AHLERS AG, HERFORD – ANNUAL REPORT
DECEMBER 1, 2005 TO NOVEMBER 30, 2006

Five-year summary

IN EUR MILLION

KEY FIGURES FROM THE CONSOLIDATED FINANCIAL STATEMENTS

		2001/02*		2002/03*		2003/04*		2004/05**		2005/06**
Total assets		251.3		213.0		195.7		212.3		245.0
Non-current assets		91.7		76.3		58.2		71.1		64.1
Current assets		159.6		136.7		137.5		141.2		180.9
Equity		113.9		75.9		80.3		86.2		164.7
Borrowed funds										
non-current	79.8		23.1		31.4		42.9		39.6	
current	57.6	137.4	114.0	137.1	84.0	115.4	83.2	126.1	40.7	80.3
Sales		350.5		327.8		319.9		242.1		245.9
Net income (loss) for the period		12.1		13.0		15.6		6.4		-0.1
Income taxes		11.0		10.6		11.9		7.1		3.7
Capital expenditure		6.4		8.2		5.7		7.7		27.4
Depreciation and amortization		11.1		8.3		6.3		5.6		14.2
of which trademark rights		4.5		1.0		1.0		0.6		3.5

* Disclosures in accordance with German GAAP (HGB)
** Only continuing business operations (in accordance with IFRS)

ahlers group

Ahlers AG is not a single brand, but stands for a variety of brands across the spectrum of men's fashion and clothing. Our core competency is the manufacture and sale of fashionable collections focusing on the unique demands of specific target groups.

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Pionier® workwear	GIN TONIC®	GIN FIZZ® WOMAN
Pionier Berufskleidung GmbH Elverdisser Straße 313 D-32052 Herford Germany Telephone +49 (52 21) 9 79 - 4 00 Telefax +49 (52 21) 9 79 - 4 79 pionier-workwear@pionier-workwear.com www.pionier-workwear.com	GIN TONIC SPECIAL Mode GmbH Schwertstraße 48 D-71065 Sindelfingen Germany Telephone +49 (70 31) 43 55 - 0 Telefax +49 (70 31) 43 55 - 2 98 gintonic@gintonic.de www.gintonic.de	GIN TONIC SPECIAL Mode GmbH - GIN FIZZ - Schwertstraße 48 D-71065 Sindelfingen Germany Telephone +49 (70 31) 43 55 - 0 Telefax +49 (70 31) 43 55 - 2 98 gintonic@gintonic.de

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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 eternal 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,

S. Ahlers

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 2005/06 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 7 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 39, 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

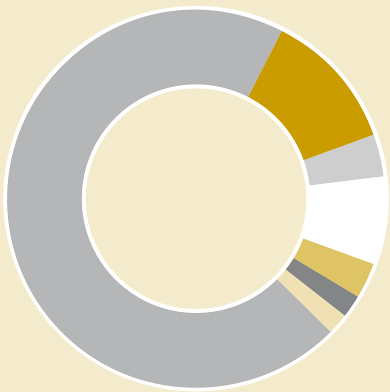
Management

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.

Group Management Report for fiscal 2005/06

GROUP SALES BY REGION
(previous year)

GROUP SALES BY CUSTOMER GROUPS
(previous year)



Consolidated Management Report for fiscal 2005/06

1. BUSINESS AND GENERAL CONDITIONS

FISCAL 2005/06 – HIGHLIGHTS Fiscal 2005/06 was a very eventful year for the Ahlers Group. 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. The Ahlers Group covers a variety of areas in the menswear market with its brands and products.

The brands of Baldessarini, pierre cardin and OTTO KERN are in the premium brands segment, as was eterna EXCELLENT until June 30, 2006.

Our license brand pierre cardin is in the upper five of the top ten of the best-known luxury brands in the world. Ahlers AG is the largest licensee for menswear in Europe. OTTO KERN is a design-oriented brand fin men’s and women’s fashion with complementary accessories and enjoys a very high degree of recognition.

Baldessarini is a designer brand with a consistent and distinctive signature, which loves contrast and offers complete outfit options for men. The fashion line is supplemented by a wide-ranging accessory and lifestyle collection. Baldessarini has been part of the Ahlers Group since September 1, 2006.

The jeans & workwear consists primarily of the brands PIONEER and Pionier. PIONEER jeans are among the five best known jeans brands in Germany. Pionier Workwear is one of the top sellers of work clothing brands in Germany. Pionier Sportive specializes in sporty leisure trousers, particularly strong in the market for larger sizes.

The brands JUPITER and GIN TONIC are offered in the men´s & sportswear segment. GIN TONIC represents casual leisure clothes and sportswear for a younger target group. JUPITER offers a complete range of up-to-date menswear.

STRATEGIC OVERVIEW The sale of the eterna Group has allowed the Ahlers Group 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 the creation of the 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 generally favorable economy, developments in the domestic textile and clothing sector continued to develop unevenly, depending on the branch, market segment and company. Besides a few rays of hope, largely 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 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 The fiscal year under review was extremely eventful for the Ahlers Group. The sale of the eterna Group, the acquisition of the equity investment and trademark rights of Baldessarini, as well as numerous special effects hamper comparability between this year's financial statements and that of the previous year.

KEY MANAGEMENT AND FINANCIAL INDICATORS

		2005/06	2004/05
Sales	in million EUR	245.9	242.1
Gross margin	in %	48.22	48.46
EBITDA	in million EUR	18.6	21.0
EBIT	in million EUR	4.4	15.4
EBIT-margin	in %	1.79	6.36
Profit margin	in %	-0.03	2.62
Net working capital*	in million EUR	87.8	100.8

* Net working capital is defined as current assets minus cash and cash equivalents, securities and current trade payables.

Sales revenues from continuing business operations rose by 1.6 percent in the past fiscal year from EUR 242.1 million to EUR 245.9 million. The share in sales of the eterna Group was eliminated both this year and in the previous year: in accordance with IFRS 5.30 et seqq.

The export share rose from 41.1 percent to 44.6 percent, i.e. by approximately EUR 10.2 million.

Pre-tax profit from continuing business operations, impacted by a number of special factors, at EUR 3.6 million, is considerably below that of the previous year: of EUR 13.4 million. Due to the continued negative situation in the OTTO KERN division, impairment losses of EUR 3.5 million were charged against trademark rights. Furthermore, land and buildings – both domestic and foreign – 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. This resulted in impairment losses of approximately EUR 5.8 million. Other buildings – in particular at headquarters in Elverdissen – include hidden reserves. Taken as a whole, therefore, special items of approximately EUR 9.3 million depress the results from ordinary operations in the separate financial statements for the Ahlers Group for fiscal 2005/06.

After-tax profit from continuing business operations was impacted by special effects and came to EUR -0.1 million (previous year: EUR 6.4 million); it should, however, be taken into account that the selling costs associated with the sale of the eterna Group have no tax effect for the Group.

After-tax profit from discontinued operations of EUR 93.0 million (previous year: EUR 9.4 million) is composed of gains from the sale of the eterna Group, as well as income earned in the eterna Group during the period in which it belonged to the Ahlers Group.

Material costs, including inventory changes, have risen in the Group from EUR 124.8 million to EUR 127.3 million. Gross profit correspondingly was reduced only slightly in relation to sales revenues, from 48.5 percent to the current 48.2 percent. EBITDA deteriorated by 11.6 percent to EUR 18.6 million (previous year: EUR 21.0 million). EBIT decreased from EUR 15.4 million to EUR 4.4 million, but should not be compared to the previous year: due to the one-time effects with respect to write-downs.

Other operating income was down by EUR 1.3 million to EUR 3.6 million (previous year: EUR 4.9 million). This decline was primarily the result of lesser liquidations of provisions and a drop in exchange gains as compared to the previous year.

The main reason for lower personnel costs (by approximately EUR 1.0 million) is the lower average number of employees.

The rise in other operating expenses by approximately EUR 3.3. million is due in part to higher expenses related to legal and consulting costs, license fees and higher lease expense, caused partially by the expansion of in-house retail activities.

The increase in write-downs compared to the previous year: of approximately EUR 8.6 million to EUR 14.2 million can be chiefly traced to the impairment losses on trademarks and land and buildings already mentioned.

The increase in financial income of approximately EUR 1.2 million is mainly the result of higher interest income in connection with the investment of the sales proceeds of the eterna Group.

RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

	2005/06	2004/05
	EUR`000	EUR`000
Sales	245,936	242,146
Material costs incl. changes in inventory	-127,327	-124,807
Gross profit	118,609	117,339
Personnel expenses	-49,995	-50,745
Depreciation, amortization, and impairment losses	-4,849	-5,006
Other operating expenses	-53,060	-49,714
Operating expenses	-107,904	-105,465
Other operating income	3,594	4,923
Operating profit	14,299	16,797
Finance and investment income	-769	-1,950
Non-operating income	83,091	6,684
Accounting profit	96,621	21,531
Taxes on income	-3,682	-5,750
Net income (loss) for the period	92,939	15,781

The premium brands division was newly defined in the year under review. After the disposal of the eterna Group, the share in sales revenues fell from 54 percent in the previous year: to the current 39.5 percent. Sales growth from continuing business operations was positive with a rise of 4.8 percent to a total of EUR 97.2 million (previous year: EUR 92.8 million). Starting on September 1, 2006, the Baldessarini division contributed to these results for the first time. Even in this new constellation, the premium brands, including our brands of Baldessarini and OTTO KERN, as well as the licensed brand pierre cardin, continued to generate the greatest share of business in the Ahlers Group. Unfortunately the OTTO KERN division did not meet expectations during this past fiscal year, either with respect to sales or earnings. Future development of this division will be closely observed; measures to ameliorate the situation have been implemented with the goal of achieving improvements in the short term. The pierre cardin division continued to develop positively, as in the past years, and evidenced further growth in sales. All contracts for the French license brand that were pending renewal during the year under review have in fact been renewed. Since brand recognition and brand sympathy play an important role, in addition to quality, in buying clothing, we believe the strength of the brand as one of its major success factors. The premium brand segment result at EUR -1.8 million was below the previous year's level of

EUR 4.2 million, due to one-time special effects. If impairment losses are excluded from the figures, a segment result of approximately EUR 5.0 million would have been achieved.

Sales in the jeans & workwear division, including the brands PIONEER, Pionier and PIONIER SPORTIVE, attained sales of EUR 67.0 million in the fiscal year as opposed to EUR 68.7 million in the previous year. This segment's share in total sales is 27.2 percent. Income in this segment dropped by EUR 3.3 million to EUR 8.4 million. In addition to inventory reductions, increasing price pressures were primarily responsible for this decrease. Nevertheless, the return on sales was still a healthy 12.5 percent.

Sales in the men's & sportswear division with the JUPITER and GIN TONIC brands posted increases for the second time in succession. Earnings improvements from EUR -2.3 million to EUR 0.1 million during fiscal 2005/06 reflect a rise in sales revenues by 1.7 percent from EUR 80.1 million to EUR 81.5 million, mainly due to higher export sales. As a result, this segment is in the black for the first time since fiscal 1999/2000. This segment's share in total sales is 33.1 percent.

Our own production capacities in Poland and Sri Lanka were fully exploited in this past fiscal year. In-house production is now approximately 31 percent after the sale of the eterna Group. The total volume of in-house and outsourced production (cut-make-trim and purchase of finished goods) is spread mainly over nine countries.

NET ASSETS AND FINANCIAL POSITION The Group's balance sheet structure remains sound as of November 30, 2006. Total Group assets rose from EUR 212.3 million to EUR 245.0 million. Equity represented 67.2 percent of total assets (previous year: 40.6 percent). Return on equity from continuing business operations before income taxes, adversely affected by special effects, was at 2.2 percent (previous year: 15.6 percent).

Cashflow from operating activities decreased to EUR 11.8 million in the past fiscal year (previous year: EUR 19.4 million). The main reason for this reduction was the utilization of provisions for current income tax liabilities. Net cash inflows of EUR 91.5 million were generated from investment activities (previous year: net cash outflows of EUR 7.0 million). This increase can be traced back chiefly to the sale of the eterna Group. The investment volume has been slightly above scheduled depreciation and amortization in the year under review.

Additions to property, plant, and equipment totaled EUR 5.9 million during the fiscal year. An amount of EUR 0.1 million was invested in land and buildings (previous year: EUR 0.6 million), EUR 0.6 million in technical equipment and machines (previous year: EUR 0.5 million), EUR 5.0 million in plant and office equipment (previous year: EUR 5.3 million) and EUR 0.2 million (previous year: EUR 0.3 million) in payments on account and plant under construction.

Additions to intangible assets amounted to EUR 8.7 million. This chiefly reflects the acquisition of 'Baldessarini' trademark rights at approximately EUR 8.0 million and of the software program, SAP module Fi/Co.

Furthermore, approximately EUR 12.8 million was invested in other non-current assets (previous year: EUR 0.3 million) in the form of 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.

Additions in the sphere of land and buildings mainly reflect reconstruction at the Elverdissen site and renovations of buildings in Poland.

Additions in technical equipment and machinery and plant and office equipment represent replacement expenditures, as well as shop systems and fittings, to a great extent.

Disposals of property, plant and equipment amounted to EUR 2.8 million (previous year: EUR 1.8 million). Most disposals of this nature related to the return of lease objects (EDP) and the sale of plant and office equipment.

Current and non-current assets were financed from continuous cashflows, as well as short-term working capital loans. Our credit lines clearly exceed our requirements.

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 the success of the Ahlers Group. 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 the Ahlers Group 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 the consolidated financial statements of Ahlers AG, no events of special significance the Ahlers Group 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 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 cornerstone 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 the Ahlers Group brand recognition helps mitigate 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 Group 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 minimize 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 imposition 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 the 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 during the year under review to escalate the security level achieved in the use of information technology. The goal of investments in this area has been 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 risk from contractual partners in hedging contracts is 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 from16 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.

The Ahlers Group 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 7.3 million.

ANTICIPATED RESULTS FROM OPERATIONS The start of 2006/07 has been subdued in all three segments of the Ahlers Group. A modest improvement in the sales situation is expected for the months of February and March. The main reason for the drop in sales registered by the beginning of February 2007 was the absence of seasonal orders for winter goods during the months of December and January. Based on the slow start and the pre-season order figures for the spring/summer 2007 season we are currently assuming a rise in sales of approximately three percent for fiscal 2006/07 including sales from Baldessarini business. Due to the lack of advance sales figures, a well-founded forecast for fiscal 2007/08 cannot be provided. We expect, how-ever, that further moderate sales increases will be achieved due to a rise in export sales.

Results from fiscal 2005/06, as well as results from continuing business operations, cannot be used as a basis for comparison, due to the many special items recorded. Our efforts will be aimed at moving the areas that have been experiencing losses out of the red into the black. We believe we will achieve an improvement on results from continuing business operations during fiscal 2006/07. For the medium term we aim to continue to drive up our pre-tax profit margin.

The Ahlers Group will continue to pursue a dividend policy oriented towards the Group‘s success and will justify investor confidence with satisfactory dividends in 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 Group’s 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 future in line with corporate strategy (internationalization, verticalization and growth by acquisitions). Sufficient resources are available to the Ahlers Group 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 the Ahlers Group during the fiscal year just elapsed, we are optimistic that the Group will continue to find itself in a financially sound position in 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 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. In future, Ahlers AG will continue to pursue a dividend policy in harmony with the Group's success. After the sale of the eterna Group, however, future dividends will initially be lower than in previous years.

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.

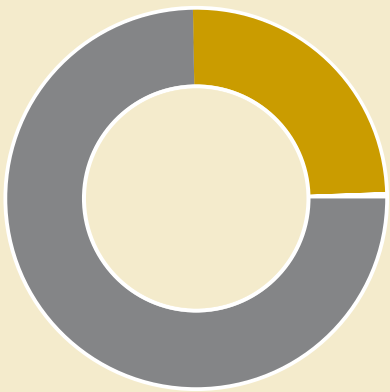
The 8,000,000 common shares include 500 registered shares with transfer restrictions. They confer the right to nominate members of the Supervisory Board. The remaining 14,399,500 shares are bearer shares.

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.

SHAREHOLDER STRUCTURE
COMMON SHARES

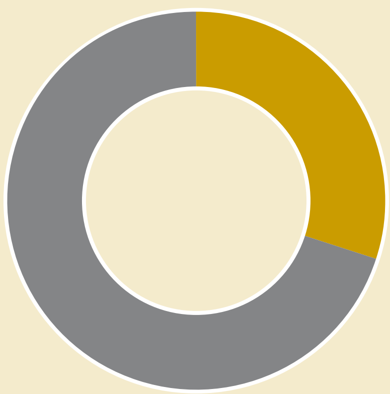


24.91 %
Free float

0.31 %
Westfälisches Textilwerk Adolf Ahlers KG (including shares added in accordance with WpHG)

74.78 %
WTW-Beteiligungsgesellschaft mbH

SHAREHOLDER STRUCTURE
PREFERRED SHARES



29.96 %
Westfälisches Textilwerk Adolf Ahlers KG (including shares added in accordance with WpHG)

70.04 %
Free float

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

7. EMPLOYEES

The number of employees in the Group fell by 1,012 in the previous fiscal year, from 3,940 to 2,928. This drop is primarily the result of the eterna Group sale. eterna Group production facilities in the Slovak Republic employed 750 individuals as of the last balance sheet date, while 176 were engaged at the Passau site. In Germany the number of employees was reduced by 189 to 742; abroad employee numbers decreased by 823 to 2,186. Lower employment figures abroad are due to the sale of the production site in the Slovak Republic, as well as a decline in the facilities in Poland.

Production capacities at the facilities in Poland were reduced and the number of employees declined by 125 persons. We plan to analyze and, if necessary, reorganize our in-house production capacities in Poland and Sri Lanka in the future, too. By doing so, we can ensure that we will be able to respond flexibly to our customers' need for shorter and faster delivery rhythms with outsourced production capacities in countries in Eastern Europe such as the Ukraine and Romania. The utilization of lower cost production capacities (cut-make-trim and purchase of finished goods), in particular in China and Vietnam, have made it possible for us to optimize our procurement costs.

At the end of the year under review a total of 19 young people held trainee positions in Germany; all of these were in administration, either in the industrial or information technology sector.

Personnel expenses in continuing business operations within the Group were reduced by approximately EUR 1.0 million to EUR 50.6 million. During the current fiscal year we are expecting a moderate rise in personnel costs due to the negotiated wage increases effective May 1, 2007.

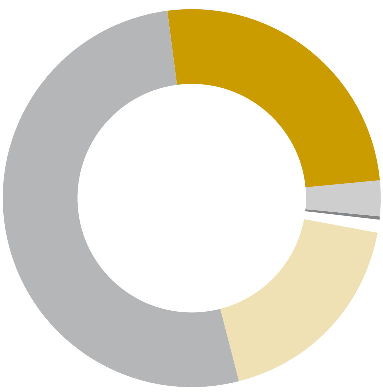
During the past fiscal year pension payments were made to 627 (previous year: 744) former employees or their surviving dependents totaling EUR 504 thousand (previous year: EUR 534 thousand); these are exclusively payments arising from commitments made before 1973. The average age of the workforce in Germany was 42.7 years, while the length of employment averaged 11.2 years.

We have concluded 17 part-time pension agreements in Germany. These agreements exclusively take the form of block agreements providing for part-time work for pre-retirement employees, in which the entire period of part-time employment is divided into equal active and passive phases.

In the year under review, three employees celebrated their 25th and 40th anniversaries with the Company. They were thanked for their loyalty to the Company and their good teamwork in a festive celebration.

We would like to take this opportunity to thank all of our employees for their good work.

EMPLOYEES BY REGION
(previous year)



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.

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 with the expanded version of the code effective June 2006 to the greatest possible extent. Any deviations are enumerated in a 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 AktG:

"DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 OF THE AKTG Ahlers AG has complied with the recommendations of the German Corporate Governance Code in its version of June 2, 2005, since its last declaration of compliance dated 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 its version dated June 12, 2006, with the exception of the following recommendations:

- 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 2006/2007."

Publication of remuneration of Management and Executive Board members (4.2.5 and 5.4.7) will continue to be omitted. The remuneration of the Management Board is broken down in fixed and variable components. The Management Board and the Supervisory Board are of the opinion that these disclosures are sufficient to assess whether the remuneration of the Management and Supervisory Boards on the whole and also the separation into performance-related and guaranteed portions are appropriate and whether this remuneration has the intended incentive effect for the Management Board. Moreover, itemized disclosure may have 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. In addition, remuneration paid by the Company to members of the Supervisory Board for services personally rendered, not in connection with Supervisory Board activities, is itemized separately.

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. 6 (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 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.

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 Executive 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 74,000 (previous year: EUR 74,000) 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

	Nov. 30, 2006		Nov. 30, 2005	
ASSETS	EUR´000	%	EUR´000	%
Intangible assets and property, plant, and equipment	45,820	18.7	65,720	30.9
Other non-current assets	16,065	6.6	3,315	1.6
Deferred tax assets	2,199	0.9	2,053	1.0
Non-current assets	64,084	26.2	71,088	33.5
Inventories	47,049	19.2	60,059	28.3
Trade receivables	43,558	17.8	50,840	23.9
Other current assets	13,544	5.5	8,009	3.8
Cash and cash equivalents	76,812	31.3	22,284	10.5
Current assets	180,963	73.8	141,192	66.5
Total assets	**245,047**	**100.0**	**212,280**	**100.0**

	Nov. 30, 2006		Nov. 30, 2005	
LIABILITIES AND EQUITY	EUR´000	%	EUR´000	%
Equity	164,728	67.2	86,160	40.6
Pension provisions	6,398	2.6	7,266	3.4
Other non-current liabilities and provisions	30,534	12.4	31,043	14.6
Deferred tax liabilities	2,675	1.1	4,558	2.2
Non-current liabilities	39,607	16.1	42,867	20.2
Current income tax liabilities	2,025	0.9	7,421	3.5
Other current liabilities and provisions	38,687	15.8	75,832	35.7
Current liabilities	40,712	16.7	83,253	39.2
Total liabilities	80,319	32.8	126,120	59.4
Total liabilities and equity	**245,047**	**100.0**	**212,280**	**100.0**

Consolidated Financial Statements of Ahlers AG

AS OF NOVEMBER 30, 2006

Consolidated balance sheet as of November 30, 2006

ASSETS	Note	Nov. 30, 2006 EUR '000	Nov. 30, 2005 EUR '000
A. Non-current assets			
I. Property, plant, and equipment	(12)		
1. Land, land rights and buildings		22,289	42,213
2. Technical equipment and machines		1,568	3,399
3. Other equipment, plant and office equipment		9,659	11,005
4. Payments on account and plant under construction		171	311
		33,687	56,928
II. Intangible assets	(13)		
1. Industrial property rights and similar rights and assets		12,033	8,344
2. Payments on account		100	448
		12,133	8,792
III. Other non-current assets	(14)		
1. Securities		–	55
2. Other loans		457	435
3. Other financial assets		253	287
4. Other assets		15,355	2,538
		16,065	3,315
IV. Deferred tax assets	(8)	2,199	2,053
Total non-current assets		64,084	71,088
B. Current assets			
I. Inventories	(15)		
1. Raw materials and consumables		17,686	20,505
2. Work in progress		307	386
3. Finished goods and merchandise		29,056	39,168
		47,049	60,059
II. Trade receivables	(16)	43,558	50,840
III. Other current assets	(17)		
1. Other securities		572	574
2. Receivables from affiliates		25	27
3. Current income tax claims		6,710	2,290
4. Other assets		6,237	5,118
		13,544	8,009
IV. Cash and cash equivalents	(18)	76,812	22,284
Total current assets		180,963	141,192
		245,047	212,280

LIABILITIES AND EQUITY	Note	Nov. 30, 2006 EUR '000	Nov. 30, 2005 EUR '000
A. **Equity**	(19)		
I. Subscribed capital	(20)	43,200	43,200
II. Capital reserve	(22)	15,024	15,024
III. Retained earnings		104,410	25,260
IV. Currency translation adjustments	(23)	-239	227
Equity attributable to shareholders of Ahlers AG		162,395	83,711
V. Minority interests		2,333	2,449
Total equity		164,728	86,160
B. **Non-current liabilities**			
I. Pension provisions	(24)	6,398	7,266
II. Other provisions	(25)	6,451	2,375
III. Financial liabilities	(26)		
1. Other financial liabilities		19,297	24,771
2. Minority interests in partnerships		3,531	3,833
		22,828	28,604
IV. Trade payables	(27)	1,198	–
V. Other liabilities		57	64
VI. Deferred tax liabilities	(8)	2,675	4,558
Total non-current liabilities		39,607	42,867
C. **Current liabilities**			
I. Current income tax liabilities	(8)	2,025	7,421
II. Other provisions	(28)	2,072	3,526
III. Financial liabilities	(29)	4,662	33,120
IV. Trade payables		15,804	17,551
V. Other liabilities	(30)		
1. Liabilities to affiliates		3,104	3,345
2. Other liabilities		13,045	18,290
		16,149	21,635
Total current liabilities		40,712	83,253
Total liabilities		80,319	126,120
		245,047	**212,280**

Consolidated income statement for the year ending November 30, 2006

		Note	2005/06 EUR '000	2004/05 EUR '000
	Continuing business operations			
1.	Sales	(1)	245,936	242,146
2.	Decreases or increases in inventories of finished goods and work in progress		-7,071	5,618
3.	Other operating income	(2)	3,594	4,923
4.	Cost of materials	(3)	120,256	130,425
5.	Personnel expenses	(4)	50,567	51,541
6.	Other operating expenses	(5)	53,060	49,714
7.	Depreciation, amortization, and impairment losses on property, plant, and equipment, intangible assets and other non-current assets	(6)	14,196	5,648
8.	Interest and similar income	(7)	1,713	451
9.	Interest and similar expenses	(7)	2,482	2,401
10.	**Pre-tax profit from continuing business operations**		3,611	13,409
11.	Income taxes	(8)	3,682	7,053
12.	**After-tax profit from continuing business operations**		-71	6,356
	Discontinued business operations			
13.	Pre-tax profit from discontinued business operations	(9)	93,010	9,425
14.	**Net income for the period**		92,939	15,781
	of which attributable to:			
	- Shareholders of Ahlers AG		93,152	15,551
	- Minority interests	(10)	-213	230
	Earnings per share	(11)		
	- from continuing business operations		0.00	0.44
	- from discontinued business operations		6.46	0.65

Consolidated cashflow statement for the year ending November 30, 2006

	2005/06		2004/05	
	EUR '000	EUR '000	EUR '000	EUR '000
Net income for the period		92,939		15,781
Depreciation, amortization, and impairment losses of non-current assets	15,200		7,285	
Change in deferred taxes	-273		-180	
Change in non-current provisions	4,183		-129	
Change in minority interests in partnerships and other non-current liabilities	889		-33	
Change in other provisions	1,566		259	
Gains from the disposal of consolidated companies	-90,488		–	
Gains/losses from the disposals of non-current assets, net	168		100	
Increase in inventories and other current and non-current assets	-6,174		-5,551	
Decrease in other current liabilities	-6,214	-81,143	1,842	-3,593
Cashflow from operating activities		11,796		19,374
Cash receipts from disposals of items of property, plant, and equipment	552		651	
Cash receipts from disposals of intangible assets	33		–	
Cash receipts from the sale of consolidated companies	106,583		–	
Payments for investment in property, plant, and equipment	-5,911		-6,731	
Payments for investment in intangible assets	-8,715		-954	
Payments for the purchase of consolidated companies	-1,079		–	
Cashflow from investing activities		91,463		-7,034
Dividend payments to Ahlers AG shareholders	-14,000		-13,280	
Payments to minority interests	-50		-483	
Repayment of non-current financial liabilities	-5,474		-6,280	
Cashflow from financing activities		-19,524		-20,043
Net change in cash and cash equivalents		83,734		-7,703
Effects of changes in the scope of consolidation and exchange rates		-514		-160
Cash and cash equivalents as of December 1		-9,895		-2,032
Cash and cash equivalents as of November 30		73,325		-9,895

We refer to details under 18 of the Notes to the Consolidated Financial Statements for further information on the composition of cash and cash equivalents.

Consolidated statement of changes in equity for the year ending November 30, 2006

IN EUR '000

	Equity attributable to shareholders of Ahlers AG							
	Share capital						Minority interests	Total Equity
	Common shares	Preferred shares	Capital reserve	Retained earnings	Adjustment item for currency translation	Total Group share-holdings		
Balance as of Dec. 1, 2004	24,000	19,200	15,024	22,989	–	81,213	2,649	83,862
Net income				15,551		15,551	230	15,781
Dividends paid				-13,280		-13,280	-483	-13,763
Exchange differences					227	227		227
Other changes							53	53
Balance as of Nov. 30, 2005 / Dec. 1, 2005	24,000	19,200	15,024	25,260	227	83,711	2,449	86,160
Net income				93,152			-213	92,939
Dividends paid				-14,000			-50	-14,050
Exchange differences					-466	-466		-466
Other changes				-2		-2	147	145
Balance as of Nov. 30, 2006	24,000	19,200	15,024	104,410	-239	162,395	2,333	164,728

Notes to the Consolidated Financial Statements for fiscal 2005/06

1. BASIS OF PRESENTATION

Ahlers AG is one of the leading menswear manufacturers. The Company originated as a textile business founded in 1919 by Adolf Ahlers in the Frisian town of Jever. In 1932, the Company moved its headquarters from Oldenburg to Herford; it went public in 1987.

Ahlers AG's headquarters are located in the Elverdisser Strasse 313 in Herford and the Company is registered in the commercial register of the district court of Bad Oeynhausen (HRB 6541).

Ahlers AG shares are traded on the stock exchanges in Frankfurt/Main and Düsseldorf , as well as over the counter at other German exchanges.

The Ahlers AG consolidated financial statements for November 30, 2006, were prepared by the Executive Board on March 9, 2007, and forwarded to the Supervisory Board for review and approval.

The fiscal year begins on the 1st of December and ends on the 30th of November. The consolidated financial statements of Ahlers AG as of November 30, 2006, were prepared for the first time in accordance with International Financial Reporting Standards ("IFRS"). The most recent consolidated financial statements as of November 30, 2005, were prepared in accordance with the German Commercial Code ("HGB") and the German Stock Corporation Act ("AktG"). The consolidated financial statements are prepared in accordance with IFRS, as applicable in the EU, as well as applicable supplementary regulations from the German Commercial Code as stipulated in section 315a (1) of the HGB.

Fundamental differences in accounting compared to the HGB and effects of the transition to the first-time adoption of IFRS and the resulting presentation of the financial position, financial performance, and cashflows are outlined on pages 64 et seqq.

The consolidated financial statements are prepared in euros and all figures given in thousands of euros (EUR'000). Due to the fact that the consolidated financial statements are prepared in EUR thousands, rounding differences can arise, since computations of individual items are based on figures in euros. For the sake of clarity in the presentation, individual items from the income statement and balance sheet have been summarized. These items are detailed and explained in the Notes to the Consolidated Financial Statements.

2. ACCOUNTING PRINCIPLES

The Ahlers AG consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), taking into consideration the interpreations of the International Financial Reporting Interpretations Committee on the IFRS (IFRIC), as well as applicable supplementary regulations from the German

Commercial Code as stipulated in section 315a (1) of the HGB. All IFRS and IFRIC were observed that had been adopted and mandated by the EU Commission prior to November 30, 2006. Standards and interpretations that have been issued, but are not yet obligatory, have not been applied prematurely. Assets and liabilities are recognized and measured in accordance with IFRS 1, applying those IFRS that are obligatory as at November 30, 2006. Any differences between the carrying amount of assets and liabilities according to IFRS and the carrying amount of assets and liabilities in accordance with HGB accounting are excluded from profit or loss and recognized directly in equity at the time of transition to IFRS (December 1, 2004). Corresponding figures for comparison to the previous year are provided in the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cashflow statement and the consolidated notes to the financial statements and the Group management report.

The consolidated financial statements are in principle prepared based on historical cost. The sole exception is in the case of derivative financial instruments, which are measured at market value, provided that market values can be reliably determined.

Preparation of the consolidated financial statements taking into consideration the communiques of the IASB requires that assumptions and estimates are utilized in the case of some items that have an effect on the level and reporting of assets and liabilities, income and expenses, as well as contingent liabilities.

Assumptions and estimates relate in particular to establishing terms of economic life, determining net realizable value when measuring inventory, accounting for and measuring provisions, the realizability of future tax relief, as well as in determining cashflows, growth rates and discount factors in connection with impairment tests and the measurement of brands.

Actual values may deviate from the assumptions and estimates made. Any required changes are recognized in profit or loss at the time that additional knowledge is obtained.

The income statement is structured according to the total cost (type of expenditure) format.

EFFECTS OF NEW ACCOUNTING STANDARDS The IASB issued an amendment to IAS 19 in December of 2004. The amendment provides for the right to choose whether to account for actuarial gains and losses from defined benefit pension obligations immediately. The amendment allows such gains and losses to be recognized directly in equity in periods after they have arisen. Ahlers AG has not chosen this option and continues to record actuarial gains and losses in the consolidated income statement as income or expense.

In January of 2006 IASB issued IFRS 7. IFRS 7 contains disclosure obligations in assessing risks in connection with financial instruments and replaces the previous disclosure obligations included in IAS 30 and IAS 32. IFRS 7 is to be utilized for the first time for fiscal years that start on January 1, 2007, of thereafter. Ahlers AG did not choose to apply IFRS 7 earlier than required.

The Company does not expect any significant impact on its financial position, financial performance, or cashflows from the first-time adoption of these standards.

3. CONSOLIDATION

CONSOLIDATED GROUP All 18 domestic and 24 foreign subsidiaries that are directly or indirectly controlled by Ahlers AG are included in the consolidated financial statements for fiscal 2005/06 in addition to the parent company, Ahlers AG. A list of subsidiaries can be found on pp. 56 et seqq.

PRINCIPLES OF CONSOLIDATION The financial statements of all of the consolidated companies within the Ahlers Group are prepared according to uniform accounting principles.

When preparing the consolidated financial statements, equity is accounted for by using the purchase method, under which the purchase costs of the equity investment are offset against the proportionate share of newly measured shareholders‘s equity at the time of acquisition. If the purchase costs exceed the fair value of assets and liabilities acquired, the difference is capitalized and accounted for as goodwill. Uncovered hidden reserves and charges are carried forward into subsequent fiscal years according to their corresponding assets and liabilities and amortized or liquidated. Negative differences are recognized in profit or loss in the fiscal year of acquisition. Shares of third-party partners are also accounted for at the fair value of assets and liabilities.

Companies are included in the consolidated financial statements only as long as the parent company is in control.

Intragroup balances, transactions, income, expense and gains and losses from intragroup transactions that are included in the carrying amount of assets are eliminated in full. Tax deferrals are accrued for consolidation processes with an impact on income.

The consolidated financial statements of Ahlers AG are included in the consolidated financial statements of Westfälisches Textilwerk Adolf Ahlers KG, Herford, the highest-level controlling parent company.

CHANGES IN THE SCOPE OF CONSOLIDATION Effective June 30, 2006, Ahlers AG has sold all shares in eterna Mode AG, Passau. The production facility, eterna s.r.o., Bánovce in the Slovak Republic, which operated exclusively for eterna Mode AG, was also sold. Both companies were deconsolidated effective June 30, 2006.

The sale of all shares in eterna Mode AG, Passau, and eterna s.r.o., Bánovce, is classified in the fiscal year as discontinued business operations in accordance with IFRS 5. In consequence, current income, as well as gains from the sale, are required to be reported separately in the income statement in the line ‘After-tax income from discontinued business operations’. Information from the previous year was adjusted accordingly.

Moreover, Ahlers AG acquired all shares in Baldessarini GmbH & Co. KG, Munich, and Baldessarini Design und Verwaltungs-GmbH, Munich, effective September 1, 2006. At the same time Adolf Ahlers AG, St. Gallen, Switzerland, acquired all rights to the 'Baldessarini' trademark, with the exception of usage rights for the fragrance business.

From an economic perspective, the purchase of Baldessarini involves the acquisition of individual assets in terms of trademark rights and a share purchase in terms interests held in the company. The acquired shares and rights represent a company, so IFRS 3 is applied.

The purchase price, payable in part dependent on future sales, was recorded at EUR 10,266 thousand based on planned sales figures. The purchase was fully paid for in cash. The purchase costs of the business combination include costs directly attributable to the business combination in the amount of EUR 488 thousand, in addition to the purchase price.

The carrying amounts or fair values recorded at the time of purchase for identifiable assets and liabilities of the Baldessarini business were as follows at the time of the acquisition:

	CARRYING AMOUNT	FAIR VALUE
	EUR '000	EUR '000
Property, plant, and equipment	322	322
Trademark rights	–	7,995
Other intangible assets	5	5
Deferred tax assets	–	369
Inventories	1,490	1,490
Trade receivables	1,053	1,027
Other assets	90	90
Cash and cash equivalents	283	283
	3,243	11,581
Non-current borrowed funds	-11	-11
Current borrowed funds	-1,304	-1,304
	-1,315	-1,315
	1,928	10,266

The 'Baldessarini' brand was valued at EUR 7,995 thousand when determining the purchase price. Deferred taxes in the amount of EUR 369 thousand were capitalized based on differences in the valuation of trademarks under IFRS and under tax law. At the time of acquisition no carrying amounts were available for these items. No need for adjustment of carrying amounts was determined in the case of any of the remaining assets and liabilities.

Baldessarini GmbH & Co. KG, Munich, achieved sales revenues in the amount of EUR 2,181 thousand in the period from September 1, 2006, to November 30, 2006. At the same time consolidated income was charged with EUR 860 thousand.

If the business combination had taken place at the beginning of the fiscal year, sales revenues of EUR 11,881 thousand would have been earned.

Due to relatively high expense level, the calculation of income from the beginning of the fiscal year as required by IFRS 3 was dispensed with. There are valuation differences between the former parent and the Ahlers Group that result in particular in differences in the area of inventories and receivables.

DATE OF CONSOLIDATION The balance sheet date of the companies included in the consolidation coincides with that of the parent, November 30, 2006, with one exception. The balance sheet date of HEMINA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Herford KG, Düsseldorf, is December 31 and an interim statement was therefore prepared as of November 30, 2006.

SHAREHOLDINGS OF AHLERS AG

INCLUDING DIRECT AND INDIRECT INVESTMENTS

	Company	Equity share (in %)	thereof indirectly held %	thereof indirectly held via no.	Equity[1] EUR'000	Net income[2] 2005/06 EUR'000
1.	Ahlers P.C. GmbH, Herford	100.00			27	[3]
2.	Ahlers P.C. GmbH & Co. KG, Herford	100.00			21,789	3,568
3.	Ahlers Textilhandel GmbH & Co. KG, Herford	80.00			18,245	-23
4.	Ahlers Vertrieb GmbH, Herford	100.00			49	[3]
5.	Ahlers Zentralverwaltung GmbH, Herford	100.00			2,648	[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			1,042	-860
9.	Concordia-Wohnungsbaugesellschaft mbH, Herford	100.00			81	[3]
10.	GIN TONIC SPECIAL Mode GmbH, Stuttgart	100.00			1,511	[3]
11.	HEMINA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Herford KG, Düsseldorf	94.00	94.00	3.	679	95
12.	jac Strickmoden GmbH, Herford	100.00	100.00	2.	2,518	290
13.	Jupiter Bekleidung GmbH, Herford	100.00			90	[3]
14.	Otto Kern GmbH, Herford	80.00			2,678	[3]

	Company	Equity share (in %)	thereof indirectly held %	thereof indirectly held via no.	Equity[1)] EUR'000	Net income[2)] 2005/06 EUR'000
15.	PIONEER Jeans-Bekleidung GmbH, Herford	100.00			94	3)
16.	Pionier Berufskleidung GmbH, Herford	100.00			129	3)
17.	Pionier Sportive Freizeitkleidung GmbH, Herford	100.00			15	3)
18.	Verwaltungs- und Handelsgesellschaft „Alconda“ mbH, Herford	81.30	74.80	3.	3,970	71
19.	A. Ahlers (U.K.) Ltd., GB-London	95.00			273	22
20.	Adolf Ahlers AG, CH-St.Gallen	100.00			4,927	624
21.	Ahlers Austria Vertriebs Ges.m.b.H., A-Mariasdorf	100.00	99.00 1.00	35. 2.	1,269	368
22.	Ahlers Europe Ltd., USA-New York	100.00			-18	-325
23.	Ahlers France S.à.r.l., F-Horbourg-Wihr	99.98			1,807	-60
24.	Ahlers Herford (España) S.L., E-Madrid	95.00			795	190
25.	Ahlers Herford (Italia) S.R.L., I-Volpiano	100.00			57	– 5
26.	Ahlers Premium Commerce Spolka z o.o., PL-Opole	100.00			376	-308
27.	„Ahlers-Poland“ Spolka z o.o., PL-Opole	100.00			3,931	-588
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	100.00	100.00	27.	-94	-437
30.	Dial Textile Industries Ltd., CL-Katunayake	100.00			1,738	728
31.	GIN TONIC Vertrieb modischer Oberbekleidung Ges.m.b.H., A-Mariasdorf	100.00	95.00 5.00	10. 35.	1,465	208
32.	Fabriksverkauf Mariasdorf Ges.m.b.H., A-Mariasdorf	100.00	45.28 41.06 13.66	42. 28. 20.	2,435	136
33.	Leibfried Diffusion S.à.r.l., F-Horbourg-Wihr	100.00	100.00	2.	163	68
34.	„LUBINEX“-Spolka z o.o., PL-Lubin	62.85	62.85	27.	2,147	-249
35.	Pionier Freizeitkleidung Gesellschaft m.b.H., A-Mariasdorf	100.00			7,121	621
36.	„ROMEO“ Spolka z o.o., PL-Zbaszyn	99.60	99.60	27.	-511	-156
37.	TEXART Bratislava s.r.o., SK-Bratislava	100.00	100.00	42.	298	72
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.	383	-38
41.	TEXART spol. s r.o., CZ-Prag	100.00	100.00	42.	1,327	175
42.	Texart Verwaltungsgesellschaft m.b.H., A-Mariasdorf	100.00	1.43	28.	1,955	127

1) Amounts in foreign currencies are stated at the mid-rate on the balance sheet date.

2) Net income stated in foreign currency is presented at the average rate for the fiscal year.

3) Control and profit and loss transfer agreement.

CURRENCY TRANSLATION Transactions in foreign currency are translated into the functional currency at the transaction date. Exchange gains and losses are recorded against income. In the consolidated financial statements, the individual statements of the foreign subsidiaries are translated into euros in accordance with the functional currency concept.

The functional currency of all subsidiaries is the local currency, since these subsidiaries conduct their business independently; the functional currency of the parent is the euro.

In translating the assets and liabilities of the foreign subsidiaries included in the consolidation the respective middle rate on the balance sheet date is used for translation into euros. Items in the consolidated income statement are translated at the average rate for the fiscal year and equity at historical rates. Resulting currency translation differences are recorded against equity without impacting income. At the time that the Group companies are deconsolidated the relevant accumulated currency translation differences are reversed to income currency differences arising from receivables and payable among the consolidated companies are booked against income.

In the consolidated fixed assets and provisions schedules, opening and closing balances were translated at historical rates, while movements within the fiscal year were translated at average annual rates. Resulting adjustments are shown as currency translation differences in a separate column. Receivables and payables in foreign currency are measured at the closing rate.

Exchange rates for the currencies of significance to the Group have developed as follows:

	CURRENCY	AVERAGE RATE		CLOSING RATE	
Country	1 EUR =	2006	2005	2006	2005
Poland	PLN	3.91	4.06	3.82	3.92
Austria	CHF	1.57	1.55	1.59	1.55
USA	USD	1.24	1.26	1.32	1.18
Sri Lanka	LKR (in 100)	128.84	126.65	142.42	120.09
Great Britain	GBP	0.68	0.69	0.67	0.68

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PROPERTY, PLANT, AND EQUIPMENT Property, plant, and equipment is recorded at cost – with the exception of ongoing maintenance – minus scheduled depreciation and accumulated impairment losses. The terms of useful life on which depreciation is based reflect the anticipated economic term of use for the Group.

The following terms of useful life are used for scheduled depreciation of key assets:

• Buildings	15 to 50 years
• Machinery	5 to 15 years
• Furniture and fixtures and office equipment	3 to 30 years

Terms of useful life, residual values and depreciation methods for property, plant, and equipment are reviewed on a regular basis in order to ensure that the depreciation method and period coincides with the anticipated useful economic life of the asset items.

INTANGIBLE ASSETS Acquired intangible assets with terms of useful life that can or cannot be determined are capitalized at cost, if it is probable that future economic benefits are associated with the asset, and if the cost of the asset can be reliably established. Acquired intangible assets with a determinable useful life are amortized over three to eight years using the straight-line method. Acquired intangible assets with an indeterminable useful life are not subject to scheduled amortization; rather they are reviewed for recoverability on an annual basis and in the event that there is an indication of impairment, and written down to the recoverable amount to the extent necessary. In the case of intangible assets with an indeterminable useful life, a review occurs in every reporting period to ascertain whether events and circumstances continue to justify the estimate of an indeterminate useful life for these assets. In the event that reasons for previous impairment losses no longer apply, these impairment losses are reversed and the carrying amount of the asset is increased to its recoverable amount. Terms of useful life, residual values and amortization and depreciation methods are reviewed at least annually at the end of the fiscal year. If expectations differ from previous estimates, the appropriate changes are accounted for as changes to estimates.

Research and development costs are recognized as an expense in the period in which they are incurred. Requirements for capitalization of development costs have not been met.

WORKS OF ART No standard exists under IFRS that explicitly addresses works of art, since these represent neither inventories, nor intangible assets, nor financial assets. IAS 8 stipulates that in these cases such accounting policies should be used that are relevant to the economic decision-making needs of the reader and that result in reliable information. The requirements and guidance in Standards and Interpretations dealing with similar and related issues are to be used in these cases. IAS 16, Property, plant, and equipment, is therefore applied to works of art. They are recorded at depreciated cost. For most works of art a residual value equivalent to the cost is assumed. Scheduled depreciation is, therefore, not applied for these works of art.

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS Financial instruments are reported in accordance with IAS 39. Financial assets are thus classified in the following categories to the extent relevant to the Ahlers Group:

- Financial assets held for trading
- Receivables and loans

In the case of regular way purchases and sales of financial assets, trade day accounting is used. First-time recording of the financial asset occurs on the day on which the Group has become the contractual partner. The financial asset is measured at the fair value of the consideration; in the case of receivables and loans transaction costs are included.

Changes in fair value of financial assets held for trading are reported in the Group income statement.

In the case of receivables and loans subsequent measurement is at amortized cost using the effective interest method.

Financial assets are derecognized if their sale is contracually agreed; loans and receivables are derecognized upon repayment.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS The company uses forward exchange contracts only as derivatives to manage current and future currency risks. The derivative financial instruments are recorded at fair value. Derivatives are reported in the balance sheet under other financial assets or other financial liabilities.

Changes in fair value of the derivatives are reported depending on whether these instruments are used for hedging purposes and the conditions for accounting for a hedging relationship according to IAS 39 are met. If these conditions are not met, despite the fact that an economic hedging relationship applies, the changes in fair value of the derivative financial instruments are recorded immediately against income.

BORROWING COSTS Borrowing costs are recognized as an expense in the period in which they are incurred.

IMPAIRMENT OF ASSETS Terms of useful life, residual values and depreciation and amortization methods for property, plant, and equipment, works of art and intangible assets with determinable terms of useful life are reviewed at least once a year in order to ensure that the depreciation method, residual value and depreciation period are in accordance with the economic useful life.

Intangible assets with indeterminable terms of useful life are reviewed for impairment at least once a year. Measurement of intangible assets is based on the cash-generating unit. In the Ahlers Group the cash-generating unit is an individual corporate division or asset to which cash-flows can be directly attributed.

If there are indications of impairment or if the annual review of impairment of an asset is required, the Ahlers Group estimates the recoverable amount of the respective asset. The recoverable amount is the higher of the net selling price (fair value less costs to sell) and the value in use. The fair value less costs to sell is the amount that can be recovered from the sale of an asset in an arm's length transaction, less selling costs. The value in use is calculated on the basis of estimated future cashflows from the use and disposal of the asset using the discounted cashflow method. Cashflows are based on corporate planning; current developments are taken into account. They are discounted at the time of the impairment review using risk-equivalent capitalization interest rates. If the carrying amount of an asset exceeds the recoverable amount, the asset is regarded as impaired and written down to its recoverable amount. If the review leads to the conclusion that an earlier impairment loss is no longer applicable or is applicable only to a lesser degree, the Ahlers Group estimates the recoverable amount. In the event that the reasons for a previous impairment loss no longer apply, the carrying amount of the asset is increased to its recoverable amount. This amount may not, however, exceed the carrying amount that would pertain after taking into account amortization, if no impairment loss had been recorded against the asset in previous years. A reversal of an impairment loss is recognized immediately in profit or loss in the period in which it is recorded.

Financial assets are tested for impairment at each balance sheet date. If the recoverable amount of an asset is lower than its carrying amount, the asset is written down to the recoverable amount. This write-down is expensed as an impairment loss. An impairment loss recorded previously as an expense is adjusted against profit or loss, if matters have arisen that would require such an adjustment; however, the adjustment may result in an amount no greater than the amortized cost.

INVENTORIES Inventories are measured at the lower of cost or net realizable value. Costs incurred in bringing inventories to their present location in their present condition are accounted for as follows:

Raw materials

- First-in First-out method (FIFO);

Finished goods and services and work in progress

- Direct material and labor costs, direct production costs, material overheads and the appropriate share of production overheads based on actual production during the fiscal year, not taking into account borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

TRADE AND OTHE RECEIVABLES Trade receivables are recorded at the original invoice amount minus allowances for uncollectible receivables if necessary. An allowance is created if there is objective evidence that the Company will not be in a position to collect the receivable. Receivables are written off as soon as they are deemed uncollectible. In addition, the majority of receivables are covered by trade credit insurance. The deductible agreed in the trade credit insurance policy ranges between 15 percent and 25 percent. Allowances for receivables that have been insured via trade credit insurance are created, if necessary, only in the amount of the contractually agreed deductible.

CASH AND CASH EQUIVALENTS Cash and cash equivalents in the balance sheet include cash on hand and bank balances.

For purposes of the consolidated cashflow statement, cash and cash equivalents include the items defined above as well as liquid investments such as other securities that can be converted into certain cash at any point in time and are subject only to negligible risk of value fluctuation. Overdrafts are deducted for the purpose of the consolidated cashflow statement.

INTEREST-BEARING LOANS When loans are initially recorded, they are measured at the fair value of the consideration. Subsequently, interest-bearing loans are measured using the effective interest method at amortized cost.

PENSION PROVISIONS AND SIMILAR OBLIGATIONS Retirement plan obligations and retirement plan expense of defined benefit plans are measured using the projected unit credit method. The measurement is undertaken according to country-specific conditions. The Group only has closed pension plans in which existing pensioners and vested benefits are required to be measured. Actuarial reviews are conducted annually. These reviews take into account both the pensions known and benefits acquired at the balance sheet date and future anticipated pension increases.

Actuarial gains and losses from adjustments or changes to actuarial assumptions are recorded immediately in the income statement as income or expense.

Pre-retirement part-time agreements are based on the so-called block model. Two types of obligations arise in this connection – the repayment amount and the replenishment amount – both of which are recorded at their net present value in accordance with actuarial principles.

OTHER PROVISIONS Provisions are created if a current legal or constructive obligation towards a third party exists in connection with a past event, which will result in an outflow of funds and for which a reliable estimate of the amount of the obligation can be made. If the interest rate impact is material, provisions are measured at net present value. If discounting takes place the increase in provisions occasioned by the passage of time is recorded as interest expense.

LIABILITIES Financial liabilities are recorded at the fair value of the consideration received.

Liabilities from finance leases are recorded under financial liabilities in the amount of the present value of future lease installments.

Trade payables and other liabilities are recorded at the nominal value or the repayment amount.

LEASES If the Ahlers Group bears all material opportunities and risks under lease agreements and is therefore considered the economic owner (finance leases), the leased object is capitalized at the lower of market value or the present value of future lease payments at the time that the contract is entered into. The payment obligations arising under the finance lease are recorded under financial liabilities in the equivalent amount. The interest portion of the lease liabilities is reported in the consolidated income statement over the term of the lease. If the future transfer of ownership of the leased asset is sufficiently certain, depreciation is undertaken over the useful economic life. Otherwise the depreciation period is based on the term of the lease.

In addition to finance lease agreements, the Ahlers Group has entered into lease agreements that qualify as operating leases. As a result, the leased objects – from an economic perspective – are attributable to the lessor and the lease installments represent period expenses. The total of future lease payments for the basic period when the lease is uncancellable is reported under financial obligations.

INCOME RECOGNITION Income is recognized, if it is probable that economic benefit will flow to the Company and the amount can be reliably measured. Moreover, the following accounting criteria must be fulfilled in order to recognize income:

Proceeds from the sale of goods are recorded at the time when the major risks and opportunities associated with ownership of the goods and products sold have been transferred to the buyer.

Interest income is recorded pro rata temporis using the effective interest method.

License income and other income is recorded at the time that the Company's legal claim and the underlying contracts materialize.

TAXES Actual tax refund claims and tax obligations for the current fiscal year and for earlier fiscal years are measured at the anticipated amount of the refund from, or payment to, the tax authorities.

Deferred tax assets and liabilities are created for all temporary differences between the values recorded for tax purposes by the individual companies and the values recorded in the consolidated financial statements according to IFRS, as well as in connection with specific consolidation processes. Deferred tax assets also include tax reduction claims arising from the expected use of existing tax loss carryforwards in subsequent years and the realization of which can be assumed with a sufficient degree of probability. Tax rates of future years are used to compute deferred taxes, to the extent they are already established under the law or the legislative process has been concluded to a significant extent.

Income taxes related to items that are recorded directly under equity are recognized in equity and not in profit or loss.

Deferred tax assets and liabilities are netted in the consolidated balance sheet, provided that an enforceable right exists to offset the actual tax debt and the deferred taxes relate to the same tax subject and the same tax authority.

5. TRANSITION TO IFRS ACCOUNTING

The Ahlers Group is obligated to prepare the consolidated financial statements pursuant to the EC directive 1725/2003 of the Commission of the European Communities on IAS and the prior and subsequent directives and the implementation under German commercial law in section 315a of the German Commercial Code (HGB). The Group's opening IFRS balance sheet was prepared as of December 1, 2004 (date of transition to IFRS in accordance with IFRS 1). The Ahlers Group is adopting IFRS as accepted by the European Commission for use in the EU for the first time in its consolidated financial statements for the fiscal year ended November 30, 2006, which also includes comparative figures for the fiscal year ending November 30, 2005. According to IFRS 1, a company is required to use recognition and measurement methods in its initial consolidated IFRS financial statements that are based on the standards and the accompanying interpretations as applicable on the balance sheet date of its initial consolidated IFRS financial statements. These accounting policies must be applied at the time of the transition to IFRS and for all fiscal years presented in the initial consolidated IFRS financial statements.

Assets and liabilities are recognized and measured in accordance with IFRS 1, applying those IFRS that are obligatory as at November 30, 2006. Any differences between the carrying amount of assets and liabilities according to IFRS and the carrying amount of assets and liabilities in accordance with HGB accounting are recognized directly in equity at the time of transition to IFRS (December 1, 2004) and not in profit or loss.

EXEMPTION OPTIONS APPLIED IN ACCORDANCE WITH IFRS 1 In the Group's opening IFRS balance sheet as of December 1, 2004, the carrying amounts of assets and liabilities from the consolidated balance sheet as of November 30, 2004 prepared under the German Commercial Code (HGB) must be recognized and measured retroactively in accordance with those IFRSs effective as of November 30, 2006. Exceptions to this principle are, however, possible under IFRS 1. The key exemptions that the Ahlers Group has used are explained below:

- IFRS 3 is not required to be used for business combinations that have taken place before the date of transition to IFRS. The Company made use of this option. Classification of a business combination in accordance with the German Commercial Code (HGB) together with amounts reported in this connection may be maintained in this case. In principle, all assets and liabilities in the Group's opening IFRS balance sheet are to be recognized that were acquired or taken over as part of business combinations.
- Differences from the conversion of financial statements prepared in a currency that differs from the reporting currency of the parent are in principle to be recorded separately in equity without impact on profit or loss. Based on retrospective application of IFRS 1, a retroactive calculation of differences would be required. Under IFRS 1, the option exists to record these currency translation losses as zero at the time of transition to IFRS. In the event of a later disposal of the relevant company, only such currency differences are recorded in profit or loss that have arisen after the date of transition to IFRS.
- The Ahlers Group recorded all accumulated actuarial gains and loses that had arisen in connection with the measurement of defined benefit commitments against equity as of December 1, 2004.

The equity and Group net income for the year according to the German Commercial Code are reconciled below with equity and Group net income for the year according to IFRS pursuant to IFRS 1.

		EQUITY		NET INCOME
		Nov. 30, 2005 EUR'000	Dez. 1, 2004 EUR'000	Difference EUR'000
	Equity/Net income in accordance with HGB	83,953	80,339	17,364
a)	Adjustment of non-current assets	8,656	8,669	-13
b)	Adjustment of inventories	–	2,343	-2,343
c)	Foreign currency translation adjustments of receivables and liabilities	-376	-288	-88
d)	Revaluation of pension provisions	-1,301	-1,150	-151
e)	Adjustment of other provisions	-462	-760	298
f)	Leasing	1,803	1,252	551
g)	Deferred tax effects	-2,522	-2,684	162
	Net income in accordance with IFRS			15,781
h)	Foreign currency differences from consolidation of liabilities	242	–	
i)	Reclassification of minority interests	-3,833	-3,859	
	Equity in accordance with IFRS	86,160	83,862	

Explanation of reconciliation items:

a) Property, plant, and equipment is depreciated using the straight-line method in accordance with IFRS. Terms of useful life previously based on tax reasoning were adjusted to anticipated terms of useful economic life as part of the adoption of IFRS.

b) Overhead costs capitalized under HGB up to fiscal 2004/05 were lower than those to be recognized under IFRS. In anticipation of the transition to IFRS, the measurement in fiscal 2004/05 (HGB) was adapted to the recognition of overhead costs required under IFRS.

c) In accordance with the imparity (conservatism) principle, realized and unrealized losses were accounted for in the financial statements under HGB, while unrealized gains were not recorded. In the IFRS financial statements, all foreign currency receivables and liabilities are recognized at the closing rate.

d) Under IFRS, pension obligations were calculated for the first time according to the projected unit credit method and using a market interest rate. Since under HGB the interest rate (6 percent) issued by the tax authorities has been used previously, an increase in pension provisions results.

e) In calculating anniversary bonus provisions in accordance with IFRS, present and future assumptions as applicable on December 1, 2004 must be taken into account. In contrast, provisions for expenses are not accounted for under IFRS.

f) Due to different criteria used to distinguish finance and operating leases between IFRS and HGB, a number of leases were classified as finance leases in the consolidated IFRS financial statements, as opposed to their treatment under HGB. As a result, the relevant lease objects are capitalized and associated lease liabilities are recognized.

g) Deferred tax assets on anticipated usable tax loss carryforwards and deferred taxes on differences between accounting for tax purposes and accounting under IFRS were created as of November 30, 2004.

h) In accordance with IFRS 1, the option exists of recording currency translation losses as zero at the time of transition to IFRS. In the event of a later disposal of the relevant company, only such currency differences are recognized in profit or loss that have arisen after the date of transition to IFRS.

i) Under IFRS, minority interests in partnerships do not constitute equity if the shareholder position is uncancellable. They are therefore reported as non-current liabilities.

The transition to IFRS had no significant impact on the consolidated cashflow statement.

6. NOTES TO THE INCOME STATEMENT

(1) SALES

	2005/06		2004/05	
Sales by region	EUR '000	%	EUR '000	%
Domestic	136,241	55.4	142,660	58.9
Foreign	109,695	44.6	99,486	41.1
	245,936	100.0	242,146	100.0

Sales revenues were generated almost without exception by the sale of clothing; licensing revenues from Otto Kern GmbH, Herford, in the amount of EUR 596 thousand (previous year: EUR 577 thousand) and GIN TONIC SPECIAL Mode GmbH, Stuttgart, in the amount of EUR 19 thousand (previous year: EUR 57 thousand) are included in this figure.

Foreign sales were achieved primarily in Europe.

(2) OTHER OPERATING INCOME

	2005/06	2004/05
	EUR '000	EUR '000
Currency gains	566	1,234
Rental income	436	422
Income from the release of provisions	422	1,096
Income from the reversal of valuation allowances on receivables	421	499
Income from the sale of properties	251	146
Income from insurance payments	181	348
Income from the disposal of items of PPE an intangible assets	143	146
Income from reimbursements of part-time retirement claims	136	17
Other	1,038	1,015
	3,594	4,923

During fiscal 2005/06 other operating income declined by EUR 1,329 thousand. This reduction resulted primarily from currency fluctuations and lower proceeds from the liquidation of provisions. Otherwise, other operating income consists of numerous individual items, none of which exceeds EUR 100 thousand.

(3) COST OF MATERIALS

	2005/06	2004/05
	EUR '000	EUR '000
Cost of raw materials, supplies and purchased goods	101,313	110,734
Cost of purchased services	18,943	19,691
	120,256	130,425

(4) PERSONNEL EXPENSES

	2005/06	2004/05
	EUR '000	EUR '000
Wages and salaries	42,201	43,264
Social security contributions	8,001	7,490
Retirement benefit and similar expenses	365	787
	50,567	51,541

(5) OTHER OPERATING EXPENSES

	2005/06	2004/05
	EUR '000	EUR '000
Distribution expenses	27,051	26,174
Advertising expenses	4,902	4,925
General and administrative expenses	9,655	8,630
Insurance expenses	1,502	1,509
Maintenance expenses	1,521	1,774
Valuation allowances	558	679
Banking fees	515	472
Other fees	420	328
Other taxes	399	424
Miscellaneous	6,537	4,799
	53,060	49,714

Distribution expenses are comprised chiefly of costs that vary with sales levels (commissions, travel costs, licenses, freight and removals from storage). The cost of trade fairs and marketing, including trade marketing, constitutes advertising expense. Administrative expenses include legal, consultancy and EDP costs.

(6) DEPRECIATION, AMORTIZATION, AND IMPAIRMENT LOSSES ON PROPERTY, PLANT, AND EQUIPMENT AND INTANGIBLE ASSETS

	2005/06	2004/05
	EUR '000	EUR '000
Depreciation, amortization, and impairment losses		
Property, plant, and equipment		
Land and buildings	6,798	858
Technical equipment and machines	532	797
Other equipment, plant and office equipment	2,841	2,814
Intangible assets		
Industrial property rights and similar rights and assets	4,024	1,173
Other non-current assets		
Other assets	1	6
	14,196	5,648
thereof: Impairment losses		
Land and buildings	5,806	–
Industrial property rights and similar rights and assets	3,541	642
	9,347	642

Impairment losses on industrial property rights and similar rights relate to the OTTO KERN brand. Due to the continued negative situation in the OTTO KERN division, impairment losses of EUR 3,541 million (previous year: EUR 642 thousand) were charged against trademark rights. Measures were initiated with a view to improving the situation in the short term. Furthermore, land and buildings – both domestic and foreign – 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. This resulted in impairment losses of EUR 5,806 thousand, so that land and buildings are now accounted for at their fair market value.

(7) NET INTEREST EXPENSE

	2005/06	2004/05
	EUR '000	EUR '000
Other interest and similar income	1,713	451
Interest and similar expenses	2,482	2,401
	-769	-1,950

(8) INCOME TAXES

	2005/06	2004/05
	EUR '000	EUR '000
CURRENT TAXES		
Germany	2,029	5,978
Foreign	1,231	1,253
	3,260	7,231
DEFERRED TAXES		
Germany	117	-178
Foreign	305	–
	422	-178
	3,682	7,053

Deferred taxes are calculated based on tax rates that apply or are expected at the time of realization according to the legal situation at the time in the individual countries. For Ahlers AG, a domestic income tax rate of 38.65 percent applies, consisting of corporate tax at a rate of 25.0 percent and the solidarity surcharge of 5.5 percent applied to corporate tax, as well as German municipal trade tax with an average multiplying factor of 400 percent. Foreign tax rates are between 15 and 33.33 percent.

The table below shows a reconciliation statement between the anticipated income tax expense, that would theoretically have resulted if using an average Group income tax rate of 38.65 percent (previous year: 38.65 percent) at the Group level, and the income tax actually reported for the Group.

	2005/06	2004/05
	EUR '000	EUR '000
Profit before income taxes for continuing business operations	3,611	13,409
Profit before income taxes for discontinued business operations	96,029	14,912
Profit before income taxes	99,640	28,321
Expected tax expense at a tax rate of 38.65% (2004/05: 38.65%)	38,511	10,946
Tax rate differences at local tax rate	-676	-697
Non-deductible business expenses and other permanent differences	1,925	1,461
Taxes for previous fiscal years	979	506
Adjustments to recognition of deferred tax assets from tax-loss carryforwards and temporary differences	333	68
Gain from the disposal of eterna and other tax-free income	-34,372	-99
Other differences	2	355
Total adjustments	-31,809	1,594
Current tax expense	6,702	12,540
Tax expense as reported in the consolidated income statement	3,682	7,053
Income taxes allocable to discontinued business operations	3,020	5,487
Current tax expense	6,702	12,540

As of November 30, 2006, no deferred taxes were recorded for tax loss carryforwards of EUR 3,021 thousand (previous year: EUR 3,072 thousand) that exist in the Group. According to the current legal situation, no part of these tax loss carryforwards fulfills the requirements for carrying forward in terms of timing nor does their level justify indefinite carryforwards. All of the tax loss carryforwards amounting to EUR 3,021 thousand (previous year: EUR 3,072 thousand) lapse in succession over the next 20 years.

Temporary differences that have occurred during the year of EUR 256 thousand (previous year: 0) and tax loss carryforwards of EUR 77 thousand (previous year: EUR 68 thousand) also failed to justify the creation of deferred tax assets.

Tax deferrals are to be allocated to the following balance sheet accounts:

	Nov. 30, 2006		Nov. 30, 2005	
	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000	Deferred tax assets EUR '000	Deferred tax liabilities EUR '000
Property, plant, and equipment	–	2,237	23	3,796
Intangible assets	377	326	12	406
Non-current financial assets	–	11	232	–
Inventories	97	20	4	–
Trade receivables and other current financial assets	27	9	38	28
Pension provisions	456	–	556	–
Other provisions	51	59	566	304
Financial liabilities	409	–	291	–
Liabilities and other liabilities	213	13	–	163
	1,630	2,675	1,722	4,697
Losses carried forward	569	–	470	–
	2,199	2,675	2,192	4,697
Deferred tax assets and liabilities, net	–	–	139	139

Deferred tax assets and liabilities were not offset during fiscal 2005/06, as the criteria for offsetting were not fulfilled.

(9) INCOME FROM DISCONTINUED BUSINESS OPERATIONS

	2005/06	2004/05
	EUR '000	EUR '000
Income	49,259	84,657
Income from disposals	90,488	–
Expenses	43,717	69,746
Pre-tax profit from discontinued business operations	96,030	14,911
Income taxes	3,020	5,486
After-tax profit from discontinued business operations	93,010	9,425

Income from discontinued business operations relates to eterna Mode AG, Passau, and eterna s.r.o., Bánovce, in the Slovak Republic, which were sold in fiscal 2005/06. Income includes sales revenues of EUR 47,382 thousand (previous year: EUR 83,145 thousand).

Income taxes apply to income for the period, provided such income originates from the ordinary activities of discontinued business operations. The gain resulting from discontinuing the operations is not taxable.

(10) MINORITY INTEREST SHARE IN INCOME Companies in which Ahlers AG holds less than 100 percent are included in the consolidated financial statements. The shares relating to minority interests are shown separately from equity attributable to shareholders of Ahlers AG under equity in the consolidated balance sheet. Minority interests in the consolidated income are also shown separately in the consolidated income statement.

(11) EARNINGS PER SHARE Earnings per share is defined as net income for the period divided by the weighted average number of shares outstanding during the fiscal year. As in the previous year, a total of 14,400,000 shares with no par value were outstanding in the year under review. No shares existed either as of November 30, 2006, or November 30, 2005, that would have a diluting effect on earnings per share.

7. NOTES TO THE BALANCE SHEET

Changes to the individual items of non-current assets during fiscal 2004/05 and 2005/06 are shown in the consolidated statement of fixed assets attached to the notes to the consolidated financial statements.

(12) PROPERTY, PLANT, AND EQUIPMENT Capital expenditure in fiscal 2005/06 exceeded scheduled depreciation. Additions to factory and office equipment of EUR 5,008 thousand primarily reflect shop systems and replacement expenditures.

(13) INTANGIBLE ASSETS Intangible assets with indeterminable terms of useful life are reviewed for impairment at least once a year. Write-downs are undertaken if an asset is impaired. Additions primarily refer to Baldessarini trademark rights of EUR 7,995 thousand and the SAP module Fi/Co.

The chief intangible assets with indeterminable terms of useful life are the trademark rights to Baldessarini and OTTO KERN.

Exclusive use of the corporate brands Baldessarini and OTTO KERN is assured by means of long-term, renewable industrial property rights, so an indeterminable term of useful life can be said to exist in each case.

The carrying amount of intangible assets with indeterminable terms of useful life is comprised of the carrying amount of OTTO KERN trademark rights of EUR 2,500 thousand and Baldessarini trademark rights of EUR 7,995 thousand.

(14) OTHER NON-CURRENT ASSETS 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 of 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 primarily consists of surrender values pertaining to life insurance policies.

Other assets mainly include works of art. These consist primarily of works of renowned Expressionist artists and contemporary art. Additions of EUR 12,814 thousand mainly reflect works of art.

(15) INVENTORIES

	2005/06	2004/05
	EUR '000	EUR '000
Raw materials and consumables	17,686	20,505
Work in progress	307	386
Finished goods and merchandise	29,056	39,168
	47,049	60,059

The amount of impairment taken into consideration in measuring inventories is EUR 10,036 thousand (previous year: EUR 7,089 thousand).

The carrying amount of inventories recorded at net realizable value is EUR 13,539 thousand (previous year: EUR 13,345 thousand).

(16) TRADE RECEIVABLES Trade receivables include write-downs of EUR 2,784 thousand (previous year: EUR 2,724 thousand).

Trade receivables are not interest-bearing as a rule and the average number of days outstanding is 55.

(17) OTHER CURRENT ASSETS Other securities under current assets relate primarily to financial assets held for trading regarding legally stipulated termination indemnities in Austria. The carrying amount is EUR 380 thousand as in the previous year.

Receivables from affiliates of EUR 25 thousand (previous year: EUR 27 thousand) relate to the exchange of goods and services with affiliated companies.

Other assets of EUR 6,237 thousand (previous year: EUR 5,109 thousand) primarily include deferred service fees, bonus claims, receivables from insurance companies and suppliers and the surrender value of life insurance policies.

(18) CASH AND CASH EQUIVALENTS

	2005/06	2004/05
	EUR '000	EUR '000
Cash on hand	119	89
Bank balances	76,693	22,195
	76,812	22,284

Variable interest rates apply to bank balances consisting of call money. These include readily available cash and cash equivalents and invested overnight funds.

The increase in balances stems from the sale of the eterna companies. The fair value of cash and cash equivalents is EUR 76,812 thousand (previous year: EUR 22,284 thousand).

As of November 30, 2006, the Ahlers Group had at its disposal unutilized credit lines in the double-digit millions.

Cash and cash equivalents can be broken down as follows for cashflow statement purposes as of November 30, 2006:

	2005/06	2004/05
	EUR '000	EUR '000
Cash on hand	119	89
Bank balances	76,693	22,195
Other securities	572	574
Overdraft facilities	-4,059	-32,753
	73,325	-9,895

(19) EQUITY Equity and its individual components are shown separately in the consolidated statement of changes in equity.

(20) SUBSCRIBED CAPITAL Subscribed capital consists of a total of 14,400,000 common shares with no par value as in the previous year. 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.

(21) 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 16,800 thousand. 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 (called bonds hereinafter) in an amount totaling up to EUR 60,000 thousand, and to grant the bond holders or creditors Company bonds convertible to new common bearer shares (at no par value), with an imputed share in the share capital of up to EUR 12,000 thousand in accordance with the applicable terms and conditions of the convertible bonds.

(22) CAPITAL RESERVE The capital reserve totals EUR 15,024 thousand; EUR 12,782 thousand of this amount is due to the premium on the capital increase against cash contributions that occurred at the time of the IPO, and EUR 1,610 thousand from the issue of preferred shares. The capital reserve in the consolidated IFRS financial statements was reduced by the costs of raising equity that were incurred during the IPO.

(23) CURRENCY TRANSLATION ADJUSTMENTS The difference from the currency translation contains the exchange differences arising from translation of the individual financial statements of foreign subsidiaries into euro.

STATEMENT OF PROVISIONS 2005/06 (IN EUR '000)

	Dec. 01, 2005	Changes to consolidated group	Utilization	Release	Additions	Interest adjustments	Currency translation	Nov. 30, 2006
Non-current provisions								
Retirement benefit and similar obligations	7,266	-885	547	52	646	–	-30	6,398
Sub-total	7,266	-885	547	52	646	–	-30	6,398
Other								
Anniversaries	1,723	-93	130	–	2	–	39	1,541
Part-time retirement	652	-87	547	12	385	–	–	391
Miscellaneous	–	–	–	–	7,058	2,473	-66	4,519
Sub-total	2,375	-180	677	12	7,445	2,473	-27	6,451
Current provisions								
Goods returned	1,719	43	1,632	13	1,346	–	–	1,463
Severance payments	793	-106	583	154	113	–	–	63
Other	1,014	-196	694	95	533	–	-16	546
Sub-total	3,526	-259	2,909	262	1,992	–	-16	2,072
Total	13,167	-1,324	4,133	326	10,083	2,473	-73	14,921

NON-CURRENT LIABILITIES

(24) PENSION PROVISIONS Pension obligations are calculated using the projected unit credit method by the Ahlers Group. In this approach, future obligations are computed taking into consideration dynamic developments using actuarial methods.

The following assumptions were used as the basis for calculation of pension obligations:

PARAMETERS	2005/06	2004/05
Discount rate	4.2 %	4.0 %
Pension trend	1.0 %	0.8 %

Actuarial gains and losses are recorded immediately against financial income under net income for the period of the relevant fiscal year. Pension expenses are composed of personnel expense and interest expense.

Salary trends are omitted, since pension provisions relate exclusively to employees who have already left and no new pension commitments are being entered into for the future.

The development of gross net value of defined benefit obligations may be broken down as follows:

	2005/06	2004/205
Present value of the defined benefit obligation as of December 1	6,522	6,605
+ Current service cost	5	14
+ Interest cost	203	304
- Benefits paid	-528	-553
+/- Actuarial gains/losses	113	123
+ Past service cost	201	–
+/– Changes in consolidated group	-806	–
Present value of the defined benefit obligation as of November 30	5,710	6,493
Currency translation	-29	29
	5,681	6,522

Expenses recorded in the income statement amount to EUR 292 thousand (previous year: EUR 470 thousand).

The provision also includes legally stipulated termination indemnity claims relating to employees engaged in Austria in the amount of EUR 717 thousand (previous year: EUR 744 thousand).

Pension provisions almost entirely are associated with former employees in Germany.

(25) OTHER PROVISIONS Other non-current provisions include the variable portion of the second purchase price installment for the Baldessarini business as well as anniversary bonus provisions for the Polish companies. Anniversary bonus provisions are based on expert actuarial opinions. In calculating the anniversary bonus provisions current assumptions and trends that apply at the balance sheet date are utilized.

Pre-retirement part-time employment provisions of net EUR 945 thousand (previous year: EUR 1,288 thousand) have also been recorded. These pre-retirement part-time employment provisions are secured by securities for insolvency insurance with a fair market value of EUR 554 thousand (previous year: EUR 636 thousand). The securities are offset against the pre-retirement part-time employment provision as they qualify as plan assets. Proceeds from the securities in the amount of EUR 11 thousand (previous year: EUR 8 thousand) are recognized in the income statement.

(26) FINANCIAL LIABILITIES Non-current financial liabilities are interest-bearing and generally have terms of between 2 and 15 years. They consist of liabilities to banks in the amount of EUR 18,829 thousand (previous year: EUR 20,148 thousand) and liabilties under finance leases. Assets related to the liabilities under finance leases are reported under property, plant and equipment in the amount of EUR 1,242 thousand (previous year: EUR 752 thousand).

OBLIGATIONS UNDER FINANCE LEASES Factory and office equipment items are leased under finance lease arrangements. Future minimum lease payments under finance leases can be reconciled to their present values as follows:

	2005/06		2004/05	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	EUR '000	EUR '000	EUR '000	EUR '000
Maturity				
within a year	606	589	333	316
in over a year	471	469	450	436
Total minimum lease payments	1,077	1,058	783	752
minus the interest portion	19		31	
Present value of minimum lease payments	1,058		752	

Lease payments in fiscal 2005/06 totaled EUR 331 thousand (previous year: EUR 558 thousand).

(27) TRADE PAYABLES Non-current trade payables relate to the fixed portion of the second installment in the purchase of the Baldessarini business.

CURRENT LIABILITIES

(28) OTHER PROVISIONS Other current provisions contain primarily personnel provisions.

(29) FINANCIAL LIABILITIES Current financial liabilities chiefly involve liabilities to banks of EUR 4,073 thousand (previous year: EUR 32,803 thousand).

(30) OTHER LIABILITIES

	2005/06	2004/05
	EUR '000	EUR '000
Liabilities to affiliated companies	3,104	3,345
Other liabilities	13,045	18,290
thereof: Wages and salaries	4,959	6,368
Taxes	1,759	4,918
Social security	1,125	2,315
Miscellaneous	5,202	4,689
	16,149	21,635

Other liabilities include liabilities in relation to wages and slaries, taxes and social security as well as for bonuses and customs payments.

(31) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Contingent liabilities

	2005/06	2004/05
	EUR '000	EUR '000
Notes payable	91	183
thereof for affiliated companies	–	–
Guarantees	1,563	1,422
thereof for affiliated companies	–	–
	1,654	1,605

As of November 30, 2006, contingent liabilities of EUR 78 thousand (previous year: EUR 274 thousand) existed.

CLAIMS UNDER OPERATING LEASES – GROUP IN THE POSITION OF LESSOR One operating lease exists. The remaining term of this uncancellable agreement is three years.

The following minimum payment claims under operating leases for factory fittings exist as of the balance sheet date:

	2005/06	2004/05
	EUR '000	EUR '000
MATURITY		
within a year	60	58
in over a year	120	232
	180	290

OTHER FINANCIAL LIABILITIES The following future minimul ease payments under uncancellable operating leases for factory and office equipment:

	2005/06	2004/05
	EUR '000	EUR '000
MATURITY		
within a year	4,062	5,160
in over a year	9,155	6,947
	13,217	12,107

The Company has entered into operating leases for factory and office equipment. Lease terms are generally between one and three years. The lease agreements do not contain renewal options. No limitations have been imposed on the Company in connection with the lease agreements.

Conditional lease payments of EUR 9 thousand have been recorded under lease expense. These conditional lease payments concern payments that vary according to sales levels.

(31) FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS The Ahlers Group operates internationally and is, therefore, exposed to exchange rate, default and interest rate risk.

Derivatives are used to hedge basic operations and key corporate financial transactions. No additional risks arise for the Group in this connection. Transactions are only conducted using marketable instruments (only forward exchange deals as in the previous year).

The Ahlers Group enters into forward exchange contracts to cover the risk of exchange rate fluctuations. As of November 30, 2006, only forward exchange contracts for the U.S. dollar with

a nominal value of EUR 6,311 thousand were open. As of the previous year's balance sheet date, forward exchange purchases with a nominal value of EUR 14,126 thousand were open for different currencies, as well as forward exchange sales in the amount of EUR 5,032 thousand.
As of November 30, 2006, forward exchange deals with a positive market value of EUR 4 thousand (previous year: EUR 47 thousand) and forward exchange deals with a negative market value of EUR 14 thousand (previous year: EUR 50 thousand) were in existence. Forward exchange deals with a positive market value are reported under other current assets and those with a negative market value under other current liabilities; all forward exchange contracts in the Ahlers Group have a remaining term of less than one year.

The maximum default risk is apparent from the carrying amount of each financial asset reported in the balance sheet. These risks are in part covered by appropriate insurance in the case of trade receivables. The Group therefore represents the view that the maximum default risk comprises the amount of trade receivables and the total of current assets, minus the allowances applied against these assets as of the balance sheet date.

Interest rate risks are of only minor significance to the Ahlers Group due to the very low level of non-current financial obligations. As a result no interest rate hedges are currently being entered into.

The requirements for reporting hedging relationships in accordance with IAS 39 have not been met.

8. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT

CASH RECEIPTS FROM THE SALE OF CONSOLIDATED COMPANIES Exclusively cash receipts from the sale of eterna Mode AG, Passau, and eterna s.r.o., Bánovce, Slovak Republic, are comprised of the purchase price of EUR 105,455 thousand and the reduction of overdrafts of EUR 1,129 thousand.

	2005/06
	EUR'000
Non-current assets	-18,748
Receivables and other assets	-10,811
Liabilities	13,509
Miscellaneous	-120

Net cashflow from discontinued business operations breaks down as follows:

	2005/06
	EUR '000
Cashflow from operating activities	1,095
Cashflow from investing activities	105,637
Cashflow from financing activities	-3,576
Net cash inflow	103,156

PAYMENTS FOR THE PURCHASE OF CONSOLIDATED COMPANIES The Group acquired the Baldessarini business during the period under review. The fair value of assets acquired and liabilities assumed amounts to:

	EUR '000
Property, plant, and equipment	322
Trademark rights	7,995
Other intangible assets	5
Deferred tax assets	369
Inventories	1,490
Receivables	1,027
Other assets	90
Cash and cash equivalents	283
Liabilities	-1,315
Total purchase price	10,266
Less cash and cash equivalents	-283
Less outstanding purchase price installments	-8,904
Net cash outflow due to acquisition less cash and cash equivalents acquired	1,079

ADDITIONAL DISCLOSURES RELATING TO THE CONSOLIDATED CASHFLOW STATEMENT
Income taxes paid total EUR 17,155 thousand, income taxes received EUR 2,198 thousand, interest paid amounts to EUR 1,957 thousand and interest received to EUR 1,565 thousand.

9. CONSOLIDATED SEGMENT REPORTING

The breakdown of the financial position and performance, as well as additional indicators according to activity areas (primary reporting format) and regions (secondary reporting format) is shown in the segment report. Segmentation follows along the lines of the Ahlers Group's internal organization. The Ahlers Group corporate divisions are the basis for the primary reporting format. The secondary reporting format is structured geographically and is geared to the sales market on which the Ahlers Group is focused.

Accounting policies for the consolidated segment report mirror the policies used in the consolidated IFRS financial statements.

Any analysis of segment reporting should take into consideration the fact in a number of companies, purchasing, production, and sales, as well as administration and service activities, are performed on the basis of servicing agreements. Wherever it was not possible to allocate expenses or income directly to a segment, appropriate allocation keys were used.
Transfer prices for intragroup sales are set as in arm's length transactions.

SEGMENT INFORMATION

PRIMARY REPORTING FORMAT

PREMIUM BRANDS This segment consists of the manufacture and sale of the premium brands of the Ahlers Group. Pierre cardin, OTTO KERN and Baldessarini (since September 1, 2006) belong to this group.

JEANS & WORKWEAR This segment consists of the manufacture and sale of non-premium brand jeans, slacks, and casual pants made of flat-weave fabric as well as working clothes. This segment includes the brands Pionier, PIONIER SPORTIVE, and PIONEER.

MEN'S & SPORTSWEAR This segment consists of the production and distribution of non-premium brand classic men's upper clothing, casual clothing, and young fashion. In addition to the JUPITER brand, this segment also covers the GIN TONIC brands.

SONSTIGES Individual products that cannot be appropriately allocated to the various business segments are listed in this section.

SECONDARY REPORTING FORMAT 'Western Europe' encompasses the following countries: Belgium, Denmark, Finland, France, Greece, Great Britain, Ireland, Iceland, Italy, Luxembourg, the Netherlands, Norway, Austria, Portugal, Sweden, Switzerland and Spain.

'Central/Eastern Europe/Other' covers all the remaining countries.

SEGMENT DATA The figures for segment reporting are based on consolidated figures without adjusting for intersegment results, which are insignificant. 'Segment result' is defined as pre-tax income. 'Net operating assets' are total assets minus deferred tax assets and current tax claims. Liabilities includes the total of current and non-current liabilities minus deferred tax liabilities, current income tax obliations and liabilities under leases. The item 'Other non-cash items' includes expenses for deferred taxes and additions to provisions.

10. OTHER DISCLOSURES

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 law firm of Feddersen, Heuer und Partner, Frankfurt/Main, in which Mr. Prof. Dr. Heuer is a partner, invoiced a total of EUR 399 thousandand, 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 to this group of persons amounted to EUR 436 thousand (previous year: EUR 456 thousand) both at the group level and at Ahlers AG.

SHAREHOLDINGS 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 Beteiligungsgesellschaft mbH, Herford. The Ahlers AG financial statements are included in the consolidated financial statements of Westfälisches Textilwerk Adolf Ahlers KG, Herford.

RELATED PARTY DISCLOSURES 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").

Transactions with related parties were executed under conditions that pertain to arm's length transactions. The open positions at the end of the fiscal year – with the exception of goods deliveries that are supplied under retention of title as is customary in the industry – are not collateralized and will be paid in cash or by offset. There are no guarantees relating to claims or debts of related parties. As in the previous year, the Ahlers Group did not record allowances against receivables from related parties in the year under review. The need to create an allowance is examined on an annual basis by reviewing the financial situation of the related party. Key business relationships are explained below:

During fiscal 2005/06

- Supplies to the Westfälisches Textilwerk Adolf Ahlers KG, Herford, of EUR 2.0 million (previous year: EUR 2.1 million) and services from the Westfälisches Textilwerk Adolf Ahlers KG, Herford, of EUR 7.8 million (previous year: EUR 6.9 million) took place;
- Payments for services rendered were made to related parties in the amount of EUR 1.0 million (previous year: EUR 0.3 million);
- Payments from related parties for services rendered and rents in the amount of EUR 0.5 million (previous year: EUR 0.8 million);
- Purchases of works of art from related parties totaling EUR 11.8 million (previous year: EUR 0.0 million). Purchase prices were paid in the year under review and documented by the opinon of a sworn expert art appraiser.

Liabilities in the amount of EUR 3.1 milion (previous year: EUR 3.3 million) were generated from business relations between Ahlers AG and its subsidiaries as of November 30, 2006.

NUMBER OF EMPLOYEES (ANNUAL AVERAGE)

	Continuing operations		Discontinued operation		Total	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
Blue collar	2,432	2,812	75	137	2,507	2,949
White collar	454	122	377	756	831	878
	2,886	2,934	452	893	3,338	3,827

DECLARATION OF CONFORMITY PURSUANT TO SECTION 161 AKTG The Management Board and Supervisory Board of Ahlers AG have submitted the declaration of conformity with the German Corporate Governance Code for 2006 pursuant to section 161 of the AktG and made the declaration permanently accessible 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 for the single-entity financial statements as at November 30, 2006: GIN TONIC SPECIAL Mode GmbH, Stuttgart, Otto Kern GmbH, Herford, Concordia-Wohnungsbaugesellschaft mbH, Herford, Pionier Sportive Freizeitbekleidung 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.

EVENTS AFTER THE BALANCE SHEET DATE No particular matters have arisen after the balance sheet date that have a major impact on the Group‘s net assets, financial position and results of operations as of November 30, 2006.

AUDITOR’S FEE The audit fee expensed in fiscal 2005/06 covered the following services:

	EUR‘000
Audit of the financial statements	257
Other services	33
	290

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 – previous year: EUR 0.95) and EUR 3.00 per preferred share (ISIN DE0005009732 – previous year: EUR 1.00), totaling EUR 42,800,000.00, and to carry forward the remaining profit of EUR 16,009,491.80.

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.

Herford, March 9, 2007

Ahlers AG
The Management Board

Dr. Stella A. Ahlers Oliver Galling Bruno Leder

Consolidated fixed assets schedule for fiscal 2004/05

IN EUR '000

	Accumulated costs					
	Dec. 1, 2004	Additions	Disposals	Reclassifi-cations	Currency differences	Nov. 30, 2005
Property, plant, and equipment						
Land, land rights and buildings	63,654	577	167	696	739	65,499
Machinery	17,402	504	295	–	965	18,576
Plant and office equipment	29,750	5,349	1,311	97	142	34,027
Payments on account and plant under construction	789	301	–	-793	14	311
	111,595	6,731	1,773	–	1,860	118,413
Intangible assets						
Industrial property rights and similar rights	17,966	607	–	44	17	18,634
Goodwill	101	–	–	–	8	109
Payments on account	146	346	–	-44	–	448
	18,213	953	–	–	25	19,191
Other non-current assets						
Other assets	2,562	40	–	–	–	2,602
	132,370	**7,724**	**1,773**	**–**	**1,885**	**140,206**

[1] Impairment losses on trademark rights of EUR 642 thousand are contained in the year's write-downs. Depreciation from discontinued business operations are included in the year's depreciation and amortization account as follows: Property, plant, and equipment EUR 1,295 thousand; intangible assets EUR 349 thousand.

Accumulated depreciation/amortization					Carrying amounts	
Dec. 1, 2004	Additions[1)]	Reversals	Currency differences	Nov. 30, 2005	Nov. 30, 2005	Dec. 1, 2004
21,620	1,278	34	422	23,286	42,213	42,034
13,546	1,077	286	840	15,177	3,399	3,856
20,225	3,408	702	91	23,022	11,005	9,525
–	–	–	–	–	311	789
55,391	5,763	1,022	1,353	61,485	56,928	56,204
8,685	1,521	–	84	10,290	8,344	9,281
101	–	–	8	109	–	–
–	–	–	–	–	448	146
8,786	1,521	–	92	10,399	8,792	9,427
58	6	–	–	64	2,538	2,504
64,235	**7,290**	**1,022**	**1,445**	**71,948**	**68,258**	**68,135**

Consolidated fixed assets schedule for fiscal 2005/06

IN EUR '000

	Accumulated costs						
	Dec. 1, 2005	Change in the scope of consoli-dation[1]	Additions	Disposals	Reclassifi-cations	Currency differences	Nov. 30, 2006
Property, plant, and equipment							
Land, land rights and buildings	65,499	-16,036	132	67	13	-250	49,291
Machinery	18,576	-5,440	549	298	176	-399	13,164
Plant and office equipment	34,027	-5,722	5,008	2,436	110	-42	30,945
Payments on account and plant under construction	311	-54	222	–	-299	-9	171
	118,413	-27,252	5,911	2,801	–	-700	93,571
Intangible assets							
Industrial property rights and similar rights	18,634	-2,176	8,714	77	348	-125	25,318
Goodwill	109	–	–	–	–	3	112
Payments on account	448	–	–	–	-348	–	100
	19,191	-2,176	8,714	77	–	-122	25,530
Other non-current assets							
Other assets	2,602	–	12,818	4	–	–	15,416
	140,206	**-29,428**	**27,443**	**2,882**	**–**	**-822**	**134,517**

[1] The change in the scope of consolidation relates to the disposal of eterna AG and eterna s.r.o and the addition of Baldessarini. Comments on the cashflow statement will provide information on the breakdown of the item.

[2] Impairment losses on land and buildings of EUR 5,806 thousand and on trademark rights of EUR 3,541 thousand are contained in the year's write-downs. Depreciation from discontinued business operations are included in the year's depreciation and amortization account as follows: Property, plant, and equipment EUR 825 thousand; intangible assets EUR 180 thousand.

Accumulated depreciation/amortization						Carrying amounts	
Dec. 1, 2005	Change in the scope of consoli-dation[1]	Additions [2]	Reversals	Currency differences	Nov. 30, 2006	Nov. 30, 2006	Nov. 30, 2005
23,286	-3,050	6,994	2	-226	27,002	22,289	42,213
15,177	-3,748	754	251	-336	11,596	1,568	3,399
23,022	-3,033	3,249	1,838	-114	21,286	9,659	11,005
–	–	–	–	–	–	171	311
61,485	-9,831	10,997	2,091	-676	59,884	33,687	56,928
10,290	-1,177	4,203	35	4	13,285	12,033	8,344
109	–	–	–	3	112	–	–
–	–	–	–	–	–	100	448
10,399	-1,177	4,203	35	7	13,397	12,133	8,792
64	–	1	4	–	61	15,355	2,538
71,948	**-11,008**	**15,201**	**2,130**	**-669**	**73,342**	**61,175**	**68,258**

Segment Reporting for fiscal 2005/06

BY BUSINESS SEGMENT (IN EUR '000)

	Continuing business operations										Discontinued business operations	
	premium brands		jeans & workwear		men's & sportswear		Miscellaneous		Total			
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
Sales												
from third parties	97,198	92,772	66,956	68,690	81,479	80,125	303	559	245,936	242,146	47,382	83,145
of which Germany	44,822	47,785	47,575	49,197	43,541	45,119	303	559	136,241	142,660	33,140	60,308
of which abroad	52,376	44,987	19,381	19,493	37,938	35,006	–	–	109,695	99,486	14,242	22,837
Intersegment sales	–	–	–	–	–	–	–	–	–	–	–	–
Segment result	-1,826	4,165	8,357	11,715	80	-2,276	-3,000	-195	3,611	13,409	96,030	14,911
thereof Depreciation and amortization	2,246	2,152	1,241	1,237	1,292	1,562	70	55	4,849	5,006	1,005	1,644
Impairment losses (IAS 36)	6,817	642	–	–	–	–	2,530	–	9,347	642	–	–
Other non-cash items	6,455	2,000	1,078	1,013	2,747	1,582	–	10	10,280	4,605	385	764
Interest income	687	197	676	145	350	109	–	–	1,713	451	75	118
Interest expense	989	1,136	605	442	480	725	408	98	2,482	2,401	313	334
Net assets	108,249	130,150	55,284	32,036	56,818	42,758	15,787	2,993	236,138	207,937	–	–
Capital expenditure	11,712	4,273	1,524	1,606	1,390	1,731	12,817	40	27,443	7,650	–	–
Liabilities	35,996	59,560	12,357	12,081	25,543	41,088	665	660	74,561	113,389	–	–

BY GEOGRAPHIC REGION (IN EUR '000)

	Continuing business operations										Discontinued business operations	
	premium brands		jeans & workwear		men's & sportswear		Miscellaneous		Total			
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
Germany												
Sales	44,822	47,785	47,575	49,197	43,541	45,119	303	559	136,241	142,660	33,140	60,308
Net Sales	81,528	97,225	38,582	17,531	41,170	29,937	15,658	2,533	176,938	147,226	–	–
Capital expenditure	11,166	3,400	1,141	1,255	1,077	1,235	12,817	40	26,201	5,930	–	–
Western Europe												
Sales	31,151	27,432	15,656	15,565	26,345	26,897	–	–	73,152	69,894	13,111	21,732
Net Sales	9,208	7,880	8,983	8,905	7,037	6,461	–	–	25,228	23,246	–	–
Capital expenditure	27	361	64	106	118	118	–	–	209	585	–	–
Central/Eastern Europe/ Other												
Sales	21,225	17,555	3,725	3,928	11,593	8,109	–	–	36,543	29,592	1,131	1,105
Net Sales	17,513	25,045	7,719	5,600	8,611	6,360	129	460	33,972	37,465	–	–
Capital expenditure	519	512	319	245	195	378	–	–	1,033	1,135	–	–

Audit opinion

We have audited the consolidated financial statements – consisting of the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cashflow statement and the notes to the consolidated financial statements – as well as the Group management report for the fiscal year from December 1, 2005, to November 30, 2006. The preparation of the consolidated financial statements and Group management report in accordance with IFRS as applicable in the EU and the supplementary regulations under commercial law in accordance with section 315a (1) of the German Commercial Code is the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB 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 consolidated 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 Group, as well as expectations regarding 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 consolidated financial statements and the Group management report are assessed primarily on the basis of random tests. The audit comprises the evaluation of the individual financial statements of the companies included in the consolidation, the scope of consolidation, the accounting and consolidation principles applied, the essential assessments of the company's legal representatives, as well as the overall presentation of the single-entity and consolidated financial statements and single-entity and consolidated management reports. 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 consolidated financial statements are in accordance with IFRS, as applicable in the EU, and the supplementary regulations under commercial law in accordance with section 315a (1) of the German Commercial Code, and present a true and fair view of the Group's net assets, financial position and results of operations. The Group management report accurately reflects the consolidated 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

General comments

Our Company's development is most clearly expressed in the consolidated financial statements. We have, therefore, decided to omit, as do many other companies, the inclusion of the separate financial statements of the parent company, Ahlers AG, in the Group's annual report for the sake of clarity. We are happy to provide you with the separate financial statements upon request. They continue to be prepared in accordance with the German Commerical Code (HGB). Please contact:

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Investor Relations
Elverdisser Str. 313
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E-Mail: investor.relations@ahlers-ag.com

The Ahlers AG financial statements are published in the Federal Gazette and are deposited at the commercial register of the district court of Bad Oeynhausen.

Herford, March 9, 2007

Ahlers AG
The Management Board

Dr. Stella A. Ahlers   Oliver Galling   Bruno Leder

History of Ahlers AG

1919	Establishment as a textile wholesale business in the Frisian town of Jever
1932	Company moves to Herford/Westphalia
1975	Start of production shift to low-cost countries
1987	Initial public offering at a share price of DM 300.00
1992	Licensing partnership with pierre cardin, Paris, begins
1996	Acquisition of eterna Beteiligungs-AG, Passau
1998	Ahlers shares are traded in the Official Market segment of the German Stock Exchange
1999	Acquisition of GIN TONIC SPECIAL Mode GmbH, Stuttgart
2000	Acquisition of the rights to the OTTO KERN brand
2004	Inclusion in the Prime Standard segment of the German Stock Exchange
2005	Dr. Stella A. Ahlers, granddaughter of Company founder Adolf Ahlers, is appointed to head the Management Board
2006	Sale of the eterna Group to a financial investor Acquisition of Baldessarini GmbH & Co. KG, Munich

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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