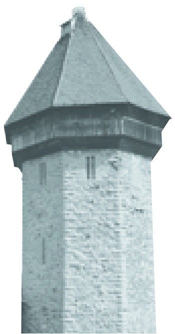
2007
Charles Vögele Group
Activity Report

Charles
Vögele
Switzerland

Contents

Up for grabs: 888 trips to Lucerne

The pictures in this year's Annual Report bring together Charles Vögele Group's spring collection with our 2008 customer competition, which culminates in a trip to Lucerne. All of Vögele's markets will take part and at the end of May every single branch will give away a weekend trip to Lucerne for 2 people. Then from 14 to 16 November, the lucky customers – almost 1,800 of them from all over Europe – will meet up for Vögele's big fashion event.



Highlights 2007

61

Net profit increased to CHF 61 million

63

Gross profit margin rises above 63%

156 57

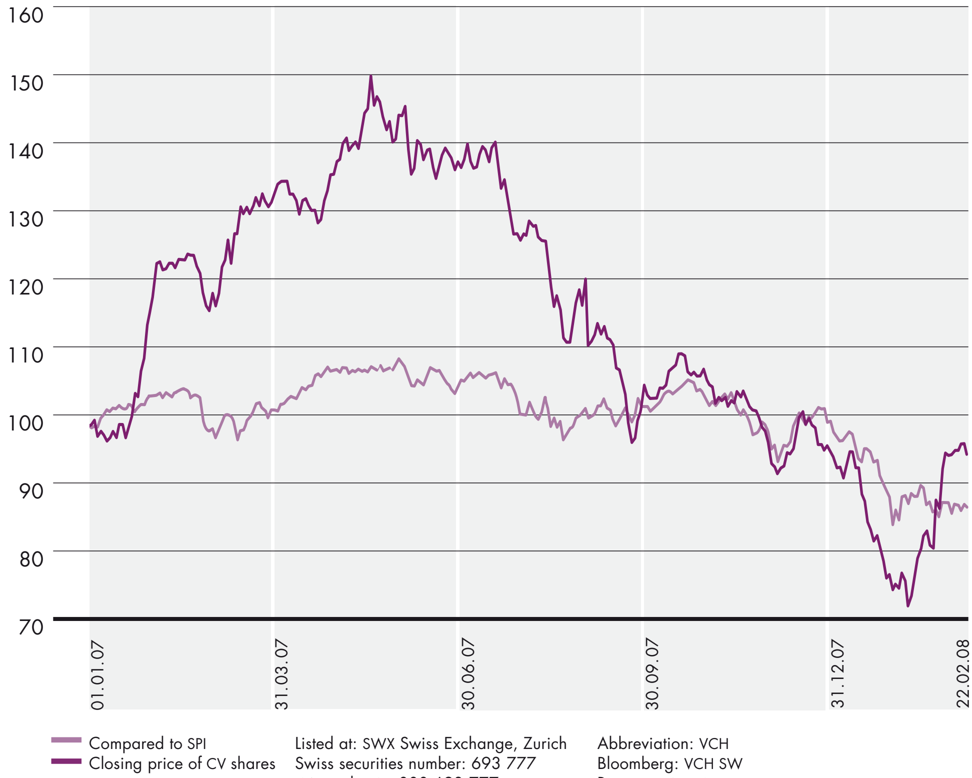
EBITDA of CHF 156 million clearly improved

Shareholders' equity increases to 57%

Share Information

Price development of the Charles Vögele Holding AG shares
at SWX Swiss Exchange in Zurich from 1 January 2007 to 22 February 2008

in CHF



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

		31.12.2006	31.12.2007
Bearer shares	Number	8 800 000	8 800 000
Par value (reduction decided on 4 April 2007)	CHF	8.00	6.00
Share price as per closing date	CHF	97.10	92.85
Share price:			
– year high	CHF	126.00	152.00
– year low	CHF	79.05	88.00
Average trading volume per day	Number	41 700	42 200
Free float	%	100	100
Basic earnings per share	CHF	(2.32)	7.19
P/E ratio	Factor	n.a.	12.9
EV/EBITDA	Factor	7.1	6.5
Stock capitalization	CHF million	854	817
Book value per share	CHF	56	59
Reduction of par value of shares[1)]	CHF	2	2

1) Proposal to the Annual Shareholders' Meeting

Group Key Operating Figures

CHF million	2006	2007	Change
Gross sales	1 523.2	1 626.0	6.7%
Net sales	1 323.6	1 393.7	5.3%
Change in net sales adjusted for expansion in %	(3.7%)	3.1%	
Gross profit	818.4	886.5	8.3%
Gross profit in % of net sales	61.8%	63.6%	
Operating earnings before depreciation (EBITDA)	143.1	156.2	9.2%
Impairment of goodwill	74.4	0.0	
Operating earnings (EBIT)	11.7	94.8	710.3%
Net profit	(19.7)	61.0	409.6%
Cash flow from operating activities	73.5	111.5	51.7%
Net cash used in investing activities	(72.3)	(74.1)	2.5%
Free cash flow	1.2	37.4	3 016.7%
Number of stores at year-end	809	825	2.0%
Sales area at year-end in m^2	622 546	641 568	3.1%
Net sales per m^2 sales area in CHF[1)]	2 181	2 216	1.6%
Number of employees at year-end[2)]	7 370	7 811	6.0%
Average number of full-time employees on an annual basis[2)]	4 863	4 984	2.5%
Net sales per average number of full-time employees in CHF[2)]	272 187	279 633	2.7%
Number of clothing articles sold in 1000	63 749	63 584	(0.3%)
Average net sales per article in CHF	20.8	21.9	5.3%
Share of turnover in %:			
– women's wear	57%	58%	1.8%
– men's wear	32%	32%	0.0%
– children's wear	11%	10%	(9.1%)

CHF million	31.12.2006	31.12.2007
Net debt	166.7	155.6
Shareholders' equity	488.7	523.3
Balance sheet total	884.8	917.0
Shareholders' equity in % of balance sheet total	55%	57%

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


Charles Vögele **is visiting Lucerne** in 2008

Sales growth and improved operating results

The main developments during the 2007 financial year for Charles Vögele Group were as follows:

- The Group's net sales went up by more than 5% to CHF 1 394 million thanks to the improvements realized in all sales organizations
- Gross profit rose by more than 8% to CHF 887 million thanks to more efficient procurement, logistics and goods management, as well as due to exchange rate gains
- The Group's EBITDA went up by more than 9% to CHF 156 million
- Besides Austria, all markets improved their earnings power
- The expansion into Eastern Europe proceeded as planned
- Group Management was expanded and strengthened
- The sales organizations in Belgium and the Netherlands failed to break even as planned

Operating conditions

The markets in which Charles Vögele Group operates benefited from positive economic conditions throughout 2007. Falling unemployment rates and positive business prospects boosted consumer sentiment and increased the propensity of private households to go out and spend. After several years of contraction, the clothing markets relevant to Charles Vögele returned at last to a point between stagnation and slight growth.

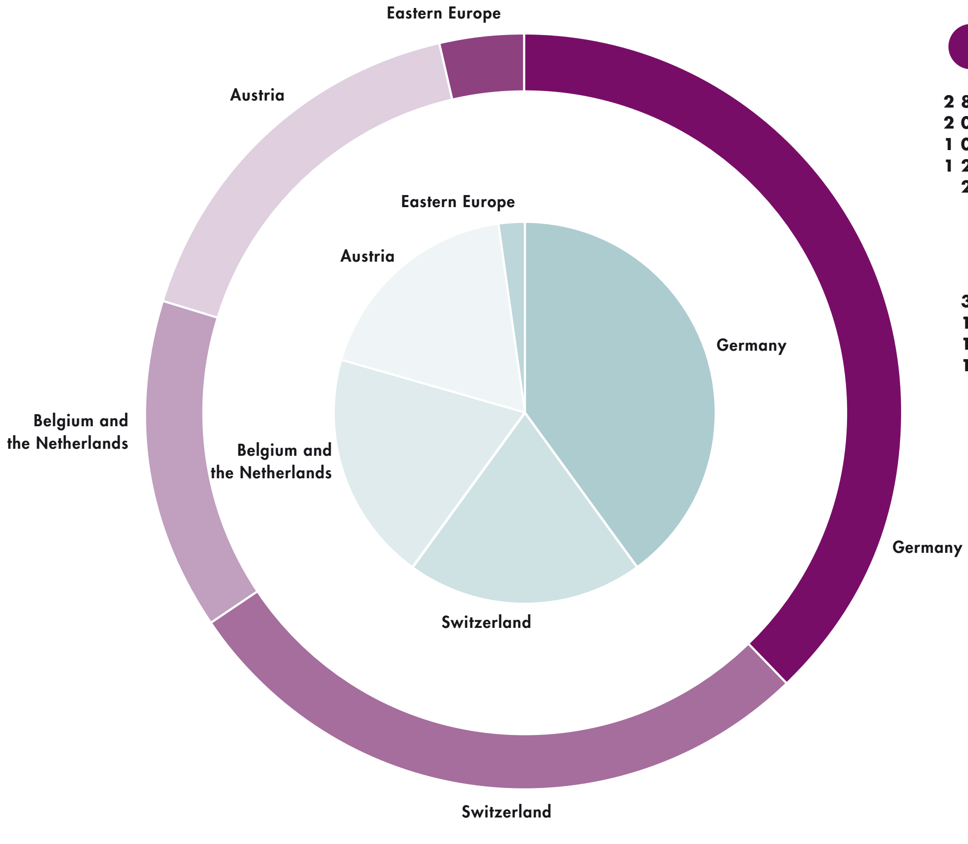
In this environment, Charles Vögele Group achieved its growth targets in its established and new markets. This growth was driven by higher sales on existing floorspace as well as by targeted expansion. In addition, the gradual and structured entry into new geographical regions had a positive effect on sales growth. Despite expansion-driven rises in costs, the company managed to increase earnings.

Sales increased

Charles Vögele Group increased its sales during the year under review to CHF 1 394 million (previous year CHF 1 324 million). This rise of more than 5% has mainly been achieved with growth through expansion. Sales increased in both the first and second halves of the year. All Sales Organizations – but especially Belgium and the Netherlands – contributed to this growth. Attractive collections, improved presentation and more intense marketing helped to increase footfall in the stores. Thanks to the sales increase realized, the market position has been strengthened in all markets.

Income and earnings up significantly

Gross profit went up to CHF 887 million, which is 8% higher than the previous year's CHF 818 million. Direct sourcing from suppliers, more efficient logistics for procurement and distribution, and positive currency influences led to an improvement in the gross profit margin from 61.8% in 2006 to 63.6%. Operating expenditure was 8% higher overall at CHF 730 million (previous year CHF 675 million), mainly as a result of expansion-driven up-front costs for personnel, rents and logistics. Costs were also driven higher in the first half of the year by greater spending on marketing. The company's operating earnings increased, with EBITDA coming in at CHF 156 million (previous year CHF 143 million), and the EBITDA margin rising to 11.2% (previous year 10.8%). After deducting depreciation, earnings at EBIT level amounted to CHF 95 million (previous year CHF 86 million before goodwill-impairment). Slightly higher financing costs of CHF 12 million included the one-off cost of CHF 1 million incurred in the first half of the year for early renewal of the syndicated loan agreement. Overall net profit for the period under review was CHF 61 million, compared with CHF 55 million before goodwill-impairment in 2006.



Number of employees per Sales Organization

2 848 Germany
2 093 Switzerland
1 074 Belgium and the Netherlands
1 241 Austria
271 Eastern Europe

Sales locations per Sales Organization

321 Germany
163 Switzerland
160 Belgium and the Netherlands
150 Austria
31 Eastern Europe

Expansion leads to higher inventories

Inventories for the current season (autumn/winter 2007/2008) were slightly lower than the year-back figure. Inventories as a whole rose from CHF 281 million in the previous year to CHF 289 million as at December 31, 2007. This increase occurred in the first half of 2007 and was due mainly to expansion activity. The inventory figure for December 31, 2007 already includes items for the upcoming 2008 spring/summer season worth CHF 55 million (previous year CHF 58 million).

Cash flow up despite expansion activities

As a result of its greater expansion activities, investments by Charles Vögele Group were up 3% on the previous year's CHF 72 million at CHF 74 million. Despite this rise, free cash flow went up to CHF 37 million (previous year CHF 1 million) because of the greater influx of funds from operating business.

Lower net debt, higher equity ratio

Net debt fell over the year under review from CHF 167 million at December 31, 2006 to CHF 156 million. As a result, the company's equity ratio, already solid at 55%, went up to 57% by December 31, 2007.

Poland approved for expansion; Romania announced as new test market

Expansion in Eastern Europe proceeded in accordance with our plan. Poland performed so well as a test market that the decision was taken to approve it for expansion as from January 1, 2008. The test phase for the Czech market was extended for another year. Analysis of the remaining Eastern European countries resulted in the announcement of Romania as a new test market within our country portfolio. Charles Vögele Group sees the potential for more than 50 stores in Romania, and work started in this market at the beginning of 2008. You can find full details of all these markets in the report on our Eastern Europe Sales Organization on page 28.

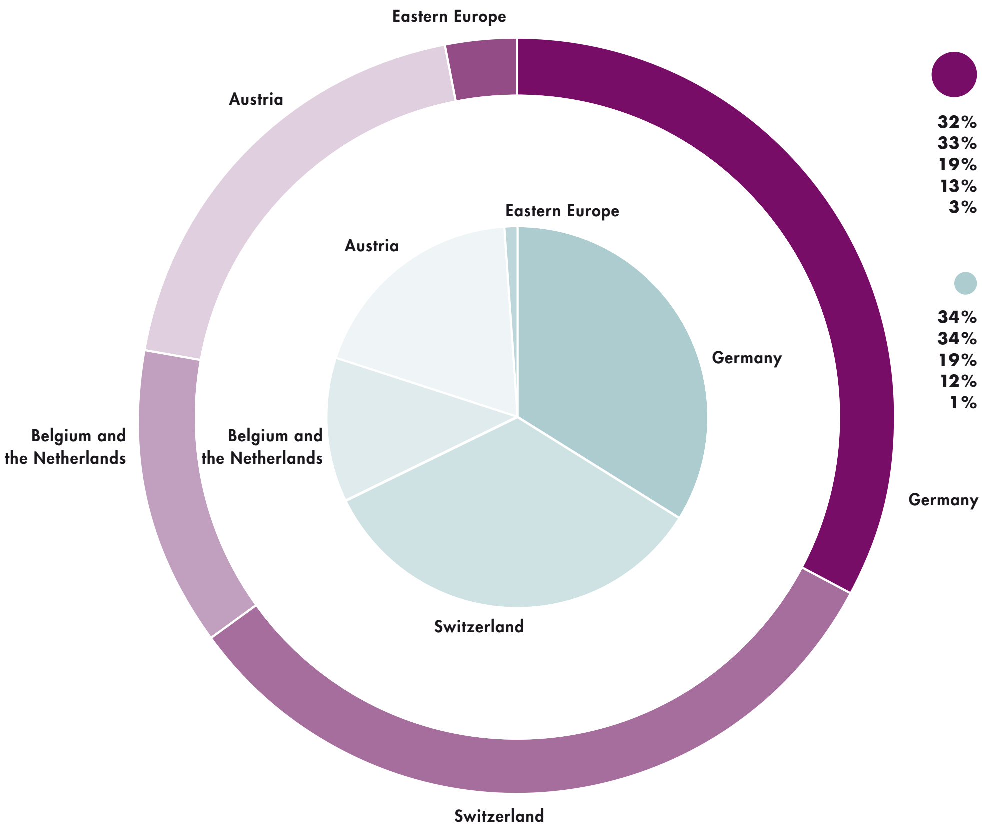
Operational advances made during the year under review

During the year under review, Charles Vögele Group made its flow of goods even more efficient.

The Sourcing Office that was opened in Hong Kong a year ago, together with its branch in Shanghai, has done a great deal to improve product quality, reduce purchasing costs and further optimize logistics processes. The office has also helped to increase Charles Vögele Group's knowledge of its key procurement market.

The modular concept that has now been introduced in all Sales Organizations and across all article groups facilitates the best possible allocation and presentation of goods in the stores, as well as allowing effective management of the collections according to store type. Better account can be taken of country-specific requirements and customers can choose from a range of clothing that fits better with their specific circumstances. A planning and management tool is currently being developed to support this process further.

In the second half of the year, the comprehensive introduction of the new Charles Vögele Customer Card was begun in the Germany, Switzerland, and Austria Sales Organizations. The card is part of a loyalty programme that offers regular customers not only financial incentives, but also access to exclusive special offers that are only open to cardholders. The use of the customer card has led to a much higher spend per customer, and so this is an excellent way of increasing sales.



Percentage of the Group's net sales: 2007

32% Switzerland
33% Germany
19% Austria
13% Belgium and the Netherlands
3% Eastern Europe

2006

34% Switzerland
34% Germany
19% Austria
12% Belgium and the Netherlands
1% Eastern Europe

Expansion of Group Management

Dr. Dirk Seifert (37) joined Charles Vögele Group as a new member of Group Management on January 1, 2008. He is responsible at Group level for sales and all areas focused on selling. As well as being in charge of the Sales Organizations in all markets, in his new role Dr. Dirk Seifert will also be responsible for advertising, merchandising, and store construction and architecture. This means that all core functions relating to sales will continue to be managed by a single member of Group Management. These departments previously reported directly to CEO Daniel Reinhard.

Further reduction in par value proposed

Owing to the company's stable earnings power and healthy financial situation, the Board of Directors is proposing to the Annual Shareholders' Meeting of April 16, 2008 that instead of distributing a dividend, the company should reduce the par value of its shares by CHF 2.00 per share. If the Annual Shareholders' Meeting agrees to this proposal, the par value of Charles Vögele Holding AG shares will fall from CHF 6.00 to CHF 4.00.

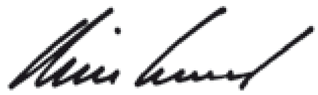
Operational outlook

The highest priority for Charles Vögele Group in 2008 continues to be growth. The aim of all of the projects that have been realized or are still being implemented is to achieve even more growth from existing floorspace. Expansion in established markets represents a major step towards higher sales and a stronger market presence. In addition, the company also aims to continue its successful expansion in Eastern Europe.

The growth achieved from existing floorspace in 2007 – the first such growth in six years – should now increase further. The main focus of expansion in established markets in 2008 is Germany, where the number of stores should go up on balance for the first time since 2003. New stores will be opened mainly in the economically strong Länder in the south and west of the country. In Eastern Europe there are plans to open about 20 new stores in Hungary, while Charles Vögele Group will be strengthening its presence in Slovenia, Poland and Romania with a total of 15 stores. Depending on the availability of new sites, the Group's increased market presence will lead to investments of between CHF 100 million and CHF 130 million. Also for 2008, the company's target is to achieve despite expansion an EBITDA margin of 11% – 13%.

Thank you to all members of staff

In the name of the Board of Directors and Group Management we would like to thank all employees of Charles Vögele Group for the commitment, passion and motivation which they show every day as they work for the success and prosperity of the company. Together with the company's robust financial health, our employees' great dedication forms a solid foundation for continued success. As a consequence, Charles Vögele Group believes that it is in an excellent position to meet the challenges of the future.



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

Daniel Reinhard
Chief Executive Officer


Charles Vögele **is visiting Lucerne** in 2008

Quality assurance begins with the producers

Over the last year, Charles Vögele Group has invested continuously in improving the quality of its products. The company's aim – in line with its positioning – is always to be able to offer products with an attractive cost/benefits ratio for customers. Regardless of the price level, customers who buy any of our products are entitled to expect high-quality materials, impeccable manufacture, a good fit and comfort. But they can also expect peace of mind with regard to wearability and manufacturing methods.

Product quality: a top priority

As a vertically integrated clothing retailer, Charles Vögele Group does not buy in finished collections. Each item is designed by the company and is manufactured to individual specifications. This applies not only to tailoring and materials, but also to the production methods and substances that can be used, as well as the selection and review of production sites. In addition to quality assurance, all the logistical arrangements also have to be out in place so that finished items can be shipped to the sales markets. The contracted manufacturers undertake to follow the product-specific guidelines and to meet the general terms of delivery, but the responsibility for checking quality and verifying compliance with the prescribed social compliance rules rests squarely with Charles Vögele Group and the external testing laboratories and monitoring companies that it uses.

Since November 2006, Charles Vögele has maintained its own Sourcing Office in Hong Kong, with a satellite office in Shanghai. The people who work in the Sourcing Office are responsible for monitoring and controlling the production of clothing collections throughout South East Asia. As well as their general clothing industry training and experience, the 30 or so local employees have also had additional training on Vögele's specific requirements. Right from the early stages of product development, supplier preselection and order placement, the Sourcing Office works closely with the central Purchasing Department in Pfäffikon. As soon as subcontractors start production, the organization and quality of their work is monitored locally. The big advantage of this local presence is the ability to react immediately to any production problems. Corrections can be made even while manufacturing is going on, so quality problems and subsequent complaints can largely be avoided. Insights gained through local monitoring and approval also teach us about the producer's quality standards. This means that we can arrange targeted training for suppliers and continuously improve our work together and the services provided.

However, quality assurance goes even further than this. Thanks to its local presence during the production process, Charles Vögele can also monitor producers' compliance with the required social standards. The Social Compliance Guidelines included in all contracts are based on the ILO and UN declarations of human rights and are also designed to ensure compliance with national laws. Charles Vögele brings in specialist external companies to carry out social audits using the

BSCI Code of Conduct; our local presence facilitates an additional level of control. Charles Vögele Group developed its own code of conduct for compliance with this social standard in 1996. It has subsequently collaborated as a founding member on the development of the Business Social Compliance Initiative (BSCI). The newly developed BSCI Code of Conduct replaced the old Charles Vögele Group Code of Conduct in 2004, and is now used by more than 100 European clothing retailers to evaluate their suppliers (see also page 46).

Additional benefit: expansion of the supplier portfolio

The Sourcing Office's second important job is to evaluate potential new production partners throughout the whole of South East Asia. The main aim of this continuous process is not to increase the number of suppliers, but to increase efficiency and prepare alternative production sites in case of capacity constraints. This job can only be done by maintaining a local presence and personal contact with the different procurement markets in South East Asia.

In this capacity, the Sourcing Office works as an arm of the Purchasing Department. On the one hand, the Purchasing Department can instruct the Sourcing Office to check potential suppliers. After an initial visit, sample production runs can be arranged before major orders are awarded. On the other hand, the Sourcing Office can suggest that we buy from certain suppliers who offer particular capabilities. This helps Charles Vögele react more effectively to market situations and fashion trends.

Success factor for the supply chain

The opening of the Sourcing Office thus represents a substantial step forward in optimizing quality throughout the production process, as well as a key success factor within the supply chain. Charles Vögele's local presence in Asia not only ensures product quality in the narrow sense, it also guarantees that all production and supply deadlines are met.

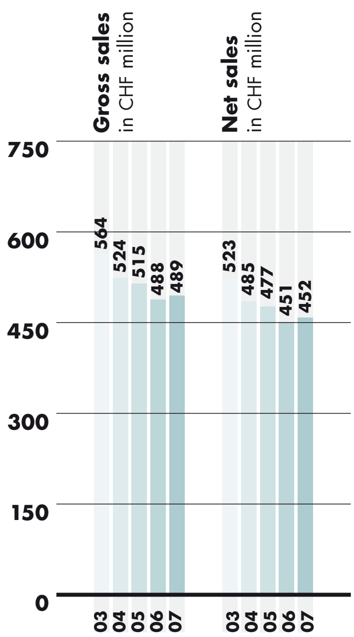

Charles Vögele is visiting Lucerne in 2008

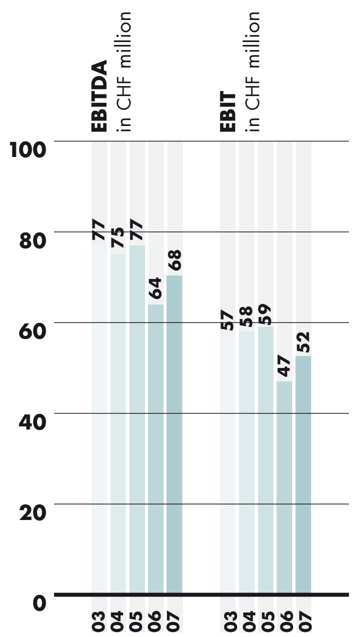
Sales Organization in Switzerland

Sales growth despite more intense competition

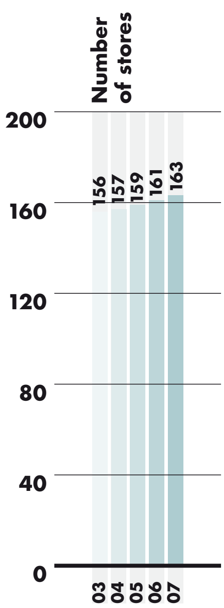
A positive economic performance ensured that consumer sentiment remained upbeat throughout the year under review. The Swiss clothing market benefited from this good mood, posting the first slight overall market growth in five years. The turnaround had already started towards the end of 2006 and then continued in 2007. In spring 2007, three more competitors (Takko, KiK and Zeeman) announced their entry into the Swiss market. Although these firms occupy a very different market positioning from Charles Vögele and should be seen as pure discounters, we can still expect competition to become even tougher in the coming year.

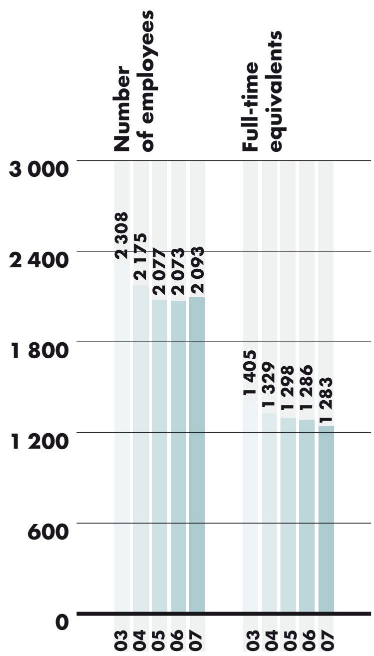
The Switzerland Sales Organization achieved net sales of CHF 452 million during the year under review (previous year CHF 451 million). This sales growth is due to additional sales on existing floorspace. The range optimization announced for larger stores in Switzerland has therefore had the desired effect, leading to higher sales at these locations. Overall, the performance in the Swiss home market was also boosted by the higher advertising impact generated by the major FIAT Panda campaign in the spring. Increased sales achieved primarily in the full-margin months had a positive effect on margins, with EBITDA operating earnings rising from CHF 64 million in the previous year to CHF 68 million; this represents an increase of 6%.





During the year under review a total of four stores were closed in Switzerland, while six new ones were opened. At the end of the year, the store portfolio numbered 163. As a consequence of this strategic optimization of the store network, sales floorspace only changed slightly, going up from 138 020 m^2 in the previous year to 139 496 m^2 at year-end. Accordingly, the number of employees increased slightly during the year under review from 2 073 in the previous year to 2 093 in 2007. The number of FTE posts fell on the contrary, from 1 286 in 2006 to 1 283. In 2007 288 trainees were also employed in various areas of the company (previous year 260).



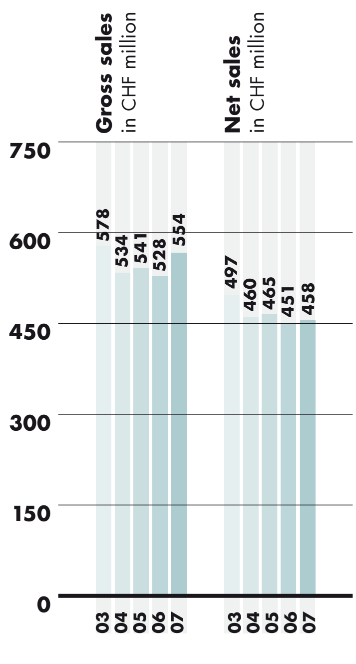


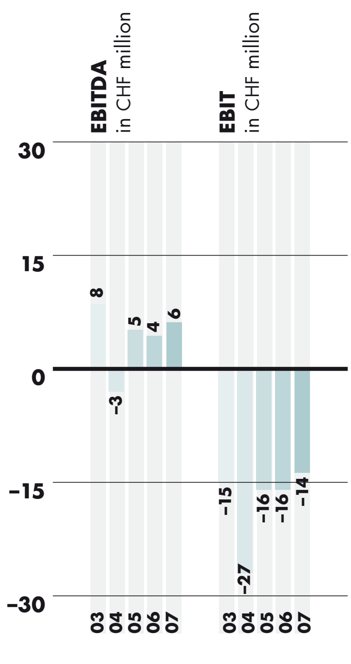
Sales Organization in Germany

Good sales growth despite smaller sales area

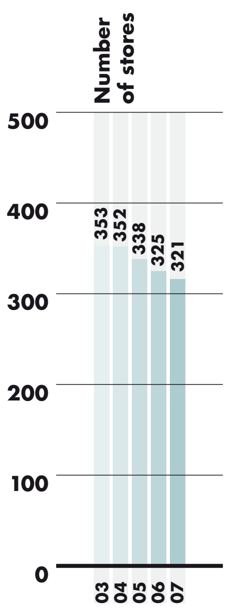
The healthy state of the German economy had a very positive effect on consumer sentiment in the first half of the year under review and resulted overall in a good market environment. As the second half of the year began, rising grocery and energy prices gave consumers the feeling that inflation was taking hold, and spending was reined in slightly as a result. Overall, however, the consumption index stabilized on the positive side by the end of the year.

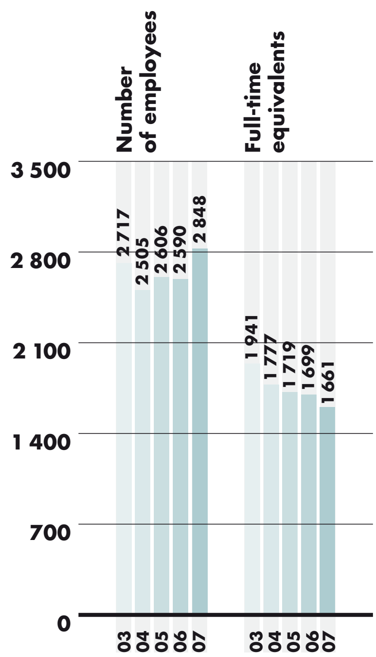
The Germany Sales Organization increased its net sales from CHF 451 million in 2006 to CHF 458 million. This growth of around 2% is all the more welcome given that it was achieved by a smaller number of stores compared with the previous year. This improvement in sales can be attributed to increased advertising and to an intensified use of our customer card. The addresses required to do this were collected during the FIAT Panda campaign last spring. In Germany too, particularly strong sales in the full-margin months had a positive effect on operating performance. Operating earnings (EBITDA) rose from CHF 4 million in the previous year to CHF 6 million, a rise of 50%. As a result, another major step towards breaking even at EBIT level – already announced as our target for end-2008 – was taken during the year under review.





As part of the optimization of the German branch portfolio, 16 stores were closed during the period under review and 12 new ones were opened. At end-2007 Charles Vögele Group thus had a total of 321 stores in Germany (previous year 325), and a total sales area of 249 772 m² (previous year 249 054 m²). An externally commissioned study to determine Charles Vögele's potential in Germany showed that the total branch network could be expanded to over 500 stores. According to this study the portfolio could be gradually expanded by up to 56% from its current size. The number of employees increased between end-2006 and end-2007 from 2 590 to 2 848, though these figures are not directly comparable: owing to the introduction of the new personnel management system, the headcount figure now includes people on long-term sick leave and maternity leave, even though their costs are actually borne by the relevant social security schemes. The number of FTE however fell slightly from 1 699 in 2006 to 1 661. In addition, 163 trainees were employed in Germany during the year under review (previous year 154).



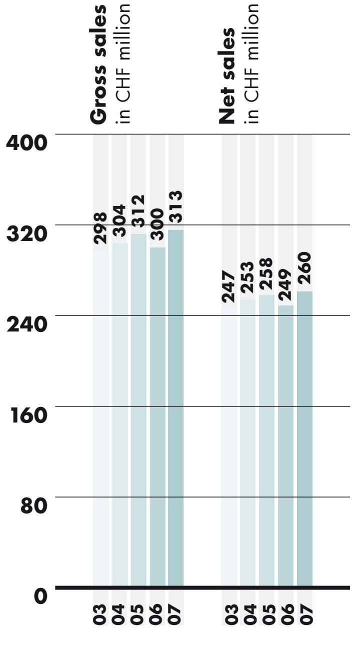


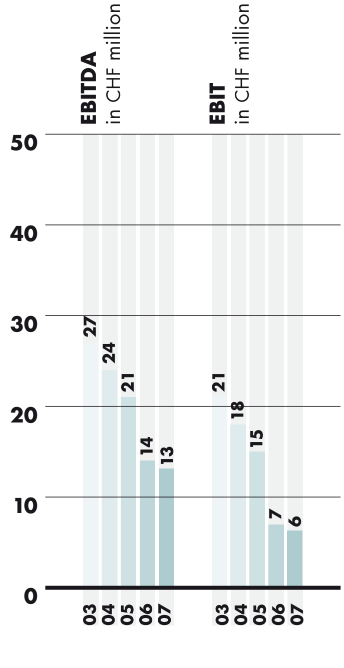
Sales Organization in Austria

Clear sales improvement on previous year

Economic activity in Austria was lively during the year under review, and unemployment continues to fall as a result. Even though this has brightened the mood among consumers, the retail trade in general has only benefited to a limited extent. Rising grocery prices and higher spending on energy created inflationary tendencies in the second half of 2007. According to forecasts these will only subside again in spring 2008. Within the retail trade, shoes and clothing did better than most.

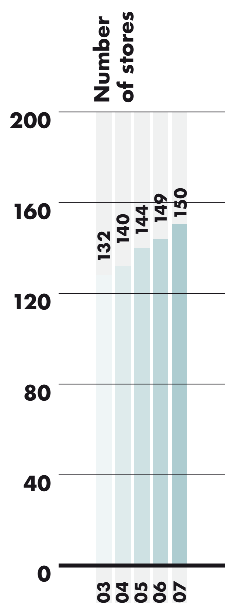
In this basically positive economic environment, net sales by the Austria Sales Organization went up from CHF 249 million in the previous year to CHF 260 million, representing a rise of more than 4%. This growth was achieved on virtually the same sales area as in 2006, and led to a further increase in market share despite a much tougher competitive environment in Austria. Despite healthy sales in the full-margin months of the second half of the year and an EBITDA of CHF 13 million (previous year CHF 14 million) the weaker performance in the first six months could not be fully compensated. In the second half of the year, initial customer retention activities were launched in Austria too. The addresses required to do this were generated by the Panda campaign in spring.

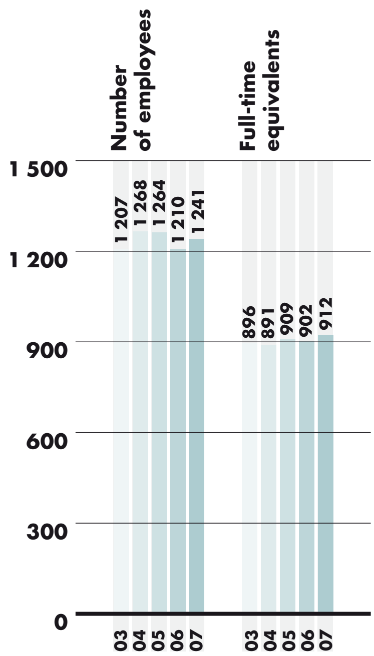




As part of the optimization of the branch network in Austria, four new stores were opened during the year under review and three were closed, leaving a portfolio of 150 stores at the end of the year (previous year 149 stores). As a result, the total sales area also expanded from the previous year's 111 769 m² to 113 747 m². As a result of the new openings, the number of employees rose during the period under review from 1 210 in 2006 to 1 241. The number of FTE posts increased from 902 in 2006 to 912. In addition, the Austria Sales Organization employed 37 trainees (previous year 63 trainees).

The specialist departments at our Austrian headquarters in Kalsdorf near Graz also supported the expansion and test markets of Hungary, Slovenia, the Czech Republic and Poland during the year under review, providing various services and making a significant contribution to the further development of these new eastern markets.





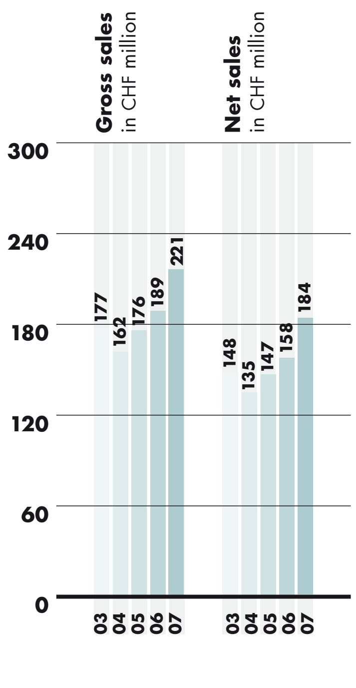
Sales Organizations
Belgium and the Netherlands

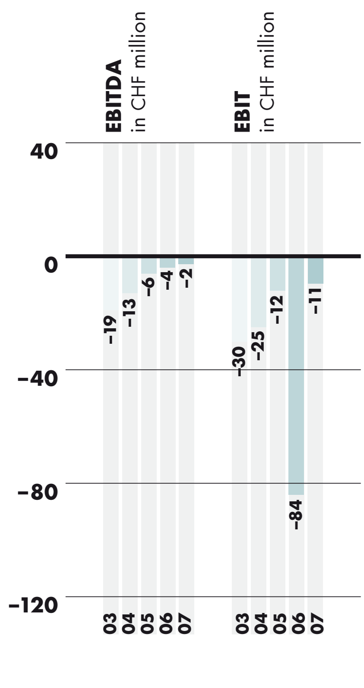
Considerable increase in sales

Belgium has enjoyed a second consecutive year of very healthy economic growth. Despite the positive operating conditions, political tensions between the linguistic regions managed to unsettle consumers in the second half of the year. The level of debt carried by private households also increased again, causing a reduction indisposable income, even though the savings ratio fell. As a result of all these developments, competition among clothing retailers continued to intensify, as it has done for several years now.

Consumer sentiment in the Netherlands was positive in the first half of the year, but in the second half turbulence on the financial markets put a significant damper on the mood. Despite this dip in economic activity, the Dutch clothing market actually grew in value terms for the first time in a long while following several years of decline or stagnation.

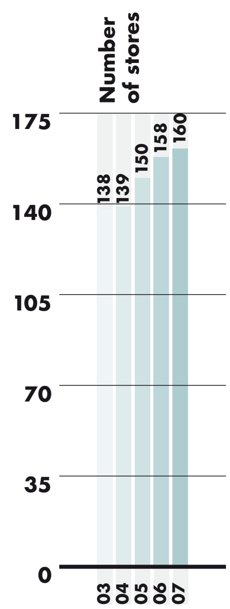
The Belgium and Netherlands Sales Organizations generated net sales of CHF 184 million, an increase of more than 16% on 2006's CHF 158 million. Most of the growth was actually driven by increased floorspace productivity in the two countries, while part of the improvement were also due to expansion activities in the Netherlands and in Belgium, where the 10 stores taken over from Superconfex in summer 2006 made their contribution. The trigger for the additional sales was the advertising within the two markets, which for the first time was as intense as in the Group's other sales organizations. Following a significant increase in sales in the full-margin months, the operating result of

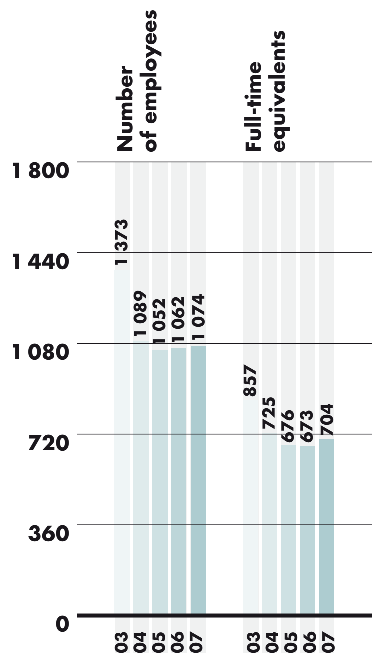




CHF –2 million (previous year CHF –4 million) has been considerably improved once more, even though the goal of breaking even at EBITDA level has not been reached.

As part of the expansion activities, one branch was opened in Belgium during the year under review, meaning that there are now 47 stores in the country. During the year under review three stores were opened in the Netherlands and two were closed. Charles Vögele now has 113 stores in the Netherlands. At year-end, the two Sales Organizations were running a grand total of 160 stores (previous year 158). Expansion also led to an increase in employee numbers from 1 062 in the previous year to 1 074. The number of FTEs rose at the same pace, from 673 in the previous year to 704 as at December 31, 2007.





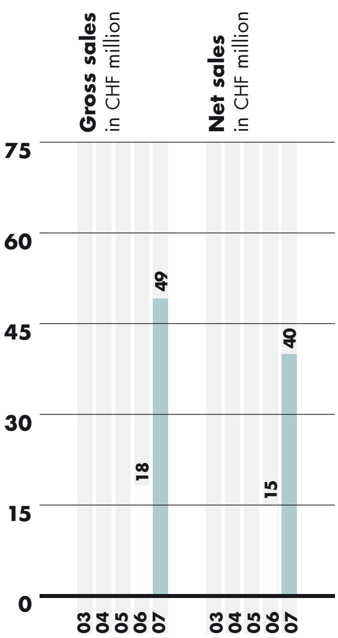
Sales Organizations
Eastern Europe

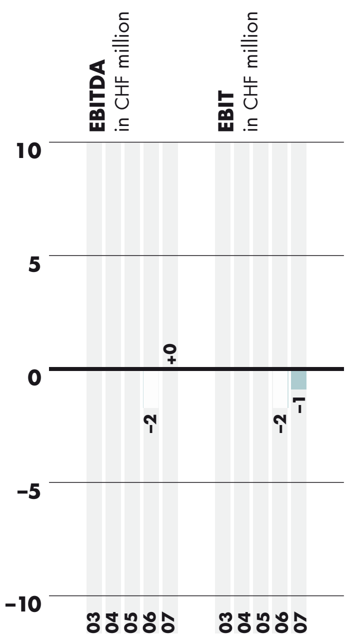
Expansion markets and test markets deliver positive operating results (EBITDA)

During the year under review, the Eastern Europe Sales Organization covered the Slovenian, Polish, Hungarian and Czech markets. In 2008 the new test market of Romania will be added to this list.

Expansion market Hungary – During the year under review political unrest and a government savings drive put the brakes on economic growth in Hungary. Various measures successfully took the pressure off the state budget while simultaneously placing additional burdens on business and private households. Rising grocery and energy prices and burgeoning health costs combined to make a large dent in consumer confidence. Growing opposition to the rigorous savings initiatives and the prospect of elections to the European Parliament in 2009 should ensure, however, that conditions are much better again for retailers in 2008. Considering the 12 openings in 2007, the Charles Vögele Group had a total of 17 stores at the end the year.

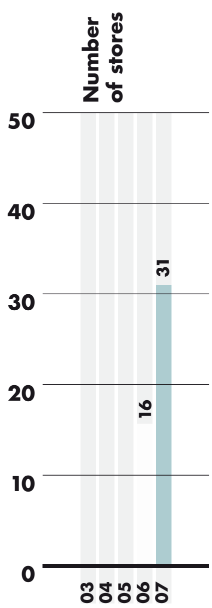
Expansion market Slovenia – Slovenia posted another record year in terms of economic performance. Unemployment reached 5%, the lowest rate since independence. Economic stability now seems assured, and the introduction of the euro at the start of the year under review does not appear to have had any negative effects. The only difficulty for business in Slovenia concerns the opening of new shopping malls, where the necessary official approvals often take a long time to come through. Even if rental agreements are in place, this means that planned openings often have to be delayed, a situation that doesn't just affect Charles Vögele, but all of its competitors too. Two additional stores were opened in addition to the two existing ones during 2007, one in Murska Sobota and one in Kranj.

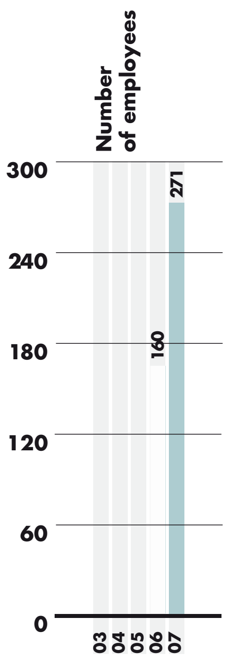


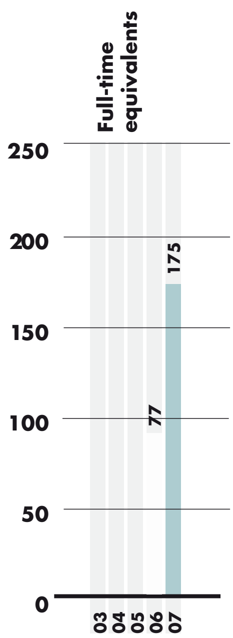


Test market Poland – Economic growth stabilized at a high level in Poland and came to 6.6% at the end of the year. Given that production capacities are now being fully utilized, we can assume that growth will decelerate slightly. The already very good consumer climate will probably remain sunny thanks to the low level of indebtedness among private households and the continuing fall in the unemployment rate. The only thing that might make consumers less willing to spend is the sharp rise in grocery and energy prices. The last test store was opened in Poland in spring 2007. Owing to the very good results in the existing stores and the positive economic prospects, the company has decided to make Poland an expansion market in 2008. The necessary preparations are underway.

Test market Czech Republic – Although there was a slight slowdown in economic growth in 2007, private consumption in the Czech Republic increased at its fastest rate in eleven years. Wage increases, falling unemployment and expanded social services have conspired to create an extremely positive consumer climate. With the government already having announced economic reforms and a revamp of the taxation system, we can expect to see a slight weakening in the performance of the economy in 2008. Basically, however, the general environment should remain







healthy and consumer sentiment should remain upbeat. The Czech Republic will remain a test market in 2008 even though operating results are on budget. This is because the Czech pilot stores were only opened in autumn 2008, so we currently only have one complete reference season as a basis for decision-making. Consequently, no further new stores will be added to the existing five in 2008.

During the year under review the Eastern Europe Sales Organization generated net sales of CHF 40 million, which is 165% higher than the CHF 15 million posted in 2006. The new markets are thus already contributing about 3% (previous year 1%) of total group sales. With slightly positive operating earnings, the new markets managed to break-even at EBITDA level (previous year CHF –2 million) in only their first full year of business. At end-2007 Charles Vögele Group had a total of 31 stores in the new markets (previous year 16), and a total sales area of 26 291 m^2 (previous year 13 342 m^2). During the year under review, 271 people were employed in the four markets (previous year 160 employees); this equates to 175 full-time equivalent posts (FTE, previous year 77).

New test market Romania – Romania is being opened up as a new test market for 2008–2009. The country, which borders directly on Hungary, has a population of 22 million, 55% of whom live in urban areas, and 45% in rural districts. At 240 000 square kilometers, Romania is almost six times as big as Switzerland. Bucharest, Romania's capital, is home to about 2.3 million people. There are ten other towns in the country with populations of more than 200 000, and another fourteen with populations of 100 000 or more. Romania has consistently posted economic growth of more than 6% for the last five years, and its entry into the EU in 2007 should ensure that the economy continues to expand at a similar rate in future. If it does, all areas of the retail trade should enjoy significant growth. In accordance with our standard procedure for expansion, during the second half we will open up five stores in different types of location within geographically distinct regions, and then monitor their performance for two years.


Charles Vögele is visiting Lucerne in 2008

The Company and its Orientation

Positioning

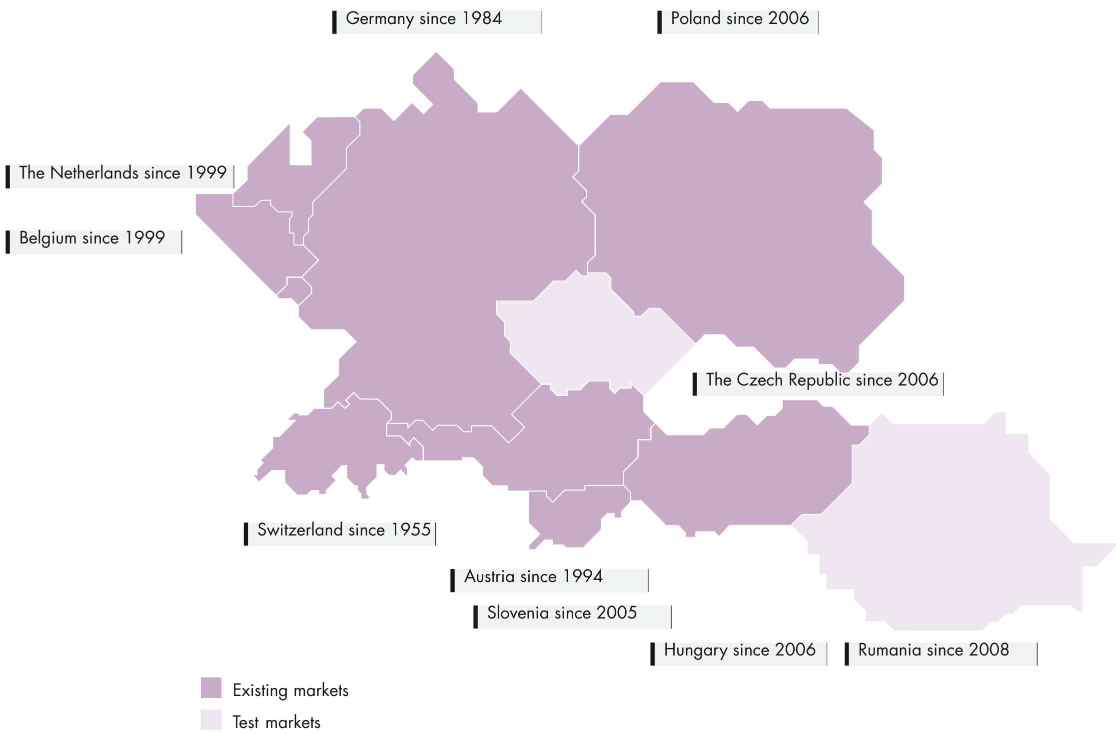
The Charles Vögele Group, founded on 5 March 1955, is the largest retailing company for fashion garments in its established segment in Switzerland and also occupies an important position in Central Europe. It appeals to customers who take their line from established fashion trends and look for good quality, 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:

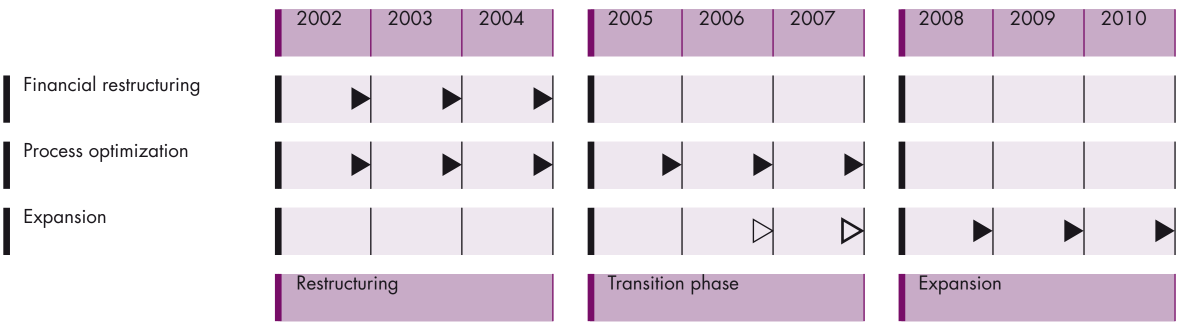
- a clear focus on the value-for-money customer segment
- a standardized basic product range with refinements for each country
- uniform, centralized purchasing
- standardized shopfitting and merchandising
- a centralized and lean management structure

The Charles Vögele Group operates own branches in Switzerland, Germany, Austria, Belgium, the Netherlands, Slovenia, Hungary and Poland as well as in the test market of the Czech Republic. In view of the strengthening of the company's market position, expansion activities are being pursued in new markets as well as existing ones. When a new test market is launched, five stores situated in different types of locations are opened to test responses to Vögele collections. The decision on future activities in such a market will be taken after a two-year test period.

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 lasted until the end of 2007, were 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 was absolutely vital.

A new phase of strong but structured expansion has started in 2008. Besides declaring Poland as an expansion market, the company decided to launch Romania as a new test market. Ultimately, the test phase in the Czech Republic has been extended until the end of 2008. Expansion shall 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 test markets will also be in Eastern Europe.

Condensed

Financial Key Figures

Group Income Statement

CHF 1000	2006	2007
Net sales	1 323 647	1 393 690
Gross profit from fashion retail	818 420	886 483
In % of net sales	61.8%	63.6%
EBITDA[1]	143 058	156 190
In % of net sales	10.8%	11.2%
Impairment of goodwill	74 400	0
EBIT[2]	11 683	94 822
In % of net sales	0.9%	6.8%
Earnings before taxes	543	80 313
In % of net sales	0.0%	5.8%
Net profit	(19 680)	60 974
In % of net sales	(1.5%)	4.4%
Basic earnings per share in CHF	(2.32)	7.19
Diluted earnings per share in CHF	(2.32)	7.10

1) Operating earnings before depreciation
2) Operating earnings

Group Balance Sheet

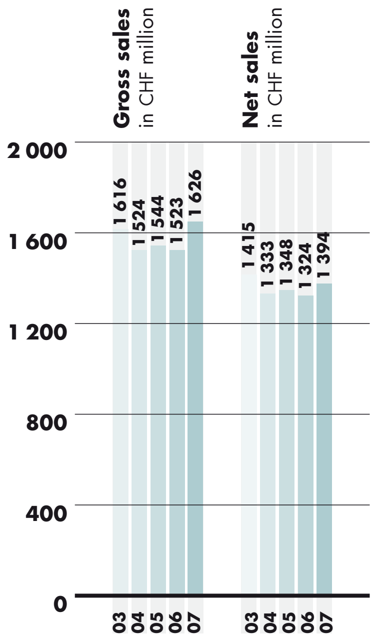
CHF 1000	31.12.2006	31.12.2007
Assets		
Total current assets	366 718	378 611
Total long-term assets	518 042	538 397
Total assets	**884 760**	**917 008**
Liabilities and shareholders' equity		
Total current liabilities	145 965	166 640
Total long-term liabilities	250 130	227 086
Total shareholders' equity	488 665	523 282
Total liabilities and shareholders' equity	**884 760**	**917 008**

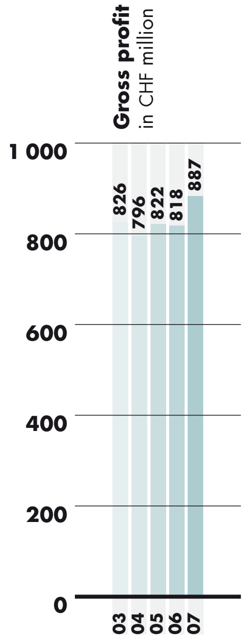
Group Cash Flow Statement

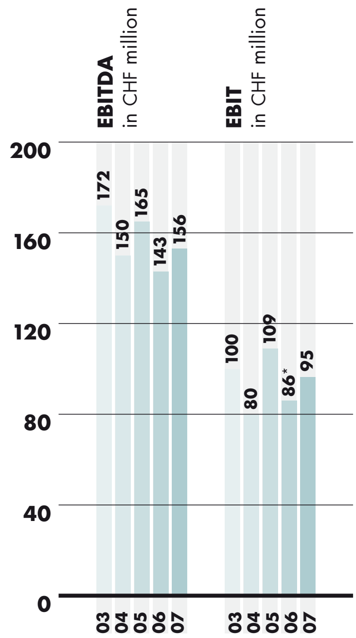
CHF 1000	2006	2007
Cash flow from operating activities	73 496	111 499
Net cash provided/(used) by investing activities	(72 305)	(74 057)
Net cash provided/(used) by financing activities	(15 871)	(52 270)
Net increase/(decrease) in cash and cash equivalents	(14 680)	(14 828)
Net cash and cash equivalents at the beginning of the period	**59 678**	**41 013**
Effect of exchange rate changes	(3 985)	943
Net increase/(decrease) in cash and cash equivalents	(14 680)	(14 828)
Net cash and cash equivalents at the end of the period	**41 013**	**27 128**

Statement of Changes in Group Equity

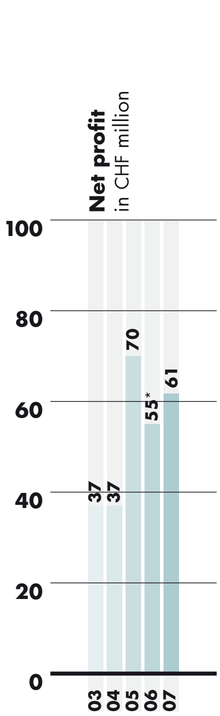
CHF 1000	Share capital	Treasury shares	Premium reserve	Retained earnings including currency translation differences	Valuation financial instruments	Valuation management share option plan	Total
Balance 1.1.2006	**88 000**	**(20 032)**	**173 789**	**281 968**	**3 669**	**1 792**	**529 186**
Change	(17 600)	(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**
Balance 1.1.2007	**70 400**	**(24 394)**	**173 789**	**266 839**	**(113)**	**2 144**	**488 665**
Change	(17 600)	(6 712)	0	64 434	(6 711)	1 206	34 617
Balance 31.12.2007	**52 800**	**(31 106)**	**173 789**	**331 273**	**(6 824)**	**3 350**	**523 282**

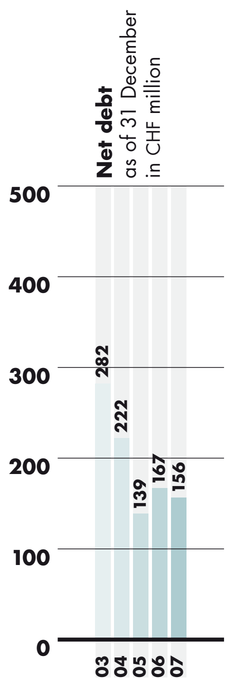


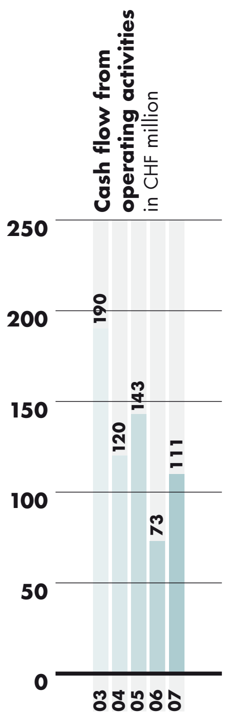


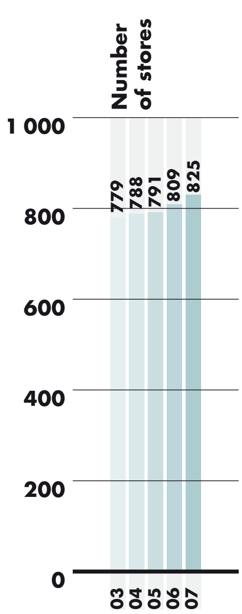


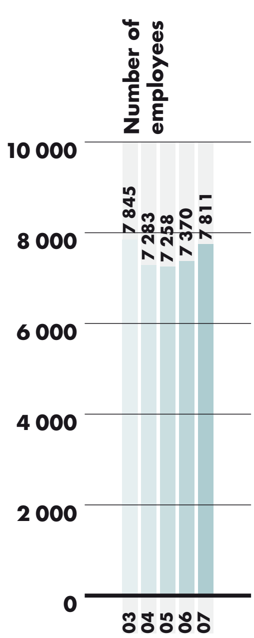
*Before impairment of goodwill of CHF 74 million











*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.

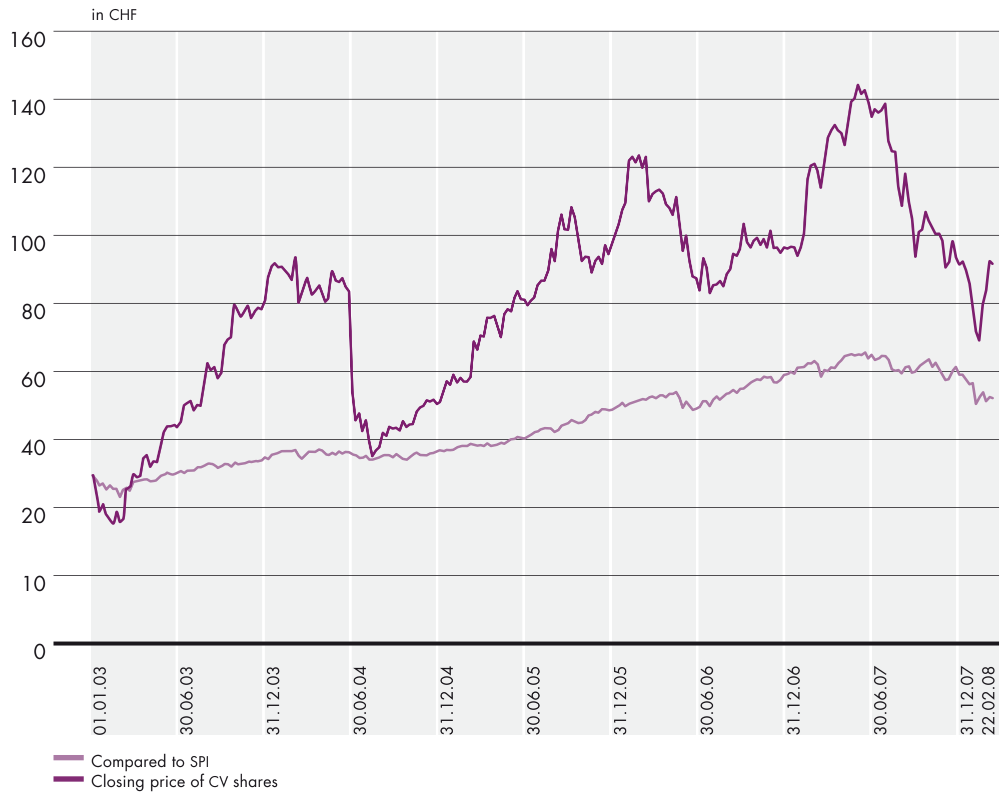
Owing to the company's stable earning power and the healthy financial situation, the Board of Directors is proposing to the Annual Shareholders' Meeting of April 16, 2008, that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares should be reduced by CHF 2.00 per share – from CHF 6.00 to CHF 4.00 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».

Price development of the Charles Vögele Holding AG shares at SWX Swiss Exchange in Zurich from 1 January 2003 to 22 February 2008




Charles Vögele **is visiting Lucerne** in 2008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Sustainability, Employees and Social Responsibility

Respect for the environment

The Charles Vögele Group's 825 stores mainly sell the company's own collections, which are produced by external suppliers under contract. Manufacturing takes place in various countries. In 2007 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 Sales 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.

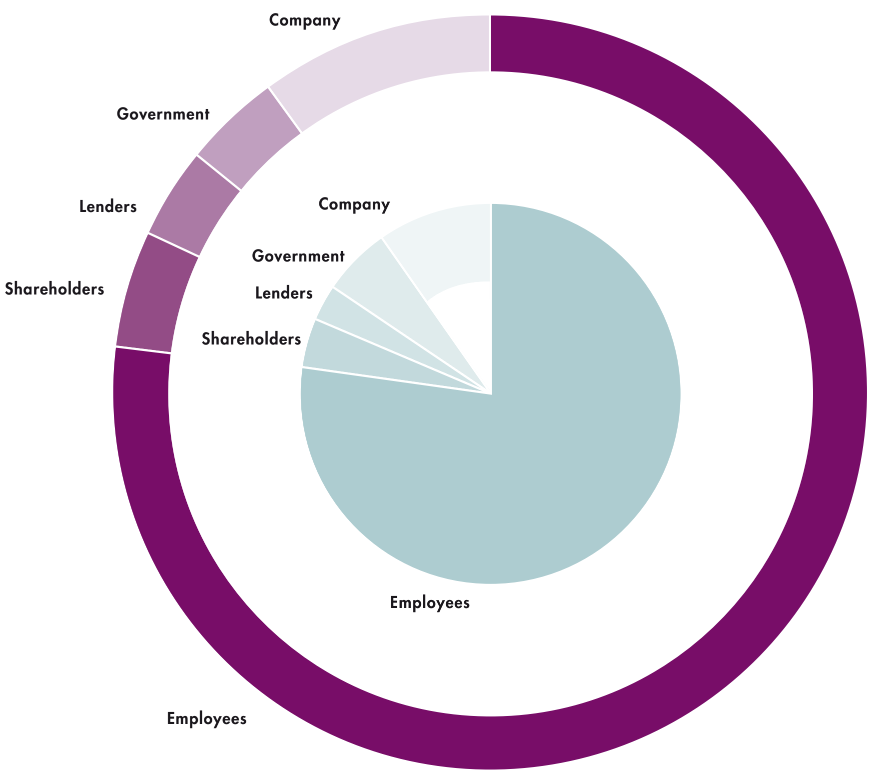
Social responsibility

Employees

The Charles Vögele Group employed 7 811 people during the year under review, which represents an increase of 6% on the previous year's 7 370. The number of full-time equivalent posts went up slightly from 4 863 in the previous year to 4 984. This change is mostly due to the expansion realized during the year under review.

Value-Added Statement

CHF 1000	2006	2007
Net sales	1 323 647	1 393 690
Other operating income	34 061	34 510
Financial income	890	824
Group services	**1 358 598**	**1 429 024**
Purchased materials and services	**(915 098)**	**(954 091)**
Gross value added	**443 500**	**474 933**
Depreciation and amortization	(131 374)	(61 368)
Net value added	**312 126**	**413 565**
Distribution of net value added		
Employees	299 553	317 919
Government	20 223	19 339
Lenders	12 030	15 333
Shareholders (based on proposed appropriation of earnings by the Board of Directors)	16 950	16 859
Company	(36 630)	44 115
Total	**312 126**	**413 565**



2007

77% Employees
5% Shareholders
4% Lenders
4% Government
10% Company

2006

96% Employees
5% Shareholders
4% Lenders
7% Government
–12% Company

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

	2004	2005	2006	2007
Number of participants	492	2 600	1 713	2 845
Number of training days	2 138	4 233	2 835	5 451

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, 511 young people completed a training programme (previous year: 534). 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: 13 trainees (27% of graduates) scored higher than a 5 (out of a possible 6).
– Austria: 6 trainees (18% of graduates) achieved a «distinction» pass.
– Germany: 32 trainees (34% 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 March 26, 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 January 1, 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 current 101 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 2007

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:

- Shanghai (China), 21/22 May
- Shenzhen (China), 23/24 May
- Istanbul (Turkey), 23 August–7 September
- Ho Chi Minh City (Vietnam), 12 October and 14 December

The Charles Vögele Group has invited its suppliers to the relevant workshops in the respective countries.

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	2007
Audits and Reaudits	26	40	43

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 ensures 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 2007

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. Ever since, 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 first project phase which lasted from September 2005 until the end of August 2007, nearly 29 000 people have made use of the facilities. The project will now be continued until the end of 2008.

Occupational training in the slums of Dhaka, Rayer Bazaar

This project, based in a training centre with shop, gives slum dwellers a basic training in practical skills. From September 1, 2005, to August 31, 2007, 400 people have been trained with four courses. These people 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

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. From March 1, 2007, until December 31, 2007, 300 women have been trained in twelve courses.

Rehabilitation of flood-damaged clothing companies in Indonesia

Just over a year ago, Jakarta was struck by a flood that destroyed the livelihoods of thousands of people. The Charles Vögele Group decided to provide emergency aid to help micro-businesses in Jakarta's textile industry. Together with Deza, the Medicor Foundation of Liechtenstein and Swisscontact, it helped to finance a project called «Small Textile Enterprises Promotion» (STEP). The project concentrated on replacing damaged machinery at 300 or so companies as well as offering other forms of disaster relief. Between April and August 2007, STEP was active in two districts of Cipulir where its original aim was to help 300 local micro-businesses. By the time the project finished in August, 370 businesses had benefited from the programme, with a total of 821 damaged machines replaced. The project helped to save 3 377 full-time jobs and 692 part-time posts. A special insurance scheme is now in place to protect the small firms from future damage.

Donations in 2007

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 **is visiting Lucerne** in 2008

1 Group Structure and Shareholders

1.1 Group structure

Charles Vögele Holding AG
Pfäffikon (Canton Schwyz)
Share capital CHF 52 800 000

Charles Vögele Mode AG
Pfäffikon (Canton Schwyz)
Share capital CHF 20 000 000

Charles Vögele (Netherlands) B.V.
Utrecht, NL
Partnership capital € 1 000 200

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
€ 12 789 299

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
€ 667 668

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 December 31, 2007

Information on listing and stock market capitalization as of December 31, 2007, can be found on page 4 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 22 section 5 of the Financial Report, and the overview of all consolidated companies is on page 46 section 40 of the Financial Report.

1.2 Significant shareholders

For detailed information on the shareholder structure please refer to note 9 Important Shareholders in the Notes to the Financial Statements on page 53 of the Financial Statements.

1.3 Cross-shareholdings

There are no cross-shareholdings with other companies.

2 Capital Structure

2.1 Share capital

As of December 31, 2007, the share capital of Charles Vögele Holding AG amounted to CHF 52 800 000 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 6.00 each. The Board of Directors will propose to the Annual Shareholders' Meeting of April 16, 2008, that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares should be reduced by CHF 2.00 from CHF 6.00 to CHF 4.00 per share – providing that the proposal will be accepted.

As of December 31, 2007, the Charles Vögele Group held 370 546 of its own shares (as of December 31, 2006: 325 200 shares), which are earmarked for the obligations of the existing management share option plan. Detailed information on purchases and sales of shares and on the relevant opening and closing totals can be found on page 53 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 1.584 million, excluding shareholders' subscription rights, through the issue of 264 000 shares with a par value of CHF 6.00 each. This authorization lasts for an indefinite period of time. These shares are to be used exclusively for people entitled to participate in management share option plans (please also refer to note 34.1 Management share option plan, in the Notes to the Consolidated Financial Statements on page 40 of the Financial Statements).

2.3 Changes in capital

A condensed overview of changes to the company's capital during the financial years 2005–2007 can be found on page 37 of this Activity Report.

2.4 Shares and participation certificates

As of December 31, 2007, 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 6.00 each. The Board of Directors will propose to the Annual Shareholders' Meeting of April 16, 2008 that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares should be reduced by CHF 2.00 from CHF 6.00 to CHF 4.00 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 management share option plan (note 34.1, page 40 Financial Statements).

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. Responsible for Metro AG's cash-and-carry business from 1993 to March 2002, and Chairman and Chief Executive Officer of Metro Cash & Carry GmbH since 1998. He was already active at the Metro Group in 1988 as a member of the Executive Board of Kaufhof Warenhaus AG.

Dr. Felix R. Ehrat
1957, Vice-Chairman, 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. Since 1987 employee of and since 1992 Partner of Bär & Karrer law firm. Since 2003 Senior Partner and as of 2007 Chairman of the Board of Directors of Bär & Karrer AG. 2001–2005 Member of the Board of Directors of Julius Baer Holding Ltd and of Bank Julius Baer & Co Ltd.

Alain Caparros
1956, French citizen
Term of office 2007–2010, first elected in 2007;
Master of Business Administration. Since 2005 member of the Management Board of REWE-Zentral AG and REWE-Zentralfinanz e.G. Member of the Board of Directors of transGourmet Schweiz AG. As of 1991 Vice-President with Yves Rocher in Paris and from 1994–1998 Managing Director of Aldi France. 1999 Chairman of Aldi Service Plus ASP in France and at the same time member of the Management Committee of Bon appétit Group Schweiz as of 2000. From 2003–2004 CEO of the Bon appétit Group in Switzerland, which was subsequently taken over by REWE.

Professor Dr. Peter Littmann
1947, German citizen
Term of office 2007–2010, 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 Charles Vögele Group.

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 Additional fees and remuneration of note 38 Related party transactions of the Notes to the Consolidated Financial Statements on page 44 of the Financial Statements.

Alain Caparros

Carlo Vögele

Bernd H. J. Bothe

Daniel J. Sauter

Dr. Felix R. Ehrat

Professor Dr. Peter Littmann

Seedamm-Center Store, Pfäffikon SZ,
Wednesday, December 12, 2007, 12.15 p.m.

Changes to the Board of Directors 2007

Alain Caparros was elected as new member of the Board of Directors at the Shareholders' Meeting of April 4, 2007. Alfred Niederer decided not to candidate for re-election to the Board of Directors.

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 Spar Österreichische Warenhandels-AG; member of the Advisory Board of H&E Reinert Group of Companies.

Dr. Felix R. Ehrat

Chairman of the Board of Directors of Banca del Gottardo; member of the Board of austriamicrosystems AG and of Carlo Gavazzi Holding AG.

Alain Caparros

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

Professor Dr. Peter Littmann

Board of Directors of Ciba Spezialitätenchemie AG and Ruckstuhl AG.

Daniel J. Sauter

Chairman of the Board of Directors of Alpine Select AG; member of the Boards of Directors of Sulzer AG, of Sika AG and of Bank Julius Bär & Co. AG.

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 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 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).

3.4 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. Eight meetings were held during the year under review. Meetings normally last one full day. The CEO and the CFO are normally present at the meetings; other members of company management, department heads and other employees or third parties are present as required. In addition, the Board of Directors has held a two-day seminar ever since 2004.

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.

Vice-Chairman of the Board of Directors

The Vice Chairman of the Board of Directors is always appointed by the Board after the Annual Shareholders' Meeting for a one-year term of office. The Vice-Chairman of the Board of Directors supports the Chairman of the Board of Directors and can be given specific responsibilities by the Board as a whole.

Board of Directors committees

The Board of Directors of Charles Vögele Holding AG generally takes all its decisions collectively. The preparation and implementation of resolutions and the monitoring of transactions is delegated by the Board of Directors to committees that have defined areas of competence and that can formulate recommendations. These recommendations are submitted to the full Board of Directors for decision. The committees are made up as follows and fulfil the following tasks stipulated in the Organizational Regulations:

– Audit Committee
Daniel J. Sauter (Chairman), Dr. Felix R. Ehrat, Prof. Dr. Peter Littmann
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. If the external audit mandate comes up for review, the Audit Committee evaluates possible alternatives and submits a proposal to the Board of Directors. The Audit Committee also monitors the content and formal correctness of external communications on all financial matters. It normally meets three to five times a year for between half a day and a whole day. The CEO, the CFO and the Group auditors as well as other members of Group Management are invited as required. In 2007, five half-day meetings were held.

- Personnel and Compensation Committee
  Dr. Felix R. Ehrat (Chairman), Bernd H. J. Bothe, Carlo Vögele
  The Personnel and Compensation Committee reviews the performance of the CEO and the other members of Group Management. Together with the CEO it evaluates any new members of the most senior level of management and submits proposals accordingly to the Board of Directors. It also submits proposals to the Board of Directors about remuneration for Group Management and members of the Board of Directors and is the Group Management's point of contact for all major human resources issues in the Charles Vögele Group. The ceo and the Head of Human Resources are asked to attend as required. In 2007 four meetings lasting several hours were held.

- Strategy Committee
  Bernd H. J. Bothe (Chairman), Alain Caparros, Prof. Dr. Peter Littmann, Carlo Vögele
  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 2007 two full-day meetings were held.

3.5 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 by law or internal organizational regulations.

In essence, the responsibilities and powers reserved for the Board of Directors by the internal organizational regulations are as follows: overall leadership of the company and the issuing of the necessary directives; defining and adjusting corporate strategy, financial and investment policy, the organization and principles of accounting, financial control and planning; the appointment and dismissal of the persons entrusted with managing the Group and representing the company as set out in the Commercial Register entry, as well as succession planning for the Board of Directors and Group Management; supervision of Group Management, including with regard to compliance with the law, articles of association, regulations and directives; approval of business that the Group Management must or chooses to present to the Board; defining the payments made to members of Group Management on the basis of a recommendation from the Personnel and Compensation Committee; approval of mass redundancies pursuant to Art. 335d of the Swiss Code of Obligations; and finally, the production of the Annual Report, preparations for the Annual Shareholders' Meeting and implementation of its resolutions.

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. According to the organizational regulations, these transactions are essentially as follows: property transactions, buying and selling subsidiaries and parts of companies, initiating legal actions against and granting loans to third parties or entering into contingent liabilities in favour of third parties – in each case when the sum concerned exceeds CHF 1 million; also proprietary transactions and contracts with third parties which by their nature lie outside Charles Vögele Group AG's normal business.

3.6 Information and control instruments for Group Management

The Board of Directors receives a monthly written report from Group Management that includes, among other items, the latest monthly figures, a financial statement up to the relevant month-end, plus further key figures relating to business activities. The Board of Directors also receives weekly sales figures from the individual Sales Organizations. At each Board meeting Group Management informs the Board of Directors about the current course of business. Group Management also makes available any additional information requested by the Board of Directors. This reporting 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 reports are submitted 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. Group Management and Internal Audit submit a report to the Audit Committee about the measures taken.

Every year the Board of Directors reviews a risk overview presented by Group Management. This overview details the main risks that could affect the company. It contains statements about the likelihood of the relevant risks occurring, as well as about the likely implications. This risk overview forms the basis for a list of measures that Group Management proposes and the Board of Directors approves. The implementation of these measures is reviewed annually.

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 until April 10, 2007, the Purchasing Manager (Serge Brugger). Werner Lange took over the role of Head of Purchasing and member of Group Management on July 1, 2007. It was announced on October 25, 2007, that Dr. Dirk Seifert was being appointed as a new member of Group Management and Head of Sales with effect from January 1, 2008. This role was previously held by Daniel Reinhard from 2002. In his capacity as CEO Daniel Reinhard heads Group Management with authority to issue directives. He also has direct responsibility for other areas of the business. 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 December 1, 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 January1, 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.

Werner Lange

1959, Chief Purchasing Officer since July 1, 2007; German citizen.
From 2003 to 2007 Purchasing Manager Adler Modemärkte GmbH. Previously Manager for purchasing and distribution of the men’s textile unit of Karstadt. From 2000 to 2002 Manager of the children and young fashion at Karstadt.

Dr. Dirk Seifert

1970, Chief Marketing & Sales Officer since January 1, 2008; German Citizen.
Doctorate in business science. From mid-2005 until the end of 2007 Managing Director of Quelle GmbH and before that Global Chief Operating officer of Esprit.

Werner Lange

Daniel Reinhard

Dr. Dirk Seifert

Dr. Felix Thöni

Seedamm-Center Store, Pfäffikon SZ,
Wednesday, December 12, 2007, 12.45 p.m.

Changes in Group Management

During the year under review there were the following changes within Group Management:

- On April 10, 2007, Serge Brugger resigned from his position of Purchasing Manager, which he had occupied since 2002
- On July 1, 2007, Werner Lange was appointed to Group Management as new Chief Purchasing Officer
- On January 1, 2008, Dr. Dirk Seifert was appointed to Group Management as Chief Marketing & Sales Officer

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 compensation and profit-sharing programmes for members of the Board of Directors and Group Management, and – with regard to the Management Share Option Plan – for members of the second tier of management. 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. Decisions about compensation and profit shares for members of the Board of Directors are taken by the Board of Directors as a whole without the participation of Group Management. Members of the Board of Directors have a right of codetermination with regard to their own compensation. When the Board of Directors as a whole is deciding on compensation and profit shares for the other members of Group Management, the CEO participates in the discussion and has a vote.

Compensation for the Board of Directors and Group Management is reviewed every year by the whole Board of Directors as proposed by the Personnel and Compensation Committee unless contracts extend over several years. The basic aim when setting compensation for the Board of Directors and Group Management is to incentivize members of these bodies as effectively as possible to secure long-term increases in Group earnings after tax. During the year under review, the Personnel and Compensation Committee sought the assistance of external advisors who made recommendations on the basis of wage comparisons and benchmarks (comparable companies in Switzerland and abroad); these advisors did not have any other mandates within the Group during the period under review.

Compensation for the Board of Directors and Group Management is made up of a fixed and a variable component. For members of the Board of Directors the fixed part is a cash payment that varies according to function (Chairman, Vice-Chairman, member). For members of Group Management the fixed part comprises a cash payment plus the use of a company car for business and private purposes. The variable portion comprises a fixed percentage of Group net profit. For members of the Board of Directors this is 0.1% each of Group net profit, for the CEO 1.4% of reported Group net profit, and for members of Group Management 0.4% each of Group net profit. The fixed element is paid out to members of the Board of Directors every quarter, and members of Group Management twelve times a year.

During the year under review, the variable element for the Members of the Board of Directors came in total to 40.9% of the basic salary; for members of Group Management to 70.0% of the basic salary.

In order to link the interests of the members of the Board of Directors, Group Management and members of the second tier of management with those of shareholders, a management share option plan was defined for these groups in 2002. For further details of this options plan's timetable, allocation criteria and individual parameters such as subscription ratios, underlying values, strike prices, maturities and blocking periods, please see note 34 Management Share Options Plan in the notes to the Group Financial Statements on page 40 of the financial section. Members of the Board of Directors, Group Management and the second tier of management subscribed to options under the existing management share options plan during the year under review. Detailed information is given in note 38 Related Party Transactions in the Notes to the Consolidated Financial Statements on page 44 of the Financial Statement.

Persons who left the Board of Directors or Group Management during the year under review received no payments or benefits in connection with their departure.

Further information is also available in the Personnel and Compensation Committee part of section 3.4 «Internal Organization» on page 59.

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 (equal to 1.89% of the share capital as per 31.12.2007) 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.

The Board of Directors will propose to the Annual Shareholders' Meeting on April 16, 2008 that the threshold for shareholders wishing to add items to the agenda of Shareholders' Meetings should be reduced to 0.5% of share capital.

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 April 4, 2007. Since April 29, 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. Arthur Andersen AG was the auditor for the Charles Vögele Group and Charles Vögele Holding AG from 1999 to 2003.

8.2 Audit fee

The Group auditor and auditor of Charles Vögele Holding AG is paid a fee totalling approximately CHF 658 000 plus another CHF 65 000 for audit-related services plus expenses for carrying out the statutory audit mandate in the business year 2007. 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 external auditor carries out the statutory audit of Charles Vögele Holding AG and the Group's individual companies, and also audits the Group's consolidated accounts under IFRS. The external auditor does all this through an interdisciplinary team with international IFRS expertise and knowledge of the retail sector. Audit results for the individual companies and the Group are discussed twice a year with Group Management and the managements of the individual companies, as well as with the Audit Committee. An explanatory report for Charles Vögele Holding AG and for the Group is submitted to the Board of Directors. This contains the main points from the reports to the Audit Committee and Group Management. In addition, recommendations are made to the Shareholders' Meeting to adopt the annual financial statements and the Group financial statements.

In addition to the audit of annual and half-year accounts, the external auditor analyzes the strategic audit plan and examines internal processes. The results of these reviews are distributed in the form of a management letter to the Audit Committee and Group Management; the results are also discussed at a meeting with the Audit Committee. Where necessary, the external auditor may make recommendations or propose possible new audit requirements on the basis of these reviews.

Three meetings are held each year between the external auditor and the Audit Committee. The CEO and CFO also attend. According to the statutory provisions, the external audit company's lead auditor must be rotated every seven years. All of the work done by the external auditor is assessed and examined by the Audit Committee on an ongoing basis.

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 69 of this Activity Report, as well as at our website: www.charles-voegele.com, under the Investor Relations or Contact links respectively.

10 Significant events since December 31, 2007

On January 1, 2008 the provisions of the Swiss Federal Law of December 16, 2005 on the Amendment of the Code of Obligations came into force. As a result Charles Vögele Holding AG must amend its articles of association. It has two years to do so. Consequently, the Board of Directors will propose to the Annual Shareholders' Meeting of April 16, 2008 that the following changes be made to the company's articles of association (overview):

- The requirement that members of the company's Board of Directors be shareholders in the company or represent a legal entity that holds shares in the company should be dropped. Conversely, members of the Board of Directors should be given the right to participate in the Annual Shareholders' Meeting and propose resolutions.
- Terminological and technical changes to match the new audit law. Charles Vögele Holding AG is subject to statutory audit by a government-regulated audit company in accordance with the provisions of the Audit Regulation Act. The person who leads the audit may only hold this mandate for seven years, and may only reassume the mandate after a gap of three years.

Forthcoming events

- Analysts' and media conference on the 2007 business year results: March 4, 2008
- Annual Shareholders' Meeting 2007: April 16, 2008
- Analysts' and media conference on the 2008 half-year results: August 26, 2008
- Analysts' and media conference on the 2008 business year results: March 3, 2009
- Annual Shareholders' Meeting 2008: April 1, 2009
- Analysts' and media conference on the 2009 half-year results: August 25, 2009

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2007

Charles Vögele Group

Financial Statements

Charles Vögele Switzerland

Charles Vögele Group

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Consolidated Income Statement

from January 1 to December 31

CHF 1000	Note	2006	2007
Net sales		**1 323 647**	**1 393 690**
Cost of goods	19.1	(505 227)	(507 207)
Gross profit		**818 420**	**886 483**
In % of net sales		**61.8%**	**63.6%**
Personnel expenses	6	(299 553)	(317 919)
Rental expenses	7	(210 915)	(226 732)
Advertising and promotion expenses	8	(101 540)	(115 818)
General operating expenses	9	(92 805)	(98 574)
Other operating income	10	29 451	28 750
Total operating expenses before depreciation and impairment		**(675 362)**	**(730 293)**
Operating earnings before depreciation and impairment (EBITDA)		**143 058**	**156 190**
In % of net sales		**10.8%**	**11.2%**
Depreciation		(55 064)	(60 897)
Impairment	11	(76 311)	(471)
Operating earnings (EBIT)		**11 683**	**94 822**
In % of net sales		**0.9%**	**6.8%**
Financial income	12	890	824
Financial expenses	13	(11 140)	(12 089)
Exchange gains/(losses), net	14	(890)	(3 244)
Profit before income tax		**543**	**80 313**
In % of net sales		**0.04%**	**5.8%**
Tax expenses	15	(20 223)	(19 339)
Net profit of the year		**(19 680)**	**60 974**
In % of net sales		**(1.5%)**	**4.4%**
Basic earnings per share	16	**(2.32)**	**7.19**
Diluted earnings per share	16	**(2.32)**	**7.10**

The notes on pages 6 to 46 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

as of December 31

CHF 1000	Note	31.12.2006	31.12.2007
Assets			
Current assets			
Cash and cash equivalents	17	41 756	42 076
Receivables, advance payments and prepaid expenses	18	42 927	47 715
Derivative financial instruments	23	1 408	79
Inventories	19	280 627	288 741
Total current assets		**366 718**	**378 611**
Long-term assets			
Tangible assets	20	424 625	443 402
Financial assets	21	696	712
Intangible assets	22	77 821	79 168
Deferred tax assets	15	14 900	15 115
Total long-term assets		**518 042**	**538 397**
Total assets		**884 760**	**917 008**
Liabilities and shareholders' equity			
Current liabilities			
Short-term financial liabilities	24	7 187	19 085
Trade payables		60 317	61 714
Derivative financial instruments	30	2 613	10 416
Other liabilities and accruals	25	66 969	65 741
Current tax liabilities		8 879	9 684
Total current liabilities		**145 965**	**166 640**
Long-term liabilities			
Lease liabilities	26	46 475	44 333
Provisions	27	7 927	7 808
Deferred tax liabilities	15	40 892	40 642
Mortgages	28	93 240	95 000
Loans	29	61 596	39 303
Total long-term liabilities		**250 130**	**227 086**
Shareholders' equity			
Share capital less treasury shares	31, 32	46 006	21 694
Other reserves		173 789	173 789
Retained earnings		268 870	327 799
Total shareholders' equity		**488 665**	**523 282**
Total liabilities and shareholders' equity		**884 760**	**917 008**

The notes on pages 6 to 46 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

from January 1 to December 31

CHF 1000	Note	2006	2007
Net profit for the year		**(19 680)**	**60 974**
Adjustments:			
– Tax expenses	15	20 223	19 339
– Financial expenses	13, 14	12 030	15 333
– Financial income	12	(890)	(824)
– Depreciation and impairment	11	131 375	61 368
– Profit on disposal of assets		(19)	(62)
– Other non-cash expenses		1 202	1 727
Change in long-term provisions		(219)	(357)
Change in inventories		(25 974)	(2 701)
Change in net working capital		(7 687)	(9 304)
Operating earnings after changes in net working capital		**110 361**	**145 493**
Financial income received		890	824
Financial expenses paid		(10 362)	(16 324)
Taxes paid		(27 393)	(18 494)
Cash flow from operating activities		**73 496**	**111 499**
Investments in intangible assets	22.1	(1 547)	(3 373)
Investments in tangible assets	20.1	(71 102)	(70 934)
Disposals of tangible assets		344	250
Net cash provided/(used) by investing activities		**(72 305)**	**(74 057)**
Change in bank loans	29	12 500	(22 500)
Change in finance lease liabilities		(5 441)	(7 103)
Purchase of treasury shares	32	(9 989)	(10 989)
Disposals of treasury shares	32	4 256	3 589
Change in mortgages	28	(160)	1 760
Distribution to shareholders	33	(17 037)	(17 027)
Net cash provided/(used) by financing activities		**(15 871)**	**(52 270)**
Net increase/(decrease) in cash and cash equivalents		**(14 680)**	**(14 828)**
Net cash and cash equivalents at the beginning of the period	17	**59 678**	**41 013**
Effect of exchange rate changes		(3 985)	943
Net increase/(decrease) in cash and cash equivalents		(14 680)	(14 828)
Net cash and cash equivalents at the end of the period	17	**41 013**	**27 128**

The notes on pages 6 to 46 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 plan	Total
Balance 1.1.2006	31	**88 000**	**(20 032)**	**173 789**	**294 228**	**(12 260)**	**3 669**	**1 792**	**529 186**
Cash flow hedges, net of tax	36.1						(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	34							1 202	1 202
Value of exercised/ expired options	34				850			(850)	0
Disposals of treasury shares	32		5 064		(808)				4 256
Purchase of treasury shares	32		(9 989)						(9 989)
Par value reduction	33	(17 600)	563						(17 037)
Balance 31.12.2006	31	**70 400**	**(24 394)**	**173 789**	**274 590**	**(7 751)**	**(113)**	**2 144**	**488 665**
Balance 1.1.2007	31	**70 400**	**(24 394)**	**173 789**	**274 590**	**(7 751)**	**(113)**	**2 144**	**488 665**
Cash flow hedges, net of tax	36.1						(6 711)		(6 711)
Currency translation differences						3 054			3 054
Net income/(expense) recognized directly in equity					**0**	**3 054**	**(6 711)**		**(3 657)**
Net profit for the year 2007					60 974				60 974
Total recognized income for 2007					**60 974**	**3 054**	**(6 711)**		**57 317**
Value of granted options	34							1 727	1 727
Value of exercised/ expired options	34				521			(521)	0
Disposals of treasury shares	32		3 704		(115)				3 589
Purchase of treasury shares	32		(10 989)						(10 989)
Par value reduction	33	(17 600)	573						(17 027)
Balance 31.12.2007	31	**52 800**	**(31 106)**	**173 789**	**335 970**	**(4 697)**	**(6 824)**	**3 350**	**523 282**

The notes on pages 6 to 46 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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, the Netherlands, Belgium, Austria, 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.

2 Summary of main accounting and valuation principles

2.1 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) on the basis of historical purchase values, except derivative financial instruments which are recorded at fair value. Note 4 explains the most important accounting assumptions and estimates.

2.2 Changes in accounting policies

New IFRS standards and interpretations

The following new IFRS standards, amendments to existing standards and interpretations of existing standards, valid since January 1, 2007, have been applied on these annual financial statements:

– IFRS 7: Financial instruments: Disclosures and related changes to IAS 1
– IFRIC 7: Accounting in high-inflation countries
(not relevant to the Charles Vögele Group)
– IFRIC 8: Scope of IFRS 2
– IFRIC 9: Reassessment of embedded derivatives
– IFRIC 10: Interim financial reporting and impairment

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 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: Service concession arrangements
(applicable from 2008 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
– IFRIC 14: IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction
(applicable from 2008 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
– IFRS 8: Operating segments
(applicable from 2009 financial year; implications for the Charles Vögele Group's accounts are currently being examined)
– IFRIC 13: Customer loyalty programmes
(applicable from 2009 financial year; implications for the Charles Vögele Group's accounts are currently being examined)

- IAS 1: Presentation of financial statements
(applicable from 2009 financial year; implications for Charles Vögele Group's accounts are currently being examined)
- IAS 23: Borrowing costs
(applicable from 2009 financial year; implications for Charles Vögele Group's accounts are currently being examined)
- IFRS 2: Share-based payment
(applicable from 2009 financial year; implications for Charles Vögele Group's accounts are currently being examined)
- IFRS 3: Business combinations
(applicable from 2010 financial year; implications for Charles Vögele Group's accounts are currently being examined)
- IAS 27: Consolidated and separate financial statements
(applicable from 2010 financial year; implications for Charles Vögele Group's accounts are currently being examined)

The changes that have a material effect on these 2007 financial statements are explained below.

IFRS 7 Financial instruments: Disclosures

Applicable since 1.1.2007, the new IFRS 7 standard and the additional changes in IAS 1 govern the disclosure of financial instruments and require the notes to the accounts to provide additional information on the management of financial risks and capital. However, its introduction has no influence on the valuation of individual positions within the annual financial statements.

Change in accounting principle for defined benefit pension schemes (IAS 19)

Until the end of the year 2006, actuarial gains and losses as well as changes to unrecognized assets of defined benefit pension plans were immediately booked to the income statement under personnel expenses. In order to minimize the inherent risk of fluctuating results, from 1.1.2007, the "10%-corridor method" is being used. This method states that only the part of the actuarial gains or losses which exceed 10% of the value of plan assets, or 10% of defined benefit obligations, is recognized in the income statement spread out proportionally over the average remaining working life of the participating employees.

The pension cost created by this change was offset by the release of the surplus coverage of assets. This change in accounting principle did not lead to retrospective changes in the prior-year period.

2.3 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 controls directly or indirectly, and in which it has a voting interest exceeding 50%, 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 40.

2.4 Scope of consolidation

There were no changes in the scope of consolidation in the 2006 or 2007 financial year.

2.5 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, Belgium/Netherlands, Austria 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.

2.6 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:

2007	ISO code	Unit	Balance sheet	Income statement
Euro	EUR	1	1.66	1.64
Hong Kong	HKD	1	0.14	0.15
USA	USD	1	1.13	1.20
Hungary	HUF	100	0.66	0.65
Poland	PLN	100	46.18	43.47
Czech Republic	CZK	100	6.23	5.92

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

2.7 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.

2.8 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.

2.9 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, adjusted for as yet unrecorded accumulated actuarial gains and losses and for unrecognized prior service costs. The DBO is calculated at least every three years by an independent actuary using the projected unit credit method. Actuarial gains and losses as well as alterations to asset limits are booked to the income statement over the employees' remaining average employment period as long as they exceed 10% of the value of plan assets or 10% of benefit-related liabilities. 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.

2.10 Advertising

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

2.11 Financial expenses

Interest costs are charged directly to the income statement.

2.12 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 exchange rate as of December 31.

2.13 Receivables and advance payments

Charles Vögele Group normally does not carry customer receivables since the vast majority of sales to customers are cash sales. Receivables and advance payments are recognized initially at fair value (normally the nominal value) less necessary value adjustments. A value adjustment is made when it becomes probable that the whole nominal sum cannot be collected. Receivables are usually derecognized in full if the creditor is subject to insolvency or bankruptcy proceedings.

2.14 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. Purchases of goods in foreign currencies are converted at the exchange rate on the date of the transaction or at the hedged exchange rate of the goods purchased.

2.15 Derivative financial instruments and hedge accounting

Derivatives are initially recognized at current market value on the date of purchase and subsequently 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 or expense.

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 on purchase costs.

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 underlying transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative recorded gain or loss in equity is immediately transferred to the income statement.

2.16 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, Germany and Austria. Land and buildings are recognized at acquisition cost less accumulated depreciation for buildings and any impairments (see Note 2.19). 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 2.19). 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

2.17 Financial instruments (assets)

All purchases and sales of financial assets are recognized on the day the Group commits to the purchase or sale. Financial assets that are not recorded in the income statement at fair value are recognized on purchase at fair value plus transaction costs. Financial assets that are recorded in the income statement at fair value are initially recognized at fair value, which is usually equivalent to the purchase price, and transaction costs are charged to the income statement. Financial assets are derecognized as soon as the rights to cash flows from the asset expire or are transferred and the Group has assigned all the material risks and benefits associated with ownership thereof.

Financial assets are divided into the following four categories. The choice of category depends on the purpose for which the financial assets was acquired.

Financial assets held at fair value recognized through the income statement

This category includes derivative financial instruments that are not assigned to hedge accounting. Any changes in value are recognized in the income statement. Charles Vögele Group does not designate any financial assets to this category.

Loans and receivables

Loans and receivables are non-derivative financial assets with determinable payments that are not quoted on an active market. They are shown under current assets provided their maturity is not more than twelve months after the balance sheet date. Otherwise they are shown as long-term assets. In the Group balance sheet, the position "Receivables, advance payments and prepaid expenses" (see Note 18) are recorded under this category. Loans and receivables are recognized at amortized cost.

Financial assets held to maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that Charles Vögele Group wants to and can hold to maturity. Charles Vögele Group did not hold any assets in this category in the 2006 and 2007 financial years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that have been assigned to this category or that have not been assigned to any of the other categories. They are carried as long-term assets unless there is a plan to sell them within 12 months of the balance sheet date. The investments shown for 2006 and 2007 are recorded under this category (see Note 21).

2.18 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 2.19).

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 2.19). IT software is depreciated using the straight-line method over five years; licenses and trademarks are depreciated over their estimated useful life.

2.19 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 2.18). 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 recoverable amount is the higher of the value in use and the fair value less costs to sell.

Value in use

The value in use is 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 fair value less costs to sell is the amount for which an asset can be sold in a transaction under normal market conditions between knowledgeable and willing contracting parties, less costs of sale.

2.20 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.

2.21 Trade payables

Trade payables are valued at the foreign exchange rate as of December 31. Cash discounts earned are recognized in the income statement at the time of payment as "Other operating income".

2.22 Financial liabilities

Financial liabilities 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 income or expense in the income statement over the period of the borrowings using the effective interest method.

Financial liabilities 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.

2.23 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.

2.24 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 (see Note 2.22). Acquisition costs are depreciated using the straight-line method over the useful life or contractual life of the asset, whichever is shorter. 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 rewards associated with ownership of the asset rest with an independent third party. Operating lease payments are charged to the income statement.

2.25 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.

2.26 Valuation of share option plan

The Group operates an equity-settled, share-based compensation plan (see Note 34). The fair value of issued options is recognized proportionally 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.

3 Financial risk management

Charles Vögele Group is exposed to various financial risks, including market risks (currency and interest rate risks), credit risks and liquidity risks. Charles Vögele Group's general risk management is focused on the unpredictability developments on the financial market and its aim is to reduce the potential negative impact on financial results. The tools that the Group uses to do this include derivative financial instruments.

Financial risk management is carried out by the Treasury Department. The Group Treasurer identifies, values and hedges the financial risks within the given guidelines.

3.1 Currency risks

Charles Vögele Group's main currency exposures are to the USD and EUR. The USD risk is limited to the purchase of goods since only purchases and no sales are made in USD. In order to reduce this risk the Group enters into forward foreign exchange contracts and currency swaps. These cover almost 100% of USD requirements based on planned purchases of goods for the spring/summer and autumn/winter seasons. The EUR and other foreign currencies are consolidated at Group level, continuously monitored and hedged where necessary.

Subsequent sensitivity analyses show the material foreign currency risks to which Charles Vögele Group is exposed on the balance sheet date, as well as the implications for the consolidated result and shareholders' equity.

CHF 1000	EUR/CHF	USD/CHF	PLN/CHF	HUF/CHF	CZK/CHF
Total group foreign currency exposures 31.12.2006	308 535	(3 529)	4 618	4 650	3 919
Average between annual high and low exchange rate compared to balance sheet rate	2.0%	5.0%	5.5%	7.0%	4.5%
Total effect on group earnings in 2006 at increasing foreign currency rate	**6 171**	**(176)**	**254**	**326**	**176**
Total effect on group earnings in 2006 at declining foreign currency rate	**(6 171)**	**176**	**(254)**	**(326)**	**(176)**
Derivative financial instruments as cash flow hedges		164 101			
Total effect on consolidated group equity as of 31.12.2006 at increasing foreign currency rate		**8 205**			
Total effect on consolidated group equity as of 31.12.2006 at declining foreign currency rate		**(8 205)**			

CHF 1000	EUR/CHF	USD/CHF	PLN/CHF	HUF/CHF	CZK/CHF
Total group foreign currency exposures 31.12.2007	221 555	(2 419)	4 703	14 915	17 377
Average between annual high and low exchange rate compared to balance sheet rate	3.0%	7.5%	6.5%	4.0%	6.0%
Total effect on group earnings in 2007 at increasing foreign currency rate	**6 647**	**(181)**	**306**	**597**	**1 043**
Total effect on group earnings in 2007 at declining foreign currency rate	**(6 647)**	**181**	**(306)**	**(597)**	**(1 043)**
Derivative financial instruments as cash flow hedges		135 379			
Total effect on consolidated group equity as of 31.12.2007 at increasing foreign currency rate		**10 153**			
Total effect on consolidated group equity as of 31.12.2007 at declining foreign currency rate		**(10 153)**			

3.2 Interest risks

Charles Vögele Group has no significant interest-bearing assets, so changes in market interest rates have little effect on earnings or operating cash flows.

Charles Vögele Group's interest rate risk stems mainly from its bank loans, mortgages and leasing liabilities. Long-term interest-bearing financial liabilities with variable interest rates expose the Group to a cash flow interest risk, while fixed-rate liabilities represent a fair value interest risk. The mortgages, leasing liabilities and loans are mainly fixed rate liabilities. The loans outstanding at the end of the year are not representative of the year as a whole. The company's funding requirements increase at the start of a selling season as products are purchased, and then decline proportionally towards the end of the season as the products are sold. At the end of the year, most financial liabilities had fixed interest rates, so changes in interest rates had no significant effect on the income statement or shareholders' equity.

The Group Management sets itself the goal of covering on average about 50% of its borrowing needs with long-term fixed-rate instruments. Interest rate hedging transactions are used where necessary.

3.3 Credit risks

Credit risks can arise from the following balance sheet positions: cash and cash equivalents, receivables and advance payments, and financial assets. Charles Vögele Group is not exposed to any noteworthy credit risk since the vast majority of sales to customers are settled in cash or by the major debit and credit cards. Processing and payment is carried out through local financial services providers within two or three days. Financial institutions and financial services providers usually have to have at least an "A" rating before Charles Vögele Group will consider using them for banking business. Any risks arising from cash and cash equivalents are further minimized by the use of a variety of local financial services providers rather than a single banking institution.

Risks can arise from cash at the stores and in transporting these cash takings to the financial institutions. Cash holdings (takings, change) in the stores are kept in safes and kept to a minimum through regular or as-needed transfers of the cash takings. The risk of theft by own or third-party personnel has been reduced further by the installation of an effective internal control system. Cash holdings in the safes are insured to an appropriate level against theft and acts of God, and are replaced if lost. When choosing firms to transport money and valuables, Charles Vögele Group's selection criteria are based on quality, transparency, security and comprehensive insurance protection.

Receivables from tax refunds (value added tax) are secured by regularly verifying that declarations are formally correct and by submitting the necessary declarations on time. Prepayments to suppliers and other claims are checked regularly and any identified credit risk is taken into account through a value adjustment (see Note 2.13).

3.4 Liquidity risks

Owing to seasonal fluctuations in monthly revenues and the pre-financing of goods purchasing, cash flow varies greatly across the financial year. A continuously updated liquidity plan is in place to manage these liquidity risks. This plan is based on the annual budgeted figures for sales, costs and investments. In order to meet the necessary short-term liabilities, Charles Vögele Group keeps a permanent liquidity reserve of about CHF 30 to 50 million.

On the balance sheet date, Charles Vögele Group had the following liquidity reserves:

CHF 1000	31.12.2006	31.12.2007
Net cash and cash equivalents at the end of the period	41 013	27 128
Syndicated credit line agreement	225 000	250 000
./. Credit lines used	(62 500)	(40 000)
Additional credit lines	19 288	19 873
./. Credit lines used	(743)	(14 948)
Total cash reserves and unused credit lines	**222 058**	**242 053**

The following future outflow of funds is expected from the financial liabilities shown at the balance sheet date:

CHF 1000	< 1 year	1–5 years	> 5 years	Total
Short-term bank liabilities	743	0	0	743
Trade payables	60 317	0	0	60 317
Other liabilities and accruals (excl. vouchers)	58 238	0	0	58 238
Finance lease liabilities, gross	9 107	31 439	28 054	68 600
Mortgages	16 509	26 278	58 000	100 787
Loans	734	62 500	0	63 234
Total as of 31.12.2006	**145 648**	**120 217**	**86 054**	**351 919**

CHF 1000	< 1 year	1–5 years	> 5 years	Total
Short-term bank liabilities	14 948	0	0	14 948
Trade payables	61 714	0	0	61 714
Other liabilities and accruals (excl. vouchers)	54 889	0	0	54 889
Finance lease liabilities, gross	6 668	30 588	25 112	62 368
Mortgages	21 746	8 307	73 000	103 053
Loans	715	40 000	0	40 715
Total as of 31.12.2007	**160 680**	**78 895**	**98 112**	**337 687**

The following future outflow of funds is expected from the forward currency contracts outstanding on the balance sheet date:

CHF 1000	< 1 year	1–5 years	> 5 years	Total
Balance 31.12.2006				
Derivative for cash flow hedges:				
– Cash outflow (contract value)	192 252	0	0	192 252
– Cash inflow (fair value)	(193 060)	0	0	(193 060)
Derivative for trading purposes:				
– Cash outflow (contract value)	157 681	0	0	157 681
– Cash inflow (fair value)	(160 112)	0	0	(160 112)

CHF 1000	< 1 year	1–5 years	> 5 years	Total
Balance 31.12.2007				
Derivative for cash flow hedges:				
– Cash outflow (contract value)	166 483	0	0	166 483
– Cash inflow (fair value)	(159 269)	0	0	(159 269)
Derivative for trading purposes:				
– Cash outflow (contract value)	80 188	0	0	80 188
– Cash inflow (fair value)	(82 600)	0	0	(82 600)

3.5 Capital risks

The primary aim of capital management is to ensure that Charles Vögele Group can continue to operate sustainably and so meet the needs of its various stakeholders over the long term. The company's capital structure takes appropriate account of the business risks inherent in the Group's business model.

In order to achieve these objectives, Charles Vögele Group can adjust its dividend payments, pay capital back to shareholders, issue new shares, take out loans with financial institutions, pay such loans back ahead of schedule, place financing on the capital market or sell assets in order to reduce debts.

Charles Vögele Group monitors its capital structure on the basis of net debt. Net debt itself is calculated as the sum of short- and long-term loans from financial institutions, mortgages and lease liabilities, less cash and cash equivalents. Charles Vögele Group's goal is to ensure that the relation between net debt and EBITDA does not exceed factor two. At the balance sheet date, the key figures were as follows:

CHF 1000	31.12.2006	31.12.2007
Short-term financial liabilities	7 187	19 085
Finance lease liabilities	46 475	44 333
Mortgages	93 240	95 000
Loans	61 596	39 303
Cash and cash equivalents	(41 756)	(42 076)
Net liability	**166 742**	**155 645**
EBITDA	143 058	156 190
Net liability / EBITDA (factor)	**1.17**	**1.00**
Shareholders' equity (see page 5)	488 665	523 282
Net liability / Shareholders' equity (factor)	**0.34**	**0.30**

3.6 Determining fair value

The publicly quoted market price on the balance sheet date is used to determine the fair value of financial instruments that are traded on an active market.

For financial instruments that are not traded on an active market, valuation methods that give the most realistic valuations are used. This category is not materially significant for Charles Vögele Group.

Short-term financial receivables and liabilities are recognized at nominal value less any value adjustments. Owing to the short-term maturities involved, this is roughly equivalent to the fair value.

4 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:

4.1 Goodwill

In accordance with the accounting and valuation methods stated in Notes 2.18 and 2.19, 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 22.2).

4.2 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 15).

4.3 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 27). Additional accruals are set up to cover estimated costs for legal expenses. The estimated risk connected with these pending lawsuits is covered in full.

4.4 Inventories

At the balance sheet date, estimations have to be made for the valuation 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 sales promotions and are based on the most reliable evidence available to estimate the net realizable amount (see Note 2.14 and 19.1).

5 Segment reporting

Fiscal year 2007

CHF 1000	Sales organizations	Central services	Consolidation entries	Group
Net sales	1 393 636	708 820	(708 766)	1 393 690
Operating earnings before depreciation (EBITDA)	84 238	72 807	(855)	156 190
EBITDA in % of net sales	6.0%	10.3%	0	11.2%
Operating earnings (EBIT)	31 605	64 072	(855)	94 822
EBIT in % of net sales	2.3%	9.0%	0	6.8%
Depreciation	(52 162)	(8 735)	0	(60 897)
Impairment	(471)	0	0	(471)
Cash flow from operating activities	58 394	76 772	(23 667)	111 499
Operating assets[1]	749 871	175 782	(75 019)	850 634
Operating liabilities[2]	166 158	57 989	(78 468)	145 679
Tangible assets[3]	420 738	22 664	0	443 402
Net investments	61 324	11 166	0	72 490

CHF 1000	Switzerland	Germany	Belgium/ Netherlands	Austria	Eastern Europe	Total sales organizations
Net sales	452 070	458 054	183 963	259 623	39 926	1 393 636
Operating earnings before depreciation (EBITDA)	67 584	5 833	(2 053)	12 855	19	84 238
EBITDA in % of net sale	14.9%	1.3%	(1.1%)	5.0%	0.0%	6.0%
Operating earnings (EBIT)	51 804	(13 632)	(10 839)	5 751	(1 479)	31 605
EBIT in % of net sales	11.5%	(3.0%)	(5.9%)	2.2%	(3.7%)	2.3%
Depreciation	(15 780)	(19 112)	(8 786)	(6 986)	(1 498)	(52 162)
Impairment	0	(353)	0	(118)	0	(471)
Cash flow from operating activities	63 854	3 720	(3 226)	4 389	(10 343)	58 394
Operating assets[1]	288 833	235 681	83 626	105 477	36 254	749 871
Operating liabilities[2]	46 623	56 298	18 705	36 135	8 397	166 158
Tangible assets[3]	197 388	115 646	41 032	48 251	18 421	420 738
Net investments	14 957	18 398	10 325	8 496	9 148	61 324

[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 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%	0	10.8%
Operating earnings (EBIT)	(48 160)	68 506	(8 663)	11 683
EBIT in % of net sales	(3.6%)	10.0%	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	Belgium/ Netherlands	Austria	Eastern Europe	Total sales organizations
Net sales	451 396	451 050	157 993	248 543	14 665	1 323 647
Operating earnings before depreciation (EBITDA)	63 842	3 553	(3 911)	13 783	(1 750)	75 517
EBITDA in % of net sale	14.1%	0.8%	(2.5%)	5.5%	(11.9%)	5.7%
Operating earnings (EBIT)	47 204	(15 916)	(84 293)	7 095	(2 250)	(48 160)
EBIT in % of net sales	10.5%	(3.5%)	(53.4%)	2.9%	(15.3%)	(3.6%)
Depreciation	15 964	18 582	5 863	6 457	500	47 366
Impairment	674	887	74 519	231	0	76 311
Cash flow from operating activities	41 406	(6 555)	(7 529)	72	(7 050)	20 344
Operating assets[1]	295 942	229 159	79 024	99 164	17 446	720 735
Operating liabilities[2]	54 836	62 266	18 134	47 392	4 242	186 870
Tangible assets[3]	198 192	112 253	37 025	45 873	9 719	403 062
Net investments	17 659	14 576	6 782	5 351	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"

6 Personnel expenses

CHF 1000	2006	2007
Wages and salaries	245 237	259 894
Social security costs	42 802	45 308
Other personnel expenses	11 514	12 717
Total	**299 553**	**317 919**

6.1 Defined contribution retirement plans

Charles Vögele Group's Dutch group company has an independent industry pension plan. As there is no reliable basis for allocating the plan's assets to the individual participating companies, 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 2.0 million in 2007 and CHF 1.9 million in 2006.

6.2 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 under IFRS they are treated as defined benefit plans.

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

	2006	2007
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 liabilities and plan assets are as follows:

CHF 1000	2006	2007
Present value of funded obligation (DBO), as of January 1	**(80 929)**	**(85 379)**
Service cost	(7 592)	(7 834)
Interest cost	(3 098)	(3 262)
Benefits paid	6 240	9 254
Present value of funded obligation (DBO), as of December 31	**(85 379)**	**(87 221)**
Fair value of plan assets, as of January 1	**83 426**	**88 620**
Expected return on plan assets	3 546	3 766
Employees' contributions	3 538	3 723
Employer's contributions	4 050	4 241
Benefits paid	(6 240)	(9 254)
Actuarial gain (loss) on plan assets	300	(3 865)
Fair value of plan assets, as of December 31	**88 620**	**87 231**

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	2006	2007
Service cost	7 592	7 834
Interest cost	3 098	3 262
Expected return on plan assets	(3 546)	(3 766)
Actuarial (gain)/loss on plan assets	(300)	3 865
Increase/(decrease) not capitalized portion of the over-coverage	744	(3 231)
Net periodic pension cost	**7 588**	**7 964**
Employee's contributions	(3 538)	(3 723)
Expenses recognized in the income statement	**4 050**	**4 241**

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	31.12.2007
Present value of funded obligations (DBO)	(80 929)	(85 379)	(87 221)
Fair value of plan assets	83 426	88 620	87 231
Over-/(under-)coverage	**2 497**	**3 241**	**10**
Not capitalized portion of the over-coverage	(2 497)	(3 241)	(10)
Over-/(under-)coverage recognized in the balance sheet	**0**	**0**	**0**
Experience adjustments on plan liabilities	0	0	0
Experience adjustments on plan assets	3 317	300	(3 865)

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	2006	2007
Net liability in balance sheet, as of January 1	0	0
Expense recognized in the profit and loss statement	4 050	4 241
Employer's contributions	(4 050)	(4 241)
Net liability in balance sheet, as of December 31	**0**	**0**

The asset allocation for pension assets is as follows:

	2006	2007
Cash	3.7%	7.8%
Bonds	54.1%	54.9%
Equities	31.2%	26.8%
Property	11.0%	10.5%
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 31.12.2007 is 142; CHF 13 185 (as of 31.12.2006: 82 CHF 7 962).

The effective loss on assets was CHF 0.1 million (previous year: gain CHF 3.8 million). The expected employer contributions for the 2008 financial year are estimated at CHF 4.1 million.

The pension liability of the German Group company is governed by national regulations and is a defined benefit scheme. No additional calculation based on IFRS accounting principles 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 17 employees only (2006: 16 employees). The 2007 income statement of the Group company is charged with contributions amounting to CHF 0.1 million (2006: CHF 0.1 million).

7 Rental expenses

CHF 1000	2006	2007
Rent	161 139	173 012
Incidental expenses, cleaning, maintenance	49 776	53 720
Total	**210 915**	**226 732**

The CHF 15.8 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.

8 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 14.3 million year-on-year rise is mainly due to the greater marketing activities during the year under review.

9 General operating expenses

General operating expenses include operating lease expenses amounting to CHF 3.4 million (2006: CHF 3.1 million). Operating leases mainly concern vehicles.

10 Other operating income

CHF 1000	2006	2007
Operating financial income	26 514	26 516
Operating real estate income, net	1 803	1 166
Redemption compensation less costs for store closings	775	1 083
Compensation for legal cases	272	0
Other income	87	(15)
Total	**29 451**	**28 750**

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

11 Impairment

CHF 1000	2006	2007
Impairment losses for store fixtures and fittings of branch closures planned during the next years	1 882	471
Impairment of goodwill (see Note 22.2)	74 429	0
Total	**76 311**	**471**

12 Financial income

CHF 1000	2006	2007
Interest income	883	816
Interest income from securities	7	8
Total	**890**	**824**

13 Financial expenses

CHF 1000	2006	2007
Interest expenses on current accounts and loans	5 210	5 974
Interest charges on mortgages	3 037	3 289
Interest on leases	2 893	2 826
Total	**11 140**	**12 089**

14 Foreign exchange differences

CHF 1000	2006	2007
Expense from foreign exchange contracts	(1 501)	(1 077)
Other exchange gains/(losses)	611	(2 167)
Total income/(expense) from exchange gains/(losses)	**(890)**	**(3 244)**

15 Tax

15.1 Composition of tax expense

CHF 1000	2006	2007
Current income taxes	18 676	18 979
Change in deferred taxes	(272)	941
Tax from previous years	1 819	(581)
Total tax expense	**20 223**	**19 339**

15.2 Analysis of tax expense

CHF 1000	2006	2007
Profit before income taxes	543	80 313
Taxes on current profit calculated on the expected weighted average group tax rate of 22% (2006: 22%)	119	17 669
Reconciliation:		
– Effect of weighting of the different actual effective local tax rates	(9 495)	(8 155)
– Effect of change in tax rates on deferred taxes in the balance sheet	(1 368)	948
– Effect of deferred tax assets not capitalized, net	28 695	9 098
– Effect of other non-taxable transactions	269	380
– Taxes payable (refunds) from previous years	1 819	(581)
– Adjustments of deferred taxes from previous years	184	(20)
Total tax expense	**20 223**	**19 339**

The table above shows the numerical reconciliation between the expected and thereported tax expense. The significant difference between reported and expected tax expense in the previous year reflects mainly the non-capitalization of deferred taxes of CHF 17.7 million on the impairment cost of goodwill in the Netherlands (see Note 22.2)

15.3 Deferred taxes in the balance sheet

CHF 1000	31.12.2006 Assets	31.12.2006 Liabilities	31.12.2007 Assets	31.12.2007 Liabilities
Deferred taxes from:				
– Various receivables	2	0	2	0
– Inventories	9 117	(20 002)	9 403	(19 207)
– Goodwill	30 974	0	25 646	0
– Other long-term assets	4	(13 805)	8	(14 221)
– Real estate	0	(10 800)	0	(10 352)
– Derivative financial instruments	0	(181)	1 200	(1 082)
– Intercompany loans	3 451	0	2 644	0
– Accruals	248	(138)	150	(53)
– Provisions	1 388	0	1 410	0
– Treasury shares	158	0	0	(256)
– Loss carry-forwards	101 824	0	100 250	0
Total deferred taxes, gross	**147 166**	**(44 926)**	**140 713**	**(45 171)**
Impairment of deferred tax assets	(128 232)	0	(121 069)	0
Total deferred taxes	**18 934**	**(44 926)**	**19 644**	**(45 171)**
Offset of assets and liabilities	(4 034)	4 034	(4 529)	4 529
Total deferred taxes, net	**14 900**	**(40 892)**	**15 115**	**(40 642)**

15.4 Change in deferred taxes, net

CHF 1000	2006	2007
Total deferred tax assets/(liabilities), net, as of January 1	**(27 176)**	**(25 992)**
Effect of exchange rates	236	221
Recognized in income statement:		
– Change in tax rates from previous years	1 368	948
– Adjustments of deferred taxes from previous years	(184)	20
– Changes in temporary differences	(912)	(1 908)
Recognized in balance sheet:		
– Changes in deferred taxes on valuation of financial instruments (see Note 36.1)	676	1 184
Total deferred tax assets/(liabilities), net, as of December 31	**(25 992)**	**(25 527)**

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.

15.5 Tax-relevant loss carry-forwards

CHF 1000	31.12.2006	31.12.2007
Expiring in the next 5 years	9 533	35 056
Expiring in 5 to 9 years	63 704	54 106
Available without limitation	227 634	262 568
Total tax loss carry-forwards	**300 871**	**351 730**
Calculated potential tax assets thereof	101 818	100 250
Valuation allowances	(96 192)	(94 454)
Net tax asset from loss carry-forwards	**5 626**	**5 796**

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. Owing to the lower tax rates applying from 2008 due to the of tax reforms in Germany, the calculated potential tax credits from previous years have had to be reduced by CHF 16.3 million. During the 2006 financial year, as a result of tax audits, tax-relevant loss carry-forwards worth about CHF 16 million with a tax effect of about CHF 6 million were disallowed. However, the resulting deferred tax assets had already been written off in previous years.

The new tax loss carry-forwards arising in the 2007 and 2006 financial years were written off as it is not certain that they can be used in the foreseeable future.

The capitalized net tax assets of CHF 5.8 million as of 31.12.2007 (31.12.2006: CHF 5.6 million) are available without limitation.

16 Earnings per share

		2006	2007
Net income	CHF 1 000	(19 680)	60 974
Weighted average number of basic shares	number	8 488 332	8 479 421
Adjustment for potentially dilutive share options	number	120 816	104 938
Weighted average number of shares for diluted earnings per share	number	8 609 148	8 584 359
Basic earnings per share	**CHF**	**(2.32)**	**7.19**
Diluted earnings per share	**CHF**	**(2.32)**	**7.10**

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

17 Cash and cash equivalents

CHF 1000	31.12.2006	31.12.2007
Petty cash, postal account balances and cash at banks	41 847	41 254
Clearing accounts of points of sale	(91)	822
Total cash and cash equivalents recognized in the balance sheet	**41 756**	**42 076**
Short-term bank overdrafts (see Note 24)	(743)	(14 948)
Total cash and cash equivalents recognized in the cash flow statement	**41 013**	**27 128**

The average interest rate on postal account balances and cash at banks, which have maturities of less than three months, was 1.0% (2006: 1.0%).

18 Receivables, advance payments and prepaid expenses

CHF 1000	31.12.2006	31.12.2007
Receivables:		
– Tax refunds (value added tax)	13 716	13 283
– Income taxes	5 925	8 470
– Other receivables	8 664	8 061
– Credit card sales	5 446	4 398
– Reclaimable withholding taxes	25	42
– Receivables from cash transporter	1 860	0
Total receivables, gross	**35 636**	**34 254**
Impairments	(450)	(210)
Total receivables, net	**35 186**	**34 044**
Advance payments and prepaid expenses:		
– Advance payments customs	0	3 879
– Advance payments for advertising campaigns	3 318	4 382
– Other advance payments and prepaid expenses	2 631	5 371
– Incidental rental expenses	1 792	39
Total advance payments and prepaid expenses	**7 741**	**13 671**
Total receivables, advance payments and prepaid expenses	**42 927**	**47 715**

18.1 Value adjustments on receivables

CHF 1000	31.12.2006	31.12.2007
Balance 1.1.	**(322)**	**(450)**
Payments	7	46
Receivables written off during the year as uncollectible	9	22
(Creation)/release of impairments	(141)	175
Effect of exchange rates	(3)	(3)
Balance 31.12.	**(450)**	**(210)**

Charles Vögele Group normally does not carry customer receivables since the vast majority of sales to customers are cash sales. Sales transacted by debit and credit card are paid by the local financial institutions and service providers within 2–3 days. Payments are monitored systematically and continuously. Many years of experience show that credits from credit card sales shown at the balance sheet date have a good credit rating, accordingly no value adjustments are necessary.

Receivables from tax refunds (value added tax) are secured by carrying out regular verifications and by submitting the necessary declarations on time. No receivables were overdue on the balance sheet date.

Other receivables are not related to regular sales of goods but to various individual items that are monitored periodically and notice is given where necessary. On the balance sheet date they were impairment tested and written down where necessary.

The book value of receivables and advance payments is equivalent to their fair value.

19 Inventories

CHF 1000	31.12.2006	31.12.2007
Current inventory, gross	288 973	301 935
Inventory valuation allowance	(66 704)	(69 098)
Current inventory (current and previous seasons), net	**222 269**	**232 837**
Upcoming season	58 024	55 327
Heating oil	334	577
Total	**280 627**	**288 741**

19.1 Value adjustments on inventories

CHF 1000	2006	2007
Balance, as of January 1	**(71 269)**	**(66 704)**
Offset against purchase price	984	3 655
Release of value adjustments affecting cost of goods	5 285	2 281
Creation of value adjustments affecting cost of goods	0	(7 056)
Release of value adjustments affecting operating financial income (discounts)	(139)	171
Effect of exchange rates	(1 565)	(1 445)
Balance, as of December 31	**(66 704)**	**(69 098)**

The additional non-systematic value adjustments of CHF 3.0 million made in the financial year 2004 and CHF 5.4 million made in 2005 were partly used over the course of 2007 for special offers and reduced by CHF 2.3 million (previous year CHF 3.5 million). The cost of goods was thus reduced by this amount in 2007. The formation of CHF 7.1 million of value adjustments during the 2007 financial year resulted mainly from the systematic inventory valuation system. In the previous year, around CHF 1.8 million released.

20 Tangible assets

20.1 Changes in values

CHF 1000	Land	Buildings	Equipment	Total
Balance 1.1.2006				
Acquisition cost	60 190	214 318	478 903	753 411
Accumulated depreciation/impairment	(9 399)	(78 497)	(262 740)	(350 636)
Net book amount 1.1.2006	**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**
Year 2007				
Opening net book amount	51 002	132 003	241 620	424 625
Effect of exchange rates	198	1 237	5 164	6 599
Additions	0	138	71 585	71 723
Disposals	0	(15)	(2 591)	(2 606)
Depreciation	10	(5 576)	(50 902)	(56 468)
Impairment	0	0	(471)	(471)
Reclassification	36	(36)	0	0
Closing net book amount	**51 246**	**127 751**	**264 405**	**443 402**
Balance 31.12.2007				
Acquisition cost	60 645	219 544	563 688	843 877
Accumulated depreciation/impairment	(9 399)	(91 793)	(299 283)	(400 475)
Net book amount 31.12.2007	**51 246**	**127 751**	**264 405**	**443 402**

See Note 11 for information about impairment costs.

As of December 31, 2007, CHF 104.9 million of the land and buildings are pledged as security for mortgages (December 31, 2006: CHF 104.9 million).

20.2 Finance leases

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

CHF 1000	Land	Buildings	Equipment	Total
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
Acquisition cost	6 582	60 058	6 897	73 537
Accumulated depreciation	0	(19 415)	(3 855)	(23 270)
Balance 31.12.2007	**6 582**	**40 643**	**3 042**	**50 267**
Additions 2007	0	0	789	789
Reclassification	36	(36)	(12 497)	(12 497)

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 2007 relate to IT-investment. The reclassification of CHF 12.5 million reflects the transfer of ownership of storage equipment and IT systems owing to the expiry of leasing contracts. In 2006 there were no additions or disposals.

21 Financial assets

CHF 1000	31.12.2006	31.12.2007
Investments	170	170
Loans	526	542
Total Financial assets	**696**	**712**

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

The "Loans" relate to the financing of a piece of land under a financial lease contract (see Note 20.2).

22 Intangible assets

22.1 Changes intangible assets

CHF 1000	Goodwill	Other intangible assets	Total
Balance 1.1.2006			
Acquisition cost	146 449	19 205	165 654
Accumulated depreciation	0	(13 801)	(13 801)
Net book amount 1.1.2006	**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
Depreciations	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**
Year 2007			
Opening net book amount	72 919	4 902	77 821
Effect of exchange rates	0	0	0
Additions	0	3 373	3 373
Disposals	0	0	0
Depreciations	0	(2 026)	(2 026)
Impairments	0	0	0
Closing net book amount	**72 919**	**6 249**	**79 168**
Balance 31.12.2007			
Acquisition cost	72 919	24 117	97 036
Accumulated depreciation	0	(17 868)	(17 868)
Net book amount 31.12.2007	**72 919**	**6 249**	**79 168**

22.2 Impairment test on goodwill

The goodwill of CHF 72.9 million shown at 31.12.2007 was generated by a leveraged buyout through which Charles Vögele Holding AG firstly acquired the shares of the Charles Vögele Group from the company's founder and sole shareholder in 1997, and secondly acquired the minority shares in Charles Vögele (Austria) AG in 1998. 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 cost of capital (WACC) before tax used to discount the free cash flows are 8.5% (previous year 8.4%) for Switzerland, 8.8% (previous year 8.2%) for Germany and 8.9% (previous year 8.0%) 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. Also the sensitivity analysis related to sales and profit development showed that the disclosed goodwill is not impaired.

The previous year's write-down of CHF 74.4 million relates to the goodwill from 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 was 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. was 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) pre-tax rate used to discount the free cash flow was 9.2%. This rate took account of Swiss financial market data, long-term Dutch government bonds and 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 had been a continuous and significant reduction in operating losses over four years, the sales organization did not quite manage to reach this target by the end of 2006. Consequently, plans were revised and adjusted to take account of the current performance. In particular, the expected yearly increase of sales until 2011 was reduced to 3.7%. Although this value was above the expected market growth, the resulting impairment test showed that the goodwill was no longer holding its value, which led to an impairment of CHF 74.4 million (see Note 11).

22.3 Other intangible assets

"Other intangible assets" covers brand rights, licences and software. Brand rights and licences have already been fully written down in previous years. The recorded net book value reflects IT software exclusively.

23 Financial instruments by category (assets)

CHF 1000	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale/ others	Total
Cash and cash equivalents	41 756				41 756
Receivables, advance payments and prepaid expenses	42 927				42 927
Derivative financial instruments			1 408		1 408
Financial assets (see Note 21)	526			170	696
Balance 31.12.2006	**85 209**	**0**	**1 408**	**170**	**86 787**

CHF 1000	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale/ others	Total
Cash and cash equivalents	42 076				42 076
Receivables, advance payments and prepaid expenses	47 715				47 715
Derivative financial instruments			79		79
Financial assets (see Note 21)	542			170	712
Balance 31.12.2007	**90 333**	**0**	**79**	**170**	**90 582**

The maximum risk of default is equal to the assets shown in the balance sheet.

24 Short-term financial liabilities

CHF 1000	31.12.2006	31.12.2007
Short-term bank overdrafts	743	14 948
Short-term lease liabilities (see Note 26)	6 444	4 137
	7 187	**19 085**

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

25 Other liabilities and accruals

CHF 1000	31.12.2006	31.12.2007
Sales tax	20 599	15 093
Vouchers	8 731	10 852
Accruals:		
– Personnel expenses	19 647	21 388
– Rental expenses	5 648	4 914
– Other accruals	12 344	13 494
Total	**66 969**	**65 741**

26 Finance lease liabilities

CHF 1000	Residual term < 1 year	Residual term 1–5 years	Residual term > 5 years	Total
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**
Lease commitments, gross	6 668	30 588	25 112	62 368
Discounted	(2 531)	(7 487)	(3 880)	(13 898)
Balance 31.12.2007	**4 137**	**23 101**	**21 232**	**48 470**

CHF 1000	31.12.2006	31.12.2007
Disclosure:		
– Short-term financial liabilities (due <1 year; see Note 24)	6 444	4 137
– Lease liabilities	46 475	44 333
Total	**52 919**	**48 470**

The average discount rate of finance lease commitments amounted to 5.4% (2006: 5.2%).

27 Provisions

CHF 1000	Personnel provisions	Other provisions	Total
Balance 1.1.2006	**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**
Increase	148	284	432
Usage	(463)	(125)	(588)
Decrease	0	(201)	(201)
Reclassification	0	0	0
Effect of exchange rates	229	9	238
Balance 31.12.2007	**7 543**	**265**	**7 808**

"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 year under review and previous year were mainly attributable to provisions that were no longer required.

"Other provisions" mainly includes 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. The Management assumes that the outflow will occur within the next one to three years.

28 Mortgages

CHF 1000	
Balance 1.1.2006	**93 400**
Repayment of mortgages	(160)
Balance 31.12.2006	**93 240**
Increase in mortgages	1 840
Repayment of mortgages	(80)
Balance 31.12.2007	**95 000**

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 3.5% in year 2007 (2006: 3.2%).

29 Loans

29.1 Composition

CHF 1000	31.12.2006	31.12.2007
Long-term loans, gross	62 500	40 000
Credit procurement costs	(904)	(697)
Long-term loans, net	**61 596**	**39 303**

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

The carrying amount of the loans outstanding as at December 31, 2007, 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 June 2007, Charles Vögele Group signed a new syndicated credit agreement of CHF 250 million, thus replacing the existing credit facility arranged in July 2004 ahead of schedule. The new loan is for a term of five years. The interest rate is based on LIBOR plus a margin of between 30 and 115 basis points (previously between 65 and 200 basis points), depending on a key financial ratio of the Group (net debt/EBITDA; see also the overview of cash reserves in Note 3.4). The target ratio was met on the balance sheet date. The average interest rate in the year under review was 3.4% (2006: 2.8%).

30 Financial instruments by category (liabilities)

CHF 1000	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Short-term financial liabilities (see Note 24)			743	743
Trade payables			60 317	60 317
Other liabilities and accruals			66 969	66 969
Derivative financial instruments	2 431	182		2 613
Mortgages			93 240	93 240
Loans			61 596	61 596
Balance 31.12.2006	**2 431**	**182**	**282 865**	**285 478**

CHF 1000	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Short-term financial liabilities (see Note 24)			14 948	14 948
Trade payables			61 714	61 714
Other liabilities and accruals			65 741	65 741
Derivative financial instruments	2 412	8 004		10 416
Mortgages			95 000	95 000
Loans			39 303	39 303
Balance 31.12.2007	**2 412**	**8 004**	**276 706**	**287 122**

31 Share capital

The reduction in the share capital is due to the Annual Shareholders Meeting's decision on April 4, 2007, to reduce the par value of Charles Vögele Holding AG shares by CHF 2.00 per share, from CHF 8.00 to CHF 6.00. The remaining share capital comprises 8 800 000 fully paid-in bearer shares with a par value of CHF 6.00 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 1.6 million, divided into 264 000 fully paid-in bearer shares with a par value of CHF 6.00 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 34 on the management share option plan).

32 Treasury shares

As of December 31, 2007, treasury shares comprise 370 546 shares (December 31, 2006: 325 200) held by the Charles Vögele Group and earmarked for share participations by the Management of the Charles Vögele Group (see Note 34).

33 Distribution to shareholders

For the 2006 financial year, on July 4, 2007, a par value reduction of CHF 2.00 (for the 2005 financial year on July 4, 2006, a par value reduction of CHF 2.00) was paid for each Charles Vögele Group AG bearer share.

For the financial year 2007, the Board of Directors proposes to the Annual Shareholders' Meeting of April 16, 2008, 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.

34 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.

34.1 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. Allocation criteria are based on the rank and function of the individual beneficiaries. 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. On leaving the Board of Directors, board members receive their allocated options in full. On leaving the company, members of Group Management and the upper tier of management receive their allocated options pro rate temporis on the basis of the three-year vesting period. However, the three-year vesting period continues to apply in all cases.

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 31.12.2007	Exercise price in CHF	Duration until	Vesting period until
18.11.2002	119 000	(7 000)	(112 000)	0	29.50	18.11.2007	18.11.2005
29.08.2003	98 000	(2 499)	(61 745)	33 756	54.55	29.08.2008	29.08.2006
24.08.2004	70 000	(3 593)	(9 373)	57 034	41.05	24.08.2009	24.08.2007
29.08.2005	81 500	(6 412)	0	75 088	95.55	29.08.2010	29.08.2008
26.08.2006	105 600	(6 732)	0	98 868	90.00	26.08.2011	26.08.2009
23.08.2007	103 500	0	0	103 500	119.00	23.08.2012	23.08.2010
Total	**577 600**	**(26 236)**	**(183 118)**	**368 246**			

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:

	2006 Weighted average exercise price in CHF	2006 Number of options	2007 Weighted average exercise price in CHF	2007 Number of options
Balance 1.1.	**56.83**	**313 972**	**71.77**	**325 200**
Granted options	90.00	105 600	119.00	103 500
Expired options	75.81	(6 462)	80.27	(11 246)
Exercised options	40.02	(87 910)	44.34	(49 208)
Balance 31.12.	**71.77**	**325 200**	**88.45**	**368 246**
Exercisable as at 31.12.	**48.91**	**75 627**	**46.07**	**90 790**

During the period between 1.1.2007 and 18.11.2007, 15 000 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 this exercise period was CHF 117.47. During the 2006 financial year 51 000 share 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 102.75.

During the 2007 financial year, 24 835 share options from the tranche of 29.08.2003 were exercised. Charles Vögele Holding AGs' weighted average share price on the Swiss Stock Exchange (SWX) during the period under review was CHF 116.01. In the previous year 36 910 options from this tranche were exercised during the period between 29.8.2006 and 31.12.2006. Charles Vögele Holding AGs' weighted average share price on the Swiss Stock Exchange (SWX) during this exercise period was CHF 96.98.

It has been possible to exercise share options from the tranche of 24.8.2004 since 24.8.2007. During the period between 24.8.2007 and 31.12.2007, 9 373 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 100.66.

The above-mentioned tranches are serviced exclusively by treasury shares purchased by the Charles Vögele Group for this purpose (see Note 32).

The weighted average remaining contractual term of the 368 246 options out standing on 31.12.2007 was 38 months (previous year 325 200 options and 40 months). Exercise prices ranged between CHF 41.05 and CHF 119.00 per option (previous year between CHF 29.50 and CHF 95.55 per option).

The fair value of the options as determined by the Enhanced American 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
23.08.2007	117.50	30.55%	3.01%	1.71%	27.12

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 27.12 (previous year CHF 23.39).

During the year under review CHF 1.7 million (previous year CHF 1.2 million) was charged through personnel expenses for the proportional fair value of options.

35 Contingent liabilities

35.1 Outstanding merchandise orders and letters of credit

As of December 31, 2007, future commitments resulting from merchandise orders not yet included in the balance sheet amounted to CHF 143.2 million (December 31, 2006: CHF 135.2 million). As of December 31, 2007, letters of credit not included in the balance sheet amounted to CHF 30.3 million (December 31, 2006: CHF 30.9 million).

36 Forward foreign exchange contracts

The forward foreign exchange contracts open on the balance sheet date are shown in Note 3.4 under liquidity risks.

36.1 Derivatives for cash flow hedges

The forward foreign exchange contracts for cash flow hedges of CHF 166.5 million (previous year CHF 192.3 million) open on December 31, 2007, are used for the purchase of merchandise in USD and cover exchange rate risks for purchasing merchandise for the following year's collection.

These derivative financial instruments are valued at their replacement value. Any changes in the fair value arising from the valuation on the balance sheet date are recognized under equity as "Valuation 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/(losses)" in the income statement. There were no material ineffective hedge transactions during the year under review.

Movement in valuation differences not affecting income statement

CHF 1000	Equity
Balance 1.1.2006	
Valuation financial instruments before tax	4 316
Deferred tax	(647)
Valuation financial instruments net of tax 1.1.2006	**3 669**
Year 2006	
Opening balance	3 669
Disposal through purchase of goods recognized in cost of goods in income statement	(4 316)
Valuation of outstanding financial instruments as of 31.12.2006	(133)
Change in deferred tax	667
Valuation net of tax 31.12.2006	**(113)**
Closing balance 31.12.2006	
Valuation financial instruments before tax	(133)
Deferred tax	20
Valuation financial instruments net of tax 31.12.2006	**(113)**
Year 2007	
Opening balance	(113)
Disposal through purchase of goods recognized in cost of goods in income statement	133
Valuation of outstanding financial instruments as of 31.12.2007	(8 028)
Change in deferred tax	1 184
Valuation financial instruments net of tax 31.12.2007	**(6 824)**
Closing balance 31.12.2007	
Valuation financial instruments before tax	(8 028)
Deferred tax	1 204
Valuation financial instruments net of tax 31.12.2007	**(6 824)**

36.2 Derivatives for trading purposes

The valuation of currency swaps and forward foreign exchange contracts at fair value resulted in a loss of CHF 2.4 million as of December 31, 2007 (December 31, 2006: loss of CHF 2.4 million), which was included in the income statement under "Exchange gains or losses".

37 Rental commitments

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

CHF 1000	31.12.2006	31.12.2007
Maturity < 1 year	164 727	177 702
Maturity 1 – 5 years	490 541	504 986
Maturity > 5 years	250 046	244 661
Total	**905 314**	**927 349**

38 Related party transactions

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

		Board of Directors	Group Management	Total
2006	Number of members	6	3	
	Salaries, professional fees, bonuses and other renumerations CHF 1 000	818	3 075	3 893
	Number of Management-options	25 800	30 500	56 300
	Value of Management-options CHF 1 000[1]	603	713	1 316
2007	Number of members	6	3	
	Salaries, professional fees, bonuses and other renumerations CHF 1 000	1 283	3 929[2]	5 212
	Number of Management-options	25 800	30 500	56 300
	Value of Management-optionsCHF 1 000[1]	702	827	1 529

[1] Valuation: Fair value according IFRS, details see page 42
[2] Extraordinary expense of CHF 320 000 due to the timely overlap between the employment and resignation of two members of Group management.

Dr. Felix R. Ehrat, Vice-Chairman of the Board of Directors of Charles Vögele Holding AG, is also Chairman of the Board of Directors of the law firm of Bär & Karrer AG. During the year under review, Charles Vögele Group received legal advisory services worth a total of CHF 0.2 million (previous year: CHF 0.1 million) from Bär & Karrer AG.

There were no further significant transactions with related parties in the years 2007 and 2006.

Details of total payments to members of the Board of Directors pursuant to the Swiss Code of Obligations (CO) for the 2007 financial year:

CHF 1000	Bernd H.J. Bothe Chairman	Alfred Niederer Vice-Chairman[1]	Dr. Felix R. Ehrat Vice-Chairman[1]	Alain Caparros Member	Peter Littmann Member	Daniel Sauter Member	Carlo Vögele Member	Total Board of Directors
Salaries (gross)	303	46	161	70	93	93	93	859
Bonus (gross)	61	–	61	46	61	61	61	351
Employer's social security costs	–	–	19	–	–	15	27	61
Lump-sum expenses	2	–	2	2	2	2	2	12
Management-options[2]	117	–	117	117	117	117	117	702
Total 2007	**483**	**46**	**360**	**235**	**273**	**288**	**300**	**1 985**
Fees for legal services	–	–	243[3]	–	–	–	–	243
Total 2007	**483**	**46**	**603**	**235**	**273**	**288**	**300**	**2 228**

[1] Mr. Niederer was Vice-Chairman until April 4, 2007. After his resignation, Dr. Ehrat took over the position.
[2] Valuation: fair value according IFRS, details see page 42
[3] Fees from Bär & Karrer AG

Details of total payments to Group Management pursuant to the Swiss Code of Obligations (CO) for the 2007 financial year:

CHF 1000	Daniel Reinhard CEO	Total Group Management[1]
Salaries (gross)	750	2 033
Bonus (gross)	854	1 423
Employer's social security and insurance costs	166	433
Lump-sum expenses	–	12
Company car[2]	10	28
Management-options[3]	350	827
Total 2007	**2 130**	**4 756**

[1] Extraordinary expense of CHF 320 000 due to the timely overlap between the employment and resignation of two members of Group management.
[2] Private used (tax value: 9.6% of acquisition value)
[3] Valuation: fair value according IFRS, details see page 42

Disclosure of Board of Directors' shareholdings pursuant to the Swiss Code of Obligations (CO) as at 31.12.2007:

	Bernd H.J. Bothe Chairman	Dr. Felix R. Ehrat Vice-Chairman	Alain Caparros Member	Peter Littmann Member	Daniel Sauter Member	Carlo Vögele Member	Total Board of Directors
Number of shares	7 500	6 000	–	–	2 000	192 877	208 377
In percentage of share capital	0.09%	0.07%	–	–	0.02%	2.19%	2.37%
Value of shares CHF 1 000	696	557	–	–	186	17 909	19 348
Number of Mgt.-options	12 000	19 500	4 300	8 600	19 500	15 000	78 900
In percentage of share capital	0.14%	0.22%	0.05%	0.10%	0.22%	0.17%	0.90%
Value of Mgt.-opt. CHF 1 000[1]	163	496	38	111	496	321	1 625

[1] Valuation: according to Swiss tax rules

Disclosure of Group Management's shareholdings pursuant to the Swiss Code of Obligations (CO) as at 31.12.2007:

	Daniel Reinhard CEO	Dr. Felix Thöni CFO	Werner Lange CPO	Total Group Management
Number of shares	50 000	8 100	–	58 100
In percentage of share capital	0.57%	0.09%	–	0.66%
Value of shares CHF 1 000	4 643	752	–	5 395
Number of Management-options	58 600	39 600	8 800	107 000
In percentage of share capital	0.67%	0.45%	0.10%	1.22%
Value of Management-options CHF 1 000[1]	1 490	1 001	78	2 569
Number of options	–	600 000[2]	–	600 000
In percentage of share capital	–	0.07%	–	0.07%
Value of options CHF 1 000	–	6	–	6

[1] Valuation: according to Swiss tax rules
[2] Call-options, subscription right 100:1

39 Post balance sheet events

The present financial statements take into consideration events occurring between the balance sheet date and March 3, 2008. There were no significant post balance sheet events. The 2007 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 March 3, 2008, are published on March 4, 2008, and presented to the Annual Shareholders' Meeting on April 16, 2008, for approval.

40 Structure of the Charles Vögele Group
as of December 31, 2007

Company		Currency	Share/Partnership capital
Charles Vögele Holding AG Pfäffikon SZ, CH Holding		CHF	52 800 000
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 (Netherlands) B.V.** Utrecht, NL Sales organization	EUR	1 000 200[1)]
100%	**Charles Vögele (Belgium) B.V.B.A.** Turnhout, BE Sales organization	EUR	12 789 299[2)]
100%	**Charles Vögele (Austria) AG** Kalsdorf, AT Sales organization	EUR	1 453 457
100%	**Charles Voegele trgovina s tekstilom d.o.o.** Lubljana, SI Sales organization	EUR	667 668[3)]
100%	**Charles Voegele Polska Sp. z o.o.** Warsaw, PL Sales organization	PLN	4 000 000
100%	**Charles Vögele Hungária Kereskedelmi Kft.** Budapest, HU Sales organization	HUF	240 000 000
100%	**Charles Voegele Ceska s.r.o.** Prague, CZ Sales organization	CZK	30 000 000

Changes in the scope of consolidation, see Note 2.4
1) Increased by EUR 100 following refinancing in 2007
2) Increased by EUR 12 144 776 following refinancing in 2007
3) Converted from SIT 160 000 000 to EUR 667 668 following adoption of EUR in 2007

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, cash flow statement, statement of changes in equity and notes, pages 2 to 46) of Charles Vögele Holding AG for the year ended December 31, 2007.

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

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

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

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

PricewaterhouseCoopers AG

Matthias von Moos Auditor in charge	Pascal Wintermantel

Zurich, March 3, 2008

Charles Vögele Holding AG

Contents Financial Statements Holding

Income Statement Holding

from January 1 to December 31

CHF 1000	Note	2006	2007
Income			
Dividends		14 221	14 921
Financial income	2	6 100	8 232
Exchange gains, net		324	0
Total income		**20 645**	**23 153**
Expenses			
Administration expenses		(2 426)	(2 446)
Financial expenses	2	(5 230)	(11 965)
Impairment of loans to subsidiaries	3	(9 253)	(5 017)
Exchange loss, net		0	(1 113)
Total expenses		**(16 909)**	**(20 541)**
Profit before taxes		**3 736**	**2 612**
Taxes		493	(15)
Net profit for the year		**4 229**	**2 597**

Balance Sheet Holding

as of December 31

CHF 1000	Note	31.12.2006	31.12.2007
Assets			
Current assets			
Cash and cash equivalents	4	13	1
Receivables from subsidiaries	5	173 837	176 242
Other receivables and prepaid expenses		623	1 308
Total current assets		**174 473**	**177 551**
Long-term assets			
Loans to subsidiaries	5	249 592	207 398
Investments	6	445 587	564 756
Total long-term assets		**695 179**	**772 154**
Total assets		**869 652**	**949 705**
Liabilities and shareholders' equity			
Short-term liabilities			
Short-term bank liabilities	4	743	14 948
Accounts payable:			
– Third parties		12	151
– Subsidiaries	5	468 106	548 973
Accrued liabilities		662	496
Current tax liabilities		2	13
Total short-term liabilities		**469 525**	**564 581**
Shareholders' equity			
Share capital	7	70 400	52 800
Legal reserves		173 789	173 789
Free reserves		110 000	110 000
Reserve for treasury shares	8	24 394	31 106
Retained earnings:			
– Retained earnings as of January 1		21 676	21 544
– Decrease/(Increase) of reserve for treasury shares		(4 361)	(6 712)
– Net profit of the year		4 229	2 597
Total retained earnings		21 544	17 429
Total shareholders' equity		**400 127**	**385 124**
Total liabilities and shareholders' equity		**869 652**	**949 705**

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 December 31, 2007, some bank current accounts showed negative balances, which are shown under the position "Short-term bank liabilities".

5 Receivables from and liabilities 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 and Belgian subsidiaries (see Note 6).

6 Investments

The increase in investments is due to the refinancing of the three subsidiaries in the Netherlands, Belgium and Hungary. Loans and cash pool liabilities worth CHF 119.2 million were converted into equity capital (see Note 5).
The complete structure of the Charles Vögele Group long-term investments is documented in Note 40 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 4, 2007, to reduce the par value of Charles Vögele Holding AG shares by CHF 2.00 per share, from CHF 8.00 to CHF 6.00. The remaining share capital comprises 8 800 000 fully paid-in bearer shares with a par value of CHF 6.00 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 1.6 million, divided into 264 000 fully paid-in bearer shares with a par value of CHF 6.00 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 34 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 31.12.2005			**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**
Disposal of treasury shares by Charles Vögele Trading AG	January–September 2007	47.00–136.71	(53 418)
Purchase of treasury shares by Charles Vögele Trading AG	September–October 2007	97.11–110.64	105 800
Disposal of treasury shares by Charles Vögele Trading AG	November–December 2007	46.09	(7 036)
Treasury shares 31.12.2007			**370 546**

For the holdings of treasury shares in the Charles Vögele Group as of December 31, 2007, a reserve was formed in Charles Vögele Holding AG to the amount of the purchase value of CHF 31.1 million (December 31, 2006: CHF 24.4 million).

9 Major shareholders

All of the company's 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.

Shareholders	Share of capital as of 31.12.2006[1]	Share of capital as of 31.12.2007[1]	As announced on
Bestinver Gestion S.G.I.I.C. S.A., Madrid, Spain	5.0%	10.30%	14.12.2007
Classic Global Equity Fund / Braun, von Wyss & Müller AG, Zürich, Switzerland	9.3%[2]	9.3%[2]	28.03.2002
Cheyne Special Situations Fund, Grand Cayman, Cayman Islands	n.a.	6.39%	02.05.2007
UBS Fund Management (Switzerland) AG, Basel, Switzerland	5.0%	5.46%	05.09.2007
Laxey Partners Ltd., Onchan, Isle of Man, IM3 1NA, GB	n.a.	5.23%	14.09.2007
JPMorgan Chase & Co. 270 Park Avenue, New York	n.a.	4.93%	11.09.2007

[1] According to information submitted by shareholders to the company until the specified date.
[2] As stated in annual report

10 Contingent liabilities

CHF 1000	31.12.2006	31.12.2007
Rental guarantees to third parties	43 158	40 037
Guarantees to financing banks	363 189	391 459

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

11 Pledged assets

In connection with the syndicated refinancing agreement signed in June 2007 (see Note 29 in the notes to the consolidated financial statements), Charles Vögele Holding AG issued a guarantee towards the lending banks.

12 Board of Directors and Group Management: Total payments and shareholdings

Disclosure of total payments and shareholdings pursuant to the Swiss Code of Obligations (CO) is made in the notes to the consolidated financial statements (see Note 38).

Proposed Appropriation of Retained Earnings

as of December 31, 2007

The Board of Directors proposes to the Annual Shareholders' Meeting of April 16, 2008, to carry forward the retained earnings of CHF 17.4 million.

CHF 1000	
Retained earnings as of 31.12.2007	17 429
Balance to be carried forward	**17 429**

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 to the Annual Shareholders' Meeting of April 16, 2008, 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 6.00 to CHF 4.00 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 50 to 54) of Charles Vögele Holding AG for the year ended December 31, 2007.

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, March 3, 2008

Forthcoming events

- Annual Shareholders' Meeting 2007: April 16, 2008
- Analysts' and media conference on the 2008 half-year results: August 26, 2008
- Analysts' and media conference on the 2008 financial year results: March 3, 2009
- Annual Shareholders' Meeting 2008: April 1, 2009
- Analysts' and media conference on the 2009 half-year results: August 25, 2009

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