2006
Charles Vögele Group **Activity Report**

Charles Vögele Switzerland

Contents

The Making Of…

This year's Annual Report features illustrated behind-the-scenes images of the photo shoot for the third wave of billboards in autumn 2006. The shoot took place in Hamburg.

Highlights
2006

Gross profit margin increased to 61.8%

61.8

14 stores openend in
Hungary, Poland and the Czech Republic

14

Solid shareholder’s equity of 55%

55

EBITDA at CHF 143 million

143

Charles Vögele

The Making Of...

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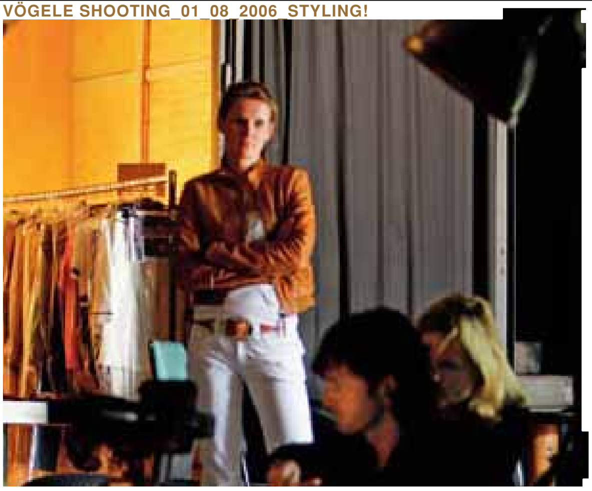

VÖGELE SHOOTING_01_08_2006_POSITION THE CAMERA!

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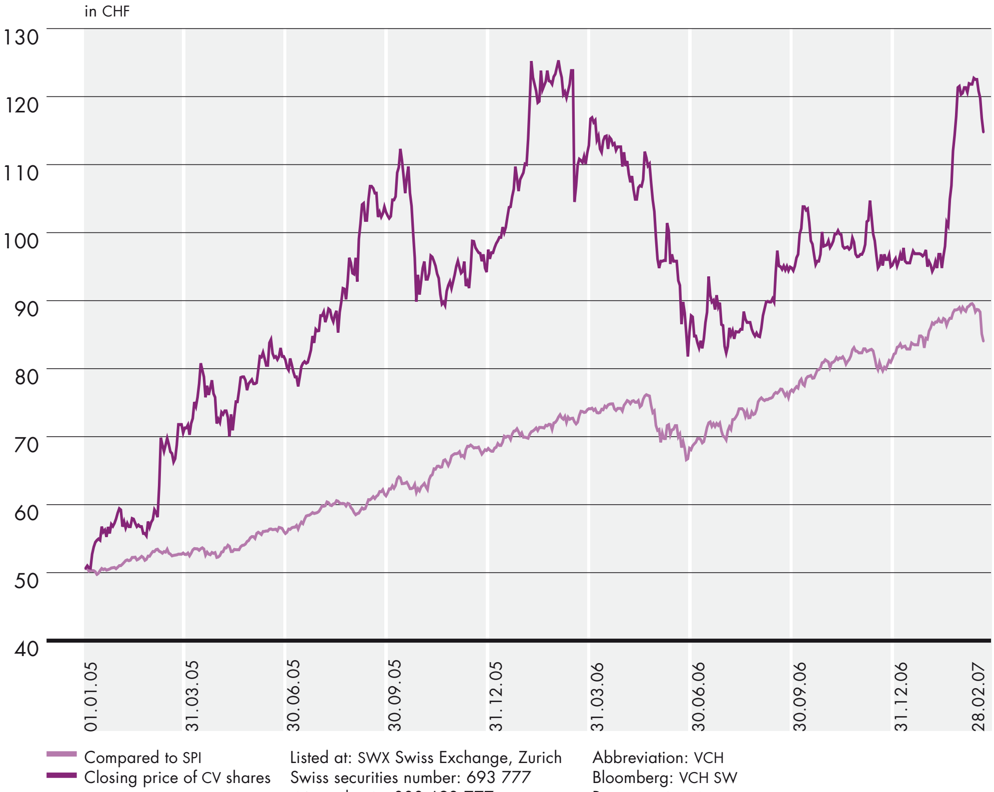
Share Information

Price development of the Charles Vögele Holding AG shares
at SWX Swiss Exchange in Zurich from 1 January 2005 to 28 February 2007



Listed at: SWX Swiss Exchange, Zurich
Swiss securities number: 693 777
ISIN code: CH 000 693 777

Abbreviation: VCH
Bloomberg: VCH SW
Reuters: VCHZ.S

Key Figures

		31.12.2005	31.12.2006
Bearer shares	Number	8 800 000	8 800 000
Par value (Reduction decided on 5 April 2006)	CHF	10.00	8.00
Share price as per closing date	CHF	99.50	97.10
Share price: year high	CHF	113.80	126.00
year low	CHF	50.20	79.05
Average trading volume per day	Number	45 400	41 700
Free float	%	100	100
Basic earnings per share	CHF	8.25	(2.32)
P / E ratio	Factor	12.1	n.a.
EV / EBITDA	Factor	6.1	7.1
Stock capitalization	CHF million	876	854
Book value per share	CHF	60	56
Reduction of par value of shares[1)]	CHF	2	2

[1)] Proposal to the Annual Shareholders' Meeting

Group Key Operating Figures

CHF million	2005	2006	Change
Gross sales	1 544.4	1 523.2	(1%)
Net sales	1 347.6	1 323.6	(2%)
Change in net sales adjusted for expansion in %	(1.0%)	(3.7%)	
Gross profit from fashion retail	822.2	818.4	(0%)
Gross profit in % of net sales	61.0%	61.8%	
Operating earnings before depreciation (EBITDA)	165.2	143.1	(13%)
Impairment of Goodwill	–	74.4	
Operating earnings (EBIT)	108.7	11.7	(89%)
Net profit	70.1	(19.7)	(128%)
Cash flow from operating activities	143.0	73.5	(49%)
Net cash used in investing activities	(41.9)	(72.3)	73%
Free cash flow	101.1	1.2	(99%)
Number of stores at year-end	791	809	2%
Sales area at year-end in m^2	602 496	622 546	3%
Net sales per m^2 sales area in CHF[1]	2 261	2 181	(4%)
Number of employees at year-end[2]	7 258	7 370	2%
Average number of full-time employees on an annual basis[2]	4 821	4 863	1%
Net sales per average number of full-time employees in CHF[2]	279 526	272 187	(3%)
Number of clothing articles sold in 1000	65 710	63 749	(3%)
Average net sales per article in CHF	20.5	20.8	2%
Share of turnover in % – women's wear	56%	57%	2%
– men's wear	32%	32%	–
– children's wear	12%	11%	(8%)

CHF million	31.12.2005	31.12.2006
Net debt	138.9	166.7
Shareholders' equity	529.2	488.7
Balance sheet total	912.3	884.8
Shareholders' equity in % of balance sheet total	58%	55%

[1] Calculated on the basis of average sales areas per month
[2] Excluding apprentices


PAUL MITCHELL

Successful second half-year – early launch of expansion in Hungary

The business year 2006 of the Charles Vögele Group was characterized by the following events:

- by posting very good operating earnings (EBITDA) of CHF 90 million for the second half of 2006, the Charles Vögele Group compensated for some of the decline experienced in the first six months of the year
- initial results in Slovenia and our three pilot markets of Hungary, Poland and Czechoslovakia met our expectations. The very positive performance of our five Hungarian stores has prompted us to bring an early end to the test phase in this market. From 2007 we are initiating full-scale expansion in Hungary
- as part of the expansion activities in our established markets, another ten stores were acquired from a local competitor in Belgium. We have now built up the branch network in this market from 25 to 47 stores within two years
- the positive but insufficient performance of our Netherlands Sales Organization has prompted us to impair CHF 74 million of goodwill created in 2001 when we acquired the business. Despite this action, the Group still has a solid equity ratio of 55%
- process and organizational optimization was continued during the year under review and will be completed in substantial areas of the Group over the course of 2007

Central European clothing market

During the 2006 financial year, the Central European clothing market was affected by exceptional weather conditions. Thus, consumer spending was markedly reticent in all of the high-margin months. As a consequence, neither the Charles Vögele Group nor the industry as a whole was able to benefit from the positive economic picture or from the improved underlying mood among consumers in all markets. The healthy economic conditions did help to calm the shakeout of the clothing sector, though in the medium term the restructuring of the Central European market is likely to continue.

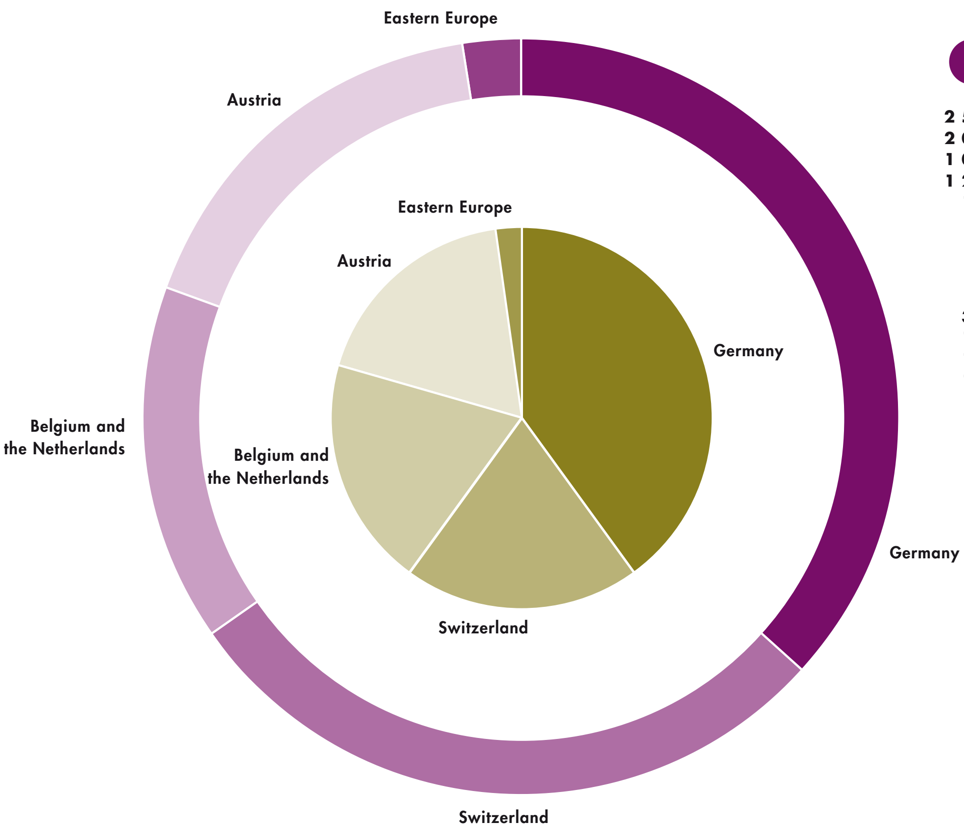
New Countries a success: Hungary is already an expansion market

Of the three pilot markets opened in spring 2006, Hungary especially has performed well and has clearly exceeded our expectations. Thanks to the very good sales and earnings consistently achieved throughout the year, the Board of Directors and Group Management decided to approve Hungary definitively as an expansion market. Another 15 to 20 stores are planned for opening in 2007. Poland and the Czech Republic are also performing to our expectations, but are still being classed as pilot markets for the time being.

Slovenia, which we launched as a new market in autumn 2005, has confirmed its great potential. Although only one additional store was opened in Maribor during the year under review, expansion is also progressing as planned here. Contracts have been signed for nine additional stores, which will be opened over the course of 2007. We still believe that the market has the potential for about 25 branches, which should be opened over the next three years.

Branch network expanded further in existing markets

The branch network has been further expanded particularly in Belgium and Germany, leading to greater penetration in these markets. In August 2006, the Charles Vögele Group acquired ten stores in Belgium from local competitor Superconfex. One of these stores was reopened as a new Vögele branch in autumn 2006. The other nine will open for business in time for the start of season in March 2007. This has brought the Charles Vögele Group a significant step towards its target network in Belgium of 60 stores. Additional staff were recruited to the expansion department in Germany, and the examination of potential stores was intensified in order to increase the pace of new openings. Although more branches were closed than opened during the year under review, in the years to come the new stores will more than compensate for the closure of unprofitable ones. In this way the Charles Vögele Group is also underlining its clear commitment to the German market, where it sees a long-term potential of about 500 stores. During the year under review a new Vögele store was also opened in The Netherlands for the first time since 2002.



Number of employees per Sales Organization

2 590 Germany
2 073 Switzerland
1 062 Belgium and the Netherlands
1 210 Austria
160 Eastern Europe

Sales locations per Sales Organization

325 Germany
161 Switzerland
158 Belgium and the Netherlands
149 Austria
16 Eastern Europe

Goodwill impaired in the Netherlands

In 2002, the Charles Vögele Group set itself the target of breaking even at the EBITDA level in the Sales Organization Belgium and The Netherlands by 2006. Although there has been a continuous and significant reduction in operating losses over the last five years, the Sales Organization did not quite manage to reach this target by the end of the year under review. With the goodwill in the Netherlands no longer holding its value, this position in the balance sheet was corrected accordingly with a one-off impairment of CHF 74 million.

Optimization of processes and organization almost complete

The development process at the Charles Vögele Group was further advanced during the 2006 financial year, and the company will be in a position to complete its transition phase on schedule at the end of 2007. This period of internal process optimization and reorganization may not appear to be very spectacular from the outside. Its impact will not be seen in the operating figures yet, but it is of vital importance to the future development of the company. About forty projects have been completed since the start of 2005 in the areas of purchasing, goods presentation, advertising and infrastructure. Twenty more projects are still being implemented, fifteen of them launched during the year under review. As well as making procedures more efficient, the most important result of the actions triggered by these projects is to further increase process security. This will be of central importance when the phase of greater expansion in existing and new markets begins in 2008.

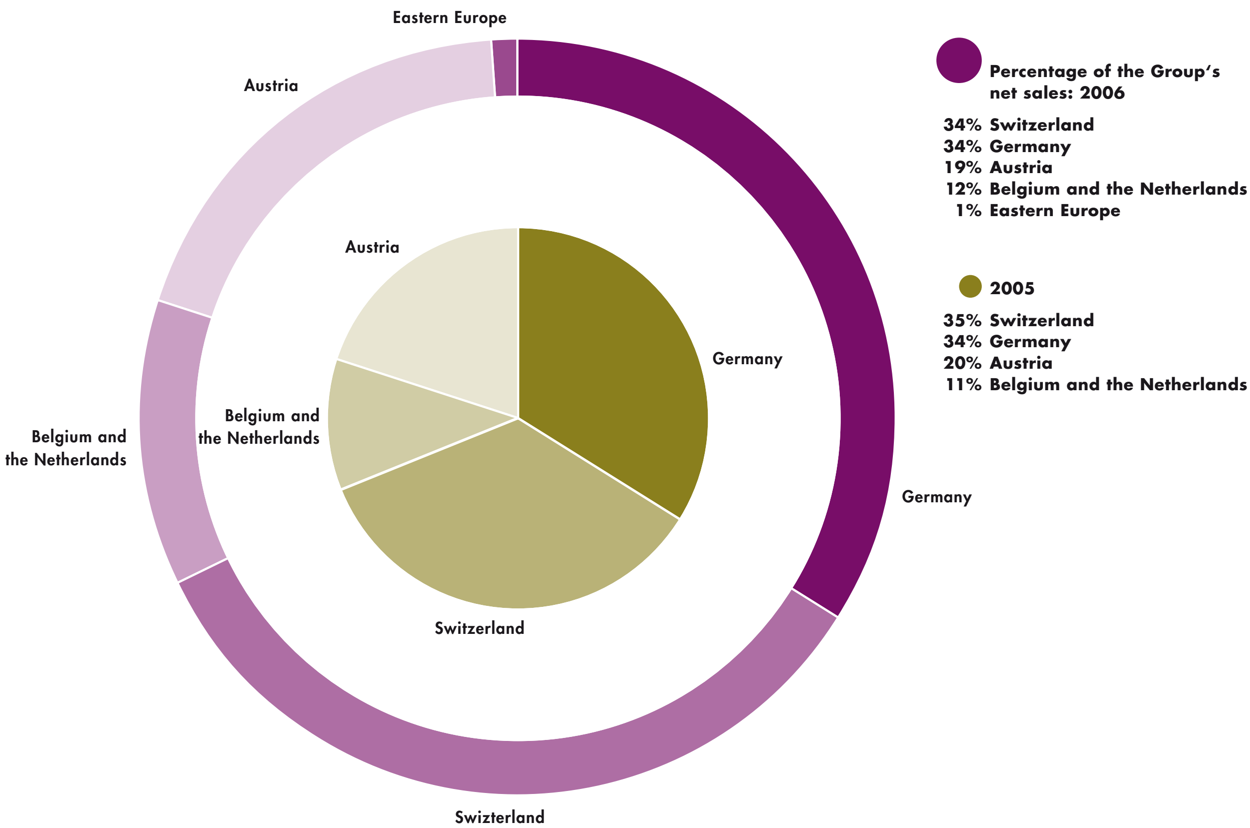
The most important project still running is the module concept for all Group stores. This is scheduled for completion at the end of 2007. The reorganization of logistical processes within Germany has already been completed with the process-focused specialization of the two central warehouses in Lehrte und Sigmaringen. These both became operational on 1 July 2006. The new stock-handling system will save around CHF 4 million of costs in Germany from 2007.

The foreign brands pilot scheme launched in Switzerland in autumn 2004 was also completed successfully. The concept is now being continued and expanded in selected branches with more than 1 200m² of sales space. Combined with the optimization of the range for the start of the 2007 spring-summer season, this will help to improve sales and earnings in the Swiss market. The partial collection introduced for the first time during the year under review met with a positive response and will be kept in the range we offer in future. The new emphasis that this has entailed for the presentation of collections offers clients new, non-discounted collection items even during traditional sales periods, and makes the range of fashions on offer more attractive. This produces better results especially in the months of January and July when margins are normally thin. Thus, the market is now served with six collections per year (previously two).

Increased sales in the second half-year

Although temperatures reached record highs in autumnt 2006, which was very bad news for the clothing industry in general, the Charles Vögele Group managed to increase its sales in the second half of 2006 by 2% year on year. The respective operating earnings (EBITDA) of CHF 90 million were only slightly below the best semester result of the last five years.

Overall, the Charles Vögele Group generated net sales of CHF 1 324 million in 2006, a decrease of about 2% on the CHF 1 348 million posted in 2005. Gross profit for the period under review came to CHF 818 million (previous year CHF 822 million), with the gross profit margin being increased to 61.8% (previous year 61.0%). Operating earnings before depreciation (EBITDA) came in at CHF 143 million (previous year CHF 165 million), giving an EBITDA margin of 10.8% (previous year 12.3%). After deducting depreciation, this left operating earnings (EBIT) at CHF 86 million before impairement, compared with the previous year's CHF 109 million. The Group's net income for 2006 was CHF 55 million (previous year CHF 70 million) before impairement. After th impairement of the goodwill of CHF 74 million this resulted in a net loss of CHF 20 million.



Another improvement in inventory structure

Inventories increased from CHF 248 million to CHF 281 million over the year to 31 December 2006. This rise is due entirely to stocks of items from the 2006 winter season. Despite the increase, the inventory structure from previous seasons has been further improved and inventory provisions of CHF 5 million have been released. The inventory figure for 31 December 2006 already includes incoming new items for the 2007 spring-summer season worth CHF 58 million (previous year CHF 45 million).

Additional investment and sales performance reflected in cash flow

During the period under review, the Charles Vögele Group significantly increased its net cash used for investing activities from the year-back figure of CHF 42 million to CHF 72 million. This money was invested primarily in new openings, store interiors and in a new cash system. Operating cash flow fell in parallel with sales to CHF 73 million (previous year: CHF 143 million). This resulted in a free cash flow of CHF 1 million (previous year CHF 101 million).

Rise in net debt

As a result of the reduced cash flow, net debt increased from CHF 139 million at the end of 2005 to CHF 167 million by 31 December 2006.

Equity ratio still high

Despite the rise in net debt, and allowing for the exceptional goodwill impairement, the Charles Vögele Group has an equity ratio of 55% (previous year 58%). The company's finances are, therefore, still very sound.

Another reduction proposed in the par value of shares

Owing to the company's stable earnings power and healthy financial situation, the Board of Directors is proposing to the Annual Shareholders' Meeting of 4 April 2007 that instead of distributing a dividend, Charles Vögele Holding AG should carry out a tax-friendly reduction in the par value of its shares of CHF 2.00 per share. If the Annual Shareholders' Meeting agrees to this proposal, the par value of shares will fall from CHF 8.00 to CHF 6.00.

Operational outlook for the 2007 financial year

During the current 2007 financial year, the Charles Vögele Group will concentrate on the sustainable improvement of operating results at all Sales Organizations and thus at the Group as a whole. Among other things, this will involve increasing the pace of new store openings in the defined expansion markets of Slovenia and Hungary. At the same time, various measures have already been initiated to increase sales in existing stores and to improve earnings power. In Germany especially, we are pressing ahead with the closure of loss-making branches and the opening of new stores in economically stronger regions. In Poland and the Czech Republic, the test phase is continuing as planned, so that the final decision on the next steps in these markets can be taken by the end of 2007 at the latest. In parallel to this, three new potential pilot markets are being analyzed.

Expansion will therefore be established as a rolling process that will allow the Charles Vögele Group to move into new pilot markets every two years. Investments will be increased again this year in order to fund this acceleration in the pace of expansion. An investment volume of approximately CHF 100 million is envisaged. At the same time, the ongoing strategic and process optimization projects – especially the module concept – are being continued and completed on schedule.

In 2007, the Charles Vögele Group will still be in the preparation phase prior to the intensive expansion activity planned for 2008. Consequently, the expectations already communicated for 2005–2007 with regard to the EBITDA margin remain unchanged. The company still expects sales to be in line with, or slightly better than, the individual markets. Only a slight boost, if any, is expected to come from the positive performance of the economy in the Central-European markets or from the resulting good underlying mood among consumers.

Thanks to all members of staff

The Board of Directors and Group Management would like to thank all employees of the Charles Vögele Group for their impressive commitment to the company and for the great motivation with which they have once again supported the company in 2006 despite the difficult operating conditions. Their hard work and the solid financial position that the company now enjoys should ensure that in years to come the Charles Vögele Group can continue to tackle the great challenges thrown up by the market with great confidence.

Bernd H. J. Bothe
Chairman of the Board of Directors

Daniel Reinhard
Chief Executive Officer

Strategy Implemented Throughout the Group

The expansion of the Charles Vögele Group

The Charles Vögele Group is currently making final preparations for the launch of a new phase of expansion. Concrete action is being initiated this year to expand the business in Slovenia and Hungary. In the two pilot markets of Poland and the Czech Republic the test phase is continued as planned. When the final judgment is passed on these two Eastern European countries in 2008, three new pilot markets will be defined and launched in parallel. From 2008, therefore, expansion will become a rolling process. Every two years we will make a comprehensive assessment of potential in three new test markets. At the same time, the company will proceed with the targeted exploitation of existing growth potential in the established markets of Switzerland, Germany, Austria, Belgium and the Netherlands.

Expansion as a rolling process

The implementation of these growth projects naturally occurs in close collaboration with, and with the support of, Group headquarters in Pfäffikon. Meanwhile, the Austrian sales centre in Graz is used as the main hub for opening new test markets in Central and Eastern Europe and for developing them successfully into expansion markets. This means that we can continue to make the most of the extensive expertise acquired by various departments and employees in Graz during the successful launch of pilot markets in Poland, the Czech Republic and Hungary. Based on these experiences, a team has been created to drive the expansion into new markets as a systematic process with defined and standardized procedures. The expansion team's job in each instance is to open up a new market, successfully carry out the two-year test phase and then build up an independent local sales organization. After this the expansion team hands over further development to local management, which reports directly to Group Management in Pfäffikon. This leaves the expansion team free again to build up the next pilot markets.

Potential and logistics in the new markets

While there is potential for about 25 stores in Slovenia, the Charles Vögele Group expects to see a network of about 60 branches in Hungary. Around 60 stores would also be feasible in both the Czech Republic and Poland, provided the tests running until the end of 2007 prove successful. Overall this means that there is potential for a total of over 200 branches in the first phase of expansion in our new markets. If all of these stores are actually opened, the total number of stores in the Charles Vögele Group will rise from today's 800 to 1 000. This implies an opening rate per market of between 10 and 15 stores a year.

Our existing logistics capacity at the two distribution centres at Kalsdorf near Graz in Austria and Lehrte in Northern Germany allows us to supply an additional 100 stores. Thanks to the associated improvement in capacity utilization, the efficiency of the existing infrastructure can be optimized without the need for additional logistics capacity. Only later – perhaps in 2009 or 2010 – will we have to decide whether or not warehousing capacity needs to be increased. This decision will be based on the initial operating results from the three test markets launched in 2008, so the geographical location of an additional distribution centre can then be dictated by future supply needs.

Expansion within existing markets

While Switzerland and Austria already have dense branch networks, with only a few isolated opportunities for further optimization, there is still potential for expansion in Germany, the Netherlands and Belgium. In Germany the relocation of currently unprofitable stores to stronger economic regions will be completed in 2010. From the current perspective, this involves about 40 stores. Overall, more stores will be opened than closed, which will boost results achieved by the German Sales Organization. The associated company growth should be realized in the next three years. From 2010 – i.e. upon completion of the relocation phase – the number of branches in Germany should also increase significantly, gradually approaching the estimated potential number of 500 branches. The main geographical focus of these new openings will be the southern and western parts of the country.

In the Netherlands, the first store was opened since 2002. We believe that there could potentially be 140 Charles Vögele stores in the Netherlands, a 25% increase on the current 111. The position is similar in Belgium, where the Charles Vögele Group currently operates 47 stores, whereas there is a potential for 60 in total. Potential growth in the Belgium market is thus approx. 30%.

Controlled and cautious implementation of expansion plans

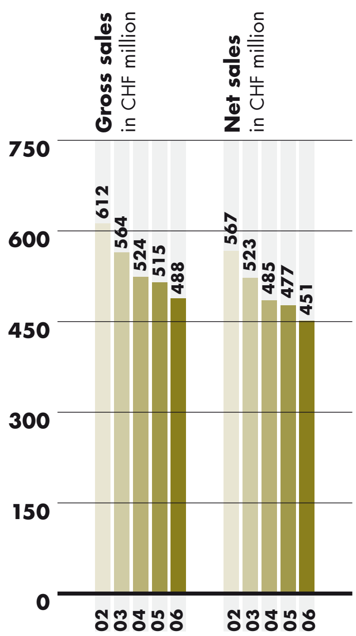
The highest priority in all of the Charles Vögele Group's expansion activities is profitability. This applies as much to the opening up of new expansion markets as to additions to branch networks in existing markets. The main aim is not to achieve the highest possible number of stores, but to choose the right locations that can deliver the right potential purchasing power and client frequency. The location evaluation guidelines introduced over the past two years for this purpose have proved a helpful decision-making tool. The ultimate aim of expansion is always to secure long-term, profitable growth for the Charles Vögele Group, and thus to increase value for shareholders, customers, employees and suppliers.

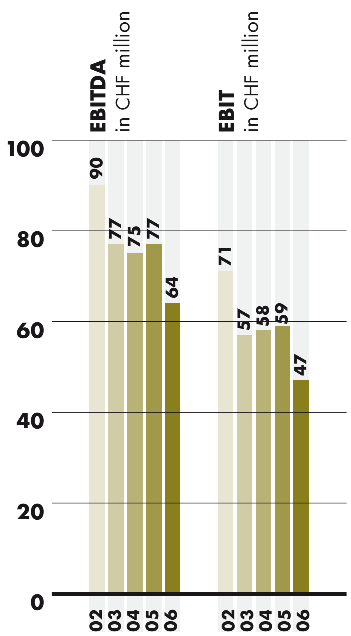
Sales Organization in Switzerland

Refocused range for large city centre locations

Switzerland's economy performed positively during the year under review, and all sectors are now doing well. Consumer sentiment improved significantly, which has boosted retail spending. The clothing industry was only able to benefit from this to a certain extent because in the spring and autumn, when margins are at their highest, poor weather hit sales. Market volume by value stabilized towards the end of the year, which was pleasing given the decline observed during this period in each of the four previous years.

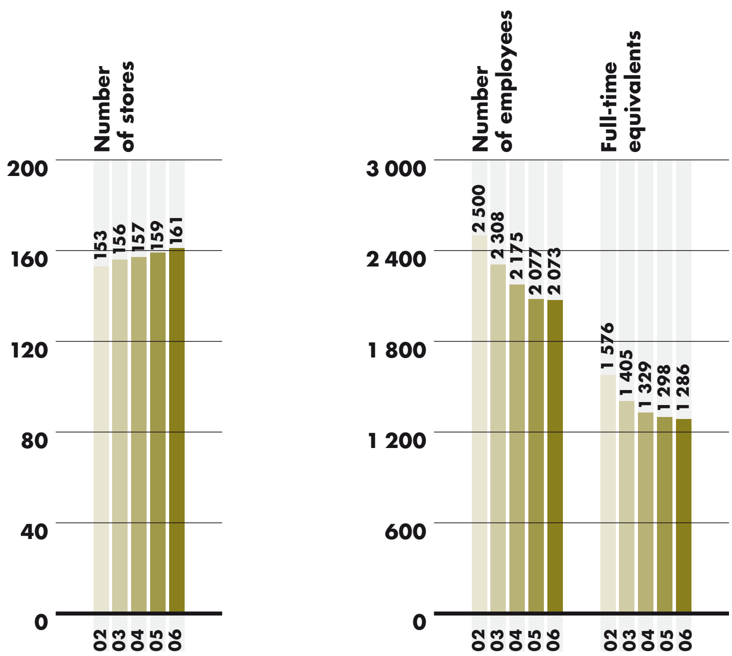
The Swiss Sales Organization achieved net sales of CHF 451 million for the 2006 financial year, down 5% from the CHF 477 million posted in 2005. The fall in sales is due to the comparison with the high figures posted in the anniversary year of 2005 as well as to the unfavourable weather conditions during the year under review. Owing to the lower sales, and despite continued strict cost management, operating earnings (EBITDA) fell from CHF 77 million in the previous year to CHF 64 million. It should be noted that operating earnings in 2005 were boosted by one-off items worth CHF 5 million. At the beginning of the 2007 spring-summer season the range on offer in large branches in Switzerland has been optimized in order to secure a sustained improvement in Swiss results. This optimization involves focusing the collection more strongly on the needs of the city centre locations.





During the year under review seven stores were opened in Switzerland and five smaller branches were closed. These closures were all due either to mergers or to the relocation of the branches within the same town or area. This process of merging several small branches into one larger store within the same catchment area enables us to improve our offering within the region concerned. This strategy will be continued in Switzerland in the years to come, so even though the number of branches will stay the same or even fall slightly, we will actually be increasing the amount of selling space. Following the optimization of the branch portfolio, sales space in Switzerland rose during the year under review from 133 941 m² to 138 020 m², while the number of employees fell from 2 077 to 2 073. The number of full-time posts also fell, from 1 298 in 2005 to 1 286. A total of 260 apprentices were employed in many different parts of the company (previous year: 261 apprentices).

Several promotional campaigns were run in Switzerland for all customer groups to mark the 2006 Soccer World Cup. As well as the positive effect that this marketing had on sales, it also helped to raise the company's profile significantly. Traditional marketing activities were further strengthened during the year under review: for the first time ever we launched three national poster campaigns for both the spring-summer season and for the autumn-winter season.



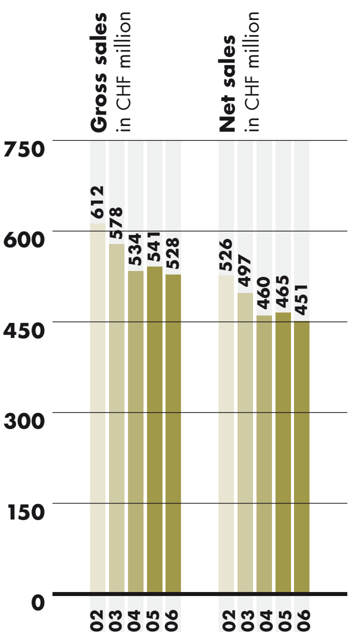
Sales Organization in Germany

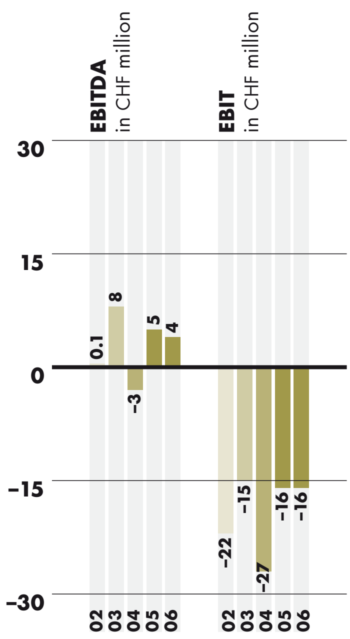
Branch relocation is proceeding as planned

The economic environment in Germany continued to improve during the year under review, which stimulated demand. Economic prosperity is currently at a level last seen at the time of reunification. Prospects for all sectors of the economy improved accordingly – apart from the retail trade. Retailers found that private consumption was only recovering slowly, despite falling unemployment. Consumers were concerned about the forthcoming increase in VAT and rising spending on health care. The clothing sector suffered additionally throughout the 2006 financial year from the exceptional weather conditions.

The German Sales Organization generated net sales of CHF 451 million during the year under review, a decline of about 3% on the previous year's CHF 465 million. It should be noted that a net total of 13 stores were closed in 2006. Operating earnings (EBITDA) came to CHF 4 million, which is CHF 1 million less than the previous year's total of CHF 5 million. As previously communicated, the aim announced four years ago of breaking even at the EBIT level by the end of 2006 has had to be postponed owing to the weather-related sales performance in 2006.

The German Sales Organization concentrated heavily on the further streamlining of the branch structure and optimization of logistics processes in 2006. A total of 21 loss-making stores were closed and 8 new branches were opened. At the end of the year the branch portfolio comprised 325 stores (previous year 338). As a result, sales floor space also fell from the previous year's 256 204 m² to 249 054 m².

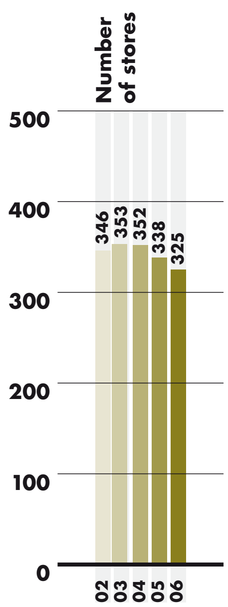


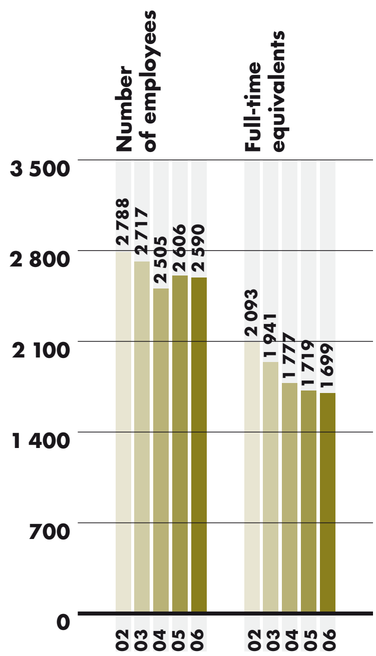


The aim of closing unprofitable stores and replacing them with new ones in stronger economic regions within Germany is to improve the profitability of the German Sales Organization gradually but sustainably. In the years to come, new store openings will exceed the number of closures, leading to organic growth in Germany. Owing to the closures, the number of employees fell slightly from 2 606 in 2005 to 2 590, and the number of full-time posts fell from 1 719 to 1 699 in 2006. In addition, 154 trainees were employed (previous year 129).

With effect from 1 July 2006, the German distribution centres in Lehrte and Sigmaringen were transferred from a regional to a functional organizational structure. Lehrte, which also serves as the group-wide distribution hub for incoming goods, will in future supply all German stores with new items. Meanwhile, at the end of every season Sigmaringen will take back collections from all stores and reprocess them for further use. We expect this optimization of processes to deliver annual cost reductions of CHF 4 million, the full effects of which will be first felt in the 2007 financial year.

During the year under review, marketing activities in Germany were further expanded, with greater use of billboard advertising in addition to the traditional communications channels. The number of stores using the Customer Card was increased by 30%, meaning that it is now accepted at 75% of branches.



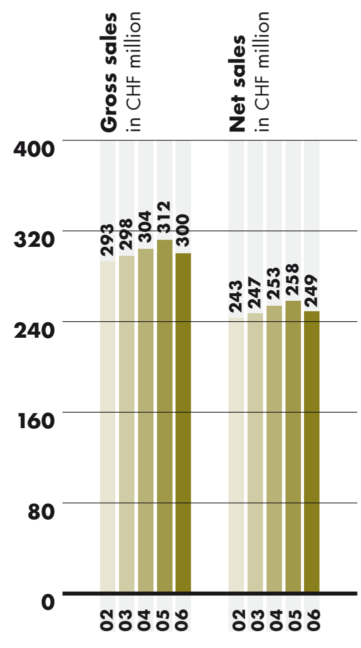


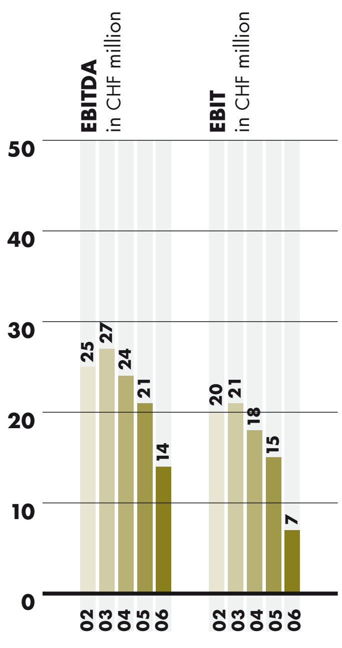
Sales Organization in Austria

Further measures implemented to improve results

The Austrian economy expanded slightly in 2006. The main indicators suggest that this positive trend will continue for the time being. Falling inflation has combined with Austria's growing economic importance as a gateway to the markets of Eastern Europe, and the important function that many Austrian industries play as a European hub to create a confidence about future economic developments. The resulting positive fundamental view taken by wide sections of society stimulated consumer spending, though this was concentrated mainly in the sport and leisure, jewellry, and toys and games sectors. Clothes retailing only profited to a limited extent from the additional sales. Winter lasted too long and the autumn was too warm in Austria, meaning that consumer spending was markedly reticent in the Austrian clothing sector.

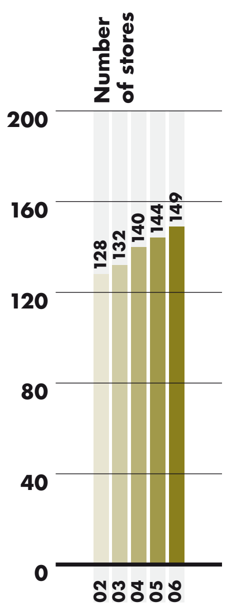
The Austrian Sales Organization generated net sales of CHF 249 million in 2006, a decline of about 4% from the CHF 258 million posted in 2005. This trend is mainly due to the unfavourable weather conditions and the high figures posted in the previous year thanks to our anniversary activities. Because sales were down, operating earnings (EBITDA) fell from CHF 21 million in 2005 to CHF 14 million. In order to improve sales and income in Austria, a new distribution channel opened up for the weekly fashion leaflet at the end of November 2006. This has significantly improved the distribution and effectiveness of this important marketing tool.

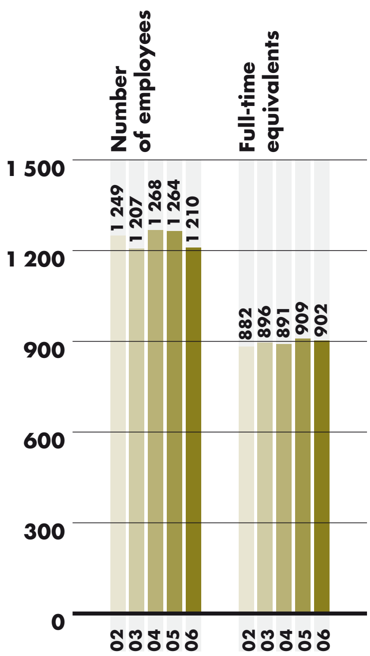




In the second half of 2006 five new stores were added to the Austrian portfolio, while another store had already been opened in April and one closed during the first semester. This means that Charles Vögele now has a total of 149 stores in Austria. This has increased the amount of sales space from the previous year's 107 662 m² to 111 769 m². Despite these openings, the number of employees fell slightly, from 1 264 in 2005 to 1 210, and the number of full-time posts fell from 909 to 902. A total of 63 trainees were employed (previous year 94).

The Austrian Sales Organization and especially its central departments in Graz played a major role in the initial opening up of the three new markets of Hungary, the Czech Republic and Poland. The Sales Organization also helped to build up the market in Slovenia. Graz looks after logistics and administration for the Slovenian and Hungarian markets, while also playing a coaching role for the Czech Republic in the areas of marketing, goods management and warehousing.



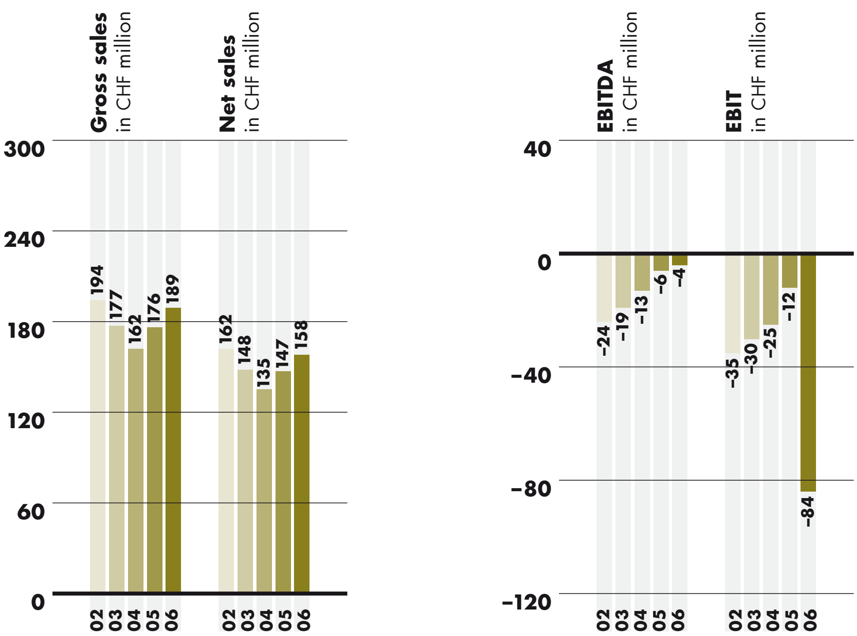


Sales Organizations
Belgium and the Netherlands

Progress thanks to expansion and operational development

Economic activity in Belgium improved slightly in 2006, creating a more positive business environment and a brighter mood among consumers. However, the price pressure seen during the previous year in the clothing sector persisted, so price increases failed to keep pace with the increase in unit sales. The Charles Vögele Group benefited once again from the continuing intense competitive environment and the market shakeout that began in 2005: In August the company acquired ten stores from local competitor Superconfex. In the Netherlands too the economic situation improved, which had a positive effect on consumer sentiment for the first time since 2001. The subsequent significant rise in private household spending had a particularly beneficial effect in the automotive sector, entertainment electronics and household equipment. Growth in the clothing market was relatively modest at almost 1%.

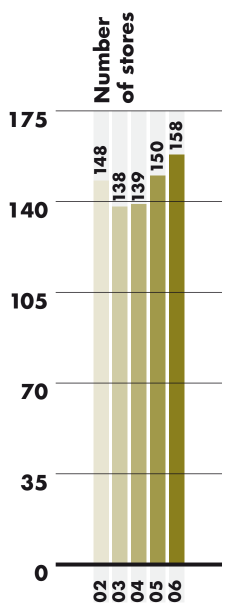
The Sales Organization Belgium and the Netherlands generated net sales of CHF 158 million, an increase of 7% on 2005's CHF 147 million. This rise is due mainly to the expansion in Belgium. However, in both countries like-for-like sales growth also contributed to this trend. Operating earnings (EBITDA) improved further to reach CHF –4 million (previous year CHF –6 million). Despite the improvement, the Sales Organization failed to reach the declared aim for end-2006 of breaking even at EBITDA level. For this reason, the goodwill of CHF 74 million in the Netherlands was fully impaired.

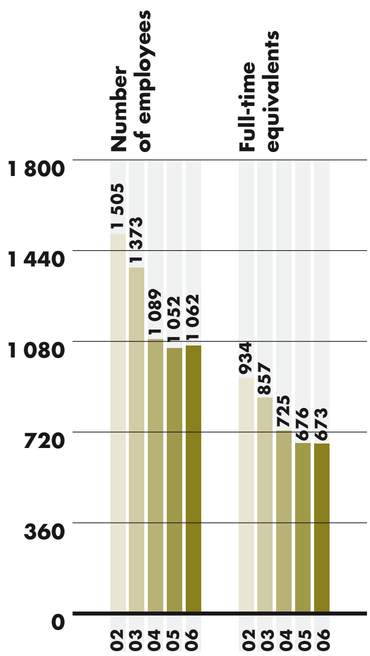


Of the ten stores acquired in Belgium from Superconfex, we relaunched one as a Vögele branch during the second half of 2006. The other nine will open for business after the required conversion work is complete at the beginning of the 2007 spring-summer season. Thanks to the continuing positive performance of the Dutch Sales Organization, the freeze on expansion in the Netherlands imposed in 2002 has been lifted, so organic growth will again be possible in this market. A first new branch was opened in Zeewolde in September 2006.

During the year under review, the sales floor space maintained by the two Sales Organizations increased from 104 689 m^2 to 110 361 m^2. Due to the new store openings, the total number of employees increased slightly, rising to 1 062 (previous year 1 052), while the number of full-time posts fell from 676 in the previous year to 673. A total of 57 trainees were employed by Charles Vögele (previous year 22).

In September in the Netherlands, various marketing campaigns were launched in the branches to mark the fifth anniversary of the opening of the former Kien store under the Vögele name. In Belgium, marketing activities were further extended and adjusted to meet Vögele's international standards.





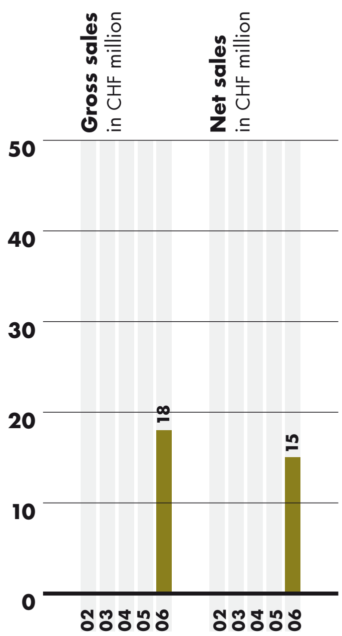
Sales Organizations
Eastern Europe

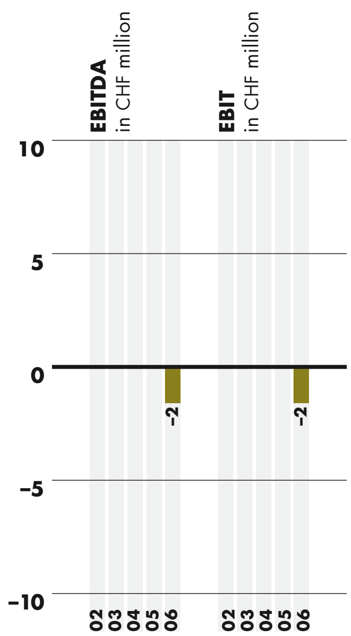
Expansion in Hungary ahead of schedule

With inflation running at about 6%, the economic growth of 4% in Hungary in 2006 was significantly higher than the Eurapean average, and prompted a continued positive mood among consumers. The brief outbreak of political unrest did not disturb the Hungarian people's propensity to shop. At the end of 2006 the Charles Vögele Group had 5 branches in Hungary. Thanks to the very good results consistently achieved throughout the year by the test stores, the Board of Directors and Group Management decided to approve Hungary as a new expansion market even before the end of the pilot phase. As a result, there are now plans to open 15 to 20 new stores in Hungary during 2007.

Slovenia – As in previous years, the Slovenian economy maintained a healthy upward trend during the year under review with growth of almost 5%. The country has the highest purchasing power of all the new EU member states. During 2006 Slovenia saw private consumption increase by 3.3%, and at the beginning of 2007 it introduced the euro as its national currency. Following the opening of a branch in Slovenska Bistrica in 2005, another Vögele store was opened during the year under review in Maribor. Another nine stores will be opened in 2007.

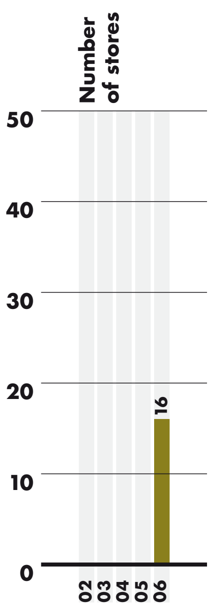
Poland – With growth of over 5%, but inflation of only 1%, Poland was also one of the fastest growing economies in Central and Eastern Europe. The country's high unemployment rate, relative to other Eastern European countries, fell again. Of the five pilot stores planned for Poland, four were opened during the year under review. The final branch will only be opened in April 2007 owing to delays in construction work being undertaken by the landlord.

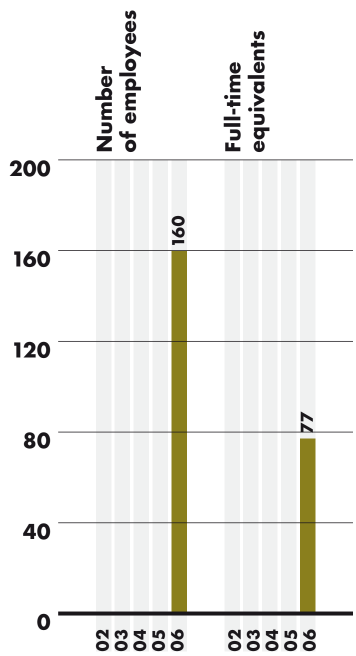


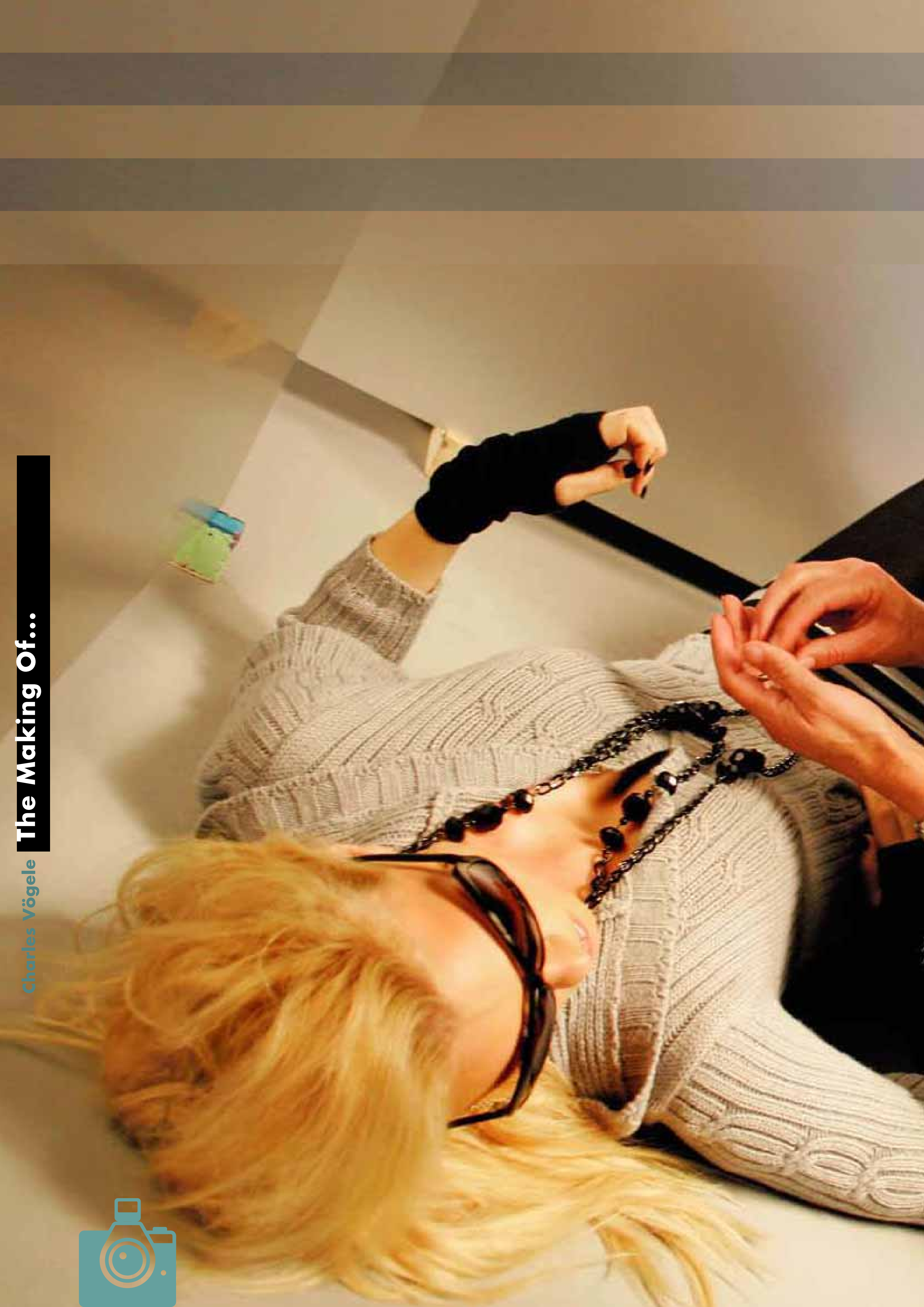


Czech Republic – Several years of unbroken good growth in the Czech Republic were continued in 2006 with further economic expansion of about 6%. Average incomes rose accordingly. Price increases for groceries and fuel pushed inflation up to 2.9%. All five of the stores that Charles Vögele has in the country opened for business as planned in the second half of 2006.

The 2006 Annual Report is the first to contain a dedicated section on the Eastern Europe Sales Organizations, which includes the Slovenian, Hungarian, Czech and Polish markets. In 2005 we allocated the only store open at that time in Slovenia to the Austrian Sales Organization. In 2006, its first year of business, the New Countries Sales Organization generated overall net sales of CHF 15 million, with sales in all four markets in line with or better than originally budgeted. Operating earnings (EBITDA) were also on target at CHF –2 million. This figure includes all the initial costs incurred before the stores were actually opened, i.e. expenditure on rents, conversion work, employees and goods management. The Charles Vögele Group employs a total of 160 employees in the new markets and features a sales area of 13 342 m².






Charles Vögele
The Making Of...

The Company and its Orientation

Positioning

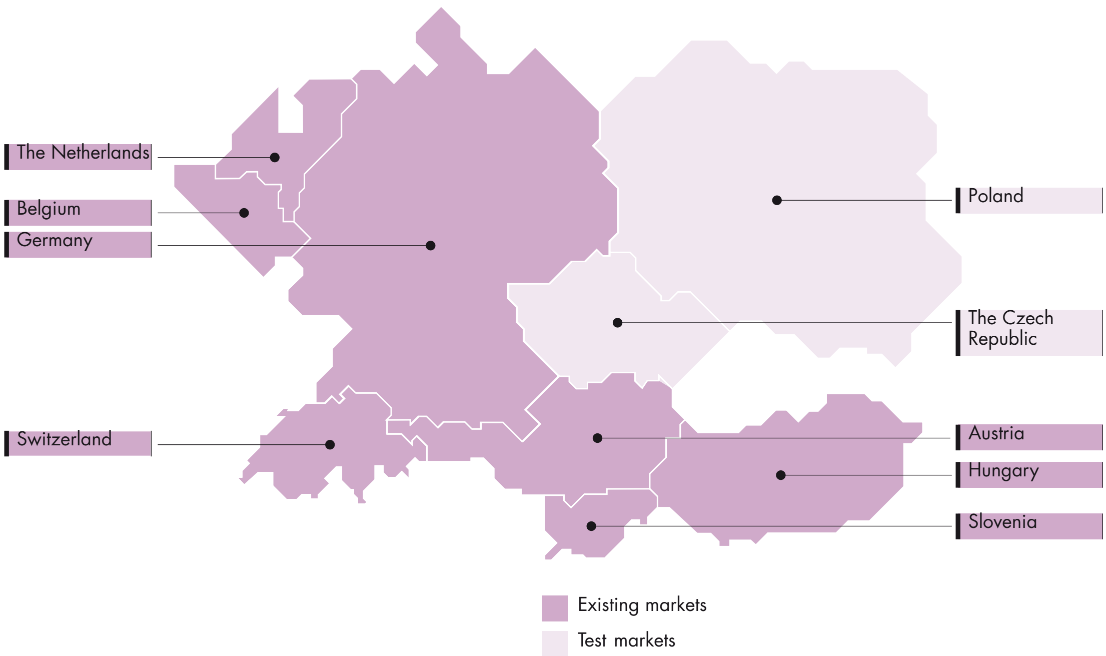
The Charles Vögele Group, founded on 5 March 1955, is the largest retailing company for fashion garments in its established segment in Switzerland and also occupies an important position in Central Europe. It appeals to customers who take their line from established fashion trends and look for good quality, value-for-money garments. The Group is thus positioned in the value-for-money segment, a segment it is convinced will continue to grow as a result of the continuing polarization of demand toward the high- and low-price segments.

The company's strategies are primarily based on:

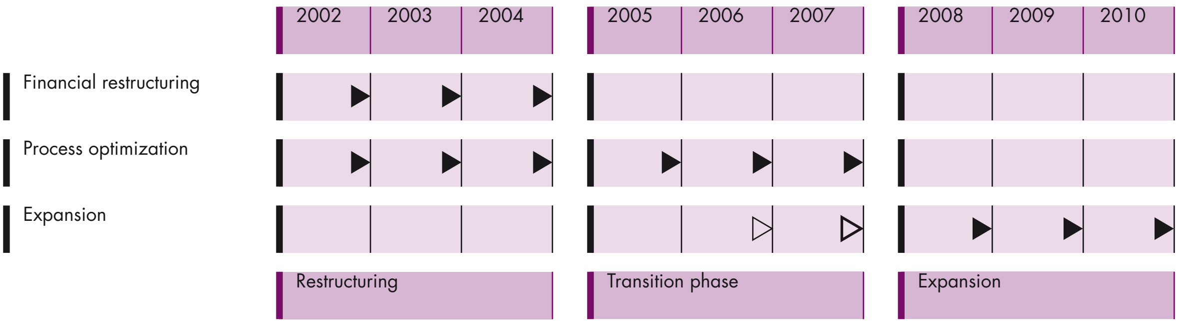
- a clear focus on the value-for-money customer segment
- a standardized basic product range with refinements for each country
- uniform, centralized purchasing
- standardized shopfitting and merchandising
- a centralized and lean management structure

The Charles Vögele Group operates a total of 809 branches in Switzerland, Germany, Austria, Belgium, the Netherlands, Slovenia and Hungary as well as in the test markets. In view of the strengthening of the company's market position, expansion activities are being pursued in new markets as well as existing ones. In the year under review, five stores each were opened in the test markets of the Czech Republic and Poland. The shops are situated in different types of locations to test reponses to Vögele collections. The decision on future activities in these markets will be taken after the two-year test period which ends at the end of 2007.

Markets of the Charles Vögele Group



Phases of development 2002–2010



Between 2002 and 2004, the focus was on financial restructuring and consolidating the organizational structure. The main objectives were to revise the company's strategy and in so doing to define the Group's future orientation. Further key challenges were to restructure the supply chain and reduce inventories. This phase was successfully completed by the end of 2004.

As 2005 began, operational processes – especially the modular concept – and improving the presentation of goods came back to the top of the agenda. The main features of this phase, which will continue until the end of 2007, are the revision of internal processes and the definition of basic processes for the future expansion phase. This three-year period may not seem particularly exciting from the outside, but internally the work being done is absolutely vital.

A new phase of strong but structured expansion will begin in 2008. This will follow on from the final decision, due at the end of 2007, on definitive entry into the pilot markets launched in 2006. At the same time, three new pilot markets will be defined and then tested for two years. The expansion will thus become a rolling process that will allow the company to move into new markets every two years. It currently seems likely that the next pilot markets will also be in Eastern Europe.

Condensed

Financial Key Figures

Group Income Statement

CHF 1000	2005	2006
Net sales	1 347 597	1 323 647
Gross profit from fashion retail	822 228	818 420
In % of net sales	61.0%	61.8%
EBITDA[1]	165 181	143 058
In % of net sales	12.3%	10.8%
Impairment of goodwill	–	74 400
EBIT[2]	108 652	11 683
In % of net sales	8.1%	0.9%
Earnings before taxes	98 533	543
In % of net sales	7.3%	0%
Net profit	70 069	(19 680)
In % of net sales	5.2%	(1.5%)
Basic earnings per share in CHF	8.25	(2.32)
Diluted earnings per share in CHF	8.12	(2.32)

[1] Operating earnings before depreciation
[2] Operating earnings

Group Balance Sheet

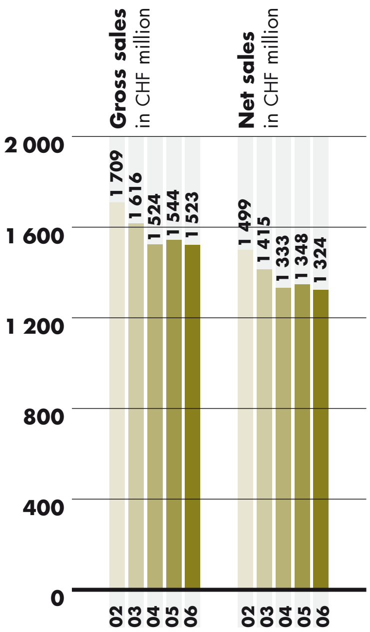
CHF 1000	31.12.2005	31.12.2006
Assets		
Total current assets	343 883	366 718
Total long-term assets	568 475	518 042
Total assets	**912 358**	**884 760**
Liabilities and shareholders' equity		
Total current liabilities	141 724	145 965
Total long-term liabilities	241 448	250 130
Total shareholders' equity	529 186	488 665
Total liabilities and shareholders' equity	**912 358**	**884760**

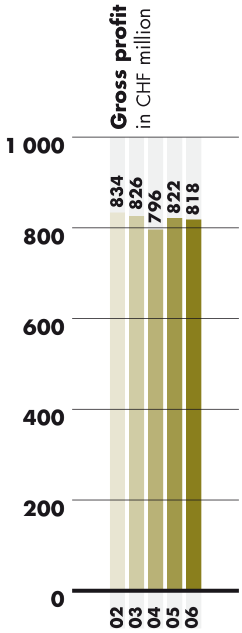
Group Cash Flow Statement

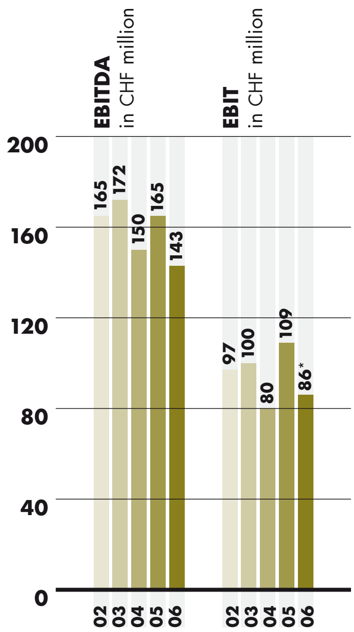
CHF 1000	2005	2006
Cash flow from operating activities	142 973	73 496
Net cash provided/(used) by investing activities	(41 854)	(72 305)
Net cash provided/(used) by financing activities	(87 140)	(15 871)
Net increase/(decrease) in cash and cash equivalents	13 979	(14 680)
Net cash and cash equivalents at the beginning of the period	**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	**59 678**	**41 013**

Statement of Changes in Group Equity

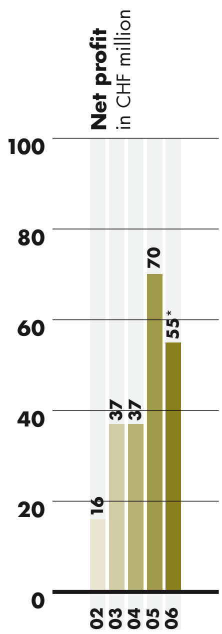
CHF 1000	Share capital	Treasury shares	Premium reserve	Retained earnings inclu-ding currency translation differences	Valuation financial instruments	Valuation management share option plan	Total
Balance 1.1.2005	**88 000**	**(13 756)**	**173 789**	**220 348**	**(3 647)**	**1 194**	**465 928**
Change	0	(6 276)	0	61 620	7 316	598	63 258
Balance 31.12.2005	**88 000**	**(20 032)**	**173 789**	**281 968**	**3 669**	**1 792**	**529 186**
Balance 1.1.2006	**88 000**	**(20 032)**	**173 789**	**281 968**	**3 669**	**1 792**	**529 186**
Change	(17 600)	(4 362)	0	(15 129)	(3 782)	352	(40 521)
Balance 31.12.2006	**70 400**	**(24 394)**	**173 789**	**266 839**	**(113)**	**2 144**	**488 665**

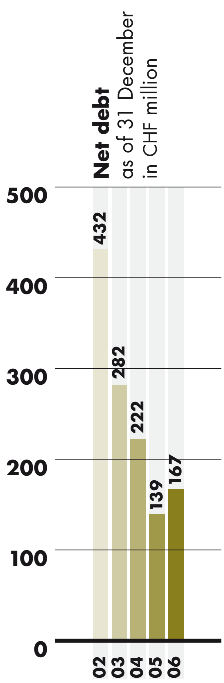


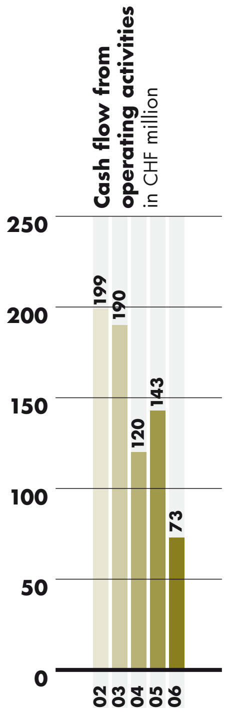


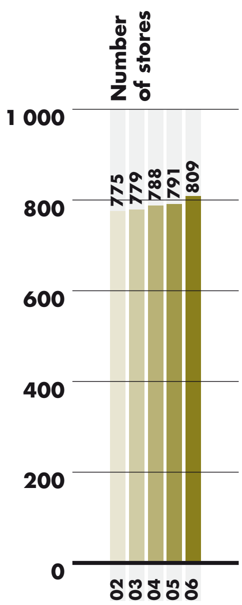


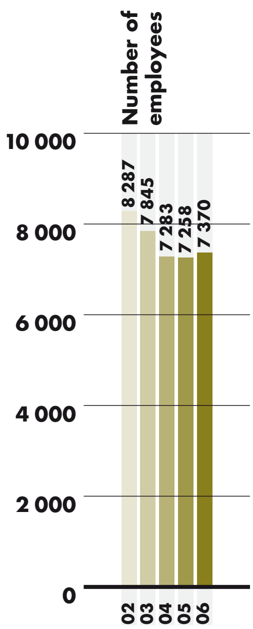
*Before impairment of goodwill of CHF 74 million











*Before impairment of goodwill of CHF 74 million

Dividend policy and appropriation of profits

Charles Vögele Holding AG pursues a dividend policy under which 25% to 30% of net income is to be distributed. This ensures that profits are primarily used to finance the company's long-term growth. The motion the Board of Directors puts to the Annual Shareholders' Meeting, however, always takes due account of the company's current financial position.

Owing to the company's stable earning power and the healthy financial situation, the Board of Directors is proposing 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 – from CHF 8.00 to CHF 6.00 per share.

Investor Relations

Charles Vögele Holding AG maintains direct relations and a frank, open dialogue with investors, analysts and the financial media. Its management regards contact with all interested parties as an investment in the future. Each discussion serves not only to provide information about the company but also as an opportunity to make use of direct feedback from the market and to strengthen the financial community's confidence in the company.

In addition to the analysts meetings held on publication of the annual and interim results, personal discussions with investors are always possible under the «Charles Vögele Group guidelines on the problem of insider trading» (please refer to «Insider trading regulations» on page 66 of this Activity Report).

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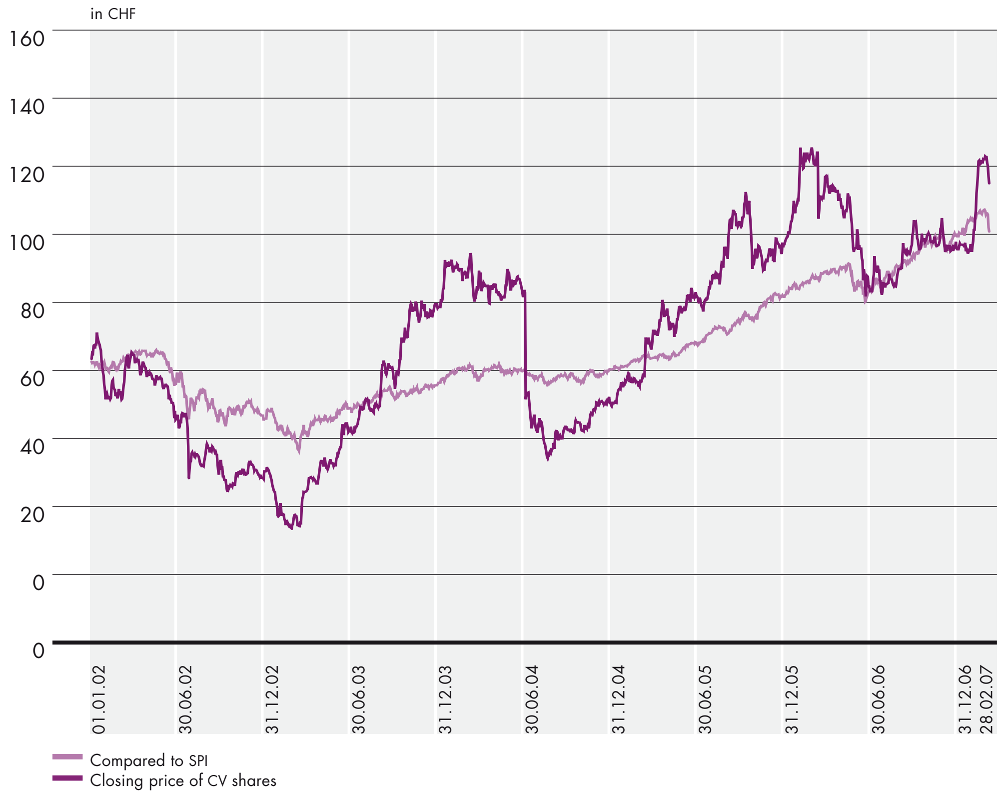


Sustainability, Employees and Social Responsibility

Respect for the environment

The Charles Vögele Group's 809 stores mainly sell the company's own collections, which are produced by external suppliers under contract. Manufacturing takes place in various countries. In 2006 around 55% of items originated from Southeast Asia and 45% from Europe. These percentages will be changing slightly in the wake of our revised strategy and new collection design, with fewer lines being produced in Southeast Asia and more in Eastern European and Mediterranean countries. In 2004 the number of suppliers had already been reduced to fewer than 400 following a thorough evaluation.

Transportation and sales

Finished items of clothing are nearly always taken from the production locations to Europe by sea, which is the most environmentally friendly form of long-distance transportation. External logistics partners ship the containers from various ports in Southeast Asia directly to the Charles Vögele Group's central distribution hub in Lehrte, Germany. In Lehrte the goods are cleared for customs for all EU countries and Switzerland before distribution to the Sales Organizations in each country. From there the goods are dispatched to individual stores by road or rail.

The Charles Vögele Group's efforts to protect the environment concentrate mainly on the way it operates and maintains its stores, especially with regard to energy consumption. For example, we always use the latest and most energy-efficient in-store lighting systems. In Switzerland and Germany energy consumption in individual stores is subject to strict internal benchmarking to ensure that hidden or excessively high sources of energy consumption can be identified and dealt with as quickly as possible. Over the next few years this system will gradually be introduced in our other ales Organizations.

Because the great majority of stores are housed in rented premises, the company has little opportunity to influence environmental aspects when these buildings are being constructed.

Material flows

The Charles Vögele Group uses its finely knit distribution network not only to get the clothes into its branches and to distribute consumables and marketing material, but also to set up intelligent material flows that help the company recycle waste. Internal transportation materials and interim packaging, such as cardboard boxes and plastic crates, are made in such a way that they can be reused as many times as possible within the system. On their return journeys, trucks that would otherwise be empty take plastic covers and other disposable packaging materials back to the Sales Organizations' central warehouses where they are prepared for appropriate disposal.

Taking care of the environment

All suppliers that produce clothing for the Charles Vögele Group have to follow strict, clearly defined guidelines with regard to manufacturing methods, materials and compliance with local environmental protection rules. These guidelines, based on the new version of Germany's consumer protection legislation of 23 December 1997, form an integral part of the suppliers' handbook and are binding on all supplier organizations. Charles Vögele regularly carries out spot tests and has them analyzed by external, independent laboratories to ensure that all regulations are adhered to and that all products are safe for customers.

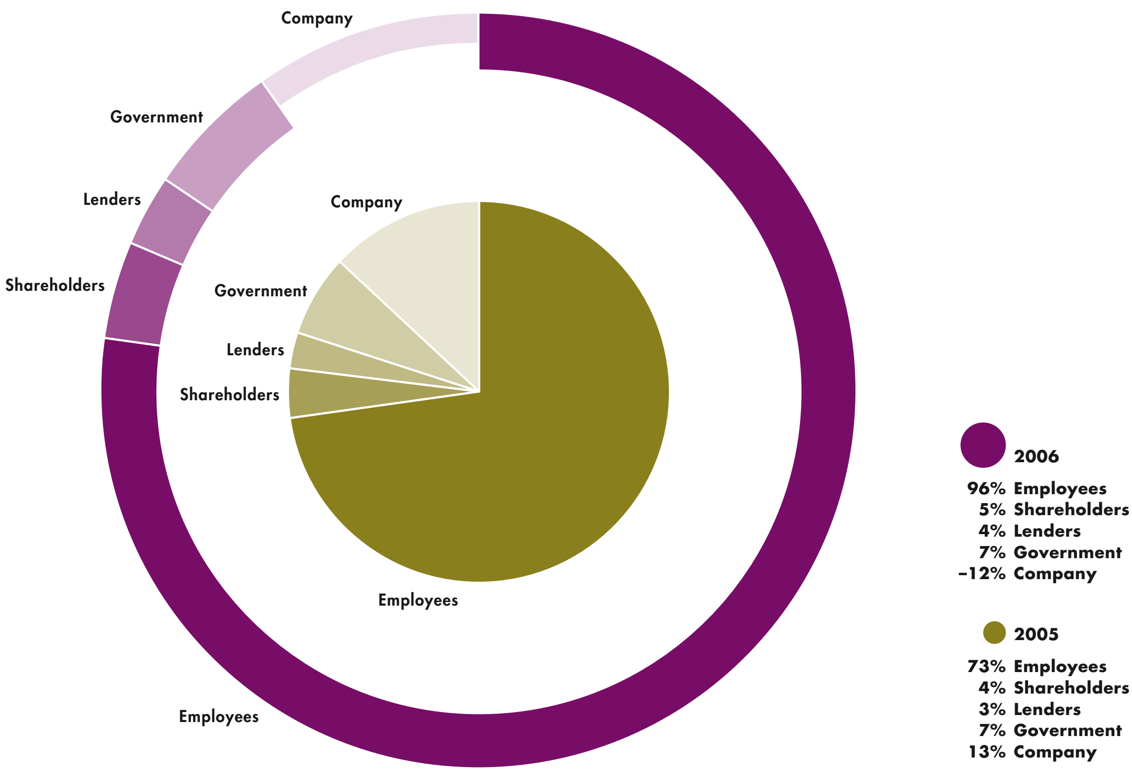
Social responsibility

Employees

The Charles Vögele Group employed 7 370 people during the year under review, which represents an increase of 1.5% on the previous year's 7 258. The number of full-time equivalent posts went up slightly from 4 821 in the previous year to 4 863. This change is mostly due to the expansion realized during the year under review.

Value-Added Statement

CHF 1000	2005	2006
Net sales	1 347 597	1 323 647
Other operating income	41 619	34 061
Financial income	862	890
Group services	**1 390 078**	**1 358 598**
Purchased materials and services	**(925 002)**	**(915 098)**
Gross value added	**465 076**	**443 500**
Depreciation and amortization	(56 529)	(131 374)
Net value added	**408 547**	**312 126**
Distribution of net value added		
Employees	299 033	299 553
Government	28 464	20 223
Lenders	10 981	12 030
Shareholders (based on proposed appropriation of earnings by the Board of Directors)	16 971	16 950
Company	53 098	(36 630)
Total	**408 547**	**312 126**



Employee development

The vast majority of the Charles Vögele Group's employees are in direct daily contact with clients. Our people on the sales floor act as the company's calling cards. Their friendliness when serving customers and their accommodating and competent approach to client care turn a visit to a Vögele store into a special shopping experience. This is why the company puts such an emphasis on continuous training and development for its employees, viewing this as a core investment in the Group's future. Training and development help employees reach their personal objectives and ensure that there is well-qualified young management talent available throughout all areas of the company. In addition to external training courses in various skills and specializations, much attention is also paid to internal training within the stores. Consequently, when new stores are opened, existing talented employees can be offered attractive careers, and the company can be confident that its corporate culture is being extended to the new locations.

Training days and participants

	2003	2004	2005	2006
Number of participants	993	492	2 600	1 713
Number of training days	145	2 138	4 233	2 835

Career prospects for trainees

The Charles Vögele Group feels that it is important to help young people embark upon a career in the clothing industry and to encourage talent in a targeted manner. During the year under review, 534 young people completed a training programme (previous year: 519). The large number who successfully passed their final exams pays testament to the impressive achievements of these young employees, especially since they managed to gain these excellent results in such an intense working environment. The following achievements deserve special mention:

- Switzerland: 34 trainees (27% of graduates) scored higher than a 5 (out of a possible 6).
- Austria: 4 trainees (13% of graduates) achieving a «distinction» pass.
- Germany: 10 trainees (24% of graduates) scored 2 or better (highest score possible: 1).

Social Compliance

The Charles Vögele Group is committed to socially fair production methods all over the world. In 1996 the company was already issuing binding guidelines on social matters and working conditions (Vögele Code of Vendor Conduct), which had to be obeyed by all suppliers. During the second half of 2004, the Vögele Code of Conduct was replaced by the new BSCI Code of Conduct (visit www.charles-voegele.com or www.bsci-eu.org for more details).

Business Social Compliance Initiative (BSCI)

The Business Social Compliance Initiative (BSCI) was founded in Brussels on 26 March 2004. Under the overall umbrella of the Foreign Trade Association (FTA) it is supported by European companies from various industries (food, non-food, etc.). The initiative has been recognized by the relevant EU commission since the early phases of its development and since 2005 has also received active support in the form of EU development funding. The Charles Vögele Group has been an official member of the FTA since 1 January 2004, but was already working with the Association on developing the Business Social Compliance Initiative in 2003. As a founding member, the Charles Vögele Group thus played a significant role in putting the BSCI into practice.

The BSCI Code of Conduct is based on the principle that companies producing goods for Charles Vögele must follow all the laws and regulations that apply in their home country. There are also detailed contractual stipulations covering the environment, discrimination, forced labour, child labour, working hours, wages, working conditions, employee accommodation and freedom of assembly. These comply with the International Labour Organization's Conventions (ILO), the United Nations' Universal Declaration of Human Rights, the UN Convention on Children's Rights and the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). The new rules, which continue to form a fixed part of Charles Vögele's supplier contracts, demand compliance with minimum social standards as laid out in the social standard SA8000.

Furthermore, the Charles Vögele Group has been an official member of the New York-based human rights organization Social Accountability International (SAI) since 2001. This organization publishes and administrates the internationally recognized Social Accountability 8000 social standard. SA8000 aims to improve working conditions right along the production chain and is based on the Conventions of the International Labour Organization and the UN's Universal Declaration of Human Rights (see www.sa-intl.org for more details).

Advantages of the Business Social Compliance Initiative (BSCI)

Many of the BSCI's 62 member companies have signed up to this initiative even though they had previously worked with their own codes of conduct, each of which differed slightly from the others. The aim of the initiative is to avoid duplication in the auditing of suppliers that work for several producers. BSCI members have agreed on the joint BSCI Code of Conduct, which is also based on the Conventions of the International Labour Organization and which forms the basis for auditing. Audits are carried out using a uniform questionnaire formulated to reflect SA8000 guidelines. The data thus acquired is recorded centrally in the BSCI database and then made available to all members. This procedure creates a rational, uniform platform for auditing and helps manufacturers and their clients save valuable resources. The BSCI has also created a two-stage accreditation process based on SA8000. In the first stage, compliance with an extensive range of minimum social standards is checked. This forms the basis for the second stage: certification under SA8000, though this certification is not itself part of the BSCI.

This step-by-step approach responds to the fact that in practice many smaller and medium-sized manufacturers have previously been put off trying to achieve SA8000 certification because it is so difficult to do so all at once. The BSCI will give small and medium-sized businesses a chance to undergo audits of compliance with minimum social standards. BSCI audits are conducted by independent third-party firms with SAI accreditation.

BSCI workshops and audits in 2006

In December 2004 the Charles Vögele Group sent the new BSCI Code of Conduct to all its suppliers in place of the Vögele Code of Conduct that had applied previously. Suppliers had to confirm receipt of the new code. The BSCI Code of Conduct has thus superseded the old Vögele Code of Conduct as part of the standard supply contract. Later on in December 2004 Charles Vögele then sent all suppliers the BSCI Self-Assessment Form, which contains key information about the supplier and serves as the basis for audits.

The BSCI head office in Brussels regularly offers introductory workshops for suppliers in various countries and cities: In the year under review, the following workshops were held:

- Nanjing (China), 5/6 April
- Ho Chi Ming City (Vietnam), 10 April

The Charles Vögele Group has invited suppliers only to Nanjing, since at the given moment the company was not sourcing in Vietnam.

In parallel with these workshops, the Charles Vögele Group is auditing its own A and B suppliers. These audits were performed with the SAI-certified specialist firms (CSCC, California Safety Compliance Corporation; Intertek Deutschland GmbH). Charles Vögele helps suppliers implement the BSCI Code of Conduct by paying costs incurred for the initial audit and, if necessary, for the reaudit performed after the implementation of corrective action plan (CAP). Any training required to implement measures at production sites is paid for by the suppliers themselves.

Audits and Reaudits

	2005	2006
Audits and Reaudits	26	40

Earlier certification under SA8000

Thanks to its membership of the SAI, the Charles Vögele Group had already awarded SA8000 certification to an initial six direct suppliers in India, the pilot country for the scheme, in 2002 and 2003. In 2004, certification was extended to another three suppliers, meaning that all of the Charles Vögele Group's active suppliers in India at that time complied with the provisions of SA8000. The certifications were carried out by qualified third-party audit firms. The Charles Vögele Group will ensure that any new Indian suppliers are also audited in accordance with the BSCI Code of Conduct and encouraged to achieve SA8000 certificate.

Social projects in 2006

In addition to its SA8000 and BSCI commitments, the Charles Vögele Group also supports social development projects in producer countries. It pays particular attention to the sustainability of these activities: the company mainly supports projects that have self-supporting structures after the start-up phase and that can survive on their own in the longer run. One approach is to give direct backing to a selected project that has been defined by a supplier or its employees; another is to support regional communities located close to several manufacturers. Projects are selected in close collaboration with local NGOs and workers' representatives. Areas such as health promotion, professional training, kindergartens and schools for young people are a particular priority.

Back in 2005, the Charles Vögele Group decided to support community-based projects in Bangladesh that directly benefit the local population and in particular local textile workers. Since 2005, the company is helping to fund the following projects run by the Swiss development organization Swisscontact in Bangladesh:

Health service in Kamrangir Char, Dhaka

This health project aims to improve access to vital basic medical services in the slums of Dhaka. During the year under review, 13 959 patients were treated. A total of 14 878 people have made use of the facilities so far.

Home for textile workers in the slums of Dhaka

This project provides affordable, secure accommodation to women, and was accomplished at the end of 2006.

Occupational training in the slums of Dhaka

This project, based in a training centre with shop, gives slum dwellers a basic training in practical skills. Already 300 people have been trained and now work in the project's own workshop, have found a job elsewhere or have set up on their own.

Creating traineeships and jobs in Dhaka (since 2006)

The aim of this project is to give disadvantaged and disabled people (mainly women with small children) access to jobs in the textile industry. After they have completed a four- to eight-week course in crochet work, embroidery and knitting, the training centre employs these people on good conditions. They also benefit from childcare, schooling for primary-age children and health care services. The programme also covers literacy courses and advanced training.

Support following the tsunami

As a special commitment in the wake of the tsunami disaster, the Charles Vögele Group has supported the «Training for Young People» aid project in Sri Lanka in collaboration with the Swiss development agency Swisscontact. Between June 2005 and July 2006, 27 short courses in craftsmanship were delivered to a total of 539 participants. At the end of the six-month training period, all participants earned a government-backed professional certificate that makes it much easier for them to find work and thus improve their prospects for the future. The success of the training model prompted the Sri Lankan government to adopt the concept for their state-sponsored training programme.

Donations in 2006

For years now the Charles Vögele Group has supported charitable projects not only in the countries in which its clothes are made, but also in the markets where they are sold. Donations focus mainly on institutions that help families and children. The company's strategy of long-term collaboration allows its partner organizations to develop sustainable programmes. People in need thus get a chance to keep on improving their situation over the longer term. Annual donations depend on corporate profits and are distributed evenly in all markets where Vögele does business. Partners currently receiving support are as follows:

Switzerland	Kovive – vacations for children in need
Germany	Westfälisches Kinderdorf – children's village in the German state of Westphalia
	Albert-Schweitzer-Kinderdorf Hessen e.V. – children's village in the German state of Hessen
Austria	CliniClowns – raising the spirits of children in hospital
	Red Nose Clown Doctors – raising the spirits of retired persons in hospital
Netherlands	Hoefijzer – horseriding for the disabled
Belgium	Médecins sans frontières – aid programme for the homeless
International	Stiftung Kinderspital Kantha Bopha – children's hospital of Dr. med. Beat Richner

Charles Vögele **The Making Of…**


F

Corporate Governance

1 Group Structure and Shareholders

1.1 Group structure

Charles Vögele Holding AG
Pfäffikon (Canton Schwyz)
Share capital CHF 70 400 000

Charles Vögele Mode AG Pfäffikon (Canton Schwyz) Share capital CHF 20 000 000	Charles Vögele (Netherlands) B.V. Utrecht, NL Partnership capital € 1 000 100	Charles Vögele Trading AG Pfäffikon (Canton Schwyz) Share capital CHF 10 000 000
Charles Vögele Deutschland GmbH Sigmaringen, D Partnership capital € 15 340 000	Charles Vögele (Belgium) B.V.B.A. Turnhout, B Partnership capital € 644 523	Charles Vögele Import GmbH Lehrte, D Partnership capital € 25 000
Charles Vögele (Austria) AG Kalsdorf, A Share capital € 1 453 457	Charles Vögele trgovina s tekstilom d.o.o. Lubljana, SI Partnership capital SIT 160 000 000	Prodress AG Pfäffikon (Canton Schwyz) Share capital CHF 100 000
Charles Voegele Polska Sp. z o.o. Warszawa, PL Partnership capital PLN 4 000 000	Charles Voegele Ceská s.r.o. Praha, CZ Partnership capital CZK 30 000 000	Cosmos Mode AG Pfäffikon (Canton Schwyz) Share capital CHF 100 000
	Charles Vögele Hungária Kereskedelmi Kft. Budapest, HU Partnership capital HUF 240 000 000	Charles Vögele Fashion (HK) Ltd. Hongkong, HK Share capital HKD 100 000

Holding company
Sales organizations
Service organizations

As of 31 December 2006

Information on listing and stock market capitalization as of 31 December, 2006, can be found on page 6 of the Activity Report along with other key figures relating to the company's shares.

Charles Vögele Holding AG is the holding company for all of the Group's companies. Charles Vögele Trading AG is responsible for all group-wide services such as purchasing, IT, communications, treasury, accounts, financial control, and risk management. Charles Vögele Import GmbH, Lehrte, is responsible for operational functions (storage logistics and quality control) at the distribution centre in Lehrte (D). Prodress AG is an advertising agency that works exclusively for the Charles Vögele Group. Cosmos Mode AG is responsible for the administration of licences. Charles Vögele Fashion (HK) Ltd. is the sourcing office of the Charles Vögele Group in China and provides business relations to suppliers in this important sourcing market. Segment information is on page 18 section 2 of the Financial Report, and the overview of all consolidated companies is on page 41 section 35 of the Financial Report.

1.2 Significant shareholders

According to the information supplied to the company under statutory stock exchange regulations, as of 28 March 2002, the Classic Global Equity Fund (Braun, von Wyss & Müller AG's asset management arm) held 6.2% of the company's capital. As stated in its annual report, the Classic Global Equity Fund held 9.3% of the company's capital as of 31 December 2006. As per 15 July 2006, Bestinver Gestion S.G.I.I.C., S.A. Madrid held a participation of 5.0% in the company's capital. On 10 October 2006, UBS Fund Management (Switzerland) Ltd. reduced its participation of formerly 5.1% of the company's share capital to 4.9%, and increased it again to 5.1% as of 1 February 2007.

1.3 Cross-shareholdings

There are no cross-shareholdings with other companies.

2 Capital Structure

2.1 Share capital

As of 31 December 2006, the share capital of Charles Vögele Holding AG amounted to CHF 70 400 000 and was made up of 8 800 000 fully paid-up bearer shares (securities number: 693 777/ISIN code: CH000 693 777) with a par value of CHF 8 each. The Board of Directors will propose 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 from CHF 8.00 to CHF 6.00 per share – providing that the proposal will be accepted.

As of 31 December 2006, the Charles Vögele Group held 325 200 of its own shares (as of 31 December 2005: 314 592 shares), which are earmarked for the obligations of the existing employee option plan. Detailed information on purchases and sales of shares and on the relevant opening and closing totals can be found on page 49 section 8 of the Financial Report.

2.2 Authorized and conditional capital

Charles Vögele Holding AG's articles of association include a provision authorizing the Board of Directors to increase the company's equity capital by a maximum of CHF 2.1 million, excluding shareholders' subscription rights, through the issue of 264 000 shares with a par value of CHF 8 each. This authorization lasts for an indefinite period of time. These shares are to be used exclusively for share option programmes (please also refer to section 5.6 Options on page 66).

2.3 Changes in capital

A condensed overview of changes to the company's capital during the financial years 2004–2006 can be found on page 37 of this Activity Report.

2.4 Shares and participation certificates

As of 31 December 2006, Charles Vögele Holding AG's share capital consisted of 8 800 000 fully paid-up bearer shares (securities number: 693 777/ISIN code: CH000 693 777) with a par value of CHF 8 each. The Board of Directors will propose 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 from CHF 8.00 to CHF 6.00 per share. This share capital is fully paid up. There are no restrictions on the transfer of shares. As stipulated in Art. 659a of the Swiss Code of Obligations, every share entitles the holder to dividends and to vote at the Annual Shareholders' Meeting. There are no participation certificates.

2.5 Bonus participation certificates

There are no bonus participation certificates.

2.6 Restrictions on transferability and nominee registrations

There are no restrictions on transferability or nominee registrations.

2.7 Convertible bonds and options

There are no convertible bonds. The only options are those associated with the employee option programme, which is described in section 5.6 Options on page 66.

3 Board of Directors

3.1 Members of the Board of Directors

Bernd H. J. Bothe

1944, Chairman, German citizen
Term of office 2005–2008, first elected in 2002;
Graduate in business administration. Managing Partner of Droege & Comp. GmbH. Until the end of March 2002, Chairman and Chief Executive Officer Metro Cash & Carry GmbH.

Alfred M. Niederer

1941, Vice-Chairman, Swiss citizen
Term of office 2004–2007, first elected in 1999;
Masters graduate in engineering from the Swiss Federal Institute of Technology in Zurich. Owner of Compatex Holding AG and board member of several listed companies. From 1986 to 1992 he was CEO and Chairman of Bally International AG and from 1992 to 1995 Vice-Chairman Bata International AG and Chairman of Bata European Group.

Dr. Felix R. Ehrat

1957, Swiss citizen
Term of office 2006–2009, first elected in 1997;
Doctorate in law from the University of Zurich, attorney, LL.M. University of the Pacific, McGeorge School of Law. Senior Partner of Bär & Karrer law firm.

Professor Dr. Peter Littmann

1947, German citizen
Term of office 2006–2007, first elected in 2006;
Peter Littmann is the Managing Partner of Brandinsider Strategic Brand Consulting GmbH in Hamburg, and since 1993 has been Honorary Professor in the Marketing Faculty of the University of Witten/Herdecke (Germany). He is also a Member of the Board of Directors of Nijenrode University, the Netherlands and a Member of the Harvard University Art Museum's Visiting Committee, Cambridge, USA. From 1993 to 1997 he was Chairman of the Managing Board of Hugo Boss AG; prior to this he worked from 1982 to 1993 for the international textiles company Vorwerk & Co, latterly as President and CEO. Member of the Board of Directors of Bata Shoe Corporation from 1996 to 2005.

Daniel J. Sauter

1957, Swiss citizen
Term of office 2006–2009, first elected in 2002;
Financial specialist. From 1976 to 1983, various functions in a number of banks including Bank Leu AG; from 1983 to 1998 Senior Partner and CFO of Glencore International AG; from 1994 to 2001, CEO and Managing Director of the publicly quoted firm Xstrata AG.

Carlo Vögele

1957, Swiss citizen
Term of office 2005–2008, first elected in 1998;
Management training at the University of California, San Diego; businessman. Carlo Vögele was full-time Chairman of the Board of Directors from January 1999 to October 2001. From 1993 onwards he was a member of the Board of Directors of the former Group holding company. Until the end of 1997 he held a number of executive management positions within the company.

During the year under review none of the members of the Board of Directors worked in any executive functions within the Group. Unless otherwise stated, the non-executive members of the Board of Directors have no other significant links with the Group. With regard to the other business relationships and interests that link members of the Board of Directors to the company, please refer to section 5.7 «Additional fees and remuneration» on page 66.

Dr. Felix R. Ehrat
Carlo Vögele
Professor Dr. Peter Littmann
Bernd H. J. Bothe
Daniel J. Sauter
Alfred M. Niederer

Seedamm-Center Store, Pfäffikon SZ,
Tuesday, 12 December 2006, 12.15 p.m.

Changes to the Board of Directors 2006

Professor Dr. Peter Littmann was elected as new member of the Board of Directors at the Shareholders' Meeting of 5 April 2006.

3.2 Other activities and interests

Under the Corporate Governance Directive, the other activities and interests of the members of the Board of Directors only have to be listed if they are significant or substantial. The company believes that the activities of the present members of the Board of Directors are basically only significant if they relate to their work on management or supervisory bodies of listed Swiss or foreign companies, or unlisted and important Swiss or foreign companies in the garment trading business or other industries. The members of the Board of Directors are not involved in any other substantial activities or interests.

Bernd H. J. Bothe

Member of the Supervisory Boards of Gardena AG and of Spar Österreichische Warenhandels-AG; member of the Supervisory Board of Lekkerland AG & Co. KG; member of the Advisory Borad of H&E Reinert Group of Companies; and member of the Industrial Advisory Board Industri Kapital AB, Stockholm.

Alfred M. Niederer

Chairman of the Board of Directors of ALU Menziken Holding AG; Vice-Chairman of the Board of Directors of Von Roll Holding AG, of Calida Holding AG and of DESCO von Schulthess Holding AG as well as member of the Board of Directors of Micronas Semiconductor Holding AG.

Dr. Felix R. Ehrat

Chairman of the Board of Directors of Banca del Gottardo; member of the Board of austriamicrosystems AG.

Professor Dr. Peter Littmann

Board of Directors of Ciba Spezialitätenchemie AG; Ruckstuhl AG; Inyx, Inc., New York, N.Y., USA.

Daniel J. Sauter

Chairman of the Board of Directors of Alpine Select AG; member of the Boards of Directors of Sulzer AG and Sika AG. Proposed for election to the Board of Directors of Bank Julius Bär & Co. AG at the Annual Shareholder's Meeting of 17 April 2007.

Carlo Vögele

No other Board positions in listed companies or garment trading companies.

In addition to these activities, some members of the Board of Directors are involved in activities outside their fields of responsibility in corporations, institutions, and private and public sector foundations, as well as long-term executive and advisory functions for major Swiss and foreign interest groups, official functions and political offices, none of which, however, are of major significance to Charles Vögele Holding AG.

3.3 Cross-involvement

There are no cross-involvements.

3.4 Elections and terms of office

The Board of Directors of Charles Vögele Holding AG consists of at least three and no more than nine members, who have to be shareholders in the company or represent a legal entity that holds shares. Its members are elected one by one by the Annual Shareholders' Meeting for a term of office not exceeding three years, a «year in office» being defined as the period between two Annual Shareholders' Meetings. According to this regulation, each member's first term of office is defined in such a way that the terms of office of all the members do not expire simultaneously at one Annual Shareholders' Meeting. Re-election is permitted. If a member departs before the end of his or her term of office, his or her successor takes over for the remainder of the departing member's term of office. The Board of Directors designates a chairman and a secretary, who needs not to be a shareholder or a member of the Board of Directors (details of initial appointment and term of office are included in section 3.1 Members of the Board of Directors on page 54).

3.5 Internal organizations

The Board of Directors passes resolutions on all matters affecting the company that the law, the articles of association or the Organizational Regulations do not place under the responsibility of another of the company's official bodies. In particular, the Board of Directors' responsibilities include the stipulation and review of the company's strategy, the appointment and dismissal of persons to whom the overall management of the company is entrusted (especially the CEO), the organizational structure, and the financial and accounting system. The Board of Directors is also responsible for supervising the people charged with management of the company to ensure that their actions comply with the law, the articles of association, the regulations and directives. The Board of Directors is responsible for producing the Annual Report, as well as for reporting to the Annual Shareholders' Meeting and implementing its resolutions. It is authorized to prepare and execute the resolutions and to delegate the supervision of business to the committees of the Board of Directors or to individual Board members. It can assign the management of the company's business in whole or in part to individual Board members or to other people.

According to the Organizational Regulations, the Board of Directors meets as often as business requires but always at least six times in each financial year. Seven meetings were held during the year under review. Meetings normally last one full day. The CEO and the CFO are in principle always present at the meetings; other members of company management, department heads and other employees or third parties are present as required.

Since 2004, the Board of Directors has had a permanent secretary whose responsibilities include minuting meetings of the Board of Directors and its committees. The secretary is not a member of the Board of Directors.

Chairman of the Board of Directors

The Chairman of the Board of Directors is always appointed by the Board at the end of the Annual Shareholders' Meeting for a one-year term of office. The Chairman ensures good cooperation between the Board of Directors, its committees and the CEO. Together with the CEO he or she monitors implementation of the Board of Directors' resolutions.

Board of Directors committees

The Board of Directors of Charles Vögele Holding AG generally takes all its decisions collectively. Specific tasks and projects are delegated to committees that deal with defined fields of activity and prepare recommendations, which are submitted to the full Board of Directors for decision. The committees are made up as follows:

– Audit Committee

Daniel J. Sauter (Chairman), Dr. Felix R. Ehrat, Alfred M. Niederer

The Audit Committee helps the Board of Directors to supervise the accounting and financial reporting systems, and to monitor compliance with the law by the company and by the Group companies that it directly or indirectly controls. It supervises internal control structures and external auditing procedures, and also monitors adherence to statutory rules and regulations by ordering regular reports from management. The Audit Committee also monitors the content and formal correctness of external communications on all financial matters. It normally meets three to four times a year for between half a day and a whole day. The CEO, the CFO and the Group auditors and other members of Group Management are invited as required.

The Audit Committee bases its activities on instructions issued by the full Board and on the company's risks portfolio, which was also revised during the year under review. Working on this basis, in 2006 the Audit Committee monitored the awarding of contracts in selected areas of the business, as well as the application and documentation of transfer pricing. It also evaluated the treatment of losses carried forward and restructured the capitalization of some subsidiary companies. The Audit Committee discussed changes in International Financial Reporting Standards (IFRS) and duly incorporated these into Group accounting practices.

In particular, the Audit Committee worked on the Internal Control System (ICS) and monitored its implementation. In addition, the ongoing value of goodwill is checked regularly. The option scheme proposed for 2006 was recommended to the Board of Directors for approval.

On the Audit Committee's request, the statutory auditors PricewaterhouseCoopers AG audited the IT systems updated in 2006, as well as the application of key controls for individual processes. Furthermore, they reviewed the recording cycles for real estate and treasury by examining both, the newly implemented real estate management software and the relevant treasury processes.

The Audit Committee monitors all services provided by the Group auditors, examines their fees and supervises all relationships with the external auditors and the company.

During the year under review, the group's «Internal Audit» unit revised and improved its detailed guidelines (working instructions and codes of conduct). These were subsequently submissed and approved by the Audit Committee. The guidelines also include a Code of Ethics based on international standards for internal auditing. The main focuses of audit work during the year under review were the regular comprehensive branch audits, as well as security controls in central departments, branches and warehouses throughout the Group. In addition, the Internal Audit unit helped the IT department with the introduction of a new cash desk system. In particular it supported the training of branch staff.

Furthermore, Internal Audit issued reports on the audit of quality control processes, on the audit of accounts payable (which focused mainly on suppliers' invoices) and on the audit of cross-border movement of goods within the company, along with appropriate recommendations. Following the new legal definition of requirements to be met by Internal Control Systems (ICS) at limited companies, the Internal Audit unit was asked to analyze them and to issue a report. The work applies to all Group companies. This analysis will be completed in the first half of 2007, after which the system will be introduced. In 2007 the Internal Audit unit produced an audit plan which was approved by the Audit Committee. During 2007, the Audit Committee held five half-day meetings in total.

- Nomination and Compensation Committee
  Alfred M. Niederer (Chairman), Carlo Vögele, Bernd H. J. Bothe
  The Compensation Committee, in collaboration with Group Management, evaluates any potential new members of the top level of management and submits relevant proposals to the Board of Directors. It also submits proposals to the Board of Directors on total remuneration for Group Management and the Board of Directors. The Board of Directors delegates the Compensation Committee to be Group Management's point of contact for all major human resources issues in the Charles Vögele Group. It meets two or three times a year for between a half and a full day. The CEO and the Head of Human Resources are asked to attend as required. In 2006 five half-day meetings were held.
- Strategy Committee
  Bernd H. J. Bothe (Chairman), Carlo Vögele, Alfred M. Niederer, Professor Dr. Peter Littmann
  The Strategy Committee periodically reviews Group strategy and the implementation by Group Management of the Board of Directors' strategic guidelines. Working in close collaboration with Group Management, it submits proposals to the Board of Directors on changes to Group strategy as well as on major new additional business activities for the Group and/or the relinquishment of existing activities. It meets two or three times a year for at least a half or a full day. The CEO is asked to attend as required. In 2006 three full-day meetings were held.

3.6 Division of responsibilities between the Board of Directors and Group Management

The division of responsibilities between the Board of Directors and Group Management is defined in the Organizational Regulations of Charles Vögele Holding AG. The Board of Directors entrusts the CEO – who is given authority to issue directives to the other members of Group Management – and Group Management with operational management of the company and transfers to it all management responsibilities and powers that are not expressly reserved for itself. Group Management has the authority to make decisions on the transactions assigned to it, although certain transactions require the consent of the Board of Directors. In particular, Group Management shall submit the budget to the Board of Directors for approval.

3.7 Information and control instruments for Group Management

Group Management submits a monthly report to the Board of Directors and informs it about the current course of business at each of its meetings. This report is based on the budget approved by the Board of Directors, which is compared every month against the latest business performance. Investments are approved en masse as part of the budget process, though single investments of more than CHF 1.5 million must be approved by the Board of Directors on an individual basis before definitive implementation. Any two members of the Board of Directors and the Group Management have collective signing powers.

Group Internal Audit reports to Group Management in organizational terms, but has a direct functional link to the Audit Committee. Internal Audit's tasks continue to include branch audits, control functions relating to stocktaking, and training for branch heads. In addition, it is also responsible for process controlling with regard to procurement, distribution logistics and purchasing. Concrete audit tasks are also resulting from the implementation of the ongoing Supply Chain Management Project, and these are being defined in detail.

4 Group Management

Group Management is responsible for the operational management of the Charles Vögele Group. During the year under review, Group Management consisted of the Chief Executive Officer (Daniel Reinhard), the Chief Financial Officer (Felix Thöni) and the Purchasing Manager (Serge Brugger). In his capacity as CEO, Daniel Reinhard heads Group Management with authority to issue directives, and also manages Sales at Group level and other departments. Felix Thöni additionally manages Human Resources at Group level, IT, as well as Supply Chain and Logistics.

4.1 Members of Group Management

Daniel Reinhard
1953, Chief Executive Officer (CEO) since 1 December 2001
Swiss citizen, graduate of the Business and Administration Academy; from 1998 to 2001, Chairman of the Management Board of Salamander AG, having been a member of that Board from 1994 to 1998. From 1991 to 1993, General Manager and from 1986 to 1991, CFO of Bally in Germany and Austria and of Grüterich GmbH.

Dr. Felix Thöni
1959, Chief Financial Officer (CFO) since 1 January 2003; Swiss citizen, doctorate in economics from the University of St Gallen; from 1992 to 2002, CFO of the Gavazzi Group. From 1988 to 1991 Area Controller of Schindler Management AG.

Serge Brugger
1952, Purchasing Manager since 11 November 2002; Swiss citizen, graduate in business economics. Member of the European Group Management of C&A from 1999 to 2002. From 1977 to 1999 he held several management positions within C&A Switzerland as well as at C&A Group Headquarters in Brussels.

Serge Brugger

Daniel Reinhard

Dr. Felix Thöni

Seedamm-Center Store, Pfäffikon SZ,
Tuesday, 12 December 2006, 12.45 p.m.

Changes in Group Management

During the year under review there were no changes within Group Management.

4.2 Other activities and interests

The members of Group Management do not conduct any major additional activities outside their areas of responsibility in corporations, institutions, or foundations organized under private or public law. Neither do they have any permanent executive or advisory functions in any major Swiss or foreign companies, interest groups, or political parties.

4.3 Management contracts

There are no management contracts in existence.

5 Compensation, Shareholdings and Loans

5.1 Remuneration and profit-sharing programmes: content and procedures

The Board of Directors' Compensation Committee is responsible for formulating the compensation and profit-sharing programmes. The committee recommends the levels at which compensation and profit shares should be set and submits these recommendations for decision by the Board of Directors. Compensation for the members of the Board of Directors and Group Management is composed of a fixed portion and a variable portion, with the variable portion making up between 20% and 50% of total compensation depending on function. (Please refer to the Nomination and Compensation Committee part of section 3.5 Internal Organization on page 60 as well as to section 5.6 Options on page 66 for further information.)

5.2 Remuneration for current company officers
Fees and salaries, 2005 and 2006

	2005	2006
Board of Directors' emoluments, cumulative each year	1 128 (5 people)	818 (6 people)
Highest fee per year on Board of Directors	318	300
Salaries of Group Management, cumulative each year	3 754 (3 people)	3 075 (3 people)

Members of the Board of Directors of Charles Vögele Holding AG do not perform any executive functions in the company. See also page 40 section 34 of the Financial Report.

Severance compensation

No agreements exist with the Board of Directors or Group Management of Charles Vögele Holding AG regarding severance compensation. Accordingly, no such compensation was paid during the year under review.

5.3 Compensation to former directors and officers

No fees or salaries were paid or credit notes or other benefits granted during the year under review to any former members of the Board of Directors or Group Management who had left the company prior to the year under review, that is, before 31 December 2005.

5.4 Allocation of shares in the year under review

During the year under review no shares were allocated to members of the Board of Directors or of Group Management, nor to any persons closely associated with any of these persons.

5.5 Share ownership by company directors and officers

Shares	31.12.2005	31.12.2006
Members of the Board of Directors	204 377 (5 people)	191 377 (6 people)
Members of Group Management	63 100 (3 people)	63 100 (3 people)

5.6 Options

Options	Allocation in 2005	Allocation in 2006
Share options, Board of Directors	17 000 (5 people)	25 800 (6 people)
Share options, Group Management	24 300 (3 people)	30 500 (3 people)

Members of the Board of Directors of Charles Vögele Holding AG do not perform any executive functions in the company. See also page 40 section 34 of the Financial Report.

The Option Plan, which was defined in 2002 for members of the Board of Directors, Group Management and members of the second level of management, is based on the company's own shares and conditional capital. The allocation of options is proposed by the Compensation Committee and approved by the Board of Directors. Each option carries the right to subscribe to one share. The exercise price of options is calculated as an average share price at the time of allocation. See also page 35 section 29.1 of the Financial Report.

Date of allocation	Number of issued options	Number of expired options	Number of options exercised	Number of open options as of 31.12.2006	Exercise price in CHF	Date of expiry	Vested 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**			

Insider trading regulations

The «Vögele Group Regulations on Insider Trading» apply to all members of the Board of Directors, Group Management, the second level of management, as well as any other employees whose work gives them access to price-sensitive information. These regulations are more comprehensive than the legal standards currently in force and also form part of the contracts of employment of the aforementioned persons. They are constantly updated to keep them in line with the latest requirements.

5.7 Additional fees and remuneration

Dr. Felix R. Ehrat is also a senior partner in the law firm of Bär & Karrer. During the year under review this firm provided legal services to various Group companies for which it received a total fee of CHF 60 800.

5.8 Loans granted to directors and officers

No loans to directors or officers of the company are outstanding.

5.9 Highest total remuneration

The member of the Board of Directors with the highest total remuneration received director's emoluments of CHF 300 000 during the year under review, as well as 4 300 options with an exercise price of CHF 90.00 per share. (Please refer to the table in the middle of page 66.)

6 Shareholders' Rights

6.1 Voting rights: restrictions and representation

The company's articles of association contain no restrictions on voting rights and comply with the law with regard to proxy voting.

6.2 Statutory quorums

The Annual Shareholders' Meeting passes resolutions and conducts votes, unless mandatory statutory regulations or the provisions of the articles of association dictate otherwise, by an absolute majority of the shareholders' votes legally represented and validly cast, excluding spoilt votes and regardless of the number of shareholders present and the number of votes they represent. Each share entitles the holder to one vote at the Annual Shareholders' Meeting.

6.3 Calling the Annual Shareholders' Meeting

The Annual Shareholders' Meeting takes place no later than six months after the end of each company financial year. It is called by the Board of Directors. Shareholders are called to the meeting by an invitation published in the daily and financial media and are requested to submit any items they may wish to propose for the agenda.

6.4 Agenda items

Shareholders who between them represent shares with a total par value of at least CHF 1 million can make a request no later than 45 days prior to the day of the meeting for items to be added to the agenda. The request has to be made in writing and state the motion that is to be put to the vote. One or more shareholders who between them represent at least 10% of the share capital can call an Extraordinary Shareholders' Meeting between annual meetings.

6.5 Entries in the share register

The share capital of Charles Vögele Holding AG consists exclusively of bearer shares, and accordingly no share register is maintained.

7 Changes in control and defensive measures

There are no provisions (such as opting-out or opting-up clauses), either in the articles of association or in contracts of employment, or in any other agreements or plans that relate to changes in control of the company or defensive measures to prevent such a change.

8 Auditors

8.1 Duration of mandate and term of office of the lead auditors

The auditor for the Charles Vögele Group and Charles Vögele Holding AG is PricewaterhouseCoopers AG (PwC). It was confirmed as statutory and Group auditor for one year at the Annual Shareholders' Meeting of 5 April 2006. Since 29 April 2003, the mandate to audit the Charles Vögele Group and Charles Vögele Holding AG has been managed by Matthias von Moos, partner at PwC, Zug.

8.2 Audit fee

The Group auditor and auditor of Charles Vögele Holding AG is paid a fee totalling approximately CHF 603 000 plus another CHF 35 000 for audit-related services plus expenses for carrying out the statutory audit mandate in the business year 2006. The audit contract is for one year, and the appointment of Charles Vögele Holding AG's auditor and Group auditor must be decided by the Annual Shareholders' Meeting.

8.3 Additional fees

The Group auditor for the Charles Vögele Group and the auditor for Charles Vögele Holding AG is involved exclusively in audit work. It has not been given any additional consultancy mandates. Consequently no additional consulting fees have been paid during the year under review.

8.4 Supervisory and control instruments for the auditors

The work of the external auditors is assessed and examined by the Audit Committee. Meetings are called and other means employed as required.

9 Information Policy

The Charles Vögele Group pursues a transparent and open communications policy and is committed to a policy of ad hoc publicity. Shareholders are regularly and continually kept informed by the following means:

- Annual Report and Accounts in German and English: these are published in accordance with statutory provisions no later than 20 days prior to the Annual Shareholders' Meeting, and are held at the company's registered offices.
- Half-Year Report and Accounts in German and English: these are usually published in August each year.
- Annual Report media and analysts' conference: this accompanies the presentation of the annual results, usually in March; there is also a conference on the interim results in August.
- Ad hoc media releases as necessary.
- The media releases are published on the Internet at www.charles-voegele.com under the «Media Lounge» link.

Detailed information on the company is always available to shareholders and other interested members of the public at our website: www.charles-voegele.com.

An overview of contact addresses and the relevant timetable for shareholder information can be found on page 70 of this Activity Report, as well as at our website: www.charles-voegele.com, under the Investor Relations or Contact links respectively.

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 business 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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2006

Charles Vögele Group
Financial Statements

Charles Vögele
Switzerland

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**
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**
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	Pascal Wintermantel
Auditor in charge	

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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