



Five-year summary

IN EUR MILLION

KEY FIGURES FROM THE SEPARATE FINANCIAL STATEMENTS OF AHLERS AG

	2001/02	2002/03	2003/04	2004/05	2005/06
Total assets	297.4	292.0	265.7	264.2	211.5
Fixed assets	191.1	206.4	190.4	189.8	90.2
Current assets	106.3	85.6	75.3	74.4	121.3
Shareholders' equity	183.2	172.5	175.4	176.1	157.4
Borrowed funds					
long-term	75.0	15.5	23.0	18.7	17.1
short-term	39.2	114.2	67.3	69.4	37.0
Sales	146.6	137.2	102.4	97.9	94.2
Net income (loss) for the period	77.2	1.2	15.1	14.0	-4.8
Income tax	2.6	5.8	5.8	7.3	2.4
Dividend payout	11.9	12.1	13.3	14.0	42.8

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Corporate Bodies

SUPERVISORY BOARD

Prof. Dr. Carl-Heinz Heuer
Attorney at Law
Königstein
Chairman

Jan A. Ahlers
Businessman
Herford
Deputy Chairman

Heidrun Baumgart
Administrative assistant
Bielefeld
Employee representative

Dieter Hoppe
Technical employee
Herford
Employee representative

Andreas Kleffel
Member of regional management board
Commerzbank AG
Düsseldorf

Prof. Dr. Wilfried Schulte
Accountant, Attorney, Tax advisor
Krefeld

HONORARY CHAIRMAN

Dr. Ewald Hilger
Attorney at Law
Düsseldorf

MANAGEMENT BOARD

Dr. Stella A. Ahlers
Zürich
Chairman

Oliver Galling
Herford

Bruno Leder
Auetal

Supervisory Board Committees

THE AHLERS AG SUPERVISORY BOARD HAS INSTITUTED THREE PERMANENT COMMITTEES.

Audit Committee

Prof. Dr. Wilfried Schulte
Chairman

Jan A. Ahlers

Prof. Dr. Carl-Heinz Heuer

Human Resources Committee

Prof. Dr. Carl-Heinz Heuer
Chairman

Jan A. Ahlers

Andreas Kleffel

Marketing Committee

Andreas Kleffel
Chairman (as of March 30, 2006)

Jan A. Ahlers
(Chairman until March 30, 2006)

Prof. Dr. Carl-Heinz Heuer

Letter to Shareholders

Dear Shareholders,

Fiscal year 2005/06 was an eventful one for Ahlers AG. eterna Mode AG was sold in May of 2006, having been part of the Ahlers AG circle for a good ten years. With a small part of the excellent sales proceeds, all shares in Baldessarini GmbH & Co. KG, Munich, as well as all rights to the “Baldessarini“ brand, with the exception of usage rights with respect to the fragrance business, were acquired in August of 2006. The purchase of Baldessarini has enabled Ahlers AG to expand its brand portfolio with a top quality luxury brand in menswear. Ahlers AG is, therefore, in an even stronger position than previously to respond to the variety of clothing needs for today’s men both at home and abroad.

In addition to optimizing Ahlers AG’s brand portfolio, the Group’s accounting was changed to IFRS and its accounting software to SAP R3.

The sale of eterna Mode AG, the acquisition of the equity investment and trademark rights of Baldessarini, as well as a number of special effects, contribute to the fact that the present financial statements are not directly comparable with those of the previous year.

Sales from continuing business operations for fiscal 2005/06 (i.e. excluding the proportional sales from eterna Mode AG) rose slightly to EUR 245.9 million. The Group’s net income for the year climbed sharply to EUR 92.9 million due to the sales of the eterna Group. The Supervisory and Management Boards will propose a dividend of EUR 2.95 (previous year: EUR 0.95) per common share and EUR 3.00 (previous year: EUR 1.00) per preferred share at the Annual Shareholders’ Meeting. Ahlers AG intends to share the high earnings achieved by the sale of the eterna Group with its shareholders.

The Group’s equity-to-assets ratio of 49.8 percent is considerably above the previous year’s figure of 34.0 percent.

The price of the common share rose by 16.2 percent in the year under review, the preferred share was up by 14.7 percent. Based on prices as of November 30, 2006, this amounts to a dividend yield of 17.5 percent per common share and 17.8 percent per preferred share. We intend to continue to pursue a dividend policy coordinated with the Group’s success in the future. Even though dividends will initially be lower than before after the sale of the eterna Group, we will nevertheless endeavor to present you with gratifying earnings. We plan to intensify the past focus of our activities with this in mind:

INTERNATIONALIZATION We were able to push our export share to 44.6 percent during the past fiscal year. This is an increase of 10.3 percent. In particular developments in Eastern Europe, where we experienced a jump in sales of 23.5 percent, contributed to these results. We continue to see great potential in this area, both through our own activities and in cooperation with good partners.

PROFILING OUR BRANDS In all of the price segments we service brand recognition and brand sympathy play an increasingly large part for consumers when purchasing clothes. It is, therefore, important for us to raise the profile of our brands and heighten recognition.

VERTICALIZATION Floor space management in its many forms is of great significance for Ahlers AG and promises to become more important in the future. Last year we had 1,091 retail spaces domestically and 269 abroad. Numerous new retail spaces are planned for the coming year.

COST REDUCTION We will continue our efforts in cost reduction. Economies in our business processes should not be at the expense of our product quality, though.

LOGISTICS Logistics are becoming ever more important due to verticalization. We are, therefore, also endeavoring to optimize our logistical processes.

The sale of the eterna Group and the purchase of Baldessarini has changed Ahlers AG and opened up new possibilities. The quality and high levels of motivation of our employees both domestically and abroad have remained constant, though; I wish to express my gratitude for their commitment and dedication at this point.

I wish to thank you, too, dear shareholders, for the trust you continue to place in us. At the same time, I want to assure you that the Ahlers AG Management Board will do everything in its power to optimize existing areas of activity and exploit new opportunities as they arise in the future. Ahlers will continue to be a successful company worthy of your support.

Sincerely yours,

A handwritten signature in blue ink that reads "S. Ahlers". The signature is written in a cursive, flowing style.

Dr. Stella A. Ahlers
Chairman of the Management Board

Report of the Supervisory Board

Dear Shareholders,

The past fiscal year from December 1, 2005 to November 30, 2006 was an eventful one for Ahlers AG. After belonging to the Group for a good ten years, eterna Mode AG, with registered headquarters in Passau, was sold on May 31, 2006. The objective of this sale was to strengthen Ahlers AG's brand image for the long term and create conditions favorable to further optimization of the brand portfolio. As a result Ahlers AG was in a position to exploit opportunities to acquire new international brands in the men's clothing sector. On August 24, 2006, the contract for the acquisition of all shares in Baldessarini GmbH & Co. KG, Munich, as well as all rights to the "Baldessarini" brand, with the exception of usage rights with respect to the fragrance business, was signed. This acquisition has allowed Ahlers AG to expand its brand portfolio by the addition of a top quality premium brand in the luxury segment of the men's fashion market.

WORK OF THE SUPERVISORY BOARD During fiscal 2005/06 the Ahlers AG Supervisory Board was closely involved with the position and perspectives of the Ahlers Group both domestically and abroad, as well as with a range of special topics. Four ordinary sessions took place on March 29, July 26, November 3 and December 15; one extraordinary session of the Supervisory Board was held on May 21, 2006. The Management Board regularly, promptly and comprehensively informed the Supervisory Board both orally and in writing on all fundamental issues of corporate planning and intended business policy, the Company's profitability, and its course of business, particularly with regard to the sales and position of the Company and its subsidiaries. Deviations of the actual course of business from plans and targets were explained in detail to, and reviewed by, the Supervisory Board. The Supervisory Board was kept informed on significant business events and risk management and was included in key decision-making; it advised the Management Board and monitored management. The Supervisory Board saw no reason to inspect the books and documents in accordance with section 111 (2) of the German Stock Corporation Act. The Supervisory Board voted on reports and resolution proposals submitted by the Management Board to the extent required by legislative or statutory provisions and after comprehensive review and consultation. In addition, between meetings the Chairman of the Supervisory Board was in regular contact with the Chairman of the Management Board, with whom he discussed important transactions on numerous occasions. Furthermore, the Supervisory Board reviewed the mandatory reports submitted by the Management Board for completeness and plausibility. Reports from management consultancy firms were received and analyzed. The Management Board never failed to provide any explanation and proof requested.

The Supervisory Board conferred with the Management Board on all important business policy issues, reviewed and authorized transactions requiring its approval and addressed questions of principle and important individual processes in depth.

In the session on financial statements of March 29, 2006, we discussed and reviewed the

financial statements of Ahlers AG and the consolidated financial statements for 2004/05 in detail. The auditor participated in the consultation session on both separate and consolidated financial statements. In addition, the agenda and resolution proposals for the Annual Shareholders' Meeting of 2006 were adopted. The planned sale of eterna Mode AG, Passau, was discussed in the extraordinary meeting of May 21, 2006, and the sale approved under certain provisos. During the November 3, 2006, session the status of integration of the Baldessarini acquisition was deliberated and the purchase of the investment and trademark rights approved. During the meeting on December 15, 2006, the declaration of compliance with the Corporate Governance Code for 2006 was adopted and planning was discussed and decided upon. Additional topics of discussion in all meetings were business development, risk management and corporate policy. The current situation and future development of problem areas was a particular focus of all meetings; we were also informed on these topics outside the bounds of the meetings.

COMMITTEE WORK The Supervisory Board has instituted three committees in order to perform its tasks efficiently; their responsibilities include the preparation of resolutions for the Supervisory Board and of such topics that are to be discussed in the plenary Supervisory Board sessions. The list on page 3 of the annual report shows the current composition of the three committees.

During fiscal 2005/06 the Audit Committee met on December 14, 2005, February 9, 2006, March 21, 2006, and September 6, 2006. The Chairman of the Audit Committee maintained regular contact with the Management Board outside of these sessions and explored key issues with the Board in numerous discussions.

The Audit Committee dealt with key issues regarding the Group's development, corporate planning, as well as general conditions, the separate and consolidated financial statements and risk identification and management. The Audit Committee was kept abreast of the successful transition to IFRS accounting, as well as the migration to SAP R3 accounting software, on an ongoing basis and monitored progress in this respect. It discussed quarterly reports, requested the auditors to perform the audit and established the focal areas of the audit. The Management Board maintained constant contact with the Audit Committee Chairman and provided the Audit Committee with any documentation requested in advance of its meetings. Such documentation included in particular actual to plan comparisons in conjunction with the business analyses of individual business areas and monthly key indicators. This approach facilitated well-founded discussions and review of the figures and computations during the Audit Committee meeting. Areas of emphasis for reviews and reports were established.

The Audit Committee had part of the review emphases checked by the audit firm and stayed in touch with the auditors above and beyond the mandatory financial statement review session.

During fiscal 2005/06 the Human Resources Committee dealt primarily with contractual matters regarding members of the Management Board, the distribution of departments, the remuneration system and the remuneration levels for members of the Management Board in meetings

that took place on December 14, 2005, March 29, 2006, and November 3, 2006. Targets were agreed in conjunction with the Management Board. Progress toward, and achievement of, agreed objectives was monitored throughout the year.

The Marketing Committee held its meetings on December 14, 2005, and March 29, 2006, focusing on future marketing strategy and the marketing budget.

Committee chairmen reported comprehensively on committee meetings and committee work in the plenary sessions of the Supervisory Board.

CORPORATE GOVERNANCE The Supervisory Board discussed the new version of the German Corporate Governance Code effective June 12, 2006, and adopted the declaration of compliance in the meeting in December. Additional information on the subject of Corporate Governance, and a report on the level and structure of Supervisory Board and Management board remuneration can be found on pages 28, et seqq., of the annual report.

The Supervisory Board also dealt with the Supervisory Board's efficiency review. Knowledge gained from this review is now shaping the foundation for further optimization of Supervisory Board work.

All members were present at each session of the Supervisory Board and its committees during the past fiscal year.

APPROVAL OF THE FINANCIAL STATEMENTS Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the financial statements for the fiscal year from December 1, 2005, to November 30, 2006 (prepared by the Management Board in accordance with the regulations of the German Commercial Code) and the management report of Ahlers AG. The Audit Committee requested the audit as resolved in the Annual Shareholders' Meeting of July 26, 2006. The auditors issued an unqualified opinion.

The consolidated financial statements of Ahlers AG were prepared pursuant to section 315a of the German Commercial Code in accordance with IFRS (International Financial Reporting Standards) for the first time. The auditors provided the consolidated financial statements and the Group Management Report with an unqualified opinion as well and confirmed that the consolidated financial statements and the Group Management Report fulfill the conditions for an exemption from the preparation of financial statements under German law. Audit emphasis during the year under review was influenced by the changes in the scope of consolidation, in particular the deconsolidation of the eterna Group as well as the allocation of the Baldessarini purchase price. Another focus of the review was on current accounting policies. Intangible assets and property, plant, and equipment, financial assets and inventory, for instance, were subject to in-depth review.

The audit reports were forwarded to the chairman of the Audit Committee upon completion of the audit by the auditor, presented to the members of the Audit Committee, and brought to the attention of the remaining members of the Supervisory Board. The Audit Committee delved into

the documentation intensively and conducted an independent review. During the session of the Audit Committee on February 28, 2007, as well as the Supervisory Board meeting on March 9, 2007 the documentation was comprehensively discussed. The auditor participated in the consultation session on the separate and consolidated financial statements in both committees. He reported in detail on the audit and the individual areas of audit attention and was available to the Audit Committee and Supervisory Board to respond to questions and provide supplementary information. In accordance with the recommendations of the Audit Committee, the Supervisory Board concurred with the position of the auditor after conducting extensive reviews of its own and raised no objections to the single entity and consolidated financial statements.

The Supervisory Board has accepted the separate and consolidated financial statements of Ahlers AG prepared by the Management Board; the financial statements of Ahlers AG are thereby approved. The Supervisory Board concurs with the proposal of the Management Board to use the distributable profit to pay a higher dividend in the amount of EUR 2.95 per common share and EUR 3.00 per preferred share and carry forward the remaining profit.

The Management Board prepared a report on the Company's relations with affiliated companies in accordance with section 312 of the German Stock Corporation Act and presented it to the Supervisory Board without delay. The related audit report issued by the auditor was also submitted to the Supervisory Board. The auditor issued the following opinion in this report: "Based on our audit in accordance with our professional duties and judgment, we confirm that

1. the factual statements in the report are correct
2. and that the consideration paid by the company for the legal transactions listed in the report was not unduly high."

The auditor participated in the discussion by the Supervisory Board on the report on relationships with affiliated companies. The extensive review of this report for completeness and accuracy by the Supervisory Board did not give rise to any objections and the Supervisory Board therefore concurs with the results of the auditor's examination. In accordance with the conclusions drawn from its review, the Supervisory Board raises no objections to the declaration of the Management Board concerning the Company's relations to affiliated companies.

The Supervisory Board wishes to thank the Management Board and all employees for the work performed during this past fiscal year and for their energetic commitment.

Herford, March 9, 2007

Prof. Dr. Carl-Heinz Heuer
Chairman of the Supervisory Board

Management

Ahlers AG of Herford, Germany, is one of the largest European manufacturers of menswear. The Company traces its roots to the textile business founded by Adolf Ahlers in 1919 in the Frisian town of Jever. In 1932, the Company moved its headquarters from Oldenburg to Herford. Ahlers AG went public in 1987. In recent years, the Company has made a generational transition in the Management Board that was completed by 2005 when Dr. Stella A. Ahlers, granddaughter of the Company's founder, Adolf Ahlers, assumed the chairmanship of the Management Board with responsibility for Sales and Marketing. Olivier Galling is director of the divisions of Finance and Human Resources, while Bruno Leder is responsible for Procurement and Logistics. The average age of the members of the Management Board is currently just under 45 years.

Management Report for fiscal 2005/06

1. BUSINESS AND GENERAL CONDITIONS

FISCAL 2005/06 – HIGHLIGHTS Fiscal 2005/06 was a very eventful year for Ahlers AG. The sale of the eterna Group in May, 2006, and the acquisition of holdings and trademark rights in Baldessarini in August of 2006 were the most noteworthy events in a year that was marked by sales declines domestically, but by growth rates abroad.

BASIC INFORMATION Ahlers AG, with registered offices in Herford, Germany, is the parent of the Ahlers Group with 42 subsidiaries in Germany and abroad. Ahlers is one of the leading European menswear manufacturers and originated as a textile business founded in 1919 by Adolf Ahlers in the Frisian town of Jever. The Company's headquarters moved to Herford in 1932. The Company went public in 1987.

Ahlers AG is not purely a holding company; rather, it has entered into servicing agreements with its subsidiaries. Based on these agreements, contractual partners (the agents) procure all requisite outer materials, trimmings and accessories, as well as merchandise, have these materials processed under commission by Ahlers AG and subsequently assume responsibility for sales, administration and service in their own names, but for Ahlers AG's account. Contracts of this type have been entered into with the following companies: Ahlers Zentralverwaltung GmbH, Herford, Pionier Berufskleidung GmbH, Herford, Jupiter Bekleidung GmbH, Herford, PIONEER Jeans-Bekleidung GmbH, Herford, and Pionier Sportive Freizeitkleidung GmbH, Herford. These companies receive full reimbursement of expenses, return on capital and appropriate remuneration for the above-mentioned activities. Control and profit and loss transfer agreements are in effect with all the companies enumerated above.

Furthermore, revenues from domestic holdings, as well as revenues and expenses from control and profit and loss transfer agreements are recorded by Ahlers AG.

STRATEGIC OVERVIEW The sale of the eterna Group has allowed Ahlers AG to strengthen its brand image for the long term, to optimize its brand portfolio and to create opportunities for the acquisition of new international brands in the menswear sector.

This consistent brand policy became apparent with the acquisition of all shares of Baldessarini GmbH & Co. KG, Munich, as well as all rights to the „Baldessarini“ brand, with the exception of usage rights with respect to the fragrance business, which were not available for purchase. The designer label represents luxury, combined with modern individuality for men with the most exacting standards and, above all, is active in the international arena.

Further verticalization and internationalization of the sales organization is planned for Ahlers Group's own brands. A future focus will also be on expanding the in-house retail business.

In addition, the Ahlers Group will devote particular attention to further optimization of global procurement and logistics processes.

RESEARCH AND DEVELOPMENT Research and development expenses are incurred primarily in creating collections. In addition to constant development of collections, novel technologies, innovative clothing concepts and the optimization of procurement and warehousing logistics, as well as production processes, are the focus of research and development efforts. Quality management is active in parallel to these activities; it monitors and assures adherence to quality standards from the selection of suppliers and production operations, through procurement of raw materials to production and finally delivery of finished collection components to the customers. We are constantly engaged in developing new clothing concepts that provide benefits to our customers in terms of function and cost/benefit.

ECONOMIC AND INDUSTRY-SPECIFIC TRENDS Overall economic development in Germany was significantly more positive in 2006 than initially anticipated. The growth rate of 2.7 percent was the highest since the boom year of 2000. The domestic economy finally caught hold again, while exports continued to rise. Private consumption rose, as did investment. This recovery was reflected in the employment market. Unemployment declined, the number of employees paying social security contributions increased. During 2006 the economy in the eurozone trended upwards. In particular those countries which had experienced below average economic growth contributed significantly to the rise in real gross domestic product.

Despite the overall favorable economy, developments in the domestic textile and clothing sector continued to unevenly, depending on the branch, market segment and company. Besides a few rays of hope, generally due to higher demand from abroad, 2006 was also marked by massive cost and competitive pressures. Generally the mood in the clothing industry has brightened; a recent survey of industry companies by the German Fashion Modeverbandes e.V., Cologne, confirms this. Healthy export developments certainly play a part in this, with business in Russia as well as in China showing high growth rates.

Nevertheless, the German clothing industry has evidenced a decline in both employees and operating facilities for the last 15 years. Sales increased moderately by 0.7 percent in the first eleven months of 2006. This development is reflected in the order situation. Total order levels for clothing show an increase of 1.1 percent in the first eleven months of the past year; the foreign portion with a rise of 3.4 percent was able to more than compensate for the slightly negative growth domestically of 0.2 percent. The number of operating facilities continued to decrease from January to November of 2006 by 6.5 percent; the number of employees also was down, by 3.0 percent.

The spring/summer season of 2006 was not an easy one for the clothing trade. The winter went on forever; summer simply took too long to arrive. Many dealers attempted to empty crowded warehouses by using discounts and reducing prices. During the second half of the year, generally speaking, buyers did not spend in advance of the pending VAT increase. It is, however, possible that buying will be restrained in 2007 due to a perception that clothing has become pricier.

2. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

RESULTS OF OPERATIONS Ahlers AG sales revenues declined by 3.8 percent this past fiscal year from EUR 97.9 million to EUR 94.2 million. The decline in sales affected nearly all areas with the exception of work clothing, which rose by 5.0 percent. The export share rose from 29.0 percent to 31.2 percent, i.e. by approximately EUR 1.0 million.

The result from ordinary activities, impacted by a number of special factors, at EUR -2.3 million, is considerably below that of the previous year' figure of EUR 21.4 million. Due to the continued negative situation in the Otto Kern division, which was unable to improve over the last fiscal year, special write-downs on trademark rights in the amount of EUR 2.9 million were undertaken by Otto Kern GmbH. Due to the existence of a profit and loss transfer agreement with Otto Kern GmbH, these special write-downs impacted on the result of Ahlers AG. The investment was also written down by approximately EUR 3.3 million. Future developments in this division are being closely followed. Measures were initiated with a view to improving the situation in the short term. Furthermore, land and buildings that are not being (fully) utilized and for which no useful purpose is perceived in the near future, were appraised by independent experts in the past fiscal year. The appraisals resulted in special write-downs, negatively impacting Ahlers AG results. The other buildings – in particular at the headquarters in Elverdissen – include hidden reserves. Furthermore, special items, especially incidental selling costs and a (book) loss on the sale of the eterna Group have depressed earnings by approximately EUR 4.1 million. The (book) loss on sale resulted from the fact that eterna Mode AG was transferred to Ahlers AG from the former eterna Beteiligungs-AG, Passau, by means of an internal sale of holdings based on an expert opinion from 2002. The appraised value at the time, in the amount of EUR 108.7 million, could not be fully realized. In addition, a write-down in the amount of approximately EUR 1.0 million, was undertaken on the Ahlers AG investment in Ahlers France S.a.r.l, F-Horbourg-Wihr, and a write-down of EUR 0.7 million on the investment in Ahlers Europe Ltd., USA-New York, since the existing levels of the respective investments as recorded no longer seemed justified based on the current earnings situation. Taken as a whole, therefore, special items of approximately EUR 16.7 depress the results from ordinary operations in the separate financial statements for Ahlers AG for fiscal 2005/06.

Net income for the year also dropped to EUR -4.8 million (previous year: EUR 14.0 million) due to special items; it should be noted, however, that there is no tax effect for the greater portion of these special write-downs.

Material costs have developed roughly in proportion to sales revenues.

Personnel expenses primarily reflect remuneration of the three members of the Management Board, as well as the two division directors.

Other operating income, which rose in the previous year: due to the liquidation of provisions and higher insurance compensation, was at the level of prior years at approximately EUR 1.1 million.

The rise in other operating expenses of approximately EUR 5.8 million was due chiefly to consulting fees (legal, tax, due diligence, etc.), which rose by approximately EUR 2.5 million, incurred in connection with the sale of the eterna Group and the acquisition of Baldessarini business. Furthermore, the loss on the sale of the eterna group explained above is also reported under this item.

The drop in income from equity investments of EUR 7.6 million to EUR 4.4 million can also be traced back to the one-time items as explained above (write-downs of land and buildings at Ahlers P.C. GmbH & Co. KG in Kassel, as well as at Ahlers Textilhandel GmbH & Co. KG in Bünde).

Revenues from profit and loss transfer agreements, at EUR 8.3 million, are approximately EUR 4.5 million under the previous year's figure (EUR 12.8 million); this mainly reflects profits transferred from eterna Mode AG, Passau, and GIN TONIC SPECIAL Mode GmbH, Stuttgart. This drop is explained by the fact that the contribution to earnings from eterna Mode AG, Passau, was received only for the period from December 1, 2005, to June 30, 2006. The expenses for losses assumed item is mostly comprised of the losses assumed for Otto Kern GmbH, Herford, which were in turn strongly influenced by special write-downs of EUR 2.9 million on trademark rights.

The increase in write-downs of financial assets arises in the main from write-downs on the equity investments in Otto Kern GmbH, Herford, Ahlers France S.a.r.l., F-Horbourg-Wihr, and Ahlers Europe Ltd., USA-New York.

Interest expenses, up by approximately EUR 0.3 million, are, on the one hand, impacted by a rise in interest rates in the previous fiscal year. On the other hand interest income has improved by approximately EUR 1.2 million over the previous year, since liquidity from the sale of the eterna Group was invested.

NET ASSETS AND FINANCIAL POSITION As of November 30, 2006, Ahlers AG equity amounted to EUR 157.4 million (previous year: EUR 176.1 million). Total assets fell by EUR 264.2 million to EUR 211.5 million. The reason for the drop in equity is the loss situation in fiscal 2005/06 due to special items. The decline in total assets resulted, moreover, also from lower liabilities to banks. The equity-to-assets ratio was 74.4 percent (previous year: 66.7 percent). Return on equity before income taxes was -1.5 percent for Ahlers AG (previous year: 12.1 percent).

Cashflow at EUR 0.5 million decreased vis-à-vis the previous year's amount of EUR 14.7 million.

Additions to fixed assets amounted to EUR 15.7 million (previous year: EUR 1.6 million). They chiefly reflect the acquisition of Baldessarini GmbH & Co. KG, Munich, and Baldessarini Design und Verwaltungs-GmbH, Munich, as well as a capital increase at Ahlers Premium Commerce Sp. z o.o., Opole, Poland, totaling EUR 2.3 million and additions to financial assets amounting to EUR 12.8 million in works of art.

The expanded art collection is intended to reinforce customer loyalty and foster sales. At this point in time, numerous Ahlers AG customers are being inundated with a great variety of promotional campaigns by competitors. These campaigns range from simple lottery games to complex

organized events. These promotional campaigns are now part and parcel of standard sales promotions and a fixture of the order rounds. Ahlers AG possesses a unique instrument for customer retention with its option of offering customers art events.

Works of art owned by Ahlers AG are among the best in the world. It would seem logical to initiate a positive image transfer to Ahlers AG products. The viewer is to make the aesthetic leap from the highest rank of art to the highest rank of fashion. The appreciation that the viewer brings to art is projected to sphere of fashion, fostering Ahlers AG's image and degree of recognition and the image of our customer, the retailer. This synergy is a decisive competitive advantage vis-à-vis our competitors.

Disposals of assets amounted to EUR 110.1 million (previous year: EUR 1.7 million). This is constituted primarily from the disposal of the equity investment in eterna Mode AG, Passau, at approximately EUR 108.7 million, as well as the repayment of loans to affiliated companies in the amount of EUR 1.3 million.

Fixed and current assets were financed from continuous cashflows, as well as short-term working capital loans. Loans were adequately provided by our banks. Only EUR 0.1 million (previous year: EUR 0.2 million) of Ahlers AG loans were secured by real property liens. Our credit lines clearly exceed our requirements.

Ahlers AG's use of off-balance sheet financing instruments is limited. It relates to the lease of an administration and warehouse building at the Herford headquarters. Annual expenses of EUR 0.8 million (previous year: EUR 0.8 million) are incurred in this respect.

NON-FINANCIAL PERFORMANCE INDICATORS In addition to efficient organization, it is above all the qualifications of employees, product quality and supplier and customer relationships that, as so-called non-financial performance indicators, have a key impact on Ahlers AG's success. This particularly includes close contact with customers and timely and complete delivery of goods requested under pre-season orders.

GENERAL STATEMENT ON THE COMPANY'S FINANCIAL POSITION Taking into account the impact of the one-time special items, the results of operations, financial position, and net assets presented indicate that Ahlers AG is in a sound financial position at the time of preparation of the management report.

3. EVENTS AFTER THE BALANCE SHEET DATE

From the time of the year-end close of 2005/06 until preparation of Ahlers AG's separate

financial statements, no events of special significance for Ahlers AG have arisen.

4. RISK REPORT

Business activities are inevitably associated with risks that can either be related to the economy on the whole or the specific company. The Ahlers Group responds to these risks, which can also represent opportunities, with a security-oriented strategy of avoiding inappropriate risks, adequate insurance coverage, and a risk management system consisting of procedures documented in a manual and valid for the entire Group. The risk manager, who is responsible for implementation, reports to the Supervisory Board and the Management Board.

Against the backdrop of increasing legal and commercial requirements (in particular legislative specifications and capital market and value orientation), the requirements have also increased for risk management. The Ahlers AG risk management system continues to be developed in response. Measures to counteract risks that are considered critical are devised and their implementation and success monitored. Key components of an effective performance-oriented risk management system in the future are:

- Limitation to key risks based on corporate strategy,
- Assessment of risks and regular measurement of risk development by means of key figures and early warning indicators,
- Establishment of requisite measures for risk management and monitoring of the implementation and effectiveness of these measures,
- Establishment of management controls of relevance to strategy within the internal control system to enhance risk control.

UNIFORM RISK MANAGEMENT FOR THE ENTIRE GROUP The reporting system of the Ahlers Group forms the basis of the risk management system. Regular reports with statements of the individual segments on uniform and comprehensive criteria established by the Management Board serve as an early warning system, since early indications of future developments representing potential risks can be deduced from these reports. The risks identified in the process are incorporated in the risk manager's reports. The second pillar of the risk management system consists of clearly defining corporate goals and monitoring whether they are achieved. Goals set in connection with budget planning are compared to actual figures – as in financial control, although the objective is different in this case – and evaluated to determine whether these goals appear to be achievable. This evaluation also forms an integral part of risk reporting. In addition, the persons responsible for risk management define detailed risk areas that take into consideration all of the most important operational processes and functions in the Ahlers Group. These risk areas are updated regularly and documented in a check list. Since the check list is uniform for all segments, it allows an assessment to be made of the individual risks and the probability of occurrence; this

information can then be summarized for the Group.

Any risks that might have a significant impact on the results of operations, net worth and financial position are described below. These are, however, not necessarily the only risks to which Ahlers AG is exposed. Ahlers AG activities may, in addition, be subject to risks that have not yet been identified or have been deemed negligible hitherto.

MARKET RISKS Economic conditions in Germany have not improved significantly, at least not with respect to the clothing field. Consumers still show purchasing restraint. The absence of demand has a negative effect on sales growth. This sales risk is being countered by the expansion of foreign business.

With each new season there is a risk that the collections fail to meet the market's needs and that sales decline as a result.

2007 will be a difficult year. The rise in value added tax, as well as other fiscal measures, is generally anticipated to have a significant effect on consumer behavior for individual households. Many retailers fear a continued slump. The persistently high number of retail insolvencies continues to have a depressing effect on the situation. Product variety and Ahlers AG brand recognition helps to reduce these risks.

Trademark rights violations, gray market activities and counterfeiting not only serve to tarnish the brand image for the long term, but result in short-term sales losses. Particular attention is devoted to the protection and monitoring of brands, primarily by defending and maintaining property rights. Legal steps are taken when necessary.

SALES A well-balanced customer structure is the focus for sales. Business with independent retailers (specialized trade) will continue to decrease and must be supplemented by vertical partnerships and in-house retail activities. The Ahlers AG reporting system assures continuous, timely monitoring of delivery quotas, punctual deliveries, order levels and sales.

PROCUREMENT/PRODUCTION/LOGISTICS Deliveries of raw materials and merchandise can also be associated with risks in regard to prices, and quality. This may involve quality fluctuations and poor quality in the case of both raw materials and merchandise. Risks may also arise from minimum purchasing quantities. Failure to adhere to delivery deadlines and insufficient information on the production process, as well as delayed or incomplete deliveries from production sites, may also represent risks. Careful and timely selection of qualified suppliers, as well as quality controls, can mitigate this risk. Price movements in procurement markets at home and abroad need to be closely observed in order to assure low-cost supply. Generally products exempt from quotas are imported from the People's Republic of China; other products are chiefly manufactured in the Company's own or third-party facilities in Eastern Europe and other Asian countries. The imposi-

tion of quotas in the next few years represents a risk, which the Ahlers Group is countering with well-balanced global production in the Group's own and in third-party production facilities.

In-house production capacities can be flexibly handled, but bear a risk in that they need to be utilized continuously in order to be profitable. In addition, constant investment in technology is required in order to optimize work processes. To counteract the risk of continually rising labor costs, it appears necessary to selectively develop the use of foreign production sites, which offer more favorable capacities in increasing measure despite geographic distance (e.g. People's Republic of China and Vietnam). The reduction of production capacities can in individual instances make it necessary to shut down production. Quality risks are countered in advance by means of strict technical controls to minimize returns and the production of seconds.

INFORMATION TECHNOLOGY In the IT sector it is absolutely essential to always be up-to-date with the latest technology. The risk of failing to keep abreast of developments is avoided by using state-of-the-art hardware and software and offering regular training programs.

Internationalization of sales and procurement markets and the growing number of partnership business models as part of the verticalization process have resulted in a dramatic rise in networking with business partners (customers, suppliers, forwarders, banks). Basic ECR (efficient consumer response) technologies, such as EDI (Electronic Data Interchange) have become indispensable standards in the development of business processes. The use of high-performance and secure information technology has increasingly become a key competitive factor. Lengthy IT breakdowns would result in enormous internal and external disruptions.

Due to the significance to the success and continued existence of the Company, we have gone to great effort in the year under review, to escalate the security level achieved in the use of information technology. The goal of investments in this area was to optimize IT infrastructure security and thus create important conditions for enhanced IT system stability. At the same time, TÜV Informationstechnik GmbH, Essen, was assigned to provide certification for overall measures. All infrastructure aspects (building specifications, security systems, energy supply, fire alarm and extinguishing technology, air conditioning plant, organization, documentation) are researched and evaluated. Meeting the infrastructure requirements entitles us to use the TÜV quality mark "Trusted Site Infrastructure". Company shareholders and business partners profit equally from heightened IT security and risk minimization.

PRICE FLUCTUATION, DEFAULT AND INSOLVENCY RISKS, AND RISK ARISING FROM FLUCTUATIONS IN PAYMENT FLOWS The Ahlers Group incurs exchange rate risks due to its purchase of goods internationally and due to costs in currencies other than the respective local currency or costs that are linked to developments in other currencies. An exchange rate risk exists for goods deliveries to Great Britain and Switzerland in the first instance, but also for goods purchases that

are denominated in US dollars. Hedging contracts customary to the market are entered into in order to cover exchange rate risks from operations.

Counterparty risks from contractual partners in hedging contracts are minimized by engaging only renowned financial institutions with impeccable credit reputations as contractual partners. The risk of deteriorating payment behavior on the part of customers paired with increasing insolvencies is mitigated by strict credit verification and insurance to cover bad debts.

Basic financial planning with a planning horizon of twelve months is supplemented by short-term liquidity planning. Money market products (time deposits and call money), as well as bilateral loans, are used as financing instruments. The Ahlers Group has adequate liquidity reserves, so that liquidity risks fail to materialize when unexpected events impact the liquidity situation adversely.

Fluctuations in payment flows could arise in the case of variable rate items due to changes in future interest rate levels. Decreasing liabilities in the last few years have had a positive effect on interest rate risk. No derivatives are being used to limit this interest rate risk.

OTHER RISKS The potential termination of license agreements or the transfer of trademark rights to third parties represents a risk; the associated considerable loss in sales is prevented with the extension of contracts for longer terms.

Considerable legal risks arising from litigation or similar proceedings that could have negative repercussions on the earnings position of the Group cannot be identified at this time. The Group is covered by appropriate insurance against warranty claims from product liability; no claims of any significance have been asserted.

Comprehensive insurance protection is a major component of risk management. Service interruptions, bad debts, losses from goods and buildings, as well as damage claims, are insured centrally; insurance coverage is subject to regular review and covered sums adjusted if necessary.

OVERALL RISK Planning risks are entailed in predicting sales figures, in the case of bad debts, and also in the case of partial write-downs of receivables. Even though the risks enumerated above can arise in individual areas, there are no discernible that jeopardize the continued existence of the Ahlers Group at this time.

5. OUTLOOK

FUTURE ECONOMIC CONDITIONS All signs point to a continuation of the economic upturn in 2007, albeit likely to be weakened by the restrictive nature of fiscal policy. It was, therefore, a surprise that the ifo-Institut (Information and Research Institute) and the Gesellschaft für Konsumforschung (GfK - Consumer Research Company) presented poor economic data at the end of

January. The GfK consumer climate index immediately plummeted from 8.5 to 4.8 points due to the tax increase. Buying restraint is apparent, in particular due to the rise in value added tax from 16 percent to 19 percent. The anticipated weakness in private consumption is presenting itself during the first quarter. At the same time the German business climate has deteriorated unexpectedly. The index calculated by the Munich ifo-Institut für Wirtschaftsforschung (ifo Institute for Economic Research) fell from 108.7 to 107.9 points.

The clothing industry in 2007 is facing major challenges that it must overcome. The increase in the value added tax will dampen domestic demand which was just starting to recover. Those who focused on export early on are in luck. This explains the positive mood among German clothing companies reflected in the survey conducted at the end of 2006 by the German Fashion Modeverbandes e. V., Cologne. Rising sales are expected, spearheaded by exports.

Only in a few exceptional cases could VAT increases be passed on to customers. The negative effects need to be compensated by improvements in procurement. Other tax measures (restriction of the commuter tax allowance, 50 percent reduction in the saver's tax exemption) are also anticipated to have considerable influence on private consumer behavior in Germany.

Given this situation, we can expect positive sales developments only from our export activities over the next few years. Significant opportunities for growth are arising in the Eastern European markets, in particular in Russia with respect to branded articles. We will have to place increasing reliance on our own retail activities and franchise systems as far as the domestic market is concerned.

Ahlers AG will continue to invest in the future these next fiscal years. Most of these investments relate to rationalization, replacements, retail activities and shop systems. But investment in logistics and important IT projects is also planned. The projected investment volume for the current fiscal year is approximately EUR 1.3 million.

ANTICIPATED RESULTS FROM OPERATIONS The start of 2006/07 has been subdued for agents of Ahlers AG. A modest improvement in the sales situation is expected for the months of February and March. The main reason for the drop in sales was the absence of domestic seasonal orders for winter goods during the months of December and January. Based on the slow start and the pre-season spring/summer 2007 sales, which were not satisfactory for Ahlers AG agents, we expect a moderate decline in sales figures for fiscal 2006/07. Due to the lack of advance sales figures, a well-founded forecast for fiscal 2007/08 cannot be provided. We, however, assume that a higher proportion of exports will at least offset the sales decline.

Results from fiscal 2005/06 cannot be used as a basis for comparison, due to the many special items. We believe we will achieve an improvement on results from ordinary operations during fiscal 2006/07. For the medium term we aim to continue to drive up our pre-tax profit margin.

Ahlers AG will continue to pursue a dividend policy oriented towards the Group's success and will justify investor confidence with satisfactory dividends in the future. After the sale of the eterna Group and the high dividend paid out in 2007, this will initially be lower than in previous years.

EXPECTED FINANCIAL POSITION The Ahlers AG balance sheet structure will continue to demonstrate a sound relationship between equity and debt in the upcoming fiscal years 2006/07 and 2007/08. We plan to continue to invest in the future in line with corporate strategy (internationalization, verticalization and growth by acquisitions). Sufficient resources are available to Ahlers AG in 2006/07 to finance planned investment.

GENERAL STATEMENT ON ANTICIPATED DEVELOPMENT After a series of one-time special items created both positive and negative effects on the results of operations, net worth and financial positions of Ahlers AG during the fiscal year just elapsed, we are optimistic that Ahlers AG will continue to find itself in a financially sound position in the future.

6. PERFORMANCE OF AHLERS SHARES

The German stock market had a good year in 2006. The DAX grew by approximately 22 percent. The performance of second-tier stocks was even better. The MDAX gained approximately 29 percent and the SDAX even increased by approximately 31 percent.

Ahlers AG shares, too, managed again to record gains during the course of the year 2006. Ahlers AG common share was valued 10.0 percent higher than twelve months earlier and closed the year at EUR 16.45. Preferred shares rose by 11.5 percent to EUR 16.50. Price developments in the first five weeks of 2007 continued positive; the value of the common and preferred shares rose in relation to the year-end closing price and are above EUR 17.00 at the beginning of February.

Ahlers AG's market capitalization climbed by approximately 16 percent to EUR 243.4 million during the past fiscal year (previous year: EUR 210.7 million).

Ahlers AG shareholders have always participated in earnings by receiving high dividend payments. The Supervisory and Management Boards are proposing dividends of EUR 2.95 per common share and EUR 3.00 per preferred share for fiscal 2005/06 at the Annual Shareholders' Meeting. Shareholders will thus take part in the successful sale of the eterna Group. Based on prices as of November 30, 2006, this corresponds to a dividend yield of 17.5 percent per common share and 17.8 percent per preferred share.

Ahlers shares are listed in the Prime Standard segment of the German Stock Exchange. The goal of our investor relations activities is to provide transparent, regular, extensive and timely information to promote the confidence of all capital market participants. In addition to the Annual Shareholders' Meeting, we consider our annual report and quarterly reports to be very important sources of information. We report on the development of business and the financial and earnings position four times a year. The Management Board informs investors, analysts, and the press of

quarterly and annual results on a regular basis. In connection with investor relations, we also hold meetings with analysts and institutional investors, and an analyst conference takes place every year. We offer access to all relevant financial information and other information related to our Company on our website.

Ahlers AG's subscribed capital has remained at EUR 43.2 million and consists of 14,400,000 no par value shares. It is made up of

- 8,000,000 common shares and
- 6,400,000 preferred shares with no voting rights.

The 8,000,000 common shares include 500 registered shares with transfer restrictions. They confer the right to nominate members of the Supervisory Board. The remaining 14,399,500 shares are bearer shares.

No members of the Management Board held Ahlers shares as of November 30, 2006.

As of November 30, 2006, the Deputy Chairman of the Supervisory Board, Mr. Jan A. Ahlers, held 7,924,941 shares attributable to him in accordance with sections 21 and 22 of the German Securities Trading Act; the same level as in the previous year. This corresponds to 55.03 percent of Ahlers AG's subscribed capital.

On the same day none of the remaining members of the Supervisory Board held shares in Ahlers AG, as was the case in the previous year.

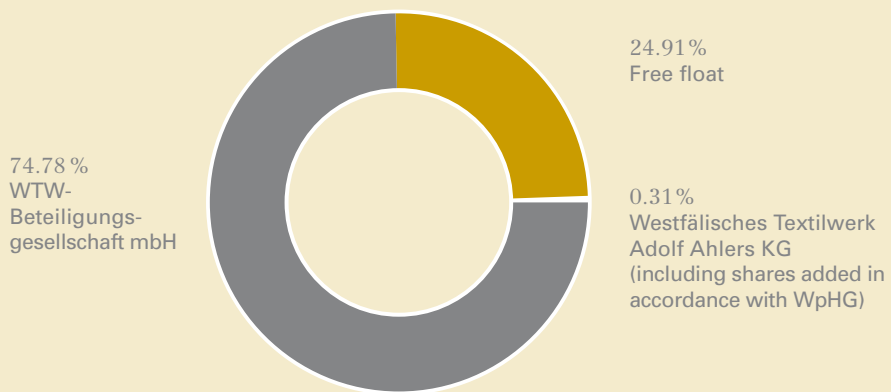
7. EMPLOYEES

The number of Ahlers AG employees rose from two to four as of the balance sheet date. There are also three members of the Management Board.

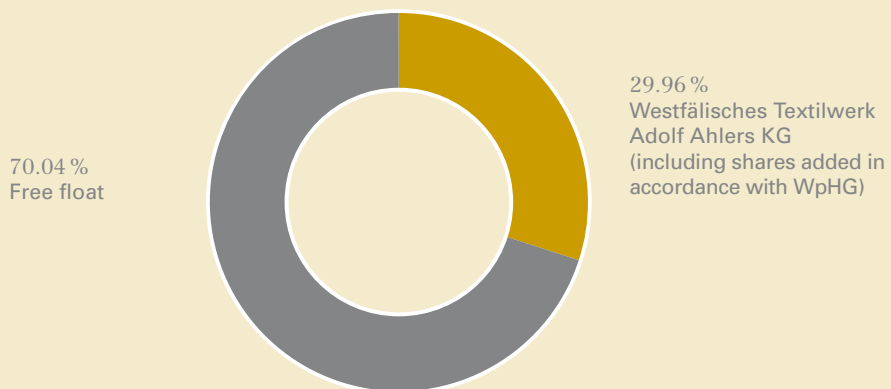
8. FORWARD-LOOKING STATEMENTS

We would like to point out that in the case of forward-looking statements, actual events may differ considerably from the anticipated developments, should one of the uncertainties, whether mentioned or not, materialize or should the assumptions on which the statements are based prove to be inaccurate.

SHAREHOLDER STRUCTURE COMMON SHARES



SHAREHOLDER STRUCTURE PREFERRED SHARES



Key data of Ahlers shares

IN EUR PER SHARE

	Nov. 30, 2002	Nov. 30, 2003	Nov. 30, 2004	Nov. 30, 2005	Nov. 30, 2006
Common shares					
Dividend	0.82	0.82	0.90	0.95	2.95
Preferred shares					
Dividend	0.87	0.87	0.95	1.00	3.00
Number of shares outstanding					
Common shares	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Preferred shares	6,400,000	6,400,000	6,400,000	6,400,000	6,400,000

	2002	2003	2004	2005	2006
Common shares					
Closing price	11.00	10.55	11.56	14.95	16.45
High	13.60	11.14	12.35	16.15	18.51
Low	7.50	8.11	10.11	11.50	14.00
Preferred shares					
Closing price	9.05	10.45	11.90	14.80	16.50
High	13.29	10.70	12.33	15.88	18.90
Low	7.30	7.40	10.25	11.82	14.25

Report on relations with affiliated companies

The company Westfälisches Textilwerk Adolf Ahlers KG, Herford, together with the wholly owned subsidiary WTW-Beteiligungsgesellschaft mbH, Herford, hold a majority stake in Ahlers AG. The report on relations with affiliated companies required pursuant to section 312 of the German Stock Corporation Act was presented to the Supervisory Board in a timely manner. The report closes with the following statement by the Management Board:

“According to the circumstances known to us at the time that every legal transaction took place, our Company received appropriate consideration for each legal transaction. No activities were undertaken or omitted that were instigated by the controlling company or one of its affiliates or undertaken or omitted on its behalf”.

Proposal for the appropriation of profits

Management Board and Supervisory Board recommend using the distributable profit for fiscal 2005/06 in the amount of EUR 58,809,491.80 to pay shareholders a dividend of EUR 2.95 per common share (ISIN DE0005009708 and DE0005009740) and EUR 3.00 per preferred share (ISIN DE0005009732), totaling EUR 42,800,000.00, and to carry forward the remaining profit of EUR 16,009,491.80.

Herford, March 9, 2007

Ahlers AG
The Management Board

Dr. Stella A. Ahlers

Oliver Galling

Bruno Leder

Report on the Corporate Governance Code

As an internationally active company based in Germany, the management and monitoring of Ahlers AG are based on German law, in particular stock corporation law, commercial law, co-determination law, and capital market law, as well as on our Articles of Incorporation and the German Corporate Governance Code as implemented in the Company.

The German Corporate Governance Code was initially adopted in 2002 by an independent commission acting on behalf of the federal government. Ahlers AG complies to the extent possible with the version of this code as expanded in June of 2006. Any deviations are enumerated in the declaration of compliance and published on our website.

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE In their meeting on December 15, 2006, the Management Board and the Supervisory Board decided to implement the recommendations of the Government Commission of the German Corporate Governance Code and to issue the following declaration of compliance in accordance with section 161 of the German Stock Corporation Act:

”DECLARATION OF COMPLIANCE UNDER THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

Ahlers AG has complied with the recommendations of the German Corporate Governance Code in the version promulgated on June 2, 2005, since the last declaration of compliance issued on December 14, 2005, with the exceptions noted therein. In the future Ahlers AG will comply with the recommendations of the German Corporate Governance Code in the version of June 12, 2006, with the exception of the recommendations below:

- 4.2.5 Itemization of remuneration for members of the Management Board*
- 5.1.2 Age limit for members of the Management Board
- 5.4.1 Age limit for Supervisory Board members
- 5.4.7 Itemization of remuneration for Supervisory Board members
- 7.1.2 Publication dates for annual reports

- * The Annual Shareholders’ Meeting of Ahlers AG resolved on July 26, 2006, to omit the itemized publication of remuneration of the members of the Management Board in accordance with section 285, clause 1, no. 9 (a) and clauses 5 to 9 of the German Commercial Code, as well as section 314, paragraph 1, no. 6 (a), clause 5 to 9 of the German Commercial Code for a period of five years, initially for fiscal 2006/07.”

Publication of itemized remuneration for members of the Management and Supervisory Boards (4.2.5 and 5.4.7) will continue to be omitted. Remuneration of the Management Board is divided into fixed and variable components. The Management and Supervisory Boards are of the view that this information is sufficient to assess whether remuneration of the Management and Supervisory Boards as a whole, and division of remuneration into performance-related and guaranteed portions, is commensurate and whether the remuneration structure provides the intended incentive effect for the Management Board. Itemized disclosures may also be associated with disadvantages for the Company. Not only might such disclosures result in a leveling effect on differences in performance-related and task-related remuneration, but they may also facilitate the enticement of key employees away from the Company. Furthermore, remuneration paid by the Company to members of the Supervisory Board for services rendered personally not in connection with Supervisory Board activities is disclosed on an itemized basis.

No age limit was set either for members of the Management Board or for members of the Supervisory Board (5.1.2 and 5.4.1). The Management Board and the Supervisory Board are of the opinion that qualification and performance are the deciding factors for membership in the Company's executive bodies. Neither can be quantified with standardized age limits.

The consolidated financial statements are presently not being made available to the public within 90 days of the end of the fiscal year (7.1.2). Compliance with this recommendation would entail considerable costs. In the opinion of the Management Board and the Supervisory Board of Ahlers AG, this does not appear sensible at this time.

REMUNERATION REPORT

The remuneration report summarizes the principles applied in determining the remuneration of members of the Management Board of Ahlers AG, explains the structure of remuneration for members of their income and describes the principles for remuneration of members of the Supervisory Board.

REMUNERATION FOR MEMBERS OF THE MANAGEMENT BOARD The Human Resources Committee is responsible for establishing remuneration for members of the Management Board. The Supervisory Board Chairman Prof. Dr. Carl-Heinz Heuer, the Deputy Supervisory Board Chairman Jan A. Ahlers and the Supervisory Board member Andreas Kleffel comprise the Human Resources Committee.

The Annual Shareholders' Meeting of Ahlers AG resolved on July 26, 2006, to omit the itemized publication of remuneration of the members of the Management Board in accordance with section 285, clause 1, no. 9 (a) and clauses 5 to 9 of the German Commercial Code, as well as section 314, paragraph 1, no. 8 (a), clause 5 to 9 of the German Commercial Code for a period of five years, initially for fiscal 2006/07. Pursuant to article 59 of the EGHGB based on the Manage-

ment Board Remuneration Disclosure Act, no obligation exists to itemize remuneration for the Management Board for the year under review. The Management Board Remuneration Disclosure Act is to be applied to the separate and consolidated financial statements of fiscal years that have begun only after December 31, 2005.

Remuneration for members of the Ahlers AG Management Board is predicated on the size and activity of the Company, as well as its financial situation. In addition the tasks and contributions of each Management Board member are taken into consideration.

Remuneration during fiscal 2005/06 was composed of three components:

- a fixed annual salary,
- a profit-related bonus, and
- a target-related bonus.

The fixed remuneration is reviewed by the Supervisory Board on a regular basis. The last review took place in 2005. The fixed remuneration is paid out as monthly salary. The profit-oriented bonus is based on the consolidated net income for the year; a contractual percentage is paid. The target-oriented bonus is paid according to certain targets established by the Supervisory Board. The level is based on the extent to which the targets have been achieved. There is a maximum amount.

Other remuneration consists of financial benefits from the provision of a company car of the upper middle range, which may also be used for private purposes, pension contributions and insurance subsidies.

There are no separate pension contracts for members of the Management Board. The Company has no stock option plans.

Contracts for members of the Management Board do not contain specific commitments regarding severance pay in the event that their employment contract is terminated prematurely. A severance payment can, however, be granted under an individual termination agreement. No 'Change of Control' clause is contained in any Management Board member contract.

Total remuneration of the Ahlers AG Management Board amounts to:

(in EUR`000)	Salary	Annual Bonus	Miscellaneous	Total
2004/05	573	1,477	68	2,118
2005/06	640	941	65	1,646

Former members of the Management Board and management of Adolf Ahlers GmbH and their survivors received total remuneration of EUR 74 thousand (previous year: EUR 74 thousand)

during fiscal 2005/06 under section 314, paragraph 1, no. 6b of the German Commercial Code.

Members of the Management Board are not granted loans by the Company.

SUPERVISORY BOARD REMUNERATION The remuneration of members of the Supervisory Board is determined at the Annual Shareholders' Meeting on the recommendation of the Management Board and the Supervisory Board. The details are specified in the Company's Articles of Incorporation. Remuneration of Supervisory Board members is based on the size of the Company, the tasks and responsibilities of each member, and the Company's financial situation. The remuneration consists of:

- a fixed portion;
- a variable portion depending on sales growth and rising market capitalization; and
- a portion depending on the annual dividend.

The chairman, deputy chairman, and members of committees receive additional compensation.

The remuneration principles currently in effect for the Supervisory Board were adopted at the Annual Shareholders' Meeting on June 26, 2003. They are listed in section 18 of the Articles of Incorporation.

Total remuneration of the Supervisory Board amounted to:

(in EUR`000)	fixed remuneration	variable remuneration	Total
2004/05	53	197	250
2005/06	53	691	744

Members of the Supervisory Board are reimbursed for all expenses incurred in exercising their mandate, as well as related value added tax.

Members of the Supervisory Board are not granted loans by the Company.

MISCELLANEOUS Ahlers AG has taken out a D&O insurance policy for its managers. This affords insurance protection for the event that an insured person becomes liable for financial losses due to an unintentional breach of duty while exercising the insured activity based on statutory liability provisions. Furthermore judicial and extra-judicial defense against unfounded - and the satisfaction of founded - damage claims, as well as legal protection in criminal proceedings, are covered. Activities of board members of Ahlers AG and senior management at the subsidiary level are protected under the policy. A deductible as intended in the German Corporate Governance Code (3.8) was agreed.

Balance Sheet Structure

ASSETS	Nov. 30, 2006		Nov. 30, 2005	
	EUR'000	%	EUR'000	%
Intangible and tangible fixed assets	790	0.4	936	0.3
Financial assets	89,394	42.3	188,801	71.5
Fixed assets	90,184	42.7	189,737	71.8
Inventories	19,495	9.2	24,318	9.2
Trade receivables	8,924	4.2	9,869	3.7
Other receivables and other assets	27,212	12.9	34,024	12.9
Liquid assets and securities	65,626	31.0	6,213	2.4
Current assets	121,257	57.3	74,424	28.2
Prepaid expenses	15	0.0	5	0.0
Total assets	211,456	100.0	264,166	100.0

LIABILITIES AND SHAREHOLDERS' EQUITY	Nov. 30, 2006		Nov. 30, 2005	
	EUR'000	%	EUR'000	%
Shareholders' equity	157,371	74.4	176,128	66.7
Pension provisions	646	0.3	680	0.3
Long-term liabilities	16,429	7.8	18,024	6.8
Other provisions	5,235	2.5	7,135	2.7
Other liabilities and dereferred income	31,775	15.0	62,199	23.5
Borrowed funds	54,085	25.6	88,038	33.3
Total liabilities and shareholders' equity	211,456	100.0	264,166	100.0

Separate Financial Statements of Ahlers AG

FOR THE YEAR ENDED NOVEMBER 30, 2006

Balance Sheet of Ahlers AG as of November 30, 2006

WITH COMPARABLE AMOUNTS FROM THE PREVIOUS YEAR

ASSETS	Nov. 30, 2006 EUR'000	Nov. 30, 2005 EUR'000
A. Fixed assets		
I. Intangible assets		
Industrial property rights and similar rights and assets	21	37
II. Tangible assets		
1. Land and buildings	39	42
2. Other equipment, plant and office equipment	730	857
	769	899
III. Financial assets		
1. Equity investments in affiliated companies	67,834	179,307
2. Loans to affiliated companies	5,257	6,557
3. Long-term securities	554	–
4. Other loans	404	404
5. Other financial assets	15,345	2,533
	89,394	188,801
	90,184	189,737
B. Current assets		
I. Inventories		
1. Raw materials and supplies	6,845	7,049
2. Finished goods and merchandise	12,650	17,269
	19,495	24,318
II. Receivables and other assets		
1. Trade receivables	8,924	9,869
2. Receivables from affiliated companies	21,136	31,844
3. Other assets	6,076	2,180
	36,136	43,893
III. Cash on hand, bank balances	65,626	6,213
	121,257	74,424
C. Prepaid expenses	15	5
	211,456	264,166

LIABILITIES AND SHAREHOLDERS' EQUITY	Nov. 30, 2006 EUR'000	Nov. 30, 2005 EUR'000
A. Shareholders' equity		
I. Subscribed capital		
Common shares	24,000	24,000
Preferred shares	19,200	19,200
II. Capital reserve	15,576	15,576
III. Revenue reserves		
Other revenue reserves	39,785	39,785
IV. Unappropriated retained earnings	58,810	77,567
	157,371	176,128
B. Provisions		
1. Pension provisions	646	680
2. Tax provisions	966	3,878
3. Other provisions	4,269	3,257
	5,881	7,815
C. Liabilities		
1. Liabilities to banks	12,574	40,335
2. Trade payables	4,590	4,267
3. Liabilities to affiliated companies	30,497	31,581
4. Other liabilities	543	4,040
	48,204	80,223
	211,456	264,166

Income Statement Ahlers AG for the period from December 1, 2005, to November 30, 2006

WITH COMPARABLE AMOUNTS FROM THE PREVIOUS YEAR

	2005/06 EUR'000	2004/05 EUR'000
1. Sales	94,185	97,855
2. Increases and decreases in inventories of finished goods and work in progress	-4,619	4,021
3. Other operating income	1,121	2,052
4. Cost of materials		
a) Cost of raw materials, consumables, supplies and purchased merchandise	38,048	44,152
b) Cost of purchased services	13,910	15,481
5. Personnel expenses		
a) Wages and salaries	2,234	2,165
b) Social security contributions and pension expenses	164	116
6. Depreciation of tangible and amortization of intangible assets	219	179
7. Other operating expenses	40,241	34,468
8. Income from equity investments	4,385	7,592
9. Income from profit and loss transfer agreements	8,246	12,780
10. Income from other securities and long-term loans	264	687
11. Other interest and similar income	2,348	1,113
12. Write-down on financial assets	5,068	498
13. Expenses for losses assumed	5,177	4,770
14. Interest and similar expenses	3,208	2,912
15. Result from ordinary activities	-2,339	21,359
16. Income taxes	2,408	7,325
17. Other taxes	10	23
18. Net loss/income for the period	-4,757	14,011
19. Profit carried forward from the previous year	63,567	63,556
20. Distributable profits	58,810	77,567

Fixed Assets Schedule of Ahlers AG

IN EUR'000

	Accumulated acquisition or manufacturing costs			Nov. 30, 2006
	Dec. 01, 2005	Additions	Reversals	
Intangible assets				
Industrial property rights and similar rights and assets	757	–	–	757
	757	–	–	757
Tangible assets				
Land and buildings	125	–	3	122
Technical equipment and machines	414	–	2	412
Other equipment, plant and office equipment	1,362	98	100	1,360
	1,901	98	105	1,894
Financial assets				
Equity investments in affiliated companies	230,945	2,269	108,675	124,539
Loans to affiliated companies	6,557	–	1,300	5,257
Long-term securities	–	554	–	554
Other loans	404	–	–	404
Other financial assets	2,597	12,814	–	15,411
	240,503	15,637	109,975	146,165
Total fixed assets	243,161	15,735	110,080	148,816

Accumulated depreciation/amortization				Carrying amounts	
Dec. 01, 2005	Additions	Reversals	Nov. 30, 2006	Nov. 30, 2006	Nov. 30, 2005
720	15	-	735	22	37
720	15	-	735	22	37
83	4	3	84	38	42
414	-	2	412	-	-
505	199	74	630	730	857
1,002	203	79	1,126	768	899
51,639	5,066	-	56,705	67,834	179,306
-	-	-	-	5,257	6,557
-	-	-	-	554	-
-	-	-	-	404	404
63	3	-	66	15,345	2,534
51,702	5,069	-	56,771	89,394	188,801
53,424	5,287	79	58,632	90,184	189,737

Notes for fiscal 2005/06

I. BASIS OF PRESENTATION

The separate financial statements of Ahlers AG are prepared in accordance with the provisions of the German Commercial Code (“HGB”) and the German Stock Corporation Act (“AktG”).

For the sake of clarity and transparency of presentation, the notes to the balance sheet and to the income statement are included in the notes to the financial statements. The income statements have been prepared using the total cost (type of expenditure) format.

Due to the sale of eterna Mode AG and the special items explained in the management report only limited comparisons between the figures of the financial statements of 2005/06 and those of the previous year are feasible.

ACCOUNTING POLICIES Accounting policies are consistent with those of the previous year. Valuations are established in accordance with the regulations that apply to joint-stock corporations.

CURRENCY TRANSLATION Receivables and payables in foreign currency are converted at the exchange rate applicable on the date of the transaction giving rise to the receivable/payable. Losses from exchange rate differences were recorded at the lower of cost or fair value in profit or loss at the closing rate.

INTANGIBLE ASSETS Intangible assets are capitalized at acquisition cost and amortized over a period of three to 15 years.

TANGIBLE ASSETS Tangible assets are recorded at acquisition or manufacturing costs and, if subject to wear and tear, depreciated. Depreciation is undertaken using the declining-balance method to the extent allowable under tax law; otherwise straight-line depreciation is applied.

Tangible assets held at the start of the fiscal year are depreciated following the same principles and methods as in previous years. Straight-line depreciation is adopted whenever this would result in higher depreciation amounts.

Immovable assets are depreciated pro rata temporis in the year of addition. One-twelfth of the annual depreciation amount for each full month prior to the month of acquisition is deducted from the full year’s depreciation in the case of movable assets. Low-value assets are fully written off in the year of addition.

FINANCIAL ASSETS Financial assets are stated at the lower of acquisition cost, including transaction fees, and fair value.

INVENTORIES Inventories are measured at the lower of cost or market in accordance with section 253 (3) of the HGB. Manufacturing costs include cost of materials, direct labor and attribu-

table production overheads as well as production-related depreciation of fixed assets. Interest on borrowed capital is not included. The lower of cost or market value principle is applied throughout.

OTHER CURRENT ASSETS Other current assets are stated at the lower of nominal and fair value pursuant to section 253 (3) of the HGB. Specific risks are covered by specific allowances. Default risk arising from trade receivables is covered by a lump-sum allowance.

PENSION PROVISIONS Pension provisions are calculated in accordance with actuarial methods. The carrying amount reflects the actuarial present value of the discounted obligations, calculated using a discount rate of six percent on the basis of 2005 G mortality tables.

TAX PROVISIONS AND OTHER PROVISIONS Tax provisions and other provisions adequately cover all discernible risks and uncertain liabilities.

LIABILITIES Liabilities are shown at the repayment amount.

II. SEPARATE FINANCIAL STATEMENTS OF AHLERS AG

NOTES TO THE BALANCE SHEET

FIXED ASSETS The development of accumulated costs and accumulated depreciation for fiscal 2005/06 is itemized in the Ahlers AG fixed assets schedule in an attachment to the notes. Intangible, tangible, and financial assets are stated at historical cost.

INTANGIBLE ASSETS Industrial property rights and similar rights and assets refer to trademark rights.

TANGIBLE ASSETS Capital expenditure in fiscal 2005/06 was lower than depreciation. Additions to factory and office equipment of EUR 98 thousand chiefly reflect replacement expenditures.

FINANCIAL ASSETS Changes in equity investments in affiliated companies arise from the sale of the investment in eterna Mode AG, Passau, as well as write-downs against equity investments recorded for Otto Kern GmbH, Herford, Verwaltungs- und Handelsgesellschaft „Alconda“ mbH, Bünde, Ahlers France S.a.r.l., Horbourg-Wihr (France) and Ahlers Europe Ltd., New York (USA), as well as from the acquisition of all shares in Baldessarini Design und Verwaltungs-GmbH, Munich, and Baldessarini GmbH & Co. KG, Munich, and a capital increase at Ahlers Premium Commerce Spolka z o.o., Opole (Poland).

The shareholdings of Ahlers AG (direct and indirect investments) are itemized in an attachment at the end of the notes.

Loans to affiliated companies include an interest-bearing loan to Ahlers-Poland Spolka z o.o., Opole, Poland, of EUR 5.3 million (previous year's increase: EUR 6.6 million).

Other loans include a long-term, interest-bearing loan from Ahlers AG to Mr. Otto Kern of Monte Carlo, Monaco, granted to finance the capital increase at the Group's subsidiary, Otto Kern GmbH, Herford. No collateral was provided. No redemption schedule had been specified as of November 30, 2006. The loan is to be repaid starting in 2007.

Other financial assets mainly include works of art. These consist primarily of works of renowned Expressionist artists and contemporary art.

INVENTORIES Inventories declined by EUR 4.8 million (previous year's increase: EUR 3.1 million). All discernible risks have been covered by adequate value adjustments.

RECEIVABLES AND OTHER ASSETS All discernible risks associated with trade receivables are covered by adequate specific bad debt allowances. Lump-sum allowances have been created in the amount of EUR 289 thousand (previous year: EUR 303 thousand). In addition, the majority of

receivables are covered by trade credit insurance.

Receivables from affiliated companies include trade receivables and loans to domestic and foreign subsidiaries. The balance in this account also reflects a receivables amount from Westfälisches Textilwerk Adolf Ahlers KG, Herford, in the amount of EUR 95 thousand (previous year: EUR 95 thousand).

Other assets primarily include tax refund claims, bonus claims, and receivables from insurance companies and suppliers.

There are no receivables or other assets with a remaining term exceeding one year.

SUBSCRIBED CAPITAL Subscribed capital consists of a total of 14,400,000 shares with no par value. This total is composed of 8,000,000 common shares and 6,400,000 preferred shares with no voting rights. The 8,000,000 common shares include 500 registered shares with transfer restrictions. They confer the right to nominate members of the Supervisory Board. The remaining 14,399,500 shares are bearer shares.

Mr. Jan A. Ahlers, general partner of Westfälisches Textilwerk Adolf Ahlers KG, Herford, announced that his share of voting rights in Ahlers AG exceeded the 75 percent threshold as of March 25, 2002. As of November 30, 2006, his share of voting rights remained at 75.09 percent 74.79 percent of which is attributable to him in accordance with section 22 (1) sentence 1 no. 1 of the German Securities Trading Act ("WpHG").

AUTHORIZED CAPITAL/CONDITIONAL CAPITAL By resolution of the Annual Shareholders' Meeting held on June 9, 2005, the Management Board, with the approval of the Supervisory Board, was authorized to increase the company's share capital prior to May 31, 2010, by issuing new common bearer shares and/or non-voting preferred shares in return for cash contributions on one or more occasions up to the amount of EUR 16.8 million. On June 26, 2003, the Annual Shareholders' Meeting further resolved to authorize the Management Board to issue, on one or more occasions prior to June 25, 2008, convertible bearer bonds with terms of up to 20 years ("bonds") in a totaling up to EUR 60.0 million, and to grant the bond holders or creditors Company bonds convertible to new common bearer shares (no par value shares), with an imputed share in the share capital of up to EUR 12.0 million in accordance with the applicable terms and conditions of the convertible bonds.

CAPITAL RESERVE The capital reserve remains unchanged at EUR 15.6 million. Of this amount, EUR 12.8 million is attributable to the premium received from the capital increase against cash contributions on the occasion of the Company's IPO, and EUR 1.6 million to the issue of preferred shares.

REVENUE RESERVES Other revenue reserves have not changed during fiscal 2005/06. They total EUR 39.8 million.

PENSION PROVISIONS Pension provisions were recognized in the full amount of existing obligations.

TAX PROVISIONS Tax provisions have been created for anticipated income tax, including the solidarity surcharge, and municipal trade tax payments.

OTHER PROVISIONS Amounts included in other provisions relate primarily to EUR 1.1 million for bonuses, EUR 0.5 million for rebates and EUR 0.5 million for returned goods and discounts. Sufficient provisions were also set up for auditing fees, remuneration of the Supervisory Board, archiving costs, outstanding invoices and all other discernible risks and obligations.

LIABILITIES (IN EUR MILLION)

	Nov. 30, 2006				Nov. 30, 2005			
	Total	Remaining term			Total	Remaining term		
		up to 1 year	up to 5 years	more than 5 years		up to 1 year	up to 5 years	more than 5 years
1. Liabilities to banks	12.6	1.6	11.0	–	40.3	27.8	11.0	1.5
2. Trade payables	4.6	4.6	–	–	4.3	4.3	–	–
3. Liabilities to affiliated companies	30.5	25.0	–	5.5	31.6	26.1	–	5.5
4. Other liabilities	0.5	0.5	–	–	4.0	4.0	–	–
– thereof taxes	0.1	0.1	–	–	3.3	3.3	–	–
– thereof social security	–	–	–	–	–	–	–	–
	48.2	31.7	11.0	5.5	80.2	62.2	11.0	7.0

Liabilities to the IKB Deutsche Industriebank AG, Düsseldorf, in the amount of EUR 0.1 million (previous year: EUR 0.2 million) are secured by real property liens. All other liabilities to banks are unsecured, as in the previous year.

CONTINGENT LIABILITIES

	Nov. 30, 2006 EUR'000	Nov. 30, 2005 EUR'000
Notes payable	36	47
– Thereof to affiliated companies	–	–
Guarantees	5,142	4,565
– Thereof to affiliated companies	4,160	4,072
	5,178	4,612

OTHER FINANCIAL LIABILITIES Liabilities from rental, leasing and servicing agreements

	Nov. 30, 2006 EUR'000	Nov. 30, 2005 EUR'000
Due in the following year	1,189	1,184
Of which to affiliated companies	767	767
Due within 2 to 4 years	2,922	3,032
Of which to affiliated companies	2,094	2,095
Due after more than 4 years	6,937	7,802
Of which to affiliated companies	6,922	7,624
	11,048	12,018

DERIVATIVE FINANCIAL INSTRUMENTS Derivative financial instruments are only used in the form of forward exchange contracts to hedge against operational currency risks. The total contract volume amounted to USD 8.3 million (previous year: USD 8.9 million) at the balance sheet date.

	currency	Contract volume		fair market positive value EUR'000	fair market negative value EUR'000
		in thousands of currency units	in EUR'000		
Purchases	USD	8,300	6,311	4	14
Sales		-	-	-	-
Total		8,300	6,311	4	14

The fair market value is determined by comparing the contract rate with the forward exchange rate at the balance sheet date. A provision was created for expected losses in the amount of EUR 14 thousand (previous year: EUR 0 thousand).

NOTES TO THE INCOME STATEMENT

When analyzing the income statement, it should be noted that production, purchase, sales, as well as administrative and other services, are provided to subsidiaries on the basis of servicing agreements.

SALES Sales can be broken down by region as follows:

Sales by region	2005/06		2004/05	
	EUR million	%	EUR million	%
Germany	64.8	68.8	69.5	71.0
Foreign	29.4	31.2	28.4	29.0
	94.2	100.0	97.9	100.0

Sales revenues are almost exclusively generated from the sale of clothing items. Foreign sales were achieved primarily in Europe.

OTHER OPERATING INCOME Other operating income chiefly relates to income from cost reimbursements, the liquidation of provisions and bad debt allowances, as well as gains from the disposal of two plots of land and insurance compensation.

PENSION EXPENSES In the year under review, personnel expenses included pension expenses of EUR 74 thousand (previous year: EUR 69 thousand).

OTHER OPERATING EXPENSES Other operating expenses mainly relate to remuneration for services provided by affiliated companies under the servicing agreements in the amount of EUR 29.7 million (previous year: EUR 29.9 million), as well as consultancy costs totaling EUR 3.4 million (previous year: EUR 0.7 million).

INCOME FROM EQUITY INVESTMENTS Investment income exclusively contains profit transfers and dividend distributions from affiliated companies. This item consists chiefly of investment income from Ahlers P. C. GmbH & Co. KG, Herford, of EUR 3.7 million and from Baldessarini GmbH & Co. KG, Munich, of EUR 0.6 million.

INCOME FROM PROFIT AND LOSS TRANSFER AGREEMENTS This item includes income of EUR 8.2 million (previous year: EUR 12.8 million) recorded in fiscal 2005/06 from several control and profit and loss transfer agreements. The profit and loss transfer from eterna Mode AG, Passau, in

the amount of EUR 7.4 million for the period from December 1, 2005, to June 30, 2006, is contained in this item (previous year: EUR 12.5 million).

As a result of control and profit and loss transfer agreements by and between Ahlers AG and Otto Kern GmbH, Herford, as well as Concordia-Wohnungsbaugesellschaft mbH, Herford, accumulated losses totaling EUR 5.2 million (previous year: EUR 4.8 million, including GIN TONIC SPECIAL Mode GmbH, Stuttgart) were assumed in fiscal 2005/06.

INCOME FROM OTHER SECURITIES AND LONG-TERM LOANS This item to a large extent reflects income from loans to affiliated companies.

OTHER INTEREST AND SIMILAR INCOME This item includes interest received from affiliated companies in the amount of EUR 0.9 million (previous year: EUR 0.9 million).

WRITE-DOWNS ON FINANCIAL ASSETS Write-downs on financial assets involve write-downs on the equity investment of Otto Kern GmbH of EUR 3.3 million, of Ahlers France S.a.r.l., Horbourg-Wihr (France) of EUR 1.0 million, of Ahlers Europe Ltd., New York (USA) of EUR 0.7 million and of Verwaltungs- und Handelsgesellschaft "Alconda" mbH, Bünde of EUR 0.1 million. Furthermore, EUR 2 thousand was written down for works of art.

INTEREST AND SIMILAR EXPENSES These expenses include EUR 1.5 million (prior year EUR 1.1 million) in interest to affiliated companies.

INCOME TAXES This account comprises amounts for corporation tax, the solidarity surcharge and municipal trade tax. In the past fiscal year this includes municipal trade tax income in the amount of EUR 0.6 million (previous year: EUR 2.6 million) due to the transfer of charges to subsidiaries, as well as municipal trade tax for preceding years in the amount of EUR 0.3 million (previous year: EUR 1.0 million).

IV. OTHER DISCLOSURES

NUMBER OF EMPLOYEES (ANNUAL AVERAGE) Ahlers AG employed three individuals on average during fiscal 2005/06 (previous year: one employee).

CORPORATE BODIES

SUPERVISORY BOARD

Prof. Dr. Carl-Heinz Heuer
Attorney at Law, Königstein (Chairman)

Jan A. Ahlers
Businessman, Herford (Deputy Chairman)

Heidrun Baumgart
Administrative assistant, Bielefeld (employee representative)

Dieter Hoppe
Technical employee, Herford (employee representative)

Andreas Kleffel
Member of the Regional Board of Commerzbank AG, Düsseldorf

Prof. Dr. Wilfried Schulte
Accountant, Attorney, Tax advisor, Krefeld

MANAGEMENT BOARD

Dr. Stella A. Ahlers, Zürich
Chairman

Oliver Galling, Herford

Bruno Leder, Auetal

FURTHER DISCLOSURES RELATING TO SUPERVISORY/MANAGEMENT BOARD MEMBERS Members of the Supervisory/Management Board of the Company are represented on the following boards of other companies:

Jan A. Ahlers

– Chairman of the Supervisory Board of eterna Mode AG (until June 30, 2006)

Prof. Dr. Carl-Heinz Heuer

– Deputy chairman of the Supervisory Board of BIEN-ZENKER AG, Schlüchtern

Dr. Stella A. Ahlers

– President of the Advisory Board of Adolf Ahlers AG, St. Gallen (Switzerland)

Oliver Galling

– Member of the Advisory Board of Adolf Ahlers AG, St. Gallen (Switzerland)

– Member of the Supervisory Board of Lubinex Spolka z o.o., Lubin (Poland)

Bruno Leder

– Member of the Supervisory Board of Lubinex Spolka z o.o., Lubin (Poland)

Supervisory/Management Board members not mentioned above are not represented on other companies' boards.

SHAREHOLDINGS As of November 30, 2006, Mr. Jan A. Ahlers, Supervisory Board member, held 55.03 percent of shares in Ahlers AG, including attributable shares as defined in the German Securities Trading Act.

The Westfälisches Textilwerk Adolf Ahlers KG, Herford, holds a majority interest in the voting share capital of Ahlers AG, via its fully-owned subsidiary WTW Beteiligungs-GmbH, Herford. The Ahlers AG financial statements are included in the consolidated financial statements of Westfälisches Textilwerk Adolf Ahlers KG, Herford.

REMUNERATION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD The remuneration of the Supervisory Board for its activities during fiscal 2005/06 amounts to EUR 744 thousand (previous year: EUR 250 thousand). This amount is subject to the approval of the proposal for the appropriation of profits by the Annual Shareholders' Meeting. The total remuneration of the Management Board of Ahlers AG for the year under review amounts to EUR 1,646 thousand, of which EUR 705 thousand is fixed and EUR 941 thousand is variable (previous year: EUR 2,118

thousand, of which EUR 641 thousand was fixed and EUR 1,477 thousand was variable).

The Annual Shareholders' Meeting of Ahlers AG resolved on July 26, 2006, to omit the itemized publication of remuneration of the members of the Management Board in accordance with section 285, clause 1, no. 9 (a) and clauses 5 to 9 of the German Commercial Code for a period of five years, initially for fiscal 2006/07. Pursuant to article 59 of the EGHGB based on the Management Board Remuneration Disclosure Act, no obligation exists to itemize remuneration for the Management Board for the year under review. The Management Board Remuneration Disclosure Act is to be applied to the separate and consolidated financial statements of fiscal years that have begun only after December 31, 2005.

The law firm of Feddersen, Heuer und Partner, Frankfurt/Main, in which Mr. Prof. Dr. Heuer is a partner, invoiced a total of EUR 399 thousand, and KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Essen, in which Mr. Prof. Dr. Schulte is a partner, invoiced EUR 241 thousand in fiscal 2005/06 for services rendered apart from their duties on the Supervisory Board. The Supervisory Board approved the agreements pursuant to section 114 of the German Stock Corporation Act.

Former members of the Management Board or management of Adolf Ahlers GmbH and their surviving next-of-kin received EUR 74 thousand (previous year: EUR 74 thousand). As of November 30, 2006, provisions for current pensions for this group of individuals existed in the amount of EUR 436 thousand (previous year: EUR 456 thousand).

DECLARATION OF CONFORMITY PURSUANT TO SECTION 161 AKTG Ahlers AG has issued its 2006 declaration of compliance pursuant to section 161 of the German Stock Corporation Act ("AktG"). The declaration is permanently available to shareholders on the Ahlers AG website (www.ahlers-ag.com).

EXEMPTION RULE PURSUANT TO SECTIONS 264 (3) AND 264B HGB The exemption rule provided for in section 264 (3) and section 264b of the HGB was applied to the following subsidiaries:

GIN TONIC SPECIAL Mode GmbH, Stuttgart, Otto Kern GmbH, Herford, Concordia-Wohnungsbaugesellschaft mbH, Herford, Pionier Sportive Freizeitkleidung GmbH, Herford, Ahlers Zentralverwaltung GmbH, Herford, a-fashion.com GmbH, Herford, Ahlers Vertrieb GmbH, Herford, Jupiter Bekleidung GmbH, Herford, Pionier Berufskleidung GmbH, Herford, PIONEER Jeans-Bekleidung GmbH, Herford, und Ahlers P.C. GmbH, Herford, as well as Ahlers P.C. GmbH & Co. KG, Herford, Ahlers Textilhandel GmbH & Co. KG, Herford, and Baldessarini GmbH & Co. KG, Munich.

AUDIT FEE The audit fee included under expenses for fiscal 2005/06 is EUR 194 thousand, of which EUR 161 thousand relates to the audit of the financial statements and EUR 33 thousand to other consultancy services in connection with the sale of eterna Mode AG, Passau.

PROPOSAL FOR THE APPROPRIATION OF PROFITS Management Board and Supervisory Board recommend using the distributable profit for fiscal 2005/06 in the amount of EUR 58,809,491.80 to pay shareholders a dividend of EUR 2.95 per common share (ISIN DE0005009708 and DE0005009740) and EUR 3.00 per preferred share (ISIN DE0005009732), totaling EUR 42,800,000.00, and to carry forward the remaining profit of EUR 16,009,491.80.

Herford, March 9, 2007

Ahlers AG
The Management Board

Dr. Stella A. Ahlers Oliver Galling Bruno Leder

Shareholdings of Ahlers AG

INCLUDING DIRECT AND INDIRECT INVESTMENTS

Disclosures in accordance with HGB

Company	Equity share (in %)	thereof indirectly held		Equity ¹⁾ EUR'000	Net income / loss ²⁾ 2005/06 EUR'000
		%	via no.		
1. Ahlers P.C. GmbH, Herford	100.00			27	³⁾
2. Ahlers P.C. GmbH & Co. KG, Herford	100.00			21,601	3,708
3. Ahlers Textilhandel GmbH & Co. KG, Herford	80.00			17,913	-6
4. Ahlers Vertrieb GmbH, Herford	100.00			26	³⁾
5. Ahlers Zentralverwaltung GmbH, Herford	100.00			2,439	³⁾
6. a-fashion.com GmbH, Herford	100.00			25	³⁾
7. Baldessarini Design und Verwaltungs-GmbH, München	100.00			27	1
8. Baldessarini GmbH & Co. KG, München	100.00			1,021	-1,450
9. Concordia-Wohnungsbaugesellschaft mbH, Herford	100.00			51	³⁾
10. GIN TONIC SPECIAL Mode GmbH, Stuttgart	100.00			1,298	³⁾
11. HEMINA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Herford KG, Düsseldorf	94.00	94.00	3.	-101	6
12. jac Strickmoden GmbH, Herford	100.00	100.00	2.	2,476	327
13. Jupiter Bekleidung GmbH, Herford	100.00			121	³⁾
14. Otto Kern GmbH, Herford	80.00			2,615	³⁾
15. PIONEER Jeans-Bekleidung GmbH, Herford	100.00			54	³⁾
16. Pionier Berufskleidung GmbH, Herford	100.00			29	³⁾
17. Pionier Sportive Freizeitkleidung GmbH, Herford	100.00			26	³⁾
18. Verwaltungs- und Handelsgesellschaft „Alconda“ mbH, Herford	81.30	74.80	3.	3,953	73
19. A. Ahlers (U.K.) Ltd., GB-London	95.00			272	21
20. Adolf Ahlers AG, CH-St.Gallen	100.00			4,771	475
21. Ahlers Austria Vertriebs Ges.m.b.H., A-Mariasdorf	100.00	99.00 1.00	35. 2.	1,202	392
22. Ahlers Europe Ltd., USA-New York ⁴⁾	100.00			-18	-344
23. Ahlers France S.a.r.l., F-Horbourg-Wihr	99.98			1,608	-86
24. Ahlers Herford (España) S.L., E-Madrid	95.00			795	190
25. Ahlers Herford (Italia) S.R.L., I-Volpiano	100.00			42	1
26. Ahlers Premium Commerce Spolka z o.o., PL-Opole ⁴⁾	100.00			173	-390
27. „Ahlers-Poland“ Spolka z o.o., PL-Opole ⁴⁾	100.00			3,570	-736

Company	Equity share (in %)	thereof indirectly held		Equity ¹⁾ EUR'000	Net income / loss ²⁾ 2005/06 EUR'000
		%	via no.		
28. B-Beteiligungs- und Verwaltungsges.m.b.H., A-Mariasdorf	100.00	100.00	20.	2,186	60
29. „Bielkon“ Spolka z o.o., PL-Bielsko-Biala ⁴⁾	100.00	100.00	27.	-269	-657
30. Dial Textile Industries Ltd., CL-Katunayake	100.00			1,738	805
31. GIN TONIC Vertrieb modischer Oberbekleidung Ges.m.b.H., A-Mariasdorf	100.00	95.00 5.00	10. 35.	1,443	207
32. Fabriksverkauf Mariasdorf Ges.m.b.H., A-Mariasdorf	100.00	45.28 41.06 13.66	42. 28. 20.	2,434	136
33. Leibfried Diffusion S.a.r.l., F-Horbourg-Wihr	100.00	100.00	2.	198	77
34. „LUBINEX“ Spolka z o.o., PL-Lubin ⁴⁾	62.85	62.85	27.	1,656	-319
35. Pionier Freizeitkleidung Gesellschaft m.b.H., A-Mariasdorf	100.00			6,992	589
36. „ROMEO“ Spolka z o.o., PL-Zbaszyn ⁴⁾	99.60	99.60	27.	-485	-928
37. TEXART Bratislava s.r.o., SK-Bratislava	100.00	100.00	42.	289	66
38. TEXART d.o.o., HR-Zagreb	100.00	100.00	42.	42	1
39. TEXART d.o.o., SLO-Ljubljana	100.00	100.00	42.	51	18
40. TEXART Magyarorszag Kft., H-Budapest	100.00	98.67 1.33	42. 35.	388	-31
41. TEXART spol. s r.o., CZ-Prag	100.00	100.00	42.	1,317	169
42. Texart Verwaltungsgesellschaft m.b.H., A-Mariasdorf	100.00	1.43	28.	1,924	109

1) Equity amounts in foreign currency are translated at the mid-rate on the balance sheet date.

2) Net income/loss amounts in foreign currency are translated at the average rate for the fiscal year.

3) Control and profit and loss transfer agreement.

4) Equity and net income/loss for the period in accordance with HB II

Audit opinion

We have audited the separate financial statements of Ahlers AG, Herford – consisting of the balance sheet, the income statement and the notes and including the accounting records and the management report – for the fiscal year running from December 1, 2005, to November 30, 2006. The legal representatives of the Company are responsible for financial accounting and for the preparation of the financial statements and management report in accordance with German accounting principles. Our responsibility is to express an opinion on these financial statements including the accounting records and the management report based on our audit.

We conducted our audit of the financial statements in accordance with section 317 of the German Commercial Code taking into consideration generally accepted auditing standards of the German Institute of Chartered Accountants (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements that might significantly affect the true and fair view of the state of affairs and the assets, financial, and earnings position of the Company in accordance with generally accepted accounting standards. In determining our auditing procedures, our knowledge of the business activities and the economic and legal environment of the Company, as well as any expected potential errors, are taken into consideration. Within the scope of our audit the effectiveness of the internal control system for accounting and the proof of disclosures in accounting, the financial statements and the management report are assessed primarily on the basis of random tests. The audit comprises the evaluation of the accounting principles used and of the essential assessments of the legal representatives, as well as an appraisal of the overall presentation of the financial statements and the management report. We believe that our audit forms a reasonable basis for our opinion.

Our audit did not give rise to any objections.

In our opinion the separate financial statements present a true and fair view of the Company's net assets, financial position and results of operations in compliance with German generally accepted accounting principles. The management report accurately reflects the financial statements and provides a true and fair view of the position of the Company and of the risks and opportunities inherent in future development.

Hamburg, March 9, 2007

Ernst & Young AG
 Wirtschaftsprüfungsgesellschaft
 Steuerberatungsgesellschaft

Jöns	Grethen
Accountant	Accountant

FINANCIAL CALENDAR

MARCH 20, 2007

Annual earnings press conference
in Düsseldorf

MID-APRIL 2007

Interim report
as of February 28, 2007

MAY 3, 2007

Annual Shareholders' Meeting
in Düsseldorf (CCD.Ost)

MID-JULY 2007

Interim report
as of May 31, 2007

MID-OCTOBER 2007

Interim report
as of August 31, 2007

This annual report is available
in German (original version) and
English (convenience translation).

Rounding differences may occur in
the percentages and figures that are
shown in millions or thousands.



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