 404**	**151 853**
Balance 31.12.2005			
Acquisition cost	146 449	19 205	165 654
Accumulated depreciation	0	(13 801)	(13 801)
Net book amount 31.12.2005	**146 449**	**5 404**	**151 853**
Year 2006			
Opening net book amount	146 449	5 404	151 853
Effect of exchange rates	899	0	899
Additions	0	1 547	1 547
Disposals	0	0	0
Depreciation	0	(2 049)	(2 049)
Impairments	(74 429)	0	(74 429)
Closing net book amount	**72 919**	**4 902**	**77 821**
Balance 31.12.2006			
Acquisition cost	72 919	20 735	93 654
Accumulated depreciation	0	(15 833)	(15 833)
Net book amount 31.12.2006	**72 919**	**4 902**	**77 821**

19.2 Impairment test on goodwill

The carrying amount of goodwill is structured as follows:

CHF 1000	31.12.2005 EUR	31.12.2005 CHF	31.12.2006 EUR	31.12.2006 CHF
Goodwill from the acquisition of the Charles Vögele Group (LBO)		72 919		72 919
Goodwill from acquisition of Kien shops in the Netherlands	47 304	73 530	0	0
Balance 31.12.		**146 449**		**72 919**

"Goodwill from the acquisition of the Charles Vögele Group" was generated by a leveraged buyout through which Charles Vögele Holding AG acquired the shares of the whole Charles Vögele Group from the company's founder and sole shareholder at the time, as well as the minority shares in Charles Vögele (Austria) AG. At the time of acquisition the Group consisted of the Central Service Companies and the Swiss, German and Austrian Sales Organizations. The level of the purchase price and of the goodwill reflected the market position and the resulting recoverable cash flows from the combination of the various Group companies. Recoverable income is defined by calculating the value in use of the cash-generating units. The cash-generating units are identified as the segments Switzerland, Germany and Austria, with the Central Services allocated to these three segments proportionally. Value in use was calculated using the discounted free cash flow model. The cash flow projections are based on the latest budget and three-year plan approved by Group Management and the Board of Directors, which reflect the Management's estimates of operating results. The Management believes that consumer sentiment will only improve very slightly in all three countries, and that most clothing retail markets will stagnate. However, various measures have already been initiated to increase sales in existing stores and to improve earnings power. In Germany especially, Charles Vögele is pressing ahead with the closing of loss-making branches and the opening of new stores in economically stronger regions.

Cash flows beyond this planned period (residual value) are extrapolated using cautious growth rates of 1% for Switzerland and 1.5% for Germany and Austria. The weighted average capital cost (WACC) before tax used to discount the free cash flows are 8.4% (previous year 8.9%) for Switzerland, 8.2% (previous year 9.4%) for Germany and 8.0% (previous year 9.8%) for Austria and take account of Swiss financial market data, long-term Swiss, German and Austrian government bonds and the Group's actual financing structure.

The “goodwill from acquisition of Kien shops” arises from the acquisition of the business activities (in the form of net assets) of the Dutch Kien Group by Charles Vögele (Netherlands) B.V. The recoverable amount is determined by value-in-use calculations. This calculation was carried out using the discounted free cash flow model. The projected free cash flow of the cash-generating unit Charles Vögele (Netherlands) B.V. is based on the latest multi-year plan. Cash flows beyond this budgeted period (residual value) are extrapolated using a cautious growth rate of 1.5%. The weighted average cost of capital (WACC) before tax used to discount the free cash flow was 9.2% (previous year 8.9%) and takes account of Swiss financial market data, long-term Dutch government bonds and the Charles Vögele (Netherlands) B.V.’s target financing structure.

In the year 2002, the Charles Vögele Group set itself the target of breaking even at EBITDA level in the Dutch Sales Organization by 2006. Although there has been a continuous and significant reduction in operating losses over the last four years, the sales organization did not quite manage to reach this target by the end of the year under review. Consequently, plans were revised and adjusted to take account of the current performance. In particular, the expected yearly increase of sales until 2011 has been reduced to 3.7%. Although this value is above the expected market growth, the resulting impairment test showed that the goodwill is no longer holding its value, which has led to an impairment of CHF 74.4 million (see Note 9).

20 Short-term financial liabilities

CHF 1000	31.12.2005	31.12.2006
Short-term bank overdrafts	0	743
Short-term lease liabilities (see Note 22)	5 367	6 444
Total	**5 367**	**7 187**

The short-term bank liabilities are bank current accounts that showed a negative balance on the balance sheet date.

21 Other liabilities and accruals

CHF 1000	31.12.2005	31.12.2006
Sales tax	18 220	20 599
Vouchers	9 213	8 731
Accruals: – Personnel expenses	23 222	19 647
– Rental expenses	4 817	5 648
– Other accruals	12 431	14 775
– Derivatives at fair value	563	182
Total	**68 466**	**69 582**

22 Finance lease liabilities

CHF 1000	Residual term < 1year	Residual term 1–5 years	Residual term > 5 years	Total
Lease commitments, gross	8 174	26 091	40 161	74 426
Discounted	(2 807)	(8 682)	(6 115)	(17 604)
Balance 31.12.2005	**5 367**	**17 409**	**34 046**	**56 822**
Lease commitments, gross	9 107	31 439	28 054	68 600
Discounted	(2 663)	(8 181)	(4 837)	(15 681)
Balance 31.12.2006	**6 444**	**23 258**	**23 217**	**52 919**

CHF 1000	31.12.2005	31.12.2006
Disclosure: – Short-term financial liabilities (due < 1 year), (Note 20)	5 367	6 444
– Lease liabilities	51 455	46 475
Total	**56 822**	**52 919**

The average discount rate of finance lease commitments amounted to 5.2% (2005: 5.1%).

23 Provisions

CHF 1000	Personnel provisions	Other provisions	Total
Balance 1.1.2005	**8 301**	**1 045**	**9 346**
Increase	1 612	752	2 364
Usage	(452)	(883)	(1 335)
Decrease	(2 043)	(235)	(2 278)
Reclassification	0	(273)	(273)
Effect of exchange rates	56	4	60
Balance 31.12.2005	**7 474**	**410**	**7 884**
Increase	350	215	565
Usage	(310)	(63)	(373)
Decrease	(137)	(273)	(410)
Reclassification	0	0	0
Effect of exchange rates	252	9	261
Balance 31.12.2006	**7 629**	**298**	**7 927**

"Personnel provisions" are mainly associated with pension liabilities and settlements paid to employees of various Group companies. The increases and decreases are attributable to alterations to pension and settlement liabilities recognized in the income statement. Usage reflects the annual pension payments that are offset by the provisions. The decreases in the current and the previous year were mainly attributable to provisions for settlements and provisions associated with pension plans that are no longer required (see Note 4).

"Other provisions" includes mainly estimated outflows of funds connected with legal matters.

The precise timing of the estimated outflows of funds from "Other provisions" is difficult to ascertain and largely out of the company's control. Management assumes that the outflow will occur within the next one to three years.

24 Mortgages

CHF 1000	
Balance 1.1.2005	**75 560**
Increase in mortgages	17 840
Balance 31.12.2005	**93 400**
Repayment of mortgages	(160)
Balance 31.12.2006	**93 240**

The mortgages reflect long-term fixed-interest bank loans with residual terms between one and four years. The average interest rate on mortgages amounted to 3.2% in year 2006 (2005: 3.2%).

25 Loans

25.1 Composition

CHF 1000	31.12.2005	31.12.2006
Long-term loans, gross	50 000	62 500
Credit procurement costs	(1 635)	(904)
Long-term loans, net	**48 365**	**61 596**

The credit procurement costs incurred in connection with the loan agreements (see below, Note 25.2) are amortized in accordance with the residual term to maturity and credit utilization, over the remaining lifetime of the loan contract.

25.2 Duration and development of loans, gross

CHF 1000	Maturity 12–24 months	Maturity >24 months	Total
Balance 1.1.2005	**0**	**135 000**	**135 000**
Additions	0	110 000	110 000
Repayments	0	(195 000)	(195 000)
Balance 31.12.2005	**0**	**50 000**	**50 000**
Additions	0	172 500	172 500
Repayments	0	(160 000)	(160 000)
Balance 31.12.2006	**0**	**62 500**	**62 500**

The carrying amount of the loans outstanding as of 31 December 2006 is approximately in line with market value as the interest rates are adjusted annually. The annual adjustment of the margin reflects the market's risk assessment of the company.

At the end of July 2004, the Charles Vögele Group signed a syndicated credit agreement with a banking consortium. This agreement comprises a credit line of up to CHF 325.0 million divided into a three-year and a five-year term loan of CHF 162.5 million each. In May 2005 the three-year loan was reduced ahead of schedule on the Charles Vögele Group's request by CHF 50.0 million to CHF 112.5 million. In March 2006 this tranche was reduced by another CHF 50.0 million to CHF 62.5 million. As a result the company had a credit line of CHF 225.0 million on 31 December 2006 (31 December 2005: CHF 275.0 million) available. As collateral, Charles Vögele Holding AG issued a guarantee and Charles Vögele Mode AG issued a limited guarantee to the financing banks.

25.3 Terms

The credit facility is used for the Charles Vögele Group's general financing purposes and is linked to certain financial key figures such as maximum gearing and interest cover ratios, and other standard conditions. At the balance sheet date these conditions were all met. Interest is payable based on Libor plus a margin ranging from 65 to 200 basis points depending on the achievement of certain financial ratios. The average interest rate in the year under review amounted to 2.8% (2005: 2.1%).

26 Share capital

The reduction in the share capital is due to the Annual Shareholders Meeting's decision on 5 April 2006 to reduce the par value of Charles Vögele Holding AG shares by CHF 2.00 per share, from CHF 10.00 to CHF 8.00. The remaining share capital comprises 8 800 000 fully paid-in bearer shares with a par value of CHF 8.00 each.

The articles of association of Charles Vögele Holding AG include a provision authorizing the Board of Directors to make a conditional increase in the share capital of up to CHF 2.1 million, divided into 264 000 fully paid-in bearer shares with a par value of CHF 8.00 each, without giving rise to any pre-emptive rights for existing shareholders. These shares may only be used for the management share option plan (see Note 29 on the management share option plan).

27 Treasury shares

As of 31 December 2006 treasury shares comprise 325 200 shares (31 December 2005: 314 592) held by the Charles Vögele Group and earmarked for share participations by the Management of the Charles Vögele Group (see Note 29).

28 Distribution to shareholders

For the 2005 financial year, on 4 July 2006, a par value reduction of CHF 2.00 (for the 2004 financial year on 22 April 2005 a dividend of CHF 1.00) was paid for each Charles Vögele Group AG bearer share.

For the financial year 2006 the Board of Directors proposes to the Annual Shareholders' Meeting of 4 April 2007 that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares should be reduced by CHF 2.00 per share. These financial statements do not reflect this par value reduction.

29 Incentive and share ownership plans

In order to link the interests of the members of its Board of Directors, Group Management and employees with those of its shareholders, the Group offered a number of opportunities for certain employees to purchase shares.

29.1 Management share option plan 2002

The 2002 option plan for members of the Board of Directors, Group Management, and the second management level replaced all former management share option plans. The option plan (equity-based remuneration settled through equity capital instruments) is financed through treasury shares. The award of options is proposed by the Personnel and Compensation Committee and approved by the Board of Directors. Each option entitles the holder to acquire one share. Initially the number of shares that could be issued under this plan was limited to 3% of the company's ordinary share capital but this was increased in 2005 by the Board of Directors of Charles Vögele Holding AG to 5% of the available shares.The duration of the option plan is not limited. The duration of the options of each tranche expires after five years, with a vesting period of three years from the date they are awarded.

The annual tranches issued so far are detailed in the following table:

Granting date of tranche	Number of granted options	Number of expired options	Number of exercised options	Number of outstanding options as of 31.12.2006	Exercise price in CHF	Duration until	Vesting period until
18.11.2002	119 000	(4 964)	(97 000)	17 036	29.50	18.11.2007	18.11.2005
29.08.2003	98 000	(2 499)	(36 910)	58 591	54.55	29.08.2008	29.08.2006
24.08.2004	70 000	(3 593)	0	66 407	41.05	24.08.2009	24.08.2007
29.08.2005	81 500	(3 934)	0	77 566	95.55	29.08.2010	29.08.2008
26.08.2006	105 600	0	0	105 600	90.00	25.08.2011	25.08.2009
Total	**474 100**	**(14 990)**	**(133 910)**	**325 200**			

Further allocations under this plan are usually determined at the meeting held by the Board of Directors to discuss the half-year financial statements. The exercise price is determined by the volume-weighted closing price on the 30 trading days prior to the allocation date and the ten trading days after this date.

The changes in the number of outstanding share options and the relevant weighted average exercise prices are shown in the following table:

	2005 Weighted average exercise price in CHF	2005 Number of options	2006 Weighted average exercise price in CHF	2006 Number of options
Balance 1.1.	**40.99**	**278 472**	**56.83**	**313 972**
Granted options	95.55	81 500	90.00	105 600
Expired options	0	0	75.81	(6 462)
Exercised options	29.50	(46 000)	40.02	(87 910)
Balance 31.12.	**56.83**	**313 972**	**71.77**	**325 200**
Exercisable as at 31.12.	**29.50**	**68 036**	**48.91**	**75 627**

During the 2006 financial year 51 000 share options from the tranche of 18.11.2002 were exercised. Charles Vögele Holding AGs' weighted average share price on the Swiss Stock Exchange (SWX) during the period under review was CHF 102.75. In the previous year 46 000 share options from this tranche were exercised during the period between 18.11.2005 and 31.12.2005. Charles Vögele Holding AGs' weighted average share price on the Swiss Stock Exchange (SWX) during this exercise period was CHF 95.91.

It has been possible to exercise share options from the tranche of 29.08.2003 since 29.08.2006. During the period between 29.8.2006 and 31.12.2006, 36 910 options from this tranche were exercised. Charles Vögele Holding AGs' weighted average share price on the Swiss Stock Exchange (SWX) during this exercise period was CHF 96.98.

The above-mentioned tranches are serviced exclusively by treasury shares purchased by the Charles Vögele Group for this purpose (see Note 27).

The weighted average remaining contractual term of the 325 200 options outstanding on 31.12.2006 was 40 months (previous year 313 972 options and 39 months). As in the previous year, exercise prices ranged between CHF 29.50 and CHF 95.55 per option.

The fair value of the options as determined by the Enhanced American Valuation Model was calculated using the following key parameters:

Tranche	Share price at granting day in CHF	Expected volatility	Risk-free interest rate	Expected dividend yield	Fair value per option in CHF
18.11.2002	30.90	34.27%	1.95%	1.50%	8.19
29.08.2003	52.35	34.27%	1.95%	1.80%	11.13
24.08.2004	36.50	34.27%	1.94%	1.46%	6.86
29.08.2005	93.00	34.01%	1.57%	1.51%	20.40
26.08.2006	90.00	35.96%	2.49%	1.73%	23.39

The expected volatility was determined from the mean value of the average implied volatility and historical volatility over six months.

The weighted average of the fair values of options issued during the year under review is CHF 23.39 (previous year CHF 20.40).

During the year under review CHF 1.2 million (previous year CHF 1.0 million) was charged through personnel expenses for the proportional fair value of options.

30 Contingent liabilities

30.1 Outstanding merchandise orders and letters of credit

As of 31 December 2006, future commitments resulting from merchandise orders not yet included in the balance sheet amounted to CHF 135.2 million (31 December 2005: CHF 145.6 million). As of 31 December 2006, letters of credit not included in the balance sheet amounted to CHF 30.9 million (31 December 2005: CHF 42.3 million).

31 Forward foreign exchange contracts

The following forward foreign exchange contracts were open with banks as of 31 December:

CHF 1000	31.12.2005	31.12.2006
Derivatives for cash flow hedges	151 998	192 252
Derivatives for trading purposes	212 463	183 417
Total	**364 461**	**375 669**

31.1 Derivatives for cash flow hedges

The open forward foreign exchange contracts as of 31 December 2005 used for the purchase of merchandise in USD cover the exchange rate risks for purchasing merchandise for the 2007 collection.

Contract volume

CHF 1000	Positive replacement value	Negative replacement value	Contract volume
31.12.2005	4 375	0	151 998
31.12.2006	808	0	192 252

Contract volume by maturity

CHF 1000	Up to 3 months	3–6 months	6–9 months	9–12 months	Total
31.12.2005	73 810	26 050	52 138	0	151 998
31.12.2006	71 862	54 318	66 072	0	192 252

Derivative financial instruments are valued at their fair value and classified as accrued assets or liabilities. Any changes in the fair value arising from the valuation on the balance sheet date are proportionately recorded in the balance sheet under "Trade payables" and under equity as "Fair value reserve for financial instruments" until the hedged underlying transaction has been completed.

The valuation difference from ineffective hedge transactions is debited or credited directly to "Exchange gains or losses" in the income statement.

Order volume and valuation differences

		Order volume in USD 1000	Valuation differences from hedge transaction charged to: Income statement in CHF 1000	Inventories in CHF 1000	Equity in CHF 1000	Trade payables in CHF 1000
Year 2005						
Season 2005/1	– Total planned order volume	78 944				
	– Used	(77 948)	7 954	0		
	– Not required	996				
Season 2005/2	– Total planned order volume	93 981				
	– Used	(91 799)	1 536	1 040		
	– Not required	2 182				
Season 2006/1	– Total planned order volume	105 877				
	– Used	(20 401)	(9)	(97)		
	– Open as of 31.12.2005	85 476			4 879	59
Season 2006/2	– Total planned order volume	70 484				
	– Used	0				
	– Open as of 31.12.2005	70 484			(563)	
Total as of 31.12.2005		**155 960**	**9 481**	**943**	**4 316**	**59**

		Order volume in USD 1000	Income statement in CHF 1000	Inventories in CHF 1000	Equity in CHF 1000	Trade payables in CHF 1000
Year 2006						
Season 2006/1	– Total planned order volume	114 657				
	– Used	(112 003)	1 427	0		
	– Not required	2 654				
Season 2006/2	– Total planned order volume	112 220				
	– Used	(110 407)	4 235	3 449		
	– Not required	1 813				
Season 2007/1	– Total planned order volume	112 632				
	– Used	(20 049)	1 185	479		
	– Open as of 31.12.2006	92 583			236	
Season 2007/2	– Total planned order volume	107 010				
	– Used	0				
	– Open as of 31.12.2006	107 010	187		(369)	
Total as of 31.12.2006		**199 593**	**7 034**	**3 928**	**(133)**	**0**

Movement in valuation differences not affecting income statement

CHF 1000	Equity	Trade payables	Total
Balance 1.1.2005			
Valuation differences before tax	(4 291)	(509)	(4 800)
Deferred tax	644	76	720
Valuation differences net of tax 1.1.2005	**(3 647)**	**(433)**	**(4 080)**
Year 2005			
Opening balance	(3 647)	(433)	(4 080)
Disposal through purchase of goods	4 291	509	4 800
Valuation of outstanding financial instruments as of 31.12.2005	4 316	59	4 375
Change in deferred tax	(1 291)	(85)	(1 376)
Valuation differences net of tax 31.12.2005	**3 669**	**50**	**3 719**
Closing balance 31.12.2005			
Valuation differences before tax	4 316	59	4 375
Deferred tax	(647)	(9)	(656)
Valuation differences net of tax 31.12.2005	**3 669**	**50**	**3 719**
Year 2006			
Opening balance	3 669	50	3 719
Disposal through purchase of goods	(4 316)	(59)	(4 375)
Valuation of outstanding financial instruments as of 31.12.2006	(133)	0	(133)
Change in deferred tax	667	9	676
Valuation differences net of tax 31.12.2006	**(113)**	**0**	**(113)**
Closing balance 31.12.2006			
Valuation differences before tax	(133)	0	(133)
Deferred tax	20	0	20
Valuation differences net of tax 31.12.2006	**(113)**	**0**	**(113)**

31.2 Derivatives for trading purposes

The valuation of currency swaps and forward foreign exchange contracts at current fair value resulted in a loss of CHF 2.4 million as of 31 December 2006 (31 December 2005: loss of CHF 0.7 million), which was included in the income statement under "Exchange gains or losses".

Contract volume

CHF 1000	Currency	Contract value	Fair value	Difference	Contract volume
	EUR	(170 944)	(171 822)	(878)	170 944
	EUR	41 519	41 733	214	41 519
31.12.2005	**Total**	**(129 425)**	**(130 089)**	**(664)**	**212 463**
	EUR	(170 549)	(172 966)	(2 417)	170 549
	EUR	12 868	12 854	(14)	12 868
31.12.2006	**Total**	**(157 681)**	**(160 112)**	**(2 431)**	**183 417**

Contract volume by maturity

CHF 1000	Up to 3 months	3–6 months	6–9 months	9–12 months	Total
31.12.2005	61 948	150 515	0	0	212 463
31.12.2006	112 840	70 577	0	0	183 417

32 Rental commitments

For rental contracts (operating leasing) with fixed rental terms the following minimum payments are to be expected (excluding renewal options):

CHF 1000	31.12.2005	31.12.2006
Maturity < 1 year	168 067	164 727
Maturity 1–5 years	462 312	490 541
Maturity > 5 years	266 637	250 046
Total	**897 016**	**905 314**

33 Related party transactions

The remuneration of the Board of Directors and Group Management amounted to:

		Board of Directors	Group Management	Total
2005	Number of members	5	3	
	Salaries and bonuses including social security costs and professional fees CHF 1 000	1 128	3 754	4 882
2006	Number of members	6	3	
	Salaries and bonuses including social security costs and professional fees CHF 1 000	818	3 075	4 207

As a result of the current management share option plan (see Note 29), in the 2006 financial year, 25 800 options at a fair value of CHF 0.6 million (2005: 17 000; CHF 0.3 million) were allocated to the members of the Board of Directors and 30 500 options at a fair value of CHF 0.7 million (2005: 24 300; CHF 0.5 million) to the members of Group Management.

The law firm of Bär & Karrer, where Dr. Felix R. Ehrat, a member of the Board of Directors of Charles Vögele Holding AG, is a senior partner, advises the Charles Vögele Group on legal matters and provided legal services during the year under review worth a total of CHF 0.1 million (2005: CHF 0.1 million).

There were no further significant transactions with related parties in the years 2006 and 2005.

34 Post balance sheet events

The present financial statements take into consideration events occurring between the balance sheet date and 2 March 2007. There were no significant post balance sheet events. The 2006 financial statements, which were discussed between the Audit Committee and representatives of Group Management and approved by the Charles Vögele Holding AG Board of Directors on 2 March 2007, are published on 6 March 2007 and presented to the Annual Shareholders' Meeting on 4 April 2007 for approval.

35 Structure of the Charles Vögele Group
as of 31 December 2006

	Company	Currency	Share/Partnership capital
Charles Vögele Holding AG Pfäffikon SZ, CH Holding		CHF	70 400 000
100%	**Charles Vögele Trading AG** Pfäffikon SZ, CH Central services	CHF	10 000 000
100%	**Charles Vögele Store Management AG** Pfäffikon SZ, CH Central services (dormant)	CHF	250 000
100%	**Prodress AG** Pfäffikon SZ, CH Central services	CHF	100 000
100%	**Cosmos Mode AG** Pfäffikon SZ, CH Central services	CHF	100 000
100%	**Mac Fash GmbH** Pfäffikon SZ, CH Central services (dormant)	CHF	20 000
100%	**Charles Vögele Import GmbH** Lehrte, DE Central services	EUR	25 000
100%	**Charles Vögele Fashion (HK) Ltd.** Hong Kong, HK Central services	HKD	100 000
100%	**Charles Vögele Mode AG** Pfäffikon SZ, CH Sales organization	CHF	20 000 000
100%	**Charles Vögele Deutschland GmbH** Sigmaringen, DE Sales organization	EUR	15 340 000
100%	**Charles Vögele (Austria) AG** Kalsdorf, AT Sales organization	EUR	1 453 457
100%	**Charles Vögele (Netherlands) B.V.** Utrecht, NL Sales organization	EUR	1 000 100
100%	**Charles Vögele (Belgium) B.V.B.A.** Turnhout, BE Sales organization	EUR	644 523
100%	**Charles Vögele trgovina s tekstilom d.o.o.** Lubljana, SI Sales organization	SIT	160 000 000
100%	**Charles Voegele Polska Sp. z o.o.** Warsaw, PL Sales organization	PLN	4 000 000
100%	**Charles Voegele Ceska s.r.o.** Prague, CZ Sales organization	CZK	30 000 000
100%	**Charles Vögele Hungária Kereskedelmi Kft.** Budapest, HU Sales organization	HUF	240 000 000

Changes in the scope of consolidation, see Note 1.5.

Report of the Group Auditors to the General Meeting of Charles Vögele Holding AG, Pfäffikon SZ

As auditors of the Group, we have audited the consolidated financial statements (income statement, balance sheet, statement of cash flows, statement of changes in equity and notes, pages 2 to 41) of Charles Vögele Holding AG for the year ended 31 December 2006.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Matthias von Moos Auditor in charge	Pascal Wintermantel

Zurich, 2 March 2007

Contents Financial Statements Holding

Income Statement Holding

from 1 January to 31 December

CHF 1000	Note	2005	2006
Income			
Dividends		23 877	14 221
Financial income	2	8 320	6 100
Exchange gains, net		1 135	324
Total income		**33 332**	**20 645**
Expenses			
Administration expenses		(2 352)	(2 426)
Financial expenses	2	(2 331)	(5 230)
Impairment of loans to subsidiaries	3	(8 259)	(9 253)
Total expenses		**(12 942)**	**(16 909)**
Profit before taxes		**20 390**	**3 736**
Taxes		(330)	493
Net profit for the year		**20 060**	**4 229**

Balance Sheet Holding

as of 31 December

CHF 1000	Note	31.12.2005	31.12.2006
Assets			
Current assets			
Cash and cash equivalents	4	6 960	13
Receivables from subsidiaries	5	155 691	173 837
Other receivables and accruals		135	623
Total current assets		**162 786**	**174 473**
Long-term assets			
Loans to subsidiaries	5	381 146	249 592
Investments	6	269 037	445 587
Total long-term assets		**650 183**	**695 179**
Total assets		**812 969**	**869 652**
Liabilities and shareholders' equity			
Short-term liabilities			
Short-term bank liabilities	4	0	743
Accounts payable: Third parties		116	12
Subsidiaries	5	398 698	468 106
Accrued liabilities		658	662
Current tax liabilities		0	2
Total short-term liabilities		**399 472**	**469 525**
Shareholders' equity			
Share capital	7	88 000	70 400
Legal reserves		173 789	173 789
Free reserves		110 000	110 000
Reserve for treasury shares	8	20 032	24 394
Retained earnings: – Retained earnings as of 1 January		16 390	21 676
– Decrease/(Increase) of reserve for treasury shares		(5 973)	(4 361)
– Dividends paid		(8 800)	0
– Net profit of the year		20 060	4 229
Total retained earnings		21 676	21 544
Total shareholders' equity		**413 497**	**400 127**
Total liabilities and shareholders' equity		**812 969**	**869 652**

Notes to the Financial Statements

1 Basis for the financial statements

Charles Vögele Holding AG is based in Pfäffikon, municipality of Freienbach, in the Canton of Schwyz, Switzerland, and its purpose is the holding and administration of investments of the Charles Vögele Group.

The financial statements are presented in accordance with Swiss law.

The integration of the financial statements of Charles Vögele Holding AG into the consolidated financial statements of the Charles Vögele Group has been made in accordance with the accounting principles explained in the notes to the consolidated financial statements.

2 Financial income and expenses

The financial income arises largely from the interest income from cash pooling and from interest on loans granted to subsidiary companies. These are counterbalanced by financial expenses in the form of interest on cash pooling and on interest on accounts payable to subsidiary companies and third parties.

3 Impairment of loans to subsidiaries

Impairments of loans to Group companies concern value adjustments on Group loans to subsidiaries in Germany and the Netherlands.

4 Cash and cash equivalents

This position includes sight deposits at banks. As at 31.12.2006 some bank current accounts showed negative balances, which are shown under the position "Short-term bank liabilities".

5 Loans due from and to subsidiaries

Current asset receivables and short-term payables due from and to Group companies are resulting mainly from the Group's cash pooling system.

Loans to Group companies serve to finance various subsidiaries and are value adjusted if necessary (see Note 3). The decline of loans is due mainly to the refinancing of the Dutch subsidiary (see Note 6).

6 Investments

Loans of CHF 176.6 million to the Dutch subsidiary were converted into equity capital during the year under review, leading to an increase in the level of investments (see Note 5).
The complete structure of the Charles Vögele Group long-term investments is documented in Note 35 of the notes to the consolidated financial statements.

7 Share capital

The reduction in the share capital is due to the Annual Shareholders' Meeting's decision on April 5, 2006 to reduce the par value of Charles Vögele Holding AG shares by CHF 2.00 per share, from CHF 10.00 to CHF 8.00. The remaining share capital comprises 8 800 000 fully paid-in bearer shares with a par value of CHF 8.00 per share.

The company's articles of association include a provision authorizing the Board of Directors to carry out a conditional increase of the share capital of up to CHF 2.1 million, divided into 264 000 fully paid-in bearer shares with a par value of CHF 8.00 each, without giving rise to any pre-emptive rights for existing shareholders. The shares may only be used for the management share option plan (see Note 29 on the management share option plan in the notes to the consolidated financial statements).

8 Movement in treasury shares

		Price in CHF	Number of shares
Treasury shares 31.12.2004			**279 092**
Disposal of treasury shares	March 2005	44.08	(20 092)
Purchase of treasury shares by Charles Vögele Trading AG	March 2005	68.13 – 68.16	20 092
Purchase of treasury shares by Charles Vögele Trading AG	August 2005	92.94 – 96.15	81 500
Disposal of treasury shares by Charles Vögele Trading AG	November-December 2005	50.09	(46 000)
Treasury shares 31.12.2005			**314 592**
Disposal of treasury shares by Charles Vögele Trading AG	January-June 2006	50.09	(33 000)
Purchase of treasury shares by Charles Vögele Trading AG	August 2006	88.00 – 92.51	50 488
Disposal of treasury shares by Charles Vögele Trading AG	August 2006	49.00 – 90.00	(5 953)
Purchase of treasury shares by Charles Vögele Trading AG	September 2006	95.33	55 992
Disposal of treasury shares by Charles Vögele Trading AG	September-December 2006	48.09 – 101.27	(56 919)
Treasury shares 31.12.2006			**325 200**

For the holdings of treasury shares in the Charles Vögele Group as of 31 December 2006, a reserve was formed in Charles Vögele Holding AG to the amount of the purchase value of CHF 24.4 million (31 December 2005: CHF 20.0 million).

9 Major shareholders

All of the companys' shares are bearer shares. Consequently, the company runs no share register. The following is based on information supplied to the company under stock exchange regulations and other information available to the company.

In its annual report, Classic Global Equity Fund (asset management by Braun, von Wyss & Müller AG) still held 9.3% of the companys' capital as of 31 December 2006 (unchanged since previous year).

In addition, UBS Fund Management (Switzerland) AG acquired 5.1% of the companys' capital on 18 January 2006.

Furthermore, on 15 June 2006 Bestinver Gestion S.G.I.I.C., S.A. reported a 5.0% stake in the companys' capital.

On 4 October 2006 UBS Fund Management (Switzerland) AG reduced its stake in the companys' capital to below the reporting threshold of 5.0%.

On 1 February 2007 UBS Fund Management (Switzerland) AG increased its stake in the companys' capital to 5.1%.

10 Contingent liabilities

CHF 1000	31.12.2005	31.12.2006
Rental guarantees to third parties	45 173	43 158
Guarantees to financing banks	401 873	363 189

In addition, letters of comfort were issued to subsidiary companies.

11 Pledged assets

In connection with the syndicated refinancing agreement signed in July 2004 (see Note 25 in the notes to the consolidated financial statements), Charles Vögele Holding AG issued a guarantee towards the lending banks.

Proposed Appropriation of Retained Earnings

as of 31 December 2005

The Board of Directors proposes to the Annual Shareholders' Meeting of 4 April 2007 to carry forward the retained earnings of CHF 21.5 million.

CHF 1000	
Retained earnings as of 31.12.2006	21 544
Balance to be carried forward	**21 544**

Since the legal reserves have reached 20% of the share capital, there will be no further allocation to the legal reserve.

The Board of Directors proposes that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares is reduced by CHF 2.00 per share – from CHF 8.00 to CHF 6.00 per share.

Report of the Statutory Auditors to the General Meeting of Charles Vögele Holding AG, Pfäffikon SZ

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes, pages 44 to 48) of Charles Vögele Holding AG for the year ended 31 December 2006.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Matthias von Moos Auditor in charge	Pascal Wintermantel

Zurich, 2 March 2007

Forthcoming events
- Annual Shareholders' Meeting 2006: 4 April 2007
- Analysts' and media conference on the 2007 half-year results: 28 August 2007
- Analysts' and media conference on the 2007 financial year results: 4 March 2008
- Annual Shareholders' Meeting 2007: 16 April 2008
- Analysts' and media conference on the 2008 half-year results: 26 August 2008

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Contact address
Charles Vögele Holding AG
Investor Relations
Postfach 58
Gwattstrasse 15
CH-8808 Pfäffikon SZ

T+41 55 416 71 00
F+41 55 410 12 82
E investor-relations@charles-voegele.com
www.charles-voegele.com