BUSINESS TRENDS AND OUTLOOK

Charles Vögele Group
Activity Report
2008

Charles Vögele Switzerland

Contents

Fashion Show in Lucerne

The pictures in this year's annual report were taken at the fashion show that Charles Vögele held on November 14, 2008 during the Lucerne Fashion Weekend. More than 1600 customers took part in the Fashion Weekend, all of whom had won one of the 888 trips to Lucerne offered as prizes in our "Switzerland meets Europe" competition.

Net profit

EBITDA reaches

Shareholders´ equity

Highlights 2008

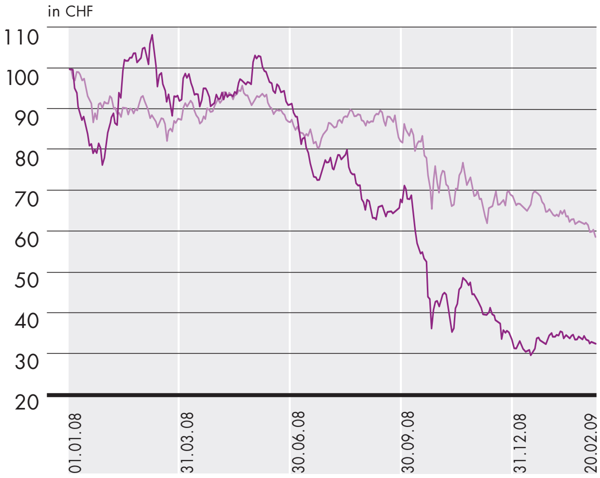
15 at CHF 15 million

116 CHF 116 million

56 of 56% remains solid

Share Information

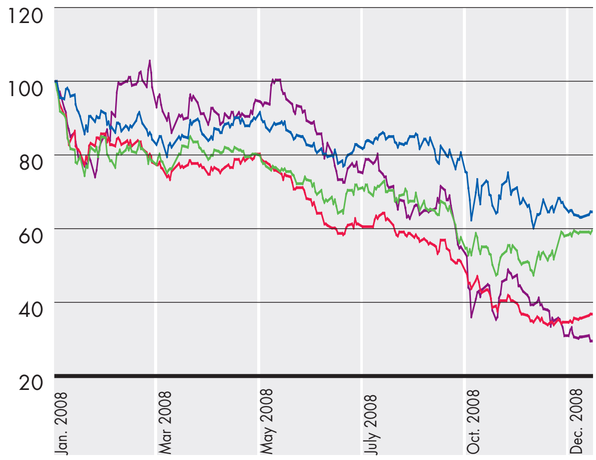
Price development of the Charles Vögele Holding AG shares at SIX Swiss Exchange in Zurich from January 1, 2008 to February 20, 2009



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

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

Comparison of Share Price Performance January 1, 2008 to December 31, 2008



Source: Datastream as of December 31, 2008
(1) Midcap Apparel Retailers Index includes Camaieu, Debenhams, Gruppo Coin, Etam Developpement, French Connection, Next, Ted Baker, Stockmann, Arcandor and IC Companys.
(2) Largecap Apparel Retailers Index includes Benetton, Esprit, Hennes & Mauritz and Inditex.

Key Figures

		31.12.2007	31.12.2008
Bearer shares	Number	8 800 000	8 800 000
Par value (reduction decided on April 16, 2008)	CHF	6.00	4.00
Share price as per closing date	CHF	92.85	27.50
Share price:			
– year high	CHF	152.00	98.90
– year low	CHF	88.00	27.50
Average trading volume per day	Number	42 200	22 780
Free float[1]	%	100	95
Basic earnings per share	CHF	7.19	1.83
P/E ratio	Factor	12.9	15.0
EV/EBITDA	Factor	6.2	3.4
Stock capitalization	CHF million	817	242
Book value per share	CHF	59	57
Reduction of par value of shares[2]	CHF	2.00	0.50

[1] According to free-float declaration SIX
[2] Proposal to the Annual Shareholders' Meeting

Group Key Operating Figures

CHF million	2007	2008	Change
Gross sales	1 626.0	1 606.8	(1.2%)
Change adjusted for currency in %	3.5%	1.0%	
Change adjusted for expansion and currency in %	0.1%	(2.1%)	
Net sales	1 393.7	1 368.9	(1.8%)
Operating earnings before depreciation and impairment (EBITDA)	156.2	116.1	(25.7%)
Operating earnings (EBIT)	94.8	50.9	(46.4%)
Net profit of the year	61.0	15.4	(74.7%)
Net cash flow from operating activities	111.5	103.5	(7.2%)
Net cash provided/(used) by investing activities	(74.1)	(79.2)	6.9%
Free cash flow	37.4	24.3	(35.2%)
Number of stores at year-end	825	851	3.2%
Sales area at year-end in m^2	641 568	666 162	3.8%
Number of employees at year-end[1)]	7 811	7 888	1.0%
Average number of full-time employees on an annual basis[1)]	4 984	5 071	1.7%
Net sales per average number of full-time employees in CHF[1)]	279 633	269 942	(3.5%)
Number of clothing articles sold in 1000	63 584	63 912	0.5%
Average net sales per article in CHF	21.9	21.4	(2.3%)
Share of turnover in %:			
– women's wear	58%	58%	–
– men's wear	32%	32%	–
– children's wear	10%	10%	–

CHF million	31.12.2007	31.12.2008
Net debt	155.6	151.7
Shareholders' equity	523.3	500.8
Balance sheet total	917.0	891.7
Shareholders' equity in % of balance sheet total	57%	56%

[1)] Excluding apprentices

Café de Paris, Montparnasse, Bohemia, couples sit in the bistro or dance the pas-de-deux

Feminine blazers, wide Marlene Dietrich trousers with glen check patterns, swaying skirts!

Currency-adjusted sales growth despite difficult conditions

The main developments during the 2008 financial year for Charles Vögele Group were as follows:

- Charles Vögele Group's most important countries – Switzerland, Germany and Austria – suffered significant market contractions; nevertheless Charles Vögele performed slightly better than the markets
- Unfavourable weather, primarily in the first half of the year, had a negative effect on earnings
- Sales suffered as the financial crisis took its toll on consumer sentiment, especially in the second half of the year
- The weak euro also had a negative impact on sales results
- Net sales were almost 2% down on the previous year at CHF 1 369 million, though after adjusting for currency influences they were actually slightly higher
- Inventories were reduced despite the unfavourable operating conditions
- Belgium and the new markets once again generated significant earnings growth despite the economic downturn
- The portfolio of stores was expanded to 851

Operating conditions

During the year under review, the markets in which Charles Vögele Group operates were dominated by two major external developments that had a decisive influence not only on the company but on the whole clothing trade.

Firstly, unseasonal weather in the first halve of the year damaged sales in the full-margin months of the main seasons. All clothing retailers suffered significant year-on-year declines in turnover during these periods. Although sales in the low-margin months offset the fall to a certain extent, the shift left an indelible impression on operating results. Our customers' consumption patterns are, still to a great extent, dependent on need and weather. Secondly, turmoil on the world's financial markets began to have an effect on the real economy by the second half of the year, if not before, causing a deterioration in consumer sentiment.

The consequences of these unfavourable conditions were most evident in the highly competitive German clothing industry. As the market shrank in both the first and second halves of the year, several clothing companies in Germany filed for bankruptcy. This market shake-out may, however, provide growth opportunities in future for the businesses that remain.

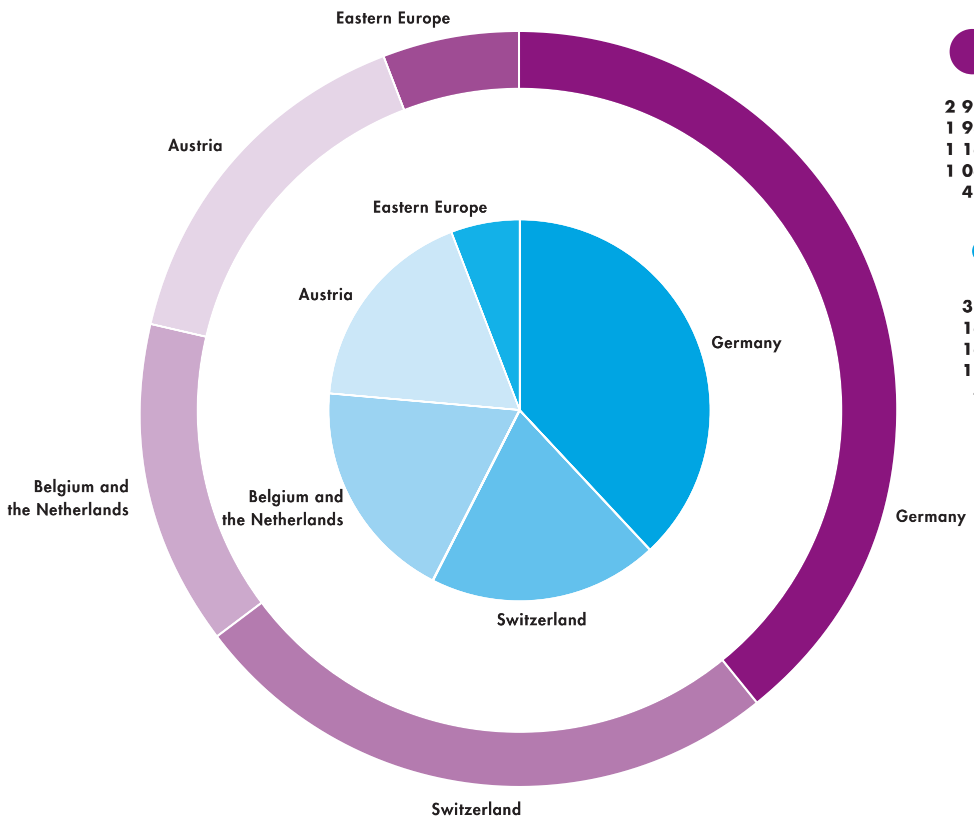
Currency has a significant influence

In addition to these generally negative trends, the substantial fall in the value of the euro also had a negative effect on Charles Vögele Group's sales performance compared with the previous year. For the sales organizations that earn their money in euros, the sales figures for 2008 expressed in Swiss francs do not provide a meaningful year-on-year comparison. Consequently, the narrative section of this annual report discusses these sales organizations' results as expressed in euros. The consolidated reporting in the financial section continues to show all results in Swiss franc terms.

Sales after adjusting for currency above, earnings below previous year

Charles Vögele Group's net sales fell during the year under review to CHF 1 369, a decline of nearly 2% on the CHF 1 394 million posted in 2007. The fall is due on the one hand to an overall market contraction of between 1% and 4% in Charles Vögele Group's most important territories; and on the other to the sharp decline in consumer sentiment and to unfavourable exchange rate movements. Nevertheless, despite the slight decrease in sales, Charles Vögele Group outperformed the general market. It should also be noted that sales actually slightly increased after adjusting for currency movements. The biggest deteriorations in sales during the second half of the year came in Switzerland and Austria. The German and Dutch sales organizations managed to virtually match the previous year's performance. In Belgium and in all the new Eastern European markets, by contrast, sales once again increased significantly.

Due to a series of discounting campaigns carried out at the start of 2008 in order to clear specific inventories, cost of goods as a percentage of sales increased from 34.2% in the previous year to 34.7%. The remaining operating costs increased 2% in the wake of continued expansion, from CHF 761 million in the previous year to CHF 778 million. This left the figure for operating earnings before depreciation (EBITDA) at CHF 116 million (previous year CHF 156 million), giving an EBITDA margin of 8.5% (previous year 11.2%). After deducting depreciation, EBIT operating earnings came in at CHF 51 million (previous year CHF 95 million). Thanks to the early renewal of the syndicated loan agreement in 2007, financial expenses were reduced during the year under review. Negatively influenced by the high tax



Number of employees per sales organization

2 975 Germany
1 932 Switzerland
1 165 Austria
1 067 Belgium and the Netherlands
437 Eastern Europe

Sales locations per sales organization

326 Germany
165 Switzerland
161 Belgium and the Netherlands
150 Austria
49 Eastern Europe

rate of 58%, net profit came to CHF 15 million (previous year CHF 61 million). The tax rate was so high because of two things: the exceptional value adjustments of CHF 5.6 million made on capitalized tax loss carry-forwards in the German sales organization, and the fact that profits and losses could not be offset between the individual sales organizations.

Stocks further reduced

Despite the difficult conditions, stocks for the 2008/2009 winter season were once again slightly lower than the year-back figure. The overall inventories figure fell from CHF 289 million in the previous year to CHF 283 million as at December 31, 2008. The year-end figure for inventories already includes CHF 75 million of stock for the upcoming 2009 spring/summer season (previous year CHF 55 million).

Free Cash flow generated

Cash flow from operating activities amounted to CHF 103 million (previous year CHF 111 million) and, after deducting the investments of CHF 79 million (previous year CHF 74 million), free cash flow came to CHF 24 million (previous year CHF 37 million).

Net debt reduced; shareholders' equity still high

Net debt at December 31, 2008 has been reduced to CHF 152 million as compared to a year before (2007: CHF 156 million). The equity ratio was unchanged at a high 56% (previous year 57%).

Expansion continues

The uncertain prospects for the economy did not stop Charles Vögele Group from selectively continuing its expansion strategy. In Germany, for example, new store openings brought a net increase in the total branch network for the first time in four years. In Hungary too there was a significant increase in the number of stores.

Operational progress in all parts of the company

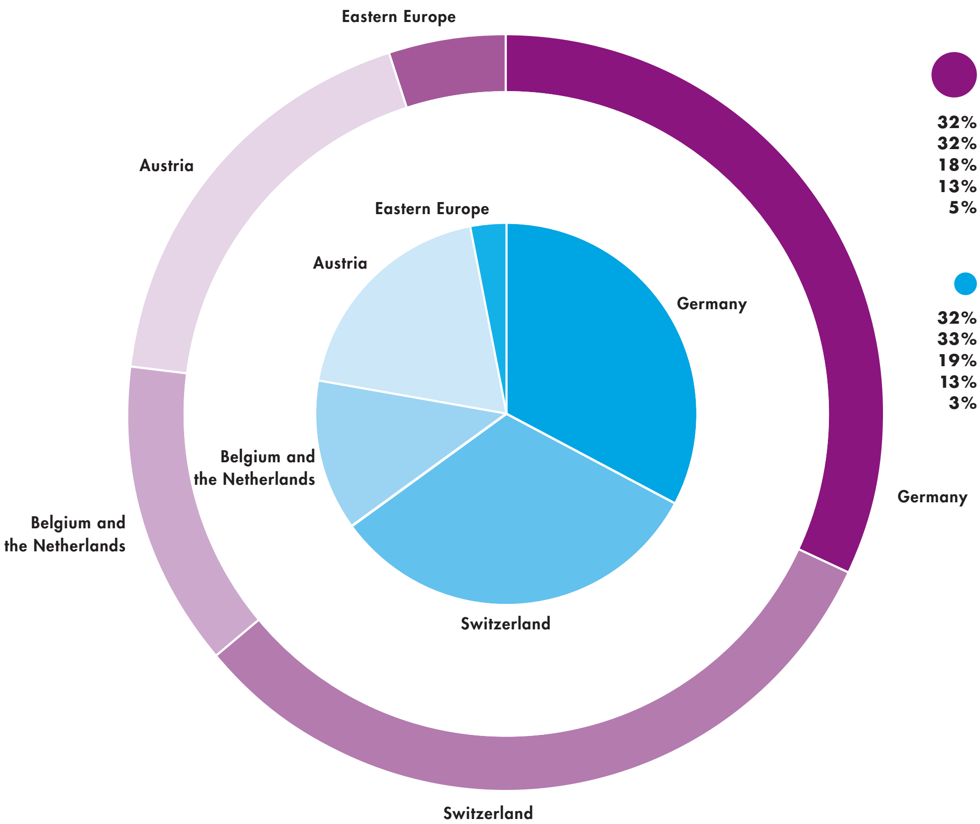
The most important project last year in terms of the company's future development was the "brand core analysis" exercise, which analyzed Charles Vögele Group's brand identity and unique selling proposition (USP). The aim of the project is to sharpen up the positioning of the company and its fashion offering. It is helping us to improve the brand identity that gives us a position as a preferred provider for our target customer groups. Brand content was analyzed from the internal perspective, the individual country perspective and from the customer perspective. The findings were then used to define our strategic focus and target brand identity. From the current financial year onwards, the results of this process will feed into the further development of our business model in the shape of concrete measures relating to the structure of our products and services, to the shape of our organization as well as to communication activities for the market and at the point of sale.

In the sourcing, supply chain and goods management areas of the company, planning and controlling tools for goods procurement and logistics were refined.

The planning of goods management and of earnings targets was greatly simplified and further automated. This has significantly improved interfaces and increased the effectiveness of the planning process – which on an interdisciplinary basis includes Group management, collection management, as well as purchasing and merchandise management – helping to make these areas more efficient.

At the same time, the supply chain was made even more transparent by increasing the detail of online information available within the logistics process. As a result, compliance with the required standards can be checked, and last-minute optimizations can be initiated throughout the logistics chain: from preparation, notification and transportation of a specific order to its final delivery to the store.

The RFID (Radio Frequency Identification) technology being tested in Slovenia represents another step towards completely transparent communications between production and sales. The aim of this system is to provide even more accurate monitoring of items from a branch's storeroom to the display racks and right up to the actual moment of sale. This means that the stock held in a store can be identified precisely and "stock-out" situations, where there are not enough of the right products to meet demand, can be accurately predicted and avoided. Customers should always be able to find the item they want in the colour and size they are looking for. This has two positive effects: sales potential is exploited to the full, and customer satisfaction is increased.



Percentage of the Group's net sales: 2008

32% Switzerland
32% Germany
18% Austria
13% Belgium and the Netherlands
5% Eastern Europe

2007

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

Charles Vögele Group's range was expanded significantly during the year under review, especially in the accessories area, with the relevant products made available in all stores. Design and fitting skills were improved in the purchasing and design departments in order to reflect the more verticalized management of Charles Vögele brands – including CasaBlanca, as described below.

During the year under review, the Marketing, Sales and Merchandising department changed the way the CasaBlanca label was presented. Instead of being mixed in item by item with the other labels, the whole CasaBlanca collection is now being displayed on its own as an independent brand. This has strengthened the fashion statement being made and improved the brand profile (see report on page 18 for more details). A new group-wide Retail Controlling function was created to improve comprehensive, integrated controlling of the company's key performance indicators. POS communication was made leaner and more aggressive during discounting phases in order to improve advertising efficiency at the point of sale.

Changes in Group Management

Bernd H. J. Bothe, Chairman of the Board of Directors, took over as CEO from Daniel Reinhard on an interim basis on August 18, 2008. Daniel Reinhard resigned from his post as Charles Vögele Group's CEO on the day before, having suddenly been taken seriously ill. On December 30, 2008 Daniel Reinhard died as a consequence of his illness. Charles Vögele Group owes him a great debt of thanks. In his seven years as CEO he successfully refocused the company and from 2006 led it into its current expansion phase.

On January 15, 2009, it was announced that André Maeder would be the new CEO of Charles Vögele Group. He joined the company in this role on February 16, 2009.

Further reduction in par value proposed

Owing to the company's healthy financial situation, the Board of Directors is proposing to the General Meeting of April 1, 2009 that, in line with the defined pay-out ratio, the par value of the company's shares be reduced by CHF 0.50 per share. If the Annual Shareholders' Meeting agrees to this proposal, the par value of Charles Vögele Group AG shares will be reduced from CHF 4.00 to CHF 3.50.

Operational outlook

In order to improve long-term growth dynamic and earnings power Charles Vögele Group formulated a 5-point plan in the third quarter of the year under review. The plan will secure long-term success and further solid development of the Group even under uncertain outlook conditions for the economy. The five central points are:

– Sharpen the company's positioning
– Develop the business model further
– Improve the growth dynamic
– Improve the cost position
– Further intensify the sense of dynamism in the organization and management

Based on this plan, and regardless of current economic uncertainties, Charles Vögele Group will selectively continue with its expansion activities and raise the pace of new store openings to optimally seize opportunities. The main focus will be on Germany, Hungary, Poland and Slovenia. Contracts are already in place for 40 new stores in 2009. Plans have also been made to significantly expand the branch network in Belgium during the current financial year. The Czech Republic will still be managed as a pilot market until the store we opened in Brünn in November delivers sufficient data for us to draw conclusions about the success of this high-frequency location.

The brand identity and brand positioning targets defined in our brand core analysis project are being achieved through a detailed package of measures affecting all functional areas. These measures are helping us to sharpen our profile, focus our business model carefully on core target groups, and thus build up a unique position as a preferred provider.

Considering the visible repercussions of the financial crises on the real economy and on our industry, goods purchasing, costs and investments have all been subjected to rigorous review to ensure that earnings power can be maintained. The open-to-buy limit for purchasing has been increased, thus allowing part of the purchasing budgets to be approved in accordance with ongoing business development. Furthermore, costs have been considerably reduced from the previous year's level and investments are being made only on a more selective basis.

Thank you to our employees

In the name of the Board of Directors and Group Management I would like to thank all employees of Charles Vögele Group for the great commitment and dedication they show every day to the company's well-being. This passion and the company's healthy financial situation provide a solid foundation for further sustainable and profitable growth. As a consequence, Charles Vögele Group can face the challenges of the market with confidence.

Bernd H. J. Bothe
Chairman of the Board of Directors
and CEO ad interim (18.8.2008–15.2.2009)

Charles Vögele **Fashion Show Lucerne**

Trendy times, trendy people – pure fashion! T-shirts and cheeky accessories make this casual look

Brand Core Analysis

Why customers buy at Charles Vögele

As part of its «brand core analysis» project, in summer 2008 Charles Vögele Group asked clients in all its markets about various matters. Below we give a selection of the survey questions and the sentences we asked clients to complete. The responses give a good overview of Charles Vögele's strengths and its fashion offering.

Why do you buy at Charles Vögele?

… it's Swiss quality and that gives me confidence …
… I can find things for me and my whole family all in the same store …
… quality, price, material and choice …
… at Charles Vögele I know my size, so I don't even have to try the clothes on first …

What makes Charles Vögele different to its competitors?

… Charles Vögele has a super selection for children above a certain age, and the clothes are hard-wearing …
… the stores are always in locations easy to get to …
… Charles Vögele has a lot of fashions for youngsters and older people …
… you can really put an outfit together …

Clothes that you buy at Charles Vögele …

… keep their shape for a long time …
… are well fitted …
… don't fade …
… are comfortable …

At Charles Vögele, I know that I can always expect …

… a pleasant atmosphere …
… good advice …
… fresh new fashions every time …
… good value for money …
… a team of very friendly employees …

CasaBlanca presented as separate brand

In an effort to make our CasaBlanca brand more attractive in terms of structure and presentation, the CasaBlanca collection has been separated from the main clothing departments and is now being presented to customers as a separate brand. Customer reaction so far has been positive, resulting in higher sales.

Who buys CasaBlanca?

CasaBlanca is Charles Vögele's most cutting-edge collection. It is aimed at younger women and men with an interest in fashion. The most important factor is not the customer's age, but his or her attitude to style and fashion.

What makes the CasaBlanca shops different?

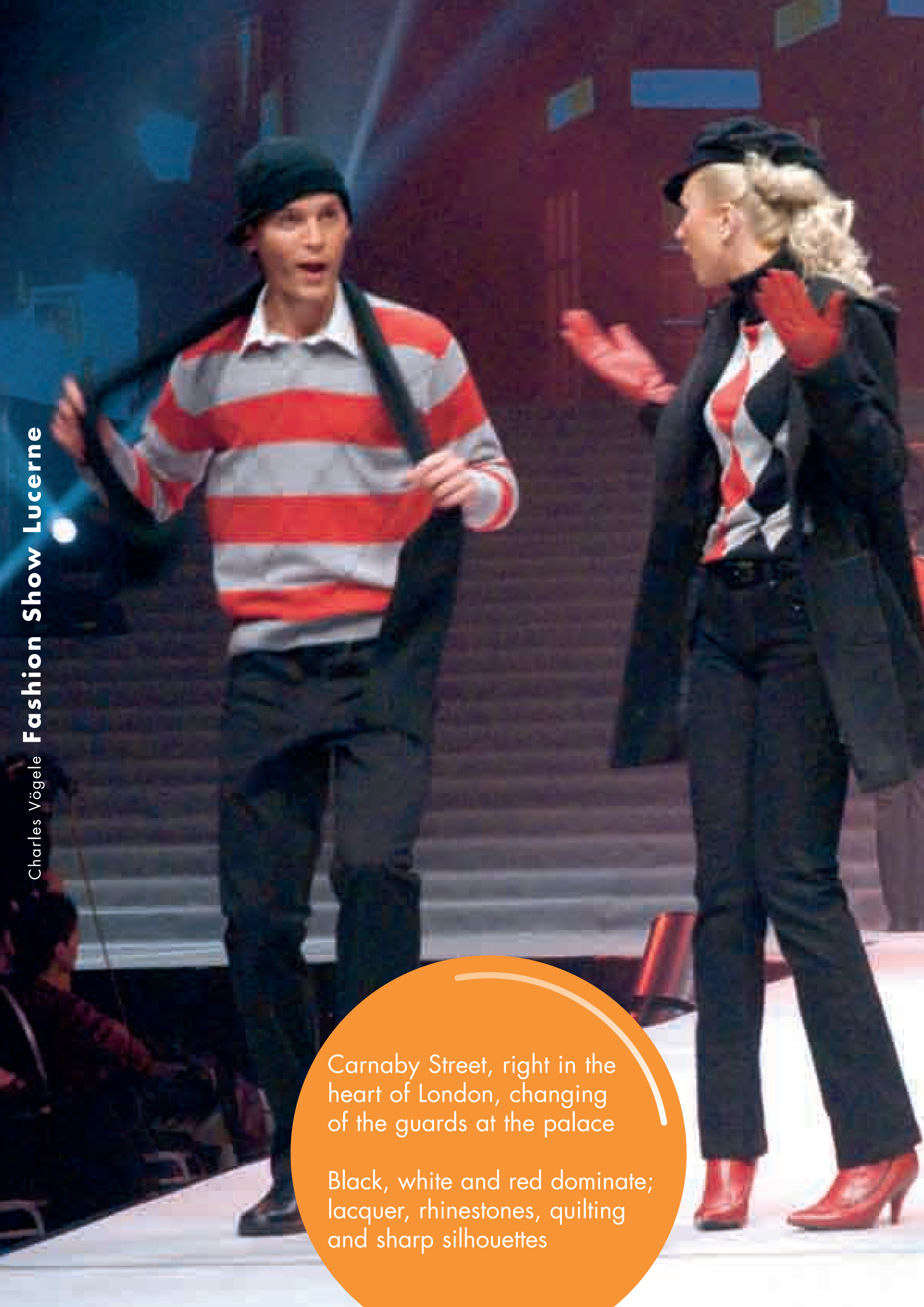
Until now, all target group brands, including CasaBlanca, have been presented in the main departments, i.e. they have been divided up by clothing type (blouses, trousers, jackets, etc.), rather than being presented by label. Now, however, all CasaBlanca items are being presented together towards the front of each store as a clearly recognizable, fashion-conscious brand collection. The new style of presentation and the promotion of the label to independent brand status have proved very popular with customers. This impression gained through compresensive tests

in selected stores was confirmed by some intensive market research conducted by Gfk in spring 2008: 5 400 interviews showed that the CasaBlanca test shops had been extremely well received, promising great potential for the future.

What are Charles Vögele's goals in establishing the CasaBlanca shops?

By presenting fashionable items at the front of the store, we have given the whole retail space a boost. The dominant position given to the CasaBlanca "shop-in-shops" within each branch reflects how high our expectations are in terms of productivity. We expect stock turnover to be significantly higher than in the traditional departments. In order to "verticalize" the distinct brand, new CasaBlanca units are being added to the merchandising departments in each sales organization, which is where the ranges are defined. Within the purchasing department, a separate team manager is already working with designers on the conception and design of the CasaBlanca collection.

More "shop-in-shop" units will be rolled out this year. Most stores will have one by the end of 2009. All new expansion stores and conversions will include CasaBlanca shops.



Carnaby Street, right in the heart of London, changing of the guards at the palace

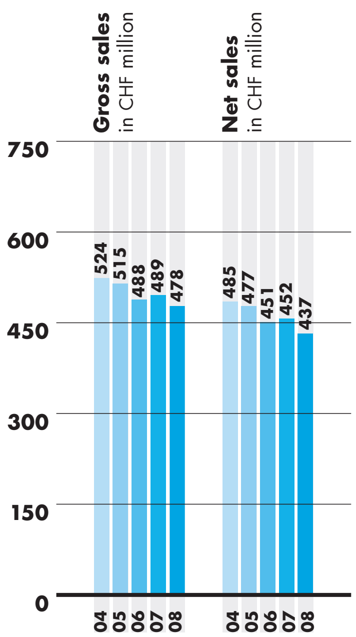
Black, white and red dominate; lacquer, rhinestones, quilting and sharp silhouettes

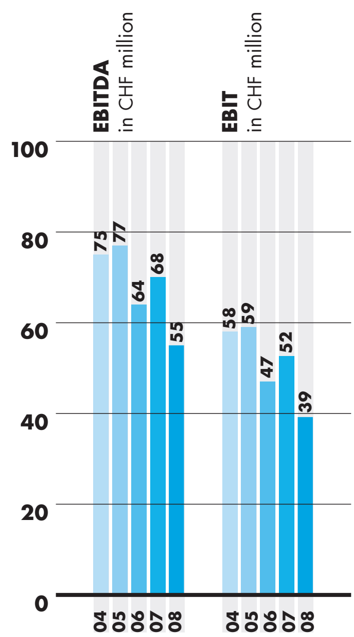
Sales Organization in Switzerland

Economic conditions and weather hurt the clothing market

The negative performance of global markets inevitably had an effect in Switzerland too. With prospects for the future increasingly gloomy, and with negative headlines filling the media every day, consumer sentiment worsened significantly in the second half of 2008. Nevertheless, the second half-year also saw an unusual increase in sales space within the clothing retail trade. This resulted from the opening of some major new shopping centres, as well as the entry into the market of international clothing discounters, and expansion by national department stores.

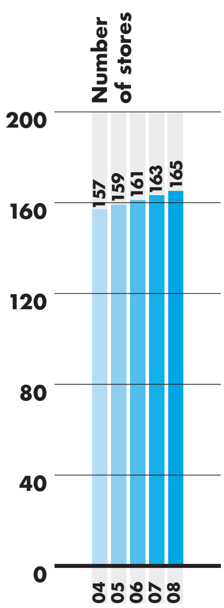
The Swiss sales organization achieved net sales of CHF 437 million for the 2008 financial year (previous year CHF 452 million). Despite lower sales, Charles Vögele Group was able to keep its market share at previous year's level. Implementation of the Casa-Blanca merchandising strategy, in which the label is presented altogether on its own rather than divided up by clothing type, was continued in pilot branches with the launch of the autumn-winter collection. Customers have reacted well to the new strategy, leading to higher sales in the stores concerned.

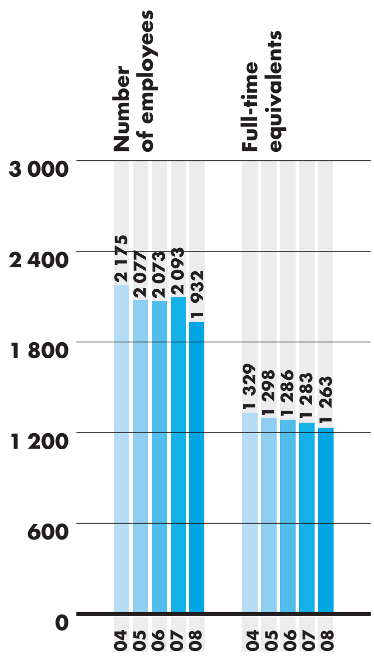




Operating earnings before depreciation and amortization (EBITDA) reached CHF 55 million (previous year CHF 68 million). The 19% fall in earnings is partly due to the weather-driven shift in sales from full-margin months to discount months in the first half of the year, and partly to the significant shrinkage of the clothing market in Switzerland and the consequent fall in sales volume.

Two new stores were opened in Switzerland during the year under review, increasing the portfolio from 163 stores in 2007 to 165 in 2008. In addition, the two flagship stores in Lucerne – the Group's biggest store – and Lausanne were completely renovated. Despite the new openings, the number of employees went down during the year under review, from 2 093 in the previous year to 1 932; the number of full-time posts decreased to 1 263 (previous year 1 283). 299 trainees were employed by the Swiss sales organization during 2008 (previous year 288).



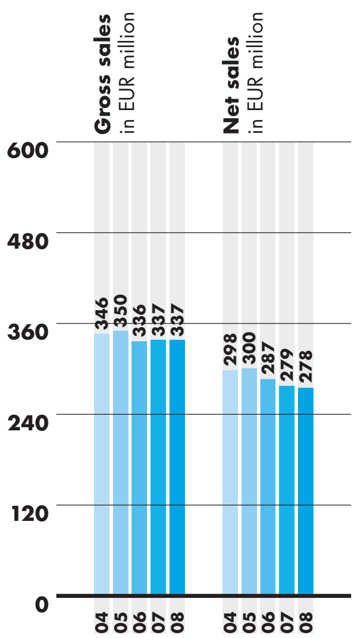


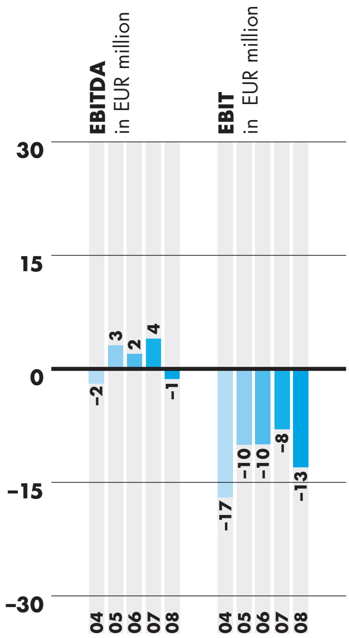
Sales Organization in Germany

Outperforming the market despite flat sales

German consumers reacted calmly to initial signs of an economic slowdown at the beginning of the year, but as fear of recession grew, consumption declined significantly. Falling energy costs did not help the situation to any noticeable degree, and by the end of 2008 the economy had only grown by about 1% year-on-year. There was a marked deterioration in the business climate in both the wholesale and retail sectors. Unfavourable weather at the start of the season made for a difficult first half-year, and the clothing market suffered an unexpected blow when two of our major competitors filed for bankruptcy. There were further shocks in the second half of the year as more companies succumbed to insolvency. The market shake-out in the German retail sector has been apparent for several years, but it clearly accelerated in 2008, which should have positive implications for the providers that remain.

The German sales organization generated net sales of EUR 278 million during the year under review, almost the same as in 2007 (EUR 279 million). While sales rose slightly in the first half of the year, this gain on the previous year was wiped out in the second half as anxiety about recession increased. Overall, Charles Vögele's sales performance in Germany was better than that of the country's outer garment market as a whole, which shrank by over 2%. The client loyalty programme in Germany was further expanded during the year under review and now covers about

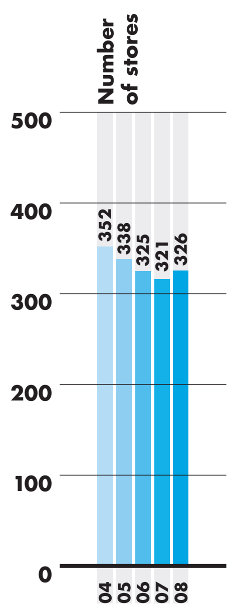


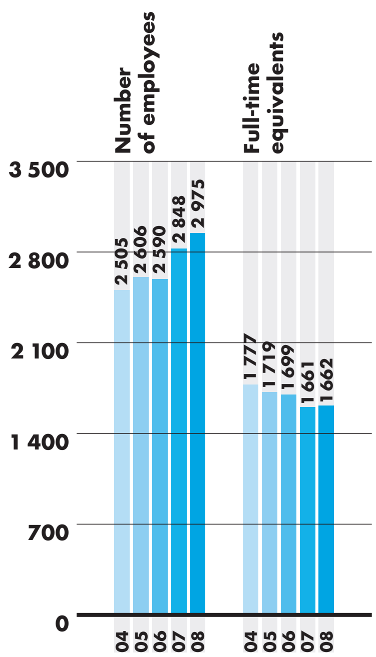


90% of all stores. Advertising activities were also strengthened by the increase in the number of "billboard stores", i.e. stores that use billboard advertising in their catchment areas. Their advertising messages are aimed primarily at fashion-conscious target customers who will be interested in the CasaBlanca collection.

The German sales organization posted a loss of EUR 1 million at the EBITDA level (operating earnings before depreciation and amortization) after a profit of EUR 4 million in 2007. This decline is due partly to the shift in sales towards the low-margin months in the first half of the year and to a lesser extent in the second half. Meanwhile, greater expansion activity led to higher up-front costs. There were 18 new openings and 13 closures, meaning that the total number of stores in Germany rose for the first time in five years to 326 (previous year 321 stores).

In the wake of expansion, employee numbers increased from the previous year's 2 848 to 2 975. The number of FTEs rose accordingly from 1 661 to 1 662. 132 trainees were employed in Germany during the year under review (previous year 163).





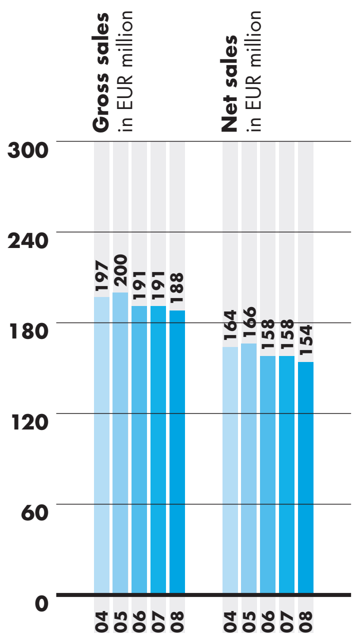
Sales Organization in Austria

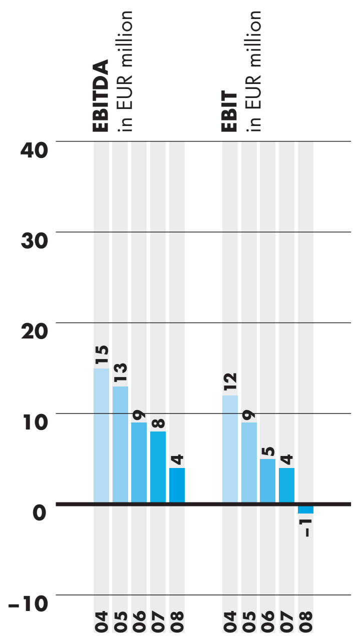
Competitive environment gets even tougher

During the second half of the year the economic climate in Austria deteriorated significantly, which had a direct effect on the retail trade. Some of our competitors launched low-price strategies at the beginning of 2008, clearly hoping that the cut in margins would be offset by a higher market share.

The Austrian sales organization generated net sales of EUR 154 million in local currency terms during the year under review, representing a fall of 3% on the previous year's EUR 158 million. There was a general downward trend in the outer garment segment as a whole in both halves of the year. Thus, Charles Vögele did better than the overall market and maintained its market share at previous year's level.

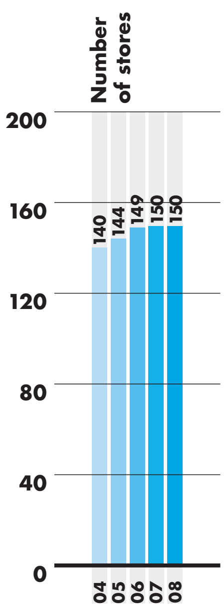
Operating earnings before depreciation and amortization (EBITDA) reached EUR 4 million (previous year EUR 8 million). The Austrian sales organization opened six new stores during the year under review and also closed six, with the portfolio staying at 150 stores. The main thrust of expansion activities was to open new stores in highly frequented locations near towns and large shopping centres. This has

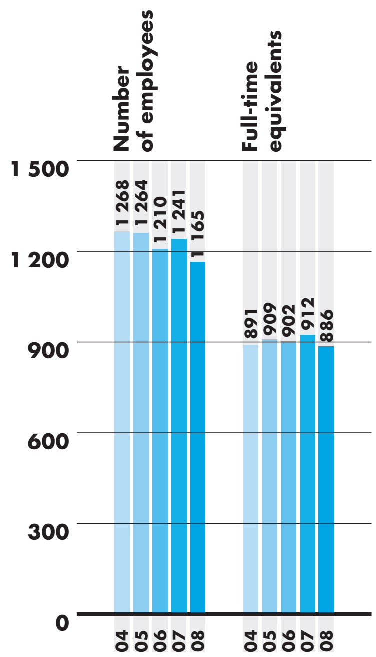




worked well for the company. The Charles Vögele customer card was introduced throughout the country during the year under review. Our Austrian head office in Kalsdorf near Graz is also still responsible for expansion and logistics in Slovenia, as well as for logistics services in Hungary and for the Czech test market.

The number of employees fell during the year under review, from 1 241 in 2007 to 1 165, and the number of full-time posts fell from 912 in 2007 to 886 accordingly. In addition, the Austrian sales organization employed 37 trainees (previous year 37).





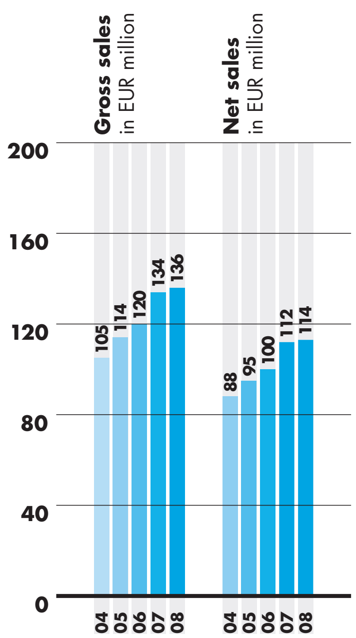
Sales Organizations
in Belgium and the Netherlands

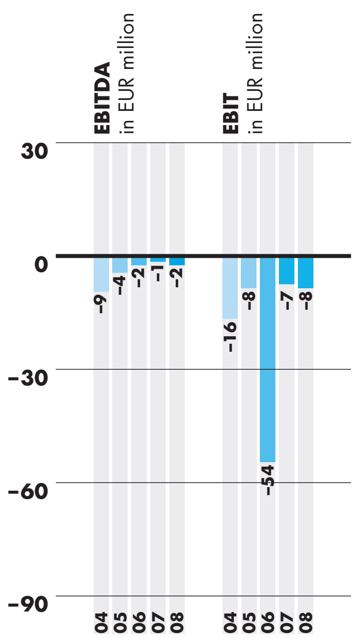
Making operational progress

Signs of the downturn were already apparent in the first half-year, and in the second half the disappointing economic outlook caused consumer sentiment to fall to record lows in Belgium and the Netherlands. By the end of November the Dutch consumer index had fallen to levels last seen in the wake of the terrorist attacks of September 11, 2001. In both countries this downward trend made competition even tougher and led to a decline in the overall market for outer garments.

Within the Dutch clothing market, foreign youth fashion retailers stepped up their expansion activities, while discount retailers, which were still very active in 2007, were rather more cautious. In Belgium, two new foreign providers entered the market, but none of this had an adverse effect on our positive sales performance in Belgium. In both markets one of the established companies announced that it would be introducing a new low-price strategy in financial 2009, to be operated in stand-alone stores in parallel with its existing business model.

While sales in the Netherlands remained more or less the same as last year in local currency terms, Charles Vögele achieved significant sales growth in Belgium. This was largely due to the 10 stores taken over from Superconfex in 2006, which contributed a full year's sales figures for the first time in 2008. In 2007 these stores only made a contribution after reopening in March of that year. Both sales organizations further strengthened their market position.

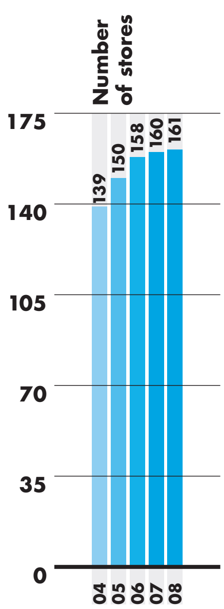


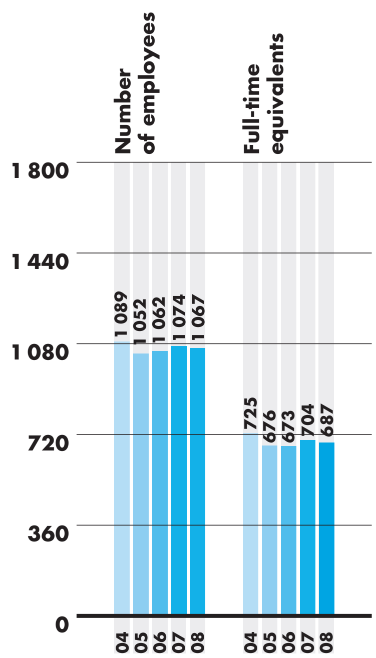


Contents
Highlights
Key Operating Figures
Annual Report
Strategy
Countries
Company
Sustainability
Corporate Governance

Taken together, the Belgian and Dutch sales organizations generated net sales in local currency terms of EUR 114 million, which is 2% higher than the previous year's figure of EUR 112 million. Even though one store was closed during the year in Belgium, both sales organizations were able to perform better than their relevant markets. Advertising activity was further intensified during the year under review, especially in Belgium, and new communications channels were tested in an effort to make the company's advertising more efficient. As part of the expansion plans, three new stores were opened in the Netherlands, while one store was closed in Belgium in order to optimize the portfolio. The network now consists of 46 stores in Belgium and 115 in the Netherlands. In Belgium we plan to open nine new stores during the 2009 financial year.

At EUR –2 million, operating losses before depreciation and amortization (EBITDA) were higher than in the previous year (EUR –1 million). The number of employees fell from a total of 1 074 in the previous year to 1 067. The number of full-time posts decreased accordingly, from 704 in 2008 to 687. 99 trainees were employed in the Netherlands during the year under review (previous year 19).



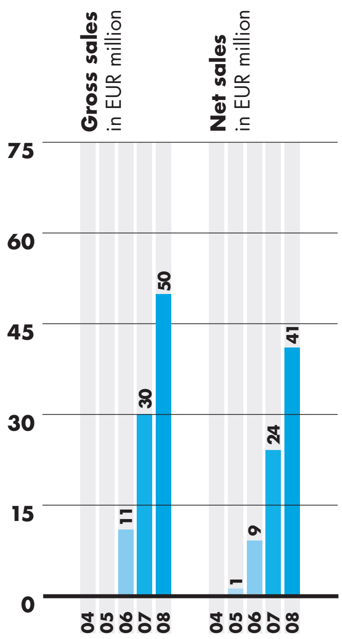


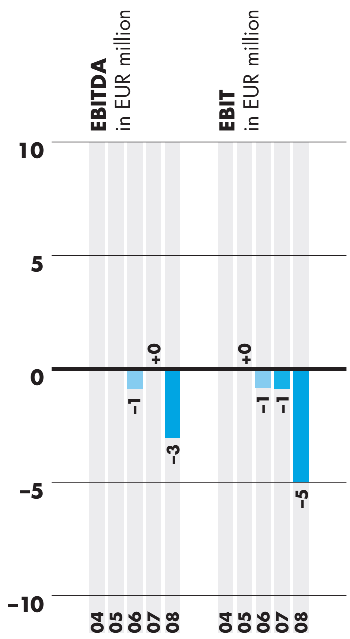
Sales Organizations
in Eastern Europe

Market performances vary

During the year under review, the Eastern European sales organizations covered the Slovenian, Polish, Hungarian and Czech markets.

Expansion market Hungary – After years of explosive expansion, the performance of the Hungarian economy in the year under review was disappointing, with GDP growth of only 1%. Although the International Monetary Fund, the World Bank and the EU granted the country EUR 20 billion of financial support to help stabilize its economy, the government still had to increase income tax again. This caused further pain to private households that were already suffering badly. A raft of redundancies also had a negative impact on consumer sentiment, meaning that 2009 is more likely to see recessive tendencies than signs of recovery. Despite these negative trends, the international clothing brands all expanded their presence by opening outlets in new locations. As part of its own expansion activities the Charles Vögele Group opened 15 new stores in Hungary, bringing the total portfolio up to 32. Five trainees were employed in Hungary during the year under review (previous year none).

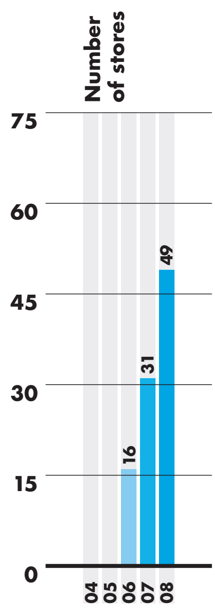


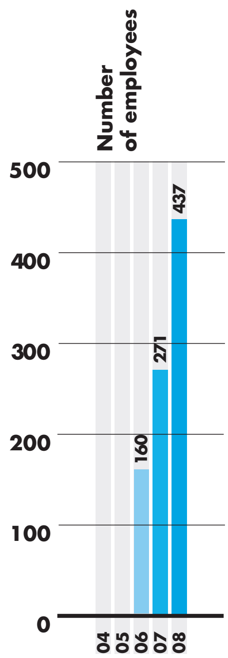


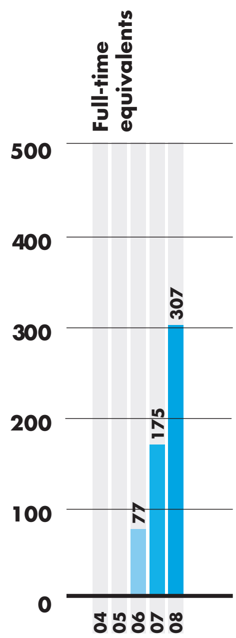
Expansion market Slovenia – Economic growth in Slovenia slowed from the previous year's 6% to 5% in 2008. As a result, consumers were cautious about spending, which had a negative effect throughout the retail sector. During the year under review Charles Vögele Group opened one new store in Nova Goriza. It now has five stores in the country.

Expansion market Poland – Thanks to a continued rise in domestic demand, Poland enjoyed economic growth of 5.9% in 2008, which helped boost consumption. Although growth was starting to slow in Poland too by the end of the year, the country's unemployment rate fell to about 3% during the year under review. Charles Vögele Group opened one new store in Poland to expand its portfolio to six.

Test market Czech Republic – Economic growth slowed in the Czech Republic too, though the effects were not dramatic. As announced, another branch was opened in this pilot market in November 2008 to test the response to the collections in high frequency locations. The portfolio presently features six stores. This should give us a complete range of data, which will help us decide how to proceed in the Czech Republic. For the time being we continue to class the country as a test market.



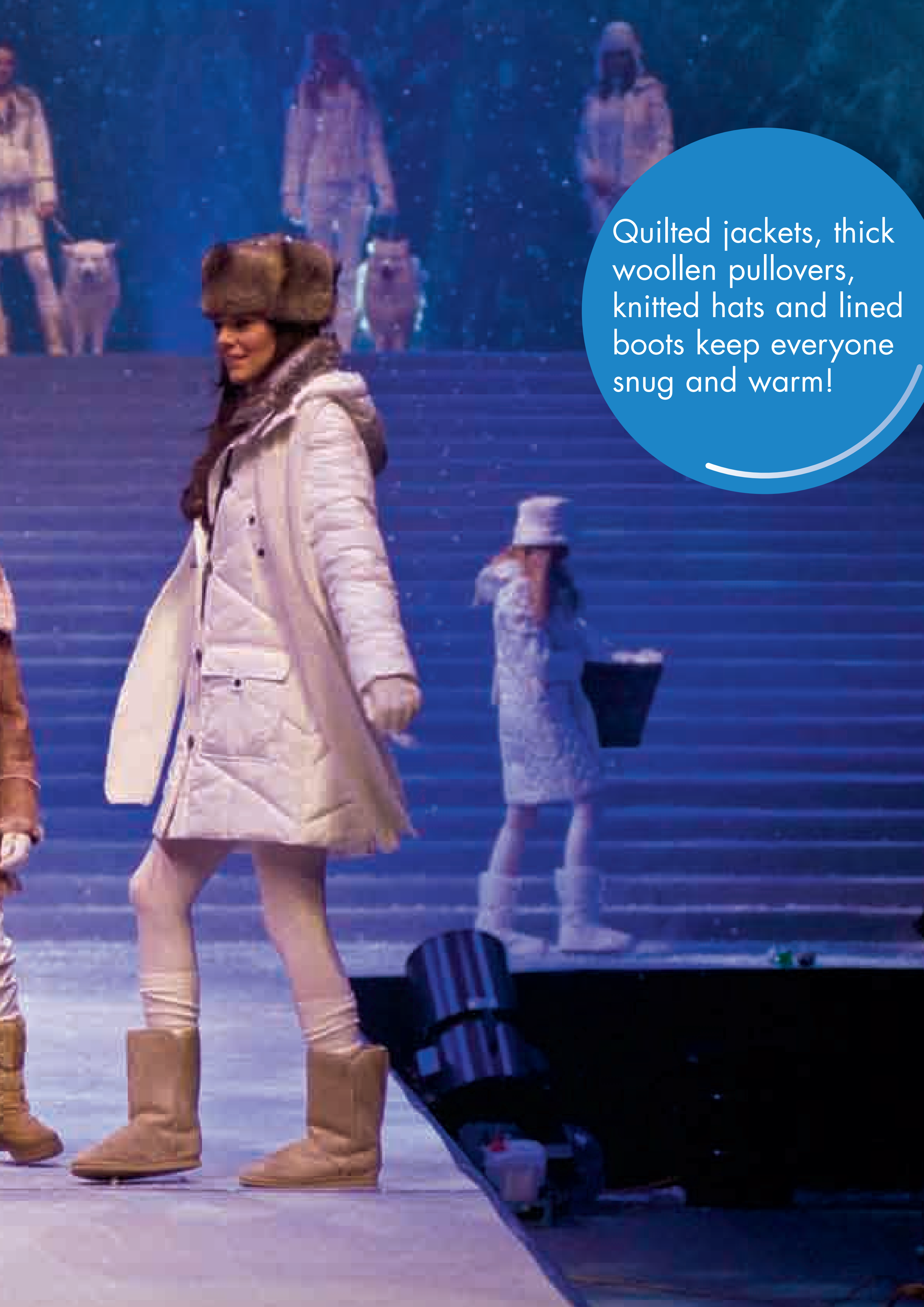




The Eastern European sales organizations generated overall net sales of EUR 41 million in 2008, an increase of 71% over the EUR 24 million posted in 2007. The sales organization are, therefore, already generating 5% of Group net sales. While Poland and the Czech Republic are doing well and Slovenia is performing satisfactorily, sales growth in Hungary was unsatisfying. The overall number of stores in the region has risen from 31 in the previous year to 49. At the EBITDA level (operating earnings before depreciation and amortization) there was a loss of EUR 5 million, compared with last year's break-even operating result. This is partly due to the development of an organizational structure for the Eastern European sales organizations, which was completed during the year under review, and partly to the lower-than-expected sales performance in Hungary and the up-front costs necessitated by all the new store openings. Expansion and the development of the internal organization led to an increase in employee numbers in the four markets from 271 in the previous year to 437. The number of full-time posts also increased from 175 in 2008 to 307.

New test market Romania – As already announced, our operational entry into the Romanian test market has been postponed owing to the overheated property market and the resulting exorbitant rental costs. However, the underlying plan to go into Romania as an additional pilot market remains in place.

A winter fairy tale! Huskies, skates and lightly falling snow



Quilted jackets, thick woollen pullovers, knitted hats and lined boots keep everyone snug and warm!

The Company and its Orientation

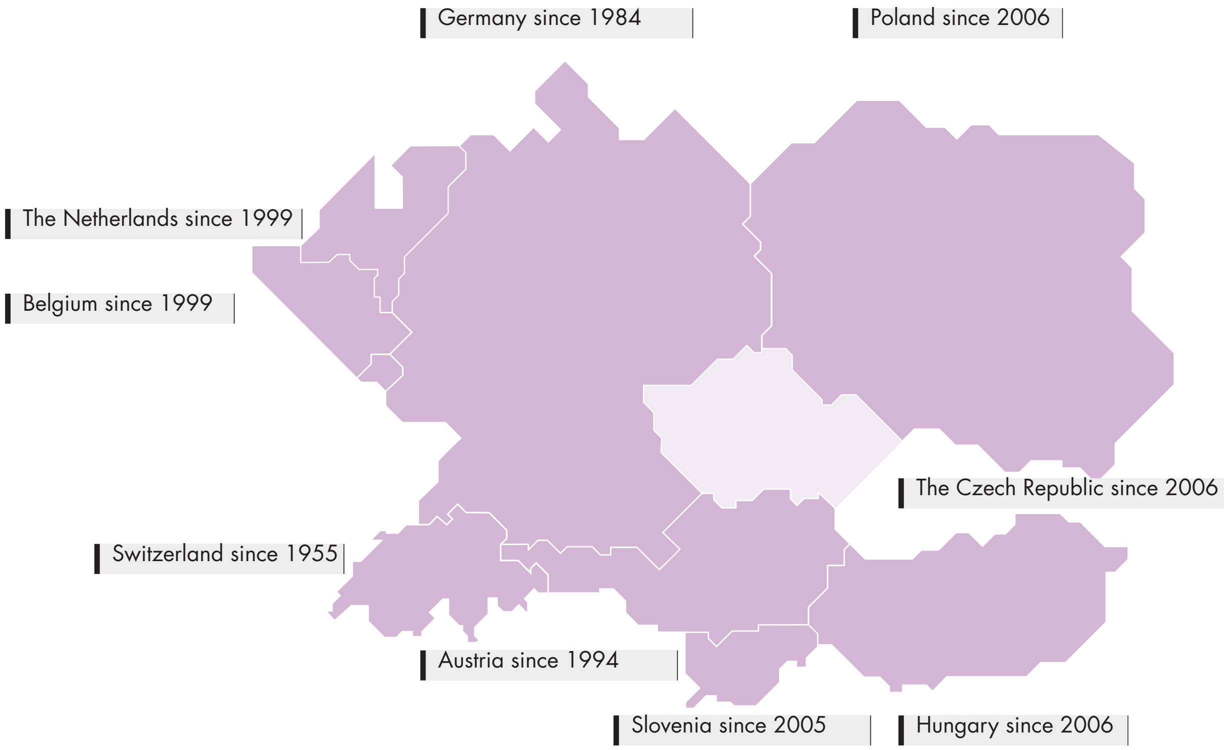
Positioning

The Charles Vögele Group, founded on March 5, 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 Charles 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



Existing markets
Test markets

Condensed

Financial Key Figures

Group Income Statement

CHF 1000	2007	2008
Net sales	1 393 690	1 368 874
EBITDA[1]	156 190	116 097
In % of net sales	11.2%	8.5%
EBIT[2]	94 822	50 870
In % of net sales	6.8%	3.7%
Earnings before taxes	80 313	36 378
In % of net sales	5.8%	2.7%
Net profit	60 974	15 441
In % of net sales	4.4%	1.1%
Basic earnings per share in CHF	7.19	1.83
Diluted earnings per share in CHF	7.10	1.83

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

Group Balance Sheet

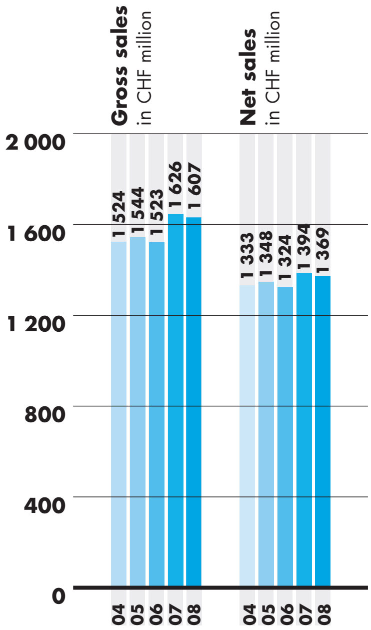
CHF 1000	31.12.2007	31.12.2008
Assets		
Total current assets	378 611	371 712
Total long-term assets	538 397	519 955
Total assets	**917 008**	**891 667**
Liabilities and shareholders' equity		
Total current liabilities	167 175	148 202
Total long-term liabilities	226 551	242 690
Total shareholders' equity	523 282	500 775
Total liabilities and shareholders' equity	**917 008**	**891 667**

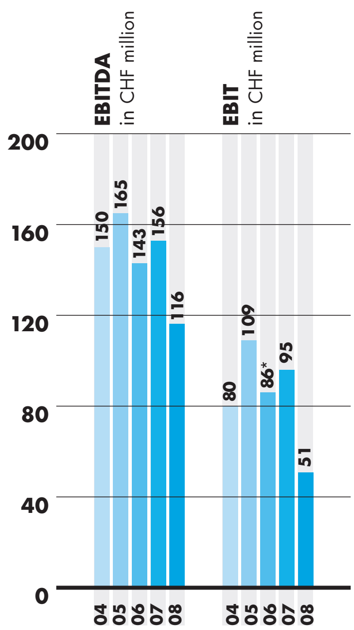
Group Cash Flow Statement

CHF 1000	2007	2008
Net cash flow from operating activities	111 499	103 454
Net cash provided/(used) by investing activities	(74 057)	(79 186)
Net cash provided/(used) by financing activities	(52 270)	96
Net increase/(decrease) in cash and cash equivalents	(14 828)	24 364
Net cash and cash equivalents at the beginning of the period	**41 013**	**27 128**
Effect of exchange rate changes	943	(3 545)
Net increase/(decrease) in cash and cash equivalents	(14 828)	24 364
Net cash and cash equivalents at the end of the period	**27 128**	**47 947**

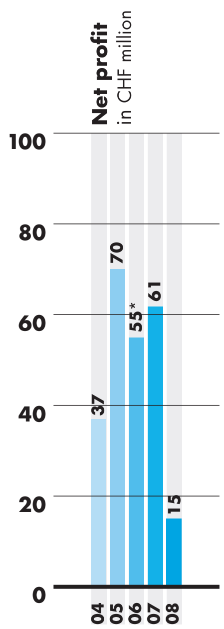
Statement of Changes in Group Equity

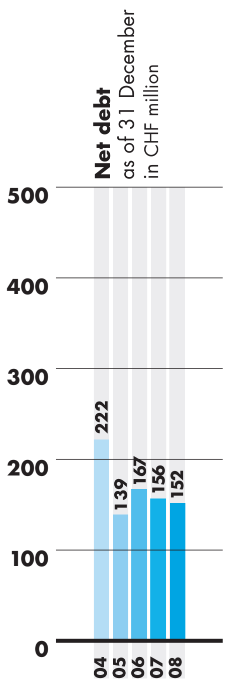
CHF 1000	Share capital	Treasury shares	Premium reserve	Retained earnings including currency translation differences	Valuation financial instruments	Valuation management share option plan	Total
Balance 1.1.2007	**70 400**	**(24 394)**	**173 789**	**266 839**	**(113)**	**2 144**	**488 665**
Change	(17 600)	(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**
Balance 1.1.2008	**52 800**	**(31 106)**	**173 789**	**331 273**	**(6 824)**	**3 350**	**523 282**
Change	(17 600)	(2 322)	0	(5 742)	644	2 513	(22 507)
Balance 31.12.2008	**35 200**	**(33 428)**	**173 789**	**325 531**	**(6 180)**	**5 863**	**500 775**

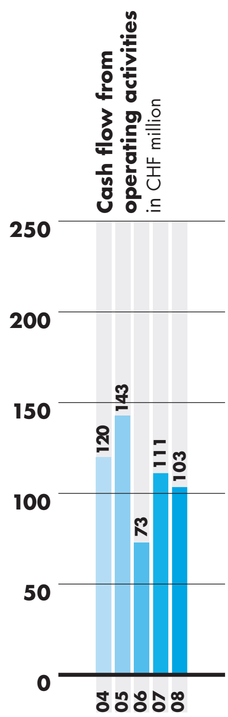


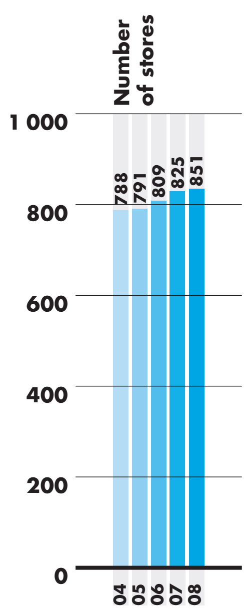


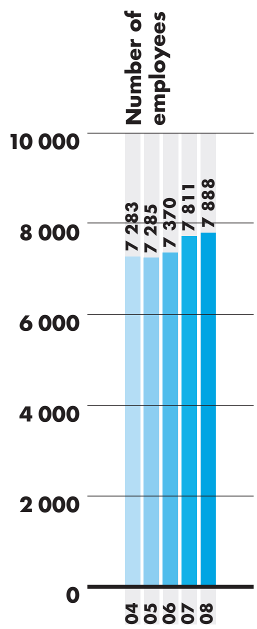
*Before impairment of goodwill of CHF 74 million











*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 healthy financial situation, the Board of Directors is proposing to the Annual Shareholders' Meeting of April 1, 2009, that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares should be reduced by CHF 0.50 per share – from CHF 4.00 to CHF 3.50 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 SIX Swiss Exchange in Zurich from January 1, 2004, to February 20, 2009

Charles Vögele **Fashion Show Lucerne**

CasaBlanca creates a modern look, with cool prints and trendy colours!

Sustainability, Employees and Social Responsibility

Respect for the environment

Production

The Charles Vögele Group's 851 stores mainly sell the company's own collections, which are produced by external suppliers under contract. Manufacturing takes place in various countries. In 2008 around 85% of items originated from Southeast Asia and 15% from Europe.

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 December 23, 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

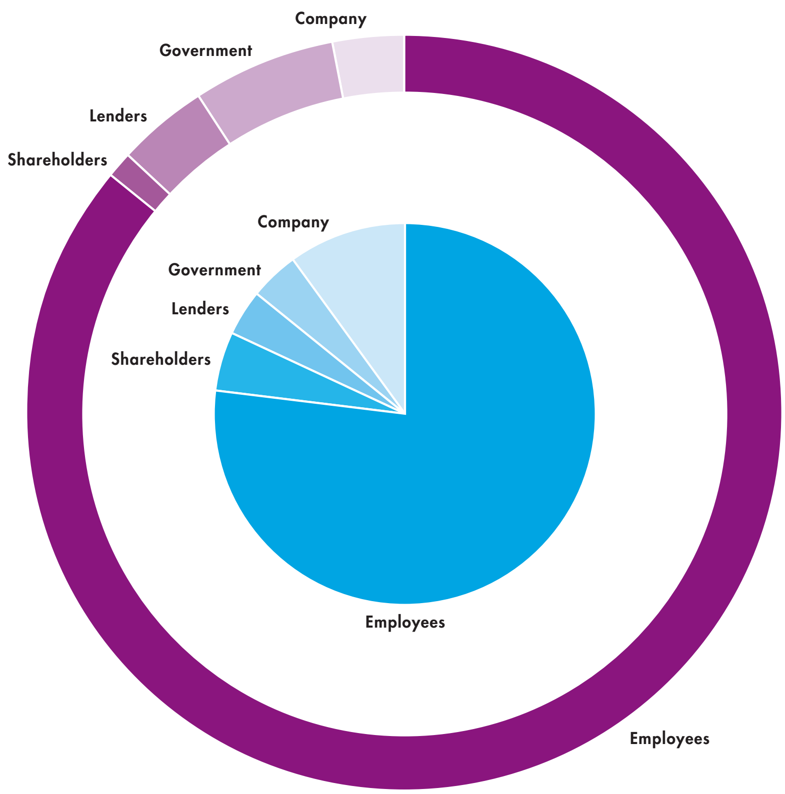
The Charles Vögele Group employed 7 888 people during the year under review, which represents an increase of 1% on the previous year's 7 811. The number of full-time equivalent posts went up slightly from 4 984 in the previous year to 5 071. This change is mostly due to the expansion realized during the year under review.

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 Charles 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.

Value-Added Statement

CHF 1000	2007	2008
Net sales	1 393 690	1 368 874
Other operating income	3 156	3085
Financial income	824	929
Group services	**1 397 670**	**1 372 888**
Purchased materials and services	**(922 737)**	**(935 077)**
Gross value added	**474 933**	**437 811**
Depreciation and amortization	(61 368)	(65 227)
Net value added	**413 565**	**372 584**
Distribution of net value added		
Employees	317 919	320 785
Government	19 339	20 937
Lenders	15 333	15 421
Shareholders (based on proposed appropriation of earnings by the Board of Directors)	16 859	4 191
Company	44 115	11 250
Total	**413 565**	**372 584**



2008

86% Employees
1% Shareholders
4% Lenders
6% Government
3% Company

2007

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

Training days and participants

	2004	2005	2006	2007	2008
Number of participants	492	2 600	1 713	2 845	2 855
Number of training days	2 138	4 233	2 835	5 451	4 667

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, 572 young people completed a training programme (previous year: 511). 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: 44 trainees (41% of graduates) scored higher than a 5 (out of a possible 6).
- Austria: 3 trainees (23% of graduates) achieved a «distinction» pass.
- Germany: 34 trainees (26% 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.com 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 as well as on the UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), on the UN Global Compact and on the OECD regulations. 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 250 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 2008

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:

- Gurgaon (India), April 21/22/23
- Tirupur (India), April 25
- Beijing (China), May 20
- Shanghai (China), May 21/22
- Shenzhen (China), May 23/24

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 (Specialized Technology Resources [STR]; ALGI). 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). Since 2008, Charles Vögele Group has complied with the BSCI's extended list of obligations by also offering its suppliers active training to help them achieve the standards set out in the BSCI Code of Conduct. Following the first reaudits and resulting corrective action plans (CAP), individual training programmes have now been defined. The first of these will be carried out during the 2009 financial year. The programmes are an additional tool for training suppliers so that they can comply with the required BSCI standards.

Audits and reaudits

	2005	2006	2007	2008
Audits and reaudits	26	40	43	40

In the year under review, audits and reaudits were performed in Bangladesh, Cambodia, China, India, Indonesia, Pakistan and Turkey.

Earlier certification under SA8000

Thanks to its membership of the SAI, the Charles Vögele Group had already awarded SA8000 certification to 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 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. As of December 31, 2008, seven active suppliers, mainly in India, were certified according to SA8000.

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 2008, nearly 56 000 people have made use of the facilities. The project will now be extended until the end of 2010.

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 December 31, 2008, 600 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, 2008, 750 women have been trained.

Building an earthquake-resistant school in the Chinese province of Szechuan

On May 12, 2008 the most serious earthquake in 30 years hit China's south-western province of Szechuan, killing more than 80 000 people. Hundreds of thousands were injured. Millions more lost their homes and everything they owned. Many of the victims were children who, when disaster struck, were attending schools not built to withstand earthquakes. This prompted the Swiss Community Project to establish a project to help construct an earthquake-resistant school in the region of Szechuan that suffered the greatest devastation. The project benefits from the patronage of the Swiss Embassy in Beijing, and upon completion the school should provide places for around 400 students.

We have long-established business links with China and maintain our own presence in the country, so employees at the Charles Vögele Sourcing Offices in Hong Kong and Shanghai were quick to show solidarity with the victims by launching a donations campaign. This was also strongly supported by their colleagues at the head office in Pfäffikon. The company itself contributed a multiple of the amount raised by employees in Switzerland and China, and handed the sum over to local representatives of the Swiss Community Project on August 19, 2008.

Donations

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. No grants were made in the 2008 financial year owing to the low level of profits at the company.


Charles Vögele Fashion Show Lucerne

The fasion show of Charles Vögele in Lucerne has been a great success!

Corporate Governance

1 Group Structure and Shareholders

1.1 Group structure

Charles Vögele Holding AG
Pfäffikon (Canton Schwyz)
Share capital CHF 35 200 000

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) N.V.** Turnhout, B Share capital € 10 063 906	**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 Voegele Romania SRL Bucaresti, RO Partnership capital 4 000 000 RON	**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, 2008

Information on listing and stock market capitalization as of December 31, 2008, 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 49 section 41 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 57 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, 2008, the share capital of Charles Vögele Holding AG amounted to CHF 35 200 000 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 4.00 each. The Board of Directors will propose to the Annual Shareholders' Meeting of April 1, 2009, that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares should be reduced by CHF 0.50 from CHF 4.00 to CHF 3.50 per share – providing that the proposal will be accepted. As of December 31, 2008, the Charles Vögele Group held 417 641 of its own shares (as of December 31, 2007: 370 546 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 57 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 1.056 million, excluding shareholders' subscription rights, through the issue of 264 000 shares with a par value of CHF 4.00 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 2006–2008 can be found on page 39 of this Activity Report.

2.4 Shares and participation certificates

As of December 31, 2008, 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 4.00 each. The Board of Directors will propose to the Annual Shareholders' Meeting of April 1, 2009 that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares should be reduced by CHF 0.50 from CHF 4.00 to CHF 3.50 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 2008–2009, 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 Holding 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.

Jan C. Berger
1946, Dutch Citizen
Term of office 2008–2009, first elected in 2008
Marketing and science studies as well as various management courses at Babson College, Harvard and Njienrode Business School. Independent retail consultant since 2006, and member of the boards of directors of several retail, educational and cultural organizations. From 1996 to 2006 CEO of the leading Dutch department store De Bijenkorf. The group includes department stores as well as clothing and DIY chains. Jan C. Berger is also a member of the advisory boards of the Amsterdam Fashion Institute and of Visual Retailing, an organization that concentrates on the visual presentation of goods in the retail industry.

Alain Caparros
1956, French citizen
Term of office 2007–2009, 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 to 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 to 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 2007–2009, 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 2008–2009, 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.

Hans Ziegler
1952, Swiss citizen
Term of office 2008–2009, first elected in 2008;
Master of Business Administration. Independent management consultant since 1997 with international mandates in crisis management, restructurings and repositionings. From 1988 to 1991 CFO and CIO at the Usego-Waro Group, and from 1991 to 1995 head of group finance, IT and group development at the Globus Group. From 1996 to 1997 chairman of the board of directors and CEO of the Distefora Group (previously Interdiscount). From 2000 to 2005 CFO and member of the board of directors of the Pragmatica Group. In 2003 CEO of the Erb Group.

During the year under review none of the members of the Board of Directors, except for Bernd H. J. Bothe, 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.

Bernd H. J. Bothe

Dr. Felix R. Ehrat

Jan C. Berger

Alain Caparros

Prof. Dr. Peter Littmann

Daniel J. Sauter

Carlo Vögele

Hans Ziegler

Changes to the Board of Directors 2008

Jan C. Berger and Hans Ziegler were elected as new members of the Board of Directors at the Shareholders' Meeting of April 16, 2008.

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 (until March 2008); member of the board of austriamicrosystems AG and of Carlo Gavazzi Holding AG.

Jan C. Berger

Member of the board of directors of the Shopex Group, of NEVI, of the Centraal Museum in Utrecht and of the Koetsier Foundation.

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 Julius Bär Holding AG.

Carlo Vögele

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

Hans Ziegler

Chairman of the boards of directors of Swisslog Holding AG and of Schlatter Holding AG. Member of the boards of directors of OC Oerlikon Corporation AG and of Elma Electronic AG.

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 of one year, a "year in office" being defined as the period between two Annual Shareholders' Meetings. 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 56).

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. Six meetings and two telephone conferences 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, Hans Ziegler
  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 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 2008, four half-day meetings were held.

– Personnel and Compensation Committee
  Dr. Felix R. Ehrat (Chairman), Bernd H. J. Bothe, Prof. Dr. Peter Littmann, 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 2008 one meeting lasting several hours and four telephone conferences were held.

– Strategy Committee
  Bernd H. J. Bothe (Chairman), Jan C. Berger, 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 2008, one full-day and two half-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 (from January 1, 2008, to August 17, 2008, Daniel Reinhard and from August 18, 2008, to February 15, 2009, Bernd H. J. Bothe), the Chief Financial Officer (Felix Thöni), as well as the Chief Marketing and Sales Officer (Dr. Dirk Seifert) and the Chief Purchasing Officer (Werner Lange). The CEO heads Group Management with authority to issue directives. Felix Thöni additionally manages Human Resources at Group level, IT, as well as Supply Chain and Logistics.

4.1 Members of Group Management

Bernd H. J. Bothe
1944, CEO from August 18, 2008, to February 15, 2009, German citizen. 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 Holding 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.

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.

Bernd H. J. Bothe
Chief Executive Officer (CEO)

Werner Lange
Chief Purchasing Officer

Dr. Dirk Seifert
Chief Marketing & Sales Officer

Dr. Felix Thöni
Chief Financial Officer (CFO)

Changes in Group Management

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

- On August 17, 2008 Daniel Reinhard resigned from his post as CEO due to a sudden and serious illness, which caused his death on December 30, 2008.
- Bernd H. J. Bothe took over the post as CEO on August 18, 2008, and lead the Group until February 15, 2009
- On January 15, 2009, André Maeder was appointed as new CEO of the Charles Vögele Group. He joined the Group on February 16, 2009, and has since taken over the operational responsibility for the Group.

4.2 Other activities and interests

The members of Group Management (except for Bernd H. J.Bothe in his role as CEO ad interim as well as Felix Thöni as member of the board of directors of Industrieholding Cham AG and of Raiffeisenbank Cham) 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 level 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 11.4% of the basic compensation; for members of Group Management to 23.1% 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 level 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 34.1 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 level 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 61.

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 represent at least 0.5% of the share capital can make a request no later than 45 days prior to the day of the meeting for items to be added to the agenda. The request has to be made in writing and state the motion that is to be put to the vote. One or more shareholders who between them represent at least 10% of the share capital can call an Extraordinary Shareholders' Meeting between annual meetings.

6.5 Entries in the share register

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

7 Changes in control and defensive measures

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

8 Auditors

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

The auditor for the Charles Vögele Group and Charles Vögele Holding AG is PricewaterhouseCoopers AG (PwC). It was confirmed as statutory and Group auditor for one year at the Annual Shareholders' Meeting of April 16, 2008. 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 of Charles Vögele Holding AG is paid a fee totalling CHF 669 000 for carrying out the audit mandate in the business year 2008 plus CHF 204 000 for additional audit-related services. 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 is paid a fee of CHF 163 000 for tax consultancy services.

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. A comprehensive report in accordance with art. 728b, para. 1 of the Swiss Code of Obligations 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 71 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, 2008

No significant events after December 31, 2008, occured.

Forthcoming events

- 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
- Analysts' and media conference on the 2009 business year results: March 9, 2010
- Annual Shareholders' Meeting 2009: April 14, 2010
- Analysts' and media conference on the 2010 half-year results: August 24, 2010

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BUSINESS TRENDS AND OUTLOOK

Charles Vögele
Switzerland

Contents Consolidated Financial Statements

Consolidated Income Statement

from January 1 to December 31

CHF 1000	Note	2007[1]	2008
Net sales		**1 393 690**	**1 368 874**
Cost of goods	19.1	(477 074)	(474 785)
Personnel expenses	6	(317 919)	(320 785)
Rental expenses	7	(226 732)	(236 604)
Advertising and promotion expenses	8	(114 941)	(118 815)
General operating expenses	9	(103 068)	(104 474)
Other operating income	10	2 234	2 686
Operating earnings before depreciation and impairment (EBITDA)		**156 190**	**116 097**
In % of net sales		**11.2%**	**8.5%**
Depreciation		(60 897)	(64 702)
Impairment	11	(471)	(525)
Operating earnings (EBIT)		**94 822**	**50 870**
In % of net sales		**6.8%**	**3.7%**
Financial income	12	824	929
Financial expenses	13	(12 089)	(10 526)
Exchange gains/(losses), net	14	(3 244)	(4 895)
Profit before income tax		**80 313**	**36 378**
In % of net sales		**5.8%**	**2.7%**
Tax expenses	15	(19 339)	(20 937)
Net profit of the year		**60 974**	**15 441**
In % of net sales		**4.4%**	**1.1%**
Basic earnings per share	16	**7.19**	**1.83**
Diluted earnings per share	16	**7.10**	**1.83**

The notes on pages 6 to 49 are an integral part of these consolidated financial statements.
[1] Restatement see Note 2.3.

Consolidated Balance Sheet

as of December 31

CHF 1000	Note	31.12.2007	31.12.2008
Assets			
Current assets			
Cash and cash equivalents	17	42 076	47 947
Receivables, advance payments and prepaid expenses	18	47 715	34 816
Derivative financial instruments	23	79	6 321
Inventories	19	288 741	282 628
Total current assets		**378 611**	**371 712**
Long-term assets			
Tangible assets	20	443 402	428 414
Financial assets	21	712	1 157
Intangible assets	22	79 168	83 144
Deferred tax assets	15	15 115	7 240
Total long-term assets		**538 397**	**519 955**
Total assets		**917 008**	**891 667**
Liabilities and shareholders' equity			
Current liabilities			
Short-term financial liabilities	24	19 085	2 845
Trade payables		61 714	53 303
Derivative financial instruments	30	10 416	12 268
Other liabilities and accruals	25	65 741	71 203
Current tax liabilities		9 684	8 127
Current provisions	27	535	456
Total current liabilities		**167 175**	**148 202**
Long-term liabilities			
Lease liabilities	26	44 333	37 298
Provisions	27	7 273	6 874
Deferred tax liabilities	15	40 642	39 060
Mortgages	28	95 000	110 000
Loans	29	39 303	49 458
Total long-term liabilities		**226 551**	**242 690**
Shareholders' equity			
Share capital less treasury shares	31, 32	21 694	1 772
Other reserves		173 789	173 789
Retained earnings		327 799	325 214
Total shareholders' equity		**523 282**	**500 775**
Total liabilities and shareholders' equity		**917 008**	**891 667**

The notes on pages 6 to 49 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

from January 1 to December 31

CHF 1000	Note	2007	2008
Net profit for the year		**60 974**	**15 441**
Adjustments:			
– Tax expenses	15	19 339	20 937
– Financial expenses and foreign exchange differences	13, 14	15 333	15 421
– Financial income	12	(824)	(929)
– Depreciation and impairment	11	61 368	65 227
– Profit on disposal of assets		(62)	(300)
– Other non-cash expenses		1 727	3 019
Change in long-term provisions		(357)	311
Change in inventories		(2 701)	(13 057)
Change in net working capital		(9 304)	30 002
Operating earnings after changes in net working capital		**145 493**	**136 072**
Financial income received		824	929
Financial expenses paid		(16 324)	(16 618)
Taxes paid		(18 494)	(16 929)
Cash flow from operating activities		**111 499**	**103 454**
Investments in intangible assets	22.1	(3 373)	(6 956)
Investments in tangible assets	20.1	(70 934)	(72 259)
Disposals of tangible assets		250	529
Investments in financial assets		0	(500)
Net cash provided/(used) by investing activities		**(74 057)**	**(79 186)**
Change in bank loans	29	(22 500)	10 000
Change in finance lease liabilities		(7 103)	(4 797)
Purchase of treasury shares	32	(10 989)	(6 223)
Disposals of treasury shares	32	3 589	3 048
Change in mortgages	28	1 760	15 000
Distribution to shareholders	33	(17 027)	(16 932)
Net cash provided/(used) by financing activities		**(52 270)**	**96**
Net increase/(decrease) in cash and cash equivalents		**(14 828)**	**24 364**
Net cash and cash equivalents at the beginning of the period	17	**41 013**	**27 128**
Effect of exchange rate changes		943	(3 545)
Net increase/(decrease) in cash and cash equivalents		(14 828)	24 364
Net cash and cash equivalents at the end of the period	17	**27 128**	**47 947**

The notes on pages 6 to 49 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 1.1.2007	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**
Balance 1.1.2008	31	**52 800**	**(31 106)**	**173 789**	**335 970**	**(4 697)**	**(6 824)**	**3 350**	**523 282**
Cash flow hedges, net of tax	36.1						644		644
Currency translation differences						(21 504)			(21 504)
Net income/(expense) recognized directly in equity					**0**	**(21 504)**	**644**		**(20 860)**
Net profit for the year 2008					15 441				15 441
Total recognized income for 2008					**15 441**	**(21 504)**	**644**		**(5 419)**
Value of granted options	34							3 019	3 019
Value of exercised/ expired options	34				506			(506)	0
Disposals of treasury shares	32		3 233		(185)				3 048
Purchase of treasury shares	32		(6 223)						(6 223)
Par value reduction	33	(17 600)	668						(16 932)
Balance 31.12.2008	31	**35 200**	**(33 428)**	**173 789**	**351 732**	**(26 201)**	**(6 180)**	**5 863**	**500 775**

The notes on pages 6 to 49 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 SIX 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, 2008, have been applied on these annual financial statements:

- IFRIC 11: IFRS 2 – Group and treasury share transactions
- IFRIC 12: Service concession arrangements
- IFRIC 14: IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

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. The implications for the Charles Vögele Group's accounts are currently being examined.

Mandatory from financial year 2009:
- IFRS 1: First-time adoption of International Financial Reporting Standard (amendment)
- IFRS 2: Share-based payment (amendment)
- IFRS 8: Operating segments (new)
- IFRIC 13: Customer loyalty programmes (new)
- IFRIC 15: Agreements for the construction of real estate (new)
- IFRIC 16: Hedges of a net investment in a foreign operation (new)
- IAS 1: Presentation of financial statements (revised)
- IAS 16: Property, plant and equipment (amendment)
- IAS 19: Employee benefits (amendment)
- IAS 20: Accounting for government grants and disclosure of government assistance (amendment)

- IAS 23: Borrowing costs (amendment)
- IAS 28: Investments in associates (amendment)
- IAS 29: Financial reporting in hyperinflationary economies (amendment)
- IAS 31: Interests In joint ventures (amendment)
- IAS 32: Financial instruments: presentation (amendment)
- IAS 36: Impairment of assets (amendment)
- IAS 38: Intangible assets (amendment)
- IAS 39: Financial instruments: recognition and measurement (amendment)
- IAS 40: Investment property (amendment)
- IAS 41: Agriculture (amendment)

Mandatory from financial year 2010:
- IFRS 3: Business combinations (revised)
- IFRS 5: Non-current assets held for sale and discontinued operations (amendment)
- IAS 27: Consolidated and separate financial statements (revised)

The changes that have a material effect on these 2008 financial statements are explained below.

IFRIC 14: The limit on a defined benefit asset, minimum funding requirements and their interaction (IAS 19)

IFRIC 14 stipulates that an impairment test has to be carried out on IAS 19 pension scheme surpluses. This test determines whether the present value of the entities actuarial future service costs is greater than the present value of future employer contributions. If this is the case, the present value of this difference must be regarded as an economic benefit and must be treated as such in the accounts. In the year end report the difference is negative as at 1.1.2007 and 1.1.2008, so there is no economic benefit to be recorded pursuant to IFRIC 14.

As at 31.12.2008 there is an underfunding. IFRIC 14 does not apply in this case.

2.3 Correction to the prior-year income statement pursuant to IAS 8 owing to an error (restatement)

Discounts relating to the purchase of goods and services, or to costs for cash deposits resulting from cash transactions in stores, or to other bank fees were previously shown as operational financial income under the “other operating income“ heading of the income statement. Under IFRS, however, discounts, rebates and other similar items should be deducted directly from the costs of purchase. Consequently, this error in the 2007 income statement has been corrected with retrospective effect, and the discount income has been reassigned to the relevant items in the income statement. In addition, costs for cash deposits and bank fees have been restated under general operating expenses. This correction has no influence on reported operating earnings, net profit or the balance sheet. Neither is any adjustment required to "changes in group equity" or "earnings per share". The corrections to the consolidated income statement can be seen in the following overview:

CHF 1000	2007 published	2007 restated	Differences
Net sales	**1 393 690**	**1 393 690**	**0**
Cost of goods	(507 207)	(477 074)	30 133
Gross profit	**886 483**		
Personnel expenses	(317 919)	(317 919)	0
Rental expenses	(226 732)	(226 732)	0
Advertising and promotion expenses	(115 818)	(114 941)	877
General operating expenses	(98 574)	(103 068)	(4 494)
Other operating income	28 750	2 234	(26 516)
Total operating expenses before depreciation and impairment	**(730 293)**		
Operating earnings before depreciation and impairment (EBITDA)	**156 190**	**156 190**	**0**
In % of net sales	**11.2%**	**11.2%**	

2.4 Basis of consolidation

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

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

Assets and liabilities as well as the expenses and income of the companies in which Charles Vögele Holding AG 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 41.

2.5 Scope of consolidation

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

Change in 2008: Charles Voegele Romania SRL was founded as part of the effort to establish Romania as a pilot market. It is 100% owned by Charles Vögele Holding AG and is fully consolidated.

2.6 Segment reporting

The Group is divided into "Sales Organizations" and "Central Services". The "Sales Organizations" comprises the sales organizations with their branches and related sales logistics operation and are subdivided into the following segments: Switzerland, Germany, Belgium and the 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 mark-up of 15% on the purchase price of products sold.

2.7 Foreign currency translation

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

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

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

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

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

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

2008	ISO code	Unit	Balance sheet	Income statement
Euro	EUR	1	1.49	1.59
Hong Kong	HKD	1	0.14	0.14
China	CNY	1	0.15	0.16
USA	USD	1	1.06	1.08
Hungary	HUF	100	0.56	0.63
Poland	PLN	100	35.67	45.17
Czech Republic	CZK	100	5.59	6.36
Romania	RON	100	37.08	43.14

2.8 Net sales and revenue recognition

Net sales include all revenues from the sale of goods and commission business, 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.

2.9 Cost of goods

The cost of goods includes the purchase price less discounts for products sold in the period under review, transport costs, inventory differences, changes in value adjustments on stocks of goods and the cost of preparing new goods. This item includes no personnel costs.

2.10 Employee pension plans

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

For defined benefit pension plans the coverage surplus or deficit recorded in the balance sheet is equivalent to the present value of defined benefit obligations (DBO) on the balance sheet date less the fair value of plan assets, 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 if necessary capitalized and if indicated value adjusted.

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.

2.11 Advertising

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

2.12 Financial expenses

Interest costs are charged directly to the income statement.

2.13 Cash and cash equivalents

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

2.14 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.

2.15 Inventories

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

2.16 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.

2.17 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 2.20). 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 2.20). 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

2.18 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. The 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 2007 and 2008 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 twelve months of the balance sheet date. The investments shown for 2007 and 2008 are recorded under this category (see Note 21).

2.19 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 2.20).

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

2.20 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 2.19). 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.

2.21 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.

2.22 Trade payables

Trade payables are valued at the foreign exchange rate as of December 31.

2.23 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.

2.24 Provisions

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

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

2.25 Leasing

Finance leasing

Leasing objects that are financed over the assessed useful life of the asset, and where ownership is transferred to the Group after expiry of the usually non-cancelable contract, are shown as finance leases and under tangible assets (see Note 2.23). 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 other leasing commitments 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.

2.26 Treasury shares

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

2.27 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 of 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 31.12.2007	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)**			

CHF 1000	EUR/CHF	USD/CHF	PLN/CHF	HUF/CHF	EUR/HUF
Total group foreign currency exposures 31.12.2008	60 827	(4 000)	1 809	3 697	(2 154)
Average between annual high and low exchange rate compared to balance sheet rate	7.0%	11.0%	21.0%	17.0%	11.0%
Total effect on group earnings in 2008 at increasing foreign currency rate	**4 258**	**(440)**	**380**	**628**	**(237)**
Total effect on group earnings in 2008 at declining foreign currency rate	**(4 258)**	**440**	**(380)**	**(628)**	**237**
Derivative financial instruments as cash flow hedges	(111 704)	170 258			
Total effect on consolidated group equity as of 31.12.2008 at increasing foreign currency rate	**(7 819)**	**18 728**			
Total effect on consolidated group equity as of 31.12.2008 at declining foreign currency rate	**7 819**	**(18 728)**			

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 2.14).

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	31.12.2007	31.12.2008
Net cash and cash equivalents at the end of the period	27 128	47 947
Syndicated credit line agreement	250 000	250 000
./. Credit lines used	(40 000)	(50 000)
Additional credit lines	19 873	22 334
./. Credit lines used	(14 948)	0
Total cash reserves and unused credit lines	**242 053**	**270 281**

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	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**

CHF 1000	< 1 year	1–5 years	> 5 years	Total
Short-term bank liabilities	0	0	0	0
Trade payables	53 303	0	0	53 303
Other liabilities and accruals (excl. vouchers)	58 671	0	0	58 671
Finance lease liabilities, gross	4 610	28 745	17 123	50 478
Mortgages	3 581	55 113	63 000	121 694
Loans	132	50 000	0	50 132
Total as of 31.12.2008	**120 297**	**133 858**	**80 123**	**334 278**

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 31.12.2007				
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)

CHF 1000	< 1 year	1–5 years	> 5 years	Total
Balance 31.12.2008				
Derivative for cash flow hedges: – Cash outflow (contract value)	77 879	0	0	77 879
– Cash inflow (fair value)	(68 886)	0	0	(68 886)
Derivative for trading purposes: – Cash outflow (contract value)	16 067	0	0	16 067
– Cash inflow (fair value)	(14 149)	0	0	(14 149)

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	31.12.2007	31.12.2008
Short-term financial liabilities	19 085	2 845
Finance lease liabilities	44 333	37 298
Mortgages	95 000	110 000
Loans	39 303	49 458
Cash and cash equivalents	(42 076)	(47 947)
Net liability	**155 645**	**151 654**
EBITDA	156 190	116 097
Net liability/EBITDA (factor)	**1.00**	**1.31**
Shareholders' equity (see page 5)	523 282	500 775
Net liability/Shareholders' equity (factor)	**0.30**	**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 2.19 and 2.20, 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 probable and the amount at risk can be estimated reliably (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 2.15 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 2008

CHF 1000	Sales organizations	Central services	Consolidation entries	Group
Net sales	1 368 874	708 700	(708 700)	1 368 874
Operating earnings before depreciation (EBITDA)	50 503	57 028	8 566	116 097
EBITDA in % of net sales	3.7%	8.0%	0	8.5%
Operating earnings (EBIT)	(3 806)	46 110	8 566	50 870
EBIT in % of net sales	(0.3%)	6.5%	0	3.7%
Depreciation	53 784	10 918	0	64 702
Impairment	525	0	0	525
Cash flow from operating activities	56 521	65 284	(18 351)	103 454
Operating assets[1)]	700 798	211 800	(85 243)	827 355
Operating liabilities[2)]	191 855	53 876	(102 083)	143 648
Tangible assets[3)]	408 166	20 248	0	428 414
Net investments	63 727	12 489	0	76 216

CHF 1000	Switzerland	Germany	Belgium/ Netherlands	Austria	Eastern Europe	Total sales organizations
Net sales	437 396	441 574	180 162	244 790	64 952	1 368 874
Operating earnings before depreciation (EBITDA)	54 869	(2 116)	(3 682)	6 503	(5 071)	50 503
EBITDA in % of net sale	12.5%	(0.5%)	(2.0%)	2.7%	(7.8%)	3.7%
Operating earnings (EBIT)	38 760	(21 392)	(12 628)	(1 042)	(7 504)	(3 806)
EBIT in % of net sales	8.9%	(4.8%)	(7.0%)	(0.4%)	(11.6%)	(0.3%)
Depreciation	16 089	19 124	8 822	7 316	2 433	53 784
Impairment	20	152	124	229	0	525
Cash flow from operating activities	55 532	1 046	(4 244)	13 749	(9 562)	56 521
Operating assets[1)]	281 796	210 003	77 135	90 619	41 245	700 798
Operating liabilities[2)]	66 076	55 370	23 463	36 148	10 798	191 855
Tangible assets[3)]	195 356	108 667	38 603	41 852	23 688	408 166
Net investments	14 327	22 872	9 536	5 569	11 423	63 727

[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	2007	2008
Wages and salaries	259 894	261 197
Social security costs	45 308	44 058
Other personnel expenses	12 717	15 530
Total	**317 919**	**320 785**

6.1 Defined contribution retirement plans

The 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 2.2 million in 2008 and CHF 2.0 million in 2007.

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. Pensioner data was recorded and assessed for the first time during the revaluation dated 31.12.2008. If the affiliation contract is terminated, all pensioners except old-age pensioners (i.e. people receiving disability, spouse or child pensions) will be transferred to the new pension scheme. Consequently, the relevant policy reserve was included in the calculation of pension obligations and of pension assets at the end of the year under review.

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

	2007	2008
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	2007	2008
Present value of funded obligation (DBO), as of January 1	**(85 379)**	**(87 221)**
Pension obligations (disability, spouse and child pensions)	0	(9 503)
Service cost	(7 834)	(7 961)
Interest cost	(3 262)	(3 114)
Benefits paid	9 254	12 445
Actuarial gain/(loss) on obligations	0	(420)
Present value of funded obligation (DBO), as of December 31	**(87 221)**	**(95 774)**
Fair value of plan assets, as of January 1	**88 620**	**87 231**
Actuarial capital for pension obligations (disability, spouse and child pensions)	0	9 503
Expected return on plan assets	3 766	3 443
Employees' contributions	3 723	3 955
Employer's contributions	4 241	4 491
Benefits paid	(9 254)	(12 445)
Actuarial gain/(loss) on plan assets	(3 865)	(13 739)
Fair value of plan assets, as of December 31	**87 231**	**82 439**

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	2007	2008
Service cost	7 834	7 961
Interest cost	3 262	3 114
Expected return on plan assets	(3 766)	(3 443)
Amortization of actuarial losses/(gains)	3 865	824
Increase/(decrease) not capitalized portion of the over-coverage	(3 231)	(10)
Net periodic pension cost	**7 964**	**8 446**
Employees' contributions	(3 723)	(3 955)
Expenses recognized in the income statement	**4 241**	**4 491**

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	31.12.2008
Present value of funded obligations (DBO)	(80 929)	(85 379)	(87 221)	(95 774)
Fair value of plan assets	83 426	88 620	87 231	82 439
Over-/(under-)coverage	**2 497**	**3 241**	**10**	**(13 335)**
Not capitalized portion of the over-coverage	(2 497)	(3 241)	(10)	0
Not recognized actuarial gains/(losses)	**0**	**0**	**0**	**(13 335)**
Experience based-adjustments on plan liabilities	0	0	0	(420)
Experience based-adjustments on plan assets	3 317	300	(3 865)	(13 739)
Total actuarial gains/(losses)	**3 317**	**300**	**(3 865)**	**(14 159)**

The under- and overfundings shown above refer to the Swiss pension scheme. The unrecorded actuarial losses of CHF 13.3 million recognized as at 31.12.2008 are higher than the corridor (10% of assets or pension obligations, whichever is higher) of CHF 9.5 million. In 2009, therefore, CHF 0.5 million of the deficit will be amortized (CHF 3.8 million divided over the remaining term of seven years). A surplus was reported as at 31.12.2007. Legal requirements restrict the utilization of overfunded amounts in legally separate benefit plans. Since no future economic benefit to the employer is foreseeable, the overcoverage 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	2007	2008
Net liability in balance sheet, as of January 1	0	0
Expense recognized in the profit and loss statement	4 241	4 491
Employer’s contributions	(4 241)	(4 491)
Net liability in balance sheet, as of December 31	**0**	**0**

The asset allocation for pension assets is as follows:

	2007	2008
Cash	7.8%	7.8%
Bonds	54.9%	46.3%
Equities	26.8%	22.0%
Property	10.5%	8.5%
Reinsurer (pensions)	0.0%	10.7%
Other	0.0%	4.7%
Total	**100.0%**	**100.0%**

Pension fund assets as at 31.12.2008 do not include any of the company's own shares (31.12.2007: 142 shares, CHF 13 185).

The effective loss on assets amounted to CHF 10.3 million (previous year: loss on assets of CHF 0.1 million). The expected employer payments for the 2009 financial year are estimated at CHF 4.4 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 (2007: 17 employees). The 2008 income statement of the Group company is charged with contributions amounting to CHF 0.1 million (2007: CHF 0.1 million).

7 Rental expenses

CHF 1000	2007	2008
Rent	173 012	178 588
Incidental expenses, cleaning, maintenance	53 720	58 016
Total	**226 732**	**236 604**

The CHF 9.9 million year-on-year increase in rental expenses is due primarily to the expansion of the branch network, index adjustments and price increases related to incidental expenses.

8 Advertising and promotion expenses

Advertising and promotion expenses include costs for product-oriented advertising, sales promotion, public relations and market research by external providers. The CHF 3.9 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 3.8 million (2007: CHF 3.4 million). Operating leases mainly concern vehicles.

10 Other operating income

CHF 1000	2007	2008
Operating real estate income, net	1 166	1 625
Redemption compensation less costs for store closings	1 083	722
Other income	(15)	339
Total	**2 234**	**2 686**

11 Impairment

CHF 1000	2007	2008
Impairment losses for store fixtures and fittings of branch closures planned during the next years (see Note 20.1)	471	525
Total	**471**	**525**

12 Financial income

CHF 1000	2007	2008
Interest income	816	921
Interest income from securities	8	8
Total	**824**	**929**

13 Financial expenses

CHF 1000	2007	2008
Interest expenses on current accounts and loans	5 974	4 445
Interest charges on mortgages	3 289	3 610
Interest on leases	2 826	2 471
Total	**12 089**	**10 526**

14 Foreign exchange differences

CHF 1000	2007	2008
(Expense)/income from foreign exchange contracts	(1 077)	409
Other exchange gains/(losses)	(2 167)	(5 304)
Total (expense)/income from exchange gains/(losses)	**(3 244)**	**(4 895)**

15 Tax

15.1 Composition of tax expense

CHF 1000	2007	2008
Current income taxes	18 979	15 778
Change in deferred taxes	941	5 749
Tax from previous years	(581)	(590)
Total tax expense	**19 339**	**20 937**

15.2 Analysis of tax expense

CHF 1000	2007	2008
Profit before income taxes	80 313	36 378
Taxes on current profit calculated on the expected weighted average group tax rate of 22% (2007: 22%)	17 669	8 003
Reconciliation:		
– Effect of weighting of the different actual effective local tax rates	(8 155)	(5 373)
– Effect of change in tax rates on deferred taxes in the balance sheet	948	835
– Effect of deferred tax assets not capitalized, net	9 098	11 757
– Impairment of capitalized tax loss carry-forwards	0	5 555
– Effect of other non-taxable transactions	380	664
– Taxes payable (refunds) from previous years	(581)	(590)
– Adjustments of deferred taxes from previous years	(20)	86
Total tax expense	**19 339**	**20 937**

The table above shows the numerical reconciliation between the expected and the reported tax expense. For the year under review, there was a substantial difference between reported and expected tax expense. This is due mainly to the CHF 5.6 million impairment of capitalized tax loss carry-forwards in Germany and the non-capitalization of deferred tax assets amounting to CHF 11.8 million (see Note 15.5).

15.3 Deferred taxes in the balance sheet

CHF 1000	31.12.2007 Assets	31.12.2007 Liabilities	31.12.2008 Assets	31.12.2008 Liabilities
Deferred taxes from:				
– Various receivables	2	0	1	0
– Inventories	9 403	(19 207)	7 316	(15 990)
– Goodwill	25 646	0	20 568	0
– Other long-term assets	8	(14 221)	7	(13 924)
– Real estate	0	(10 352)	0	(9 864)
– Derivative financial instruments	1 200	(1 082)	1 180	(2 297)
– Intercompany loans	2 644	0	2 377	0
– Accruals	150	(53)	154	0
– Provisions	1 410	0	1 302	0
– Treasury shares	0	(256)	0	(332)
– Loss carry-forwards	100 250	0	103 975	0
Total deferred taxes, gross	**140 713**	**(45 171)**	**136 880**	**(42 407)**
Impairment of deferred tax assets	(121 069)	0	(126 293)	0
Total deferred taxes	**19 644**	**(45 171)**	**10 587**	**(42 407)**
Offset of assets and liabilities	(4 529)	4 529	(3 347)	3 347
Total deferred taxes, net	**15 115**	**(40 642)**	**7 240**	**(39 060)**

15.4 Change in deferred taxes, net

CHF 1000	2007	2008
Total deferred tax assets/(liabilities), net, as of January 1	**(25 992)**	**(25 527)**
Effect of exchange rates	221	(431)
Recognized in income statement:		
– Change in tax rates from previous years	948	836
– Adjustments of deferred taxes from previous years	20	(86)
– Impairment of capitalized tax loss carry-forwards	0	(5 555)
– Changes in temporary differences	(1 908)	(944)
Recognized in balance sheet:		
– Changes in deferred taxes on valuation of financial instruments (see Note 36.1)	1 184	(113)
Total deferred tax assets/(liabilities), net, as of December 31	**(25 527)**	**(31 820)**

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	31.12.2007	31.12.2008
Expiring in the next 5 years	35 056	49 151
Expiring in 5 to 9 years	54 106	47 146
Available without limitation	262 568	271 579
Total tax loss carry-forwards	**351 730**	**367 876**
Calculated potential tax assets thereof	100 250	103 975
Valuation allowances	(94 454)	(103 975)
Net tax asset from loss carry-forwards	**5 796**	**0**

The table above shows the tax-relevant loss carry-forwards, which largely represent market entry costs and are capitalized if sufficient taxable profit is likely to be generated in the foreseeable future. During the 2008 financial year, capitalized net tax assets from tax loss carry-forwards in Germany totalling CHF 5.6 million were written down in full (see note 15.2).

The new deferred tax assets from tax loss carry-forwards arising in the 2008 and 2007 financial years were not capitalized as it is not certain that they can be used in the foreseeable future.

The net tax assets from loss carry-forwards of CHF 5.8 million, capitalized as at 31.12.2007, have no expiring date, but were value adjusted to 0 in 2008.

16 Earnings per share

		2007	2008
Net income	CHF 1 000	60 974	15 441
Weighted average number of basic shares	number	8 479 421	8 427 649
Adjustment for potentially dilutive share options	number	104 938	31 354
Weighted average number of shares for diluted earnings per share	number	8 584 359	8 459 003
Basic earnings per share	**CHF**	**7.19**	**1.83**
Diluted earnings per share	**CHF**	**7.10**	**1.83**

17 Cash and cash equivalents

CHF 1000	31.12.2007	31.12.2008
Petty cash, postal account balances and cash at banks	41 254	47 440
Clearing accounts of points of sale	822	507
Total cash and cash equivalents recognized in the balance sheet	**42 076**	**47 947**
Short-term bank overdrafts (see Note 24)	(14 948)	0
Total cash and cash equivalents recognized in the cash flow statement	**27 128**	**47 947**

The average interest rate on postal account balances and cash at banks, which have maturities of less than three months, was 0.3% (2007: 1.0%).

18 Receivables, advance payments and prepaid expenses

CHF 1000	31.12.2007	31.12.2008
Receivables:		
– Tax refunds (value added tax)	13 283	10 571
– Income taxes	8 470	7 968
– Other receivables	8 061	6 830
– Credit card sales	4 398	2 878
– Reclaimable withholding taxes	42	51
Total receivables, gross	**34 254**	**28 298**
Impairments	(210)	(325)
Total receivables, net	**34 044**	**27 973**
Advance payments and prepaid expenses:		
– Advance payments customs	3 879	0
– Advance payments for advertising campaigns	4 382	2 596
– Other advance payments and prepaid expenses	5 410	4 247
Total advance payments and prepaid expenses	**13 671**	**6 843**
Total receivables, advance payments and prepaid expenses	**47 715**	**34 816**

18.1 Value adjustments on receivables

CHF 1000	2007	2008
Balance 1.1.	**(450)**	**(210)**
Payments	46	0
Receivables written off during the year as uncollectible	22	23
(Creation)/release of impairments	175	(149)
Effect of exchange rates	(3)	11
Balance 31.12.	**(210)**	**(325)**

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 two to three 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	31.12.2007	31.12.2008
Current inventory, gross	301 935	267 161
Inventory valuation allowance	(69 098)	(59 823)
Current inventory (current and previous seasons), net	**232 837**	**207 338**
Upcoming season	55 327	74 844
Heating oil	577	446
Total	**288 741**	**282 628**

19.1 Value adjustments on inventories

CHF 1000	2007	2008
Balance, as of January 1	**(66 704)**	**(69 098)**
Offset against purchase price	3 655	0
Release of value adjustments affecting cost of goods	2 281	4 456
Creation of value adjustments affecting cost of goods	(6 885)	(158)
Effect of exchange rates	(1 445)	4 977
Balance, as of December 31	**(69 098)**	**(59 823)**

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. The cost of goods was thus reduced by this amount in 2007. The release of CHF 4.5 million of value adjustments during the 2008 financial year resulted mainly from the systematic inventory valuation system. In the previous year, around CHF 6.9 million were formed.

20 Tangible assets

20.1 Changes in values

CHF 1000	Land	Buildings	Equipment	Total
Balance 1.1.2007				
Acquisition cost	60 401	217 608	514 116	792 125
Accumulated depreciation/impairment	(9 399)	(85 605)	(272 496)	(367 500)
Net book amount 1.1.2007	**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**
Year 2008				
Opening net book amount	51 246	127 751	264 405	443 402
Effect of exchange rates	(675)	(4 001)	(20 095)	(24 771)
Additions	0	1 256	71 003	72 259
Disposals	0	(25)	(3 474)	(3 499)
Depreciation	0	(5 524)	(52 928)	(58 452)
Impairment	0	0	(525)	(525)
Reclassification	0	(13)	13	0
Closing net book amount	**50 571**	**119 444**	**258 399**	**428 414**
Balance 31.12.2008				
Acquisition cost	59 970	214 387	537 888	812 245
Accumulated depreciation/impairment	(9 399)	(94 943)	(279 489)	(383 831)
Net book amount 31.12.2008	**50 571**	**119 444**	**258 399**	**428 414**

See Note 11 for information about impairment costs.

As of December 31, 2008, CHF 117.5 million of the land and buildings are pledged as security for mortgages (December 31, 2007: CHF 104.9 million).

The fire insurance value of physical assets is CHF 747.9 million as at December 31, 2008, (December 31, 2007: CHF 776.0 million).

20.2 Finance leases

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

CHF 1000	Land	Buildings	Equipment	Total
Acquisition cost	6 582	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)
Acquisition cost	5 917	53 995	6 118	66 030
Accumulated depreciation	0	(19 018)	(4 006)	(23 024)
Balance 31.12.2008	**5 917**	**34 977**	**2 112**	**43 006**
Additions 2008	0	0	0	0
Reclassification	0	0	0	0

Financial leases for land and buildings includes Charles Vögele Group's distribution centres in Lehrte and Sigmaringen in Germany, as well as in Kalsdorf in Austria. Furnishings and fittings relating to the warehouses and offices of these locations are included in leased assets and classified as "Equipment". There were no additions or disposals in 2008. 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.

21 Financial assets

CHF 1000	31.12.2007	31.12.2008
Investments	170	170
Loans	542	987
Total Financial assets	**712**	**1 157**

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

22 Intangible assets

22.1 Changes intangible assets

CHF 1000	Goodwill	Other intangible assets	Total
Balance 1.1.2007			
Acquisition cost	72 919	20 735	93 654
Accumulated depreciation	0	(15 833)	(15 833)
Net book amount 1.1.2007	**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**
Year 2008			
Opening net book amount	72 919	6 249	79 168
Effect of exchange rates	0	0	0
Additions	0	6 956	6 956
Disposals	0	0	0
Depreciations	0	(2 980)	(2 980)
Impairments	0	0	0
Closing net book amount	**72 919**	**10 225**	**83 144**
Balance 31.12.2008			
Acquisition cost	72 919	25 664	98 583
Accumulated depreciation	0	(15 439)	(15 439)
Net book amount 31.12.2008	**72 919**	**10 225**	**83 144**

22.2 Impairment test on goodwill

The goodwill of CHF 72.9 million shown at December 31, 2008 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 7.3% (previous year 8.5%) for Switzerland, 7.9% (previous year 8.8%) for Germany and 7.7% (previous year 8.9%) 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.

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	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**
Cash and cash equivalents	47 947				47 947
Receivables, advance payments and prepaid expenses	34 816				34 816
Derivative financial instruments		1 918	4 403		6 321
Financial assets (see Note 21)	987			170	1 157
Balance 31.12.2008	**83 750**	**1 918**	**4 403**	**170**	**90 241**

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

24 Short-term financial liabilities

CHF 1000	31.12.2007	31.12.2008
Short-term bank overdrafts	14 948	0
Short-term lease liabilities (see Note 26)	4 137	2 845
Total	**19 085**	**2 845**

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	31.12.2007	31.12.2008
Sales tax	15 093	16 216
Vouchers	10 852	12 532
Accruals:		
– Personnel expenses	21 388	19 881
– Rental expenses	4 914	5 004
– Other accruals	13 494	17 570
Total	**65 741**	**71 203**

26 Finance lease liabilities

CHF 1000	Residual term < 1 year	Residual term 1–5 years	Residual term > 5 years	Total
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**
Lease commitments, gross	4 609	28 745	17 123	50 477
Discounted	(1 764)	(5 643)	(2 927)	(10 334)
Balance 31.12.2008	**2 845**	**23 102**	**14 196**	**40 143**

CHF 1000	31.12.2007	31.12.2008
Disclosure:		
– Short-term financial liabilities (due < 1 year; see Note 24)	4 137	2 845
– Lease liabilities	44 333	37 298
Total	**48 470**	**40 143**

The average discount rate of finance lease commitments amounted to 5.6% (2007: 5.4%).

27 Provisions

CHF 1000	Personnel provisions	Other provisions	Total
Balance 1.1.2007	**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**
Increase	320	526	846
Usage	(124)	(27)	(151)
Decrease	(181)	(203)	(384)
Reclassification	0	0	0
Effect of exchange rates	(761)	(28)	(789)
Balance 31.12.2008	**6 797**	**533**	**7 330**

CHF 1000	31.12.2007	31.12.2008
Disclosure:		
Short-term provisions	535	456
Provisions	7 273	6 874
Total	**7 808**	**7 330**

"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 1.1.2007	**93 240**
Increase in mortgages	1 840
Repayment of mortgages	(80)
Balance 31.12.2007	**95 000**
Increase in mortgages	15 000
Balance 31.12.2008	**110 000**

The mortgages reflect long-term fixed-interest bank loans with residual terms between one and five years. The average interest rate on mortgages amounted to 3.6% in 2008 (2007: 3.5%).

29 Loans

CHF 1000	31.12.2007	31.12.2008
Long-term loans, gross	40 000	50 000
Credit procurement costs	(697)	(542)
Long-term loans, net	**39 303**	**49 458**

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, 2008, 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 utilized credit line as at December 31, 2008, is shown in the chart about liquidity reserves (see Note 3.4). 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 3.5). The target ratio was met on the balance sheet date. The average interest rate in the year under review was 3.3% (2007: 3.4%).

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)			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**
Short-term financial liabilities (see Note 24)			0	0
Trade payables			53 303	53 303
Other liabilities and accruals			71 203	71 203
Derivative financial instruments		12 268		12 268
Mortgages			110 000	110 000
Loans			49 458	49 458
Balance 31.12.2008	**0**	**12 268**	**283 964**	**296 232**

31 Share capital

The reduction in the share capital is due to the Annual Shareholders' Meeting's decision on April 16, 2008, to reduce the par value of Charles Vögele Holding AG shares by CHF 2.00 per share, from CHF 6.00 to CHF 4.00. The remaining share capital comprises 8 800 000 fully paid-in bearer shares with a par value of CHF 4.00 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 1.1 million, divided into 264 000 fully paid-in bearer shares with a par value of CHF 4.00 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, 2008, treasury shares comprise 417 641 shares (December 31, 2007: 370 546) 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 2007 financial year, on July 4, 2008, a par value reduction of CHF 2.00 (for the 2006 financial year on July 4, 2007, a par value reduction of CHF 2.00) was paid for each Charles Vögele Group AG bearer share.

For the financial year 2008, the Board of Directors proposes to the Annual Shareholders' Meeting of April 1, 2009, that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares should be reduced by CHF 0.50 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 second level of management receive their allocated options pro rata 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 31.12.2008	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	(3 755)	(94 245)	0	54.55	29.08.2008	29.08.2006
24.08.2004	70 000	(3 593)	(19 673)	46 734	41.05	24.08.2009	24.08.2007
29.08.2005	81 500	(6 583)	0	74 917	95.55	29.08.2010	29.08.2008
26.08.2006	105 600	(9 820)	0	95 780	90.00	26.08.2011	26.08.2009
23.08.2007	103 500	(7 390)	0	96 110	119.00	23.08.2012	23.08.2010
22.08.2008	100 000	0	0	100 000	65.05	22.08.2013	22.08.2011
Total	**677 600**	**(38 141)**	**(225 918)**	**413 541**			

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:

	2007 Weighted average exercise price in CHF	2007 Number of options	2008 Weighted average exercise price in CHF	2008 Number of options
Balance 1.1.	**71.77**	**325 200**	**88.45**	**368 246**
Granted options	119.00	103 500	65.05	100 000
Expired options	80.27	(11 246)	104.34	(11 905)
Exercised options	44.34	(49 208)	51.30	(42 800)
Balance 31.12.	**88.45**	**368 246**	**86.18**	**413 541**
Exercisable as at 31.12.	**46.07**	**90 790**	**74.61**	**121 651**

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 AG's weighted average share price on the Swiss Stock Exchange (SIX) during this exercise period was CHF 117.47.

During the period between 1.1.2008 and 29.8.2008, 32 500 share options from the tranche of 29.8.2003 were exercised. Charles Vögele Holding AG's weighted average share price on the Swiss Stock Exchange (SIX) during this exercise period was CHF 83.08. In the 2007 financial year, 24 835 share options from this tranche were exercised. Charles Vögele Holding AG's weighted average share price on the Swiss Stock Exchange (SIX) during this exercise period was CHF 116.01.

During the 2008 financial year 10 300 share options from the tranche of 24.8.2004 were exercised. Charles Vögele Holding AG's weighted average share price on the Swiss Stock Exchange (SIX) during the period under review was CHF 75.45. In the previous year, 9 373 options from this tranche were exercised during the period between 24.8.2007 and 31.12.2007. Charles Vögele Holding AG's weighted average share price on the Swiss Stock Exchange (SIX) during this exercise period was CHF 100.66.

It has been possible to exercise share options from the tranche of 29.8.2005 since 29.8.2008. During the period between 29.8.2008 and 31.12.2008, no options from this tranche were exercised. Charles Vögele Holding AG's weighted average share price on the Swiss Stock Exchange (SIX) during this exercise period was CHF 46.30.

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 413 541 options outstanding on 31.12.2008 was 36 months (previous year 368 246 options and 38 months). Exercise prices ranged between CHF 41.05 and CHF 119.00 per option (previous year: same range as in year under review).

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
22.08.2008	61.80	35.99%	2.96%	1.71%	14.93

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 14.93 (previous year CHF 27.12).

During the year under review CHF 3.0 million (previous year CHF 1.7 million) was charged through personnel expenses for the proportional fair value of options.

35 Contingent liabilities

Outstanding merchandise orders and letters of credit

As of December 31, 2008, future commitments resulting from merchandise orders not yet included in the balance sheet amounted to CHF 124.6 million (December 31, 2007: CHF 143.2 million). As of December 31, 2008, letters of credit not included in the balance sheet amounted to CHF 26.4 million (December 31, 2007: CHF 30.3 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

As at December 31, 2008, open forward foreign exchange contracts for cash flow hedges were as follows: CHF 213.7 million (previous year: CHF 166.5 million) for purchase of merchandise in USD and to cover the exchange rate risks for purchasing merchandise for the following year's collection; CHF 135.8 million (previous year CHF 0) to hedge intra-group deliveries of goods in EUR to sales organizations in the eurozone.

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 1.1.2007	
Valuation financial instruments before tax	(133)
Deferred tax	20
Valuation financial instruments net of tax 1.1.2007	**(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 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)**
Year 2008	
Opening balance	(6 824)
Disposal through purchase of goods recognized in cost of goods in income statement	8 028
Valuation of outstanding financial instruments as of 31.12.2008	(7 271)
Change in deferred tax	(113)
Valuation financial instruments net of tax 31.12.2008	**(6 180)**
Closing balance 31.12.2008	
Valuation financial instruments before tax	(7 271)
Deferred tax	1 091
Valuation financial instruments net of tax 31.12.2008	**(6 180)**

36.2 Derivatives for trading purposes

The valuation of currency swaps and forward foreign exchange contracts at fair value resulted in a gain of CHF 1.9 million as of December 31, 2008 (December 31, 2007: 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	31.12.2007	31.12.2008
Maturity < 1 year	177 702	174 970
Maturity 1 – 5 years	504 986	478 087
Maturity > 5 years	244 661	225 160
Total	**927 349**	**878 217**

38 Related party transactions

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

		Board of Directors	Group Management	Total
2007	Number of members	6	3	
	Salaries, professional fees, bonuses and other remunerations CHF 1 000[1)]	1 283	3 929	5 212
	Number of Management-options	25 800	30 500	56 300
	Value of Management-options CHF 1 000[2)]	702	827	1 529
2008	Number of members	8	4	
	Salaries, professional fees, bonuses and other remunerations CHF 1 000	1 210	3 720	4 930
	Number of Management-options	34 400	26 400	60 800
	Value of Management-options CHF 1 000[2)]	512	394	906

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

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, the Charles Vögele Group received legal advisory services worth a total of CHF 0.3 million (previous year: CHF 0.2 million) from Bär & Karrer AG.

There were no further transactions with related parties in the years 2008 and 2007.

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 J. 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[3]	–	–	243	–	–	–	–	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 members of the Board of Directors pursuant to the Swiss Code of Obligations (CO) for the 2008 financial year:

CHF 1000	Bernd H.J. Bothe Chairman	Dr. Felix R. Ehrat Vice-Chairman	Jan C. Berger Member	Alain Caparros Member	Peter Littmann Member
Salaries (gross)	303	183	70	93	93
Bonus (gross)	15	15	12	15	15
Employer's social security costs	–	17	11	–	12
Lump-sum expenses	2	2	2	2	2
Management-options[1]	64	64	64	64	64
Total 2008	**384**	**281**	**159**	**174**	**186**
Fees for legal services[2]	–	281	–	–	–
Total 2008	**384**	**562**	**159**	**174**	**186**

CHF 1000	Daniel J. Sauter Member	Carlo Vögele Member	Hans Ziegler Member	Total Board of Directors
Salaries (gross)	93	93	70	998
Bonus (gross)	15	15	12	114
Employer's social security costs	12	19	11	82
Lump-sum expenses	2	2	2	16
Management-options[1]	64	64	64	512
Total 2008	**186**	**193**	**159**	**1 722**
Fees for legal services[2]	–	–	–	281
Total 2008	**186**	**193**	**159**	**2 003**

[1] Valuation: fair value according IFRS, details see page 42.
[2] 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.

Details of total payments to Group Management pursuant to the Swiss Code of Obligations (CO) for the 2008 financial year:

CHF 1000	Daniel Reinhard CEO[1]	Total Group Management[2]
Salaries (gross)	938	2 679
Bonus (gross)	135	620
Employer's social security and insurance costs	97	375
Lump-sum expenses	–	12
Company car[3]	10	34
Management-options[4]	–	394
Total 2008	**1 180**	**4 114**

[1] Three monthly salaries for the year 2009 are included.
[2] Salary of Bernd H.J. Bothe for his function as interim CEO for the period of mid August to December 2008 is included.
[3] Private used (tax value: 9.6% of acquisition value)
[4] 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:

2007	Bernd H.J. Bothe Chairman	Dr. Felix R. Ehrat Vice-Chairman	Alain Caparros Member	Peter Littmann Member	Daniel J. 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 Board of Directors' shareholdings pursuant to the Swiss Code of Obligations (CO) as at 31.12.2008:

2008	Bernd H.J. Bothe Chairman	Dr. Felix R. Ehrat Vice-Chairman	Jan C. Berger Member	Alain Caparros Member	Peter Littmann Member
Number of shares	7 500	10 500	–	–	–
In percentage of share capital	0.09%	0.12%	–	–	–
Value of shares CHF 1 000	206	289	–	–	–
Number of Management-options	16 300	19 300	4 300	8 600	12 900
In percentage of share capital	0.19%	0.22%	0.05%	0.10%	0.15%
Value of Management-options CHF 1 000[1]	7	8	6	6	7

2008	Daniel J. Sauter Member	Carlo Vögele Member	Hans Ziegler Member	Total Board of Directors
Number of shares	6 500	195 877	100	220 477
In percentage of share capital	0.07%	2.23%	0.00%	2.51%
Value of shares CHF 1 000	179	5 387	3	6 064
Number of Management-options	19 300	16 300	4 300	101 300
In percentage of share capital	0.22%	0.19%	0.05%	1.17%
Value of Management-options CHF 1 000[1]	8	7	6	55

[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:

2007	Daniel Reinhard CEO	Werner Lange CPO	Dr. Felix Thöni CFO	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	8 800	39 600	107 000
In percentage of share capital	0.67%	0.10%	0.45%	1.22%
Value of Management-options CHF 1 000[1]	1 490	78	1 001	2 569
Number of options[2]	–	–	600 000	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

Disclosure of Group Management's shareholdings pursuant to the Swiss Code of Obligations (CO) as at 31.12.2008:

2008	Werner Lange CPO	Dr. Dirk Seifert CMO	Dr. Felix Thöni CFO	Total Group Management
Number of shares	–	–	8 100	8 100
In percentage of share capital	–	–	0.09%	0.09%
Value of shares CHF 1 000	–	–	223	223
Number of Management-options	17 600	8 800	39 400	65 800
In percentage of share capital	0.20%	0.10%	0.45%	0.75%
Value of Management-options CHF 1 000[1]	13	12	15	40

[1] Valuation: according to Swiss tax rules

39 Risk assessment according to the Swiss Code of Obligations

Financial risk assessment and management is an integral part of the Charles Vögele Group-wide enterprise risk management and is governed by policies reviewed by the Board of Directors. The policies provide guidance on operational risk limits and monitoring procedures. Such monitoring procedures contain regular review of accounting policy, significant accounting matters, and items requiring significant management judgments and estimates. The implementation of the accounting policy, the adherence to the regulation and the monitoring on a day-to-day risk basis are carried out by the relevant financial departments. Regular reporting on the review of the financial risk situation is performed by the relevant accounting and controlling functions.

Charles Vögele Group has established a fully integrated risk process that captures and evaluates the Group's most important external and internal risks. The key risks are entered in a risk matrix that shows both the potential degree of impact and likelihood of each individual risk. Based on the company's risk tolerance, Group Management either initiates measures to reduce the degree of impact and/or the likelihood of the risk occurring, or deliberately takes on specific risks. Group Management periodically evaluates and updates the key risks. Charles Vögele Holding AG's Board of Directors evaluates the effectiveness of the risk management system every year.

40 Post balance sheet events

The present financial statements take into consideration events occurring between the balance sheet date and March 2, 2009. There were no significant post balance sheet events. The 2008 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 2, 2009, are published on March 3, 2009, and presented to the Annual Shareholders' Meeting on April 1, 2009, for approval.

41 Structure of the Charles Vögele Group
as of December 31, 2008

	Company	Currency	Share/Partnership capital
Charles Vögele Holding AG Pfäffikon SZ, CH Holding		CHF	35 200 000
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
100%	**Charles Vögele (Belgium) N.V.** Turnhout, BE Sales organization	EUR	10 063 906[1)]
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
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
100%	**Charles Vögele Voegele Romania SRL** Bucaresti, RO Sales organization (dormant)	RON	4 000 000

Changes in the scope of consolidation, see Note 2.5.
1) Decreased by EUR 2 725 393 following refinancing in 2008

Report of the statutory auditors to the general meeting of Charles Vögele Holding AG, Pfäffikon SZ

Report of the statutory auditors on the consolidated financial statements

As statutory auditors, we have audited the consolidated financial statements of Charles Vögele Holding AG, which comprise the income statement, balance sheet, cash flow statement, statement of changes in equity and notes (pages 2 to 49), for the year ended December 31, 2008.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2008 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.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Matthias von Moos	Pascal Wintermantel
Auditor expert	Auditor expert
Auditor in charge	

Zurich, March 2, 2009

Charles Vögele Holding AG

Contents Financial Statements Holding

Income Statement Holding

from January 1 to December 31

CHF 1000	Note	2007	2008
Income			
Dividends		14 921	35 001
Financial income	2	8 232	13 870
Total income		**23 153**	**48 871**
Expenses			
Administration expenses		(2 446)	(2 889)
Financial expenses	2	(11 965)	(20 469)
Impairment of loans to subsidiaries	3	(5 017)	(5 271)
Exchange loss, net		(1 113)	(14 401)
Total expenses		**(20 541)**	**(43 030)**
Profit before taxes		**2 612**	**5 841**
Taxes		(15)	(22)
Net profit for the year		**2 597**	**5 819**

Balance Sheet Holding

as of December 31

CHF 1000	Note	31.12.2007	31.12.2008
Assets			
Current assets			
Cash and cash equivalents	4	1	2 377
Receivables from subsidiaries	5	176 242	64 739
Other receivables and prepaid expenses		1 308	7 124
Total current assets		**177 551**	**74 240**
Long-term assets			
Loans to subsidiaries	5	207 398	381 602
Investments	6	564 756	574 662
Total long-term assets		**772 154**	**956 264**
Total assets		**949 705**	**1 030 504**
Liabilities and shareholders' equity			
Short-term liabilities			
Short-term bank liabilities	4	14 948	0
Accounts payable third parties		151	7
Accounts payable subsidiaries	5	548 973	656 455
Accrued liabilities		496	684
Current tax liabilities		13	17
Total short-term liabilities		**564 581**	**657 163**
Shareholders' equity			
Share capital	7	52 800	35 200
Legal reserves		173 789	173 789
Free reserves		110 000	110 000
Reserve for treasury shares	8	31 106	33 428
Retained earnings:			
– Retained earnings as of January 1		21 544	17 428
– Decrease/(Increase) of reserve for treasury shares		(6 712)	(2 323)
– Net profit of the year		2 597	5 819
Total retained earnings		17 429	20 924
Total shareholders' equity		**385 124**	**373 341**
Total liabilities and shareholders' equity		**949 705**	**1 030 504**

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 Poland.

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 liablities".

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).

6 Investments

The complete structure of the Charles Vögele Group long-term investments is documented in Note 41 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 16, 2008, to reduce the par value of Charles Vögele Holding AG shares by CHF 2.00 per share, from CHF 6.00 to CHF 4.00. The remaining share capital comprises 8 800 000 fully paid-in bearer shares with a par value of CHF 4.00 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 1.1 million, divided into 264 000 fully paid-in bearer shares with a par value of CHF 4.00 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 31.12.2006			**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**
Disposal of treasury shares by Charles Vögele Trading AG	February–June 2008	47.00 – 87.00	(47 449)
Purchase of treasury shares by Charles Vögele Trading AG	June 2008	86.17	10 649
Disposal of treasury shares by Charles Vögele Trading AG	August–September 2008	45.00 – 84.72	(20 205)
Purchase of treasury shares by Charles Vögele Trading AG	September 2008	59.78	104 100
Treasury shares 31.12.2008			**417 641**

For the holdings of treasury shares in the Charles Vögele Group as of December 31, 2008, a reserve was formed in Charles Vögele Holding AG to the amount of the purchase value of CHF 33.4 million (December 31, 2007: CHF 31.1 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 31.12.2007[1]	Share of capital as of 31.12.2008[1]	As announced on
Laxey Partners Ltd., Onchan, Isle of Man, IM3 1NA, GB[2]	5.23%	10.38%	25.02.2008
Bestinver Gestion S.G.I.I.C. S.A., Madrid, Spain	10.30%	10.30%	14.12.2007
Classic Global Equity Fund / Braun, von Wyss & Müller AG, Zürich, Switzerland	9.3%[3]	9.3%[3]	28.03.2002
Cheyne Special Situations Fund, Grand Cayman, Cayman Islands[2]	6.39%	6.39%	02.05.2007
Migros-Genossenschafts-Bund, Zürich, Schweiz	–	5.18%	23.04.2008
JPMorgan Chase & Co. 270 Park Avenue, New York	4.93%	4.93%	11.09.2007
UBS Fund Management (Switzerland) AG, Basel, Switzerland	5.46%	4.80%	12.03.2008
Sterling Strategic Value Ltd., Tortola, British Virgin Islands[2] [4]	–	3.00%	08.02.2008

[1] According to information submitted by shareholders to the company until the specified date.
[2] On April 16, 2008 these 3 shareholders together with Mr. Massimo Pedrazzini, Lugano, Switzerland, have reported a concert party with a shareholding of 23.85%.
[3] As stated in the annual report.
[4] 100% controlled by Dr. Tito Tettamanti, London

10 Contingent liabilities

CHF 1000	31.12.2007	31.12.2008
Rental- and other guarantees to third parties	40 037	31 728
Guarantees to financing banks	391 459	384 723

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).

13 Risk assessment according to the Swiss Code of Obligations

Charles Vögele Holding AG is fully integrated into the Group-wide risk assessment process of the Charles Vögele Group. This Group risk assessment process addresses the nature and scope of business activities and its specific risks. For detailed information refer to the disclosure in the consolidated financial statements (Note 39) of this annual report.

Proposed Appropriation of Retained Earnings

as of December 31, 2008

The Board of Directors proposes to the Annual Shareholders' Meeting of April 1, 2009, to carry forward the retained earnings of CHF 20.9 million.

CHF 1000	
Retained earnings as of 31.12.2008	20 924
Balance to be carried forward	**20 924**

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 1, 2009, that instead of distributing a dividend, the par value of Charles Vögele Holding AG shares is reduced by CHF 0.50 per share – from CHF 4.00 to CHF 3.50 per share.

Report of the statutory auditors to the general meeting of Charles Vögele Holding AG, Pfäffikon SZ

Report of the statutory auditors on the financial statements

As statutory auditors, we have audited the financial statements of Charles Vögele Holding AG, which comprise the income statement, balance sheet and notes (pages 54 to 58), for the year ended December 31, 2008.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2008 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies 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	Pascal Wintermantel
Audit expert	Audit expert
Auditor in charge	

Zurich, March 2, 2009

Forthcoming events
- Annual Shareholders' Meeting 2008: April 1, 2009
- Analysts' and media conference on the 2009 half-year results: August 25, 2009
- Analysts' and media conference on the 2009 financial year results: March 9, 2010
- Annual Shareholders' Meeting 2009: April 14, 2010
- Analysts' and media conference on the 2010 half-year results: August 24, 2010

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