

TO OUR SHAREHOLDERS

In fiscal 2006, ended March 31, 2006, we laid the foundations for new medium-to-long-term growth through such initiatives as the transition to a holding company system and the introduction of a special voluntary retirement scheme. To raise business value by stepping up the pace of growth, we will vigorously enhance the operations of existing businesses, expand our share of Japan's innerwear market, rebuild and strengthen overseas operations, and develop peripheral businesses.



Yoshikata Tsukamoto
Representative Director

Launch of the Holding Company System

In October 2005, the Company changed its name from Wacoal Corp. to Wacoal Holdings Corp., which became the parent company of subsidiaries in the Wacoal Group. Under the holding company system, the roles of Wacoal Holdings and such Group operating subsidiaries as Wacoal are clearly defined. The holding company manages the Group and oversees operating subsidiaries, while the operating subsidiaries implement operations. This system enables the holding company to target growth and deploy resources on a Groupwide basis. Also, the delegation of authority and responsibility to the operating subsidiaries enhances the efficiency and dynamism of operational implementation. Moreover, because it facilitates reorganization by business type or function, the holding company system is the most suited to pursuing business tie-ups and mergers and acquisitions aimed at achieving corporate structural reform to reflect the times.

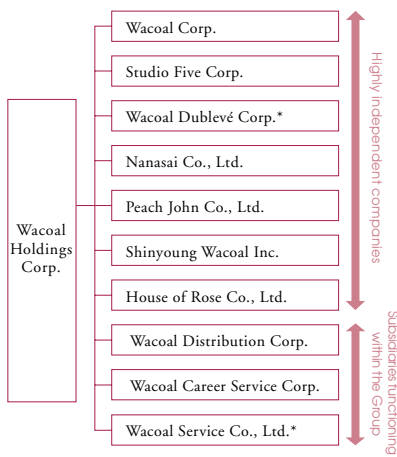
Medium-to-Long-Term Strategies

At present, Wacoal Holdings and its operating subsidiaries are taking steps based on the Corporate Activation Project 21 (CAP21), which sets out medium-to-long-term strategies for enhancing business value. CAP21 (Medium-to-Long-Term Growth Strategies) formulates new business strategies that will enable the Company to make a fresh start and step up the pace of growth. Our transition to the holding company system resulted from the implementation of one such strategy. Guided by CAP21 (Medium-to-Long-Term Growth Strategies), we are reorganizing and strengthening existing businesses. Those efforts focus on rigorously heightening the efficiency of management systems and operational processes to bolster competitiveness and create an unshakable platform for growth. Further, not limiting ourselves to independent business development, we are cultivating businesses in areas that promise growth through the active pursuit of mergers and acquisitions, strategic operational tie-ups, capital tie-ups, and OEM. For example, in June 2006 the Company entered into an operational and capital tie-up with Peach John Co., Ltd., which mainly conducts mail-order sales of innerwear. Very popular among women in their teens and 20s, Peach John has grown rapidly in recent years.

In October 2005, we solicited candidates for our first-ever special voluntary retirement scheme, which resulted in the retirement of 362 employees. Given the extremely high proportion of senior employees in our workforce, we believe we must correct this imbalance and deploy personnel flexibly to heighten competitiveness and spur new growth. In addition, plans call for the reform of personnel and compensation systems based on the introduction of a performance-related salary system that will heighten motivation and bring out employees' skills to the fullest. At the same time, we will begin efforts in earnest to maintain vocational skills and cultivate technical personnel through a project aimed at standardizing the skill-sets of veteran employees.

The Company's overriding management goal is to benefit society at large by enabling women the world over to express their beauty. Also, in our business and management activities we seek to create value and establish a reputation befitting an international brand. Mindful of those management goals, we will implement the strategies of CAP21 (Medium-to-Long-Term Growth Strategies), aiming to surpass consolidated net sales of ¥200 billion, ROE of 6%, and an operating income margin of 9% by the year ending

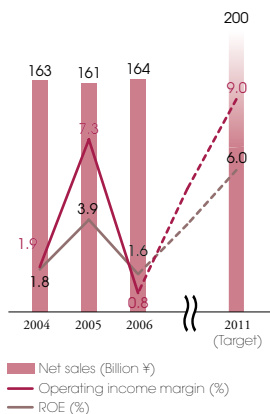
Organization of the Wacoal Group
As of June 30, 2006



* On April 1, 2006, the Company separated the Dublevé sales division from Wacoal Corp. to establish Wacoal Dublevé Corp. On April 1, 2006, Wako Corp., Kisco Corp., and Wacoal Service Co., Ltd., merged and began operations as Wacoal Service Co., Ltd.



CAP21 (Medium-to-Long-Term Growth Strategies) Fiscal 2011 Management Targets



March 2011. To meet those targets, we will implement a strategy of actively investing in businesses to realize new operational expansion. We aim to increase sales in markets in Japan, the United States, China, and Europe. Moreover, we will mull forays into markets in new regions.

Business Conditions

In fiscal 2006, the Japanese economy recovered steadily, with an increase in consumer spending reflecting higher corporate earnings and an improved employment situation. Overseas, the U.S. economy continued to expand. In Asia, economies generally moved from recovery toward expansion. Against that backdrop, the domestic women's fashion apparel industry saw an upturn, partly because weather conditions in the first half of fiscal 2006 were stable compared with the unseasonable weather in the first half of the previous year. Further, in the second half of fiscal 2006 one of the coldest winters in recent years spurred brisk sales of winter apparel. In response to those business conditions, Wacoal—the Group's mainstay business—led efforts to enhance products and develop lineups that catered to demand among consumers. Also, aiming to create new points of contact with customers, Wacoal continued to develop its SPA (specialty store retailer of private label apparel) operations and mail-order catalog sales.

In fiscal 2006, consolidated net sales increased 2.0% year on year, to ¥164.1 billion, operating income was down 88.7%, to ¥1.3 billion, and net income decreased 58.5%, to ¥2.8 billion. The decline in operating income was mainly due to the recording of a government subsidy of ¥7.1 billion in the previous fiscal year and the November 2005 recording of ¥6.9 billion associated with special retirement related expenses. Excluding such temporary increases and decreases in income due to the recording of extraordinary factors, operating income was up 57.0% year on year. The main contributions to higher net sales came from brisk sales of *Wacoal*-brand *Hip Walker** and *Wing*-brand *Style Up Pants**. Also—a focus of our promotional efforts in winter—sales of innerwear products designed for cold weather were favorable, centered on the *Kaiteki NAVI* lineup, which we launched in response to the Japanese government's "Warmbiz" environmental initiative to encourage the wearing of thermal business apparel to minimize the use of heaters in winter. On the other hand, net sales growth was held back by generally sluggish sales of mainstay brassieres and continuing weak mail-order catalog sales. Overseas, business grew favorably, with the exception of operations in France, where consumer spending remained flat. Wacoal America, Inc., posted particularly strong growth, with sales up more than 15% year on year.

* *Hip Walker* and *Style Up Pants* have revolutionary functionality. The products enhance movement by bracing the muscles when the wearer is stationary or walking, which trains and firms up the wearer's body and buttocks. We will advance research and development for lineups offering such functionality, a new product category that we call Style Science.

Corporate Governance

The basic corporate governance policy of Wacoal Holdings is to continue heightening enterprise value by enhancing the efficiency and transparency of management from the perspective of all of the Company's stakeholders. In 2003, we established the Disclosure Committee to strengthen corporate governance and ensure the reliability of financial and other information that we issue. That committee checks the propriety of internal controls and—pursuant to Section 302 of the U.S. Sarbanes-Oxley Act—the propriety of disclosure with respect to annual reports filed with the U.S. Securities and Exchange Commission and the accuracy of disclosed information.

In 2005, due to the discovery of potential defects in certain products sold, the Company provided replacements or refunds. In addition, there was a leakage of the personal information of certain customers of Wacoal's Internet shopping service. To restore customer confidence,



we strengthened our quality control system through stringent implementation of an ISO quality management system and other measures. Further, aiming to deal with overall management risks, we changed our Crisis Management Committee to the Risk Management Committee, under which we established a subcommittee responsible for measures relating to accidents and disasters. Also, we created a system to counteract information security risks based on the establishment of a new department that is dedicated to addressing such risks.

In addition, by introducing the holding company system we clearly separated the role of the holding company, which undertakes Group management and oversees operating subsidiaries, and the role of the operating subsidiaries, which implement operations. We plan further development of systems for oversight and operational implementation.

Returns to Shareholders

Our basic policy for returns to shareholders is to continue steady cash dividend payments, invest actively to enhance earnings and business value, and increase earnings per share. The Company intends to invest retained earnings to increase profit, raise business value, and enhance future returns to shareholders. Those activities will concentrate on the creation of new sales areas through the development of SPA shops, the development of new points of contact with customers, aggressive investment in overseas operations, and investment in new businesses. Despite a significant decrease in earnings associated with such factors as the recording of special retirement related expenses, in the fiscal year under review we maintained cash dividends per ADR at the previous fiscal year's level of ¥100.

Outlook

In Japan, the women's fashion apparel industry promises robust growth as economic recovery bolsters consumer confidence. As the second year of the government's "Coolbiz" environmental initiative, 2006 will likely see stepped-up efforts to encourage the wearing of light business apparel to curb the use of air conditioners in summer. Amid those business conditions, the Company will redouble efforts to develop products that earn customer endorsement by fortifying new strategic product categories, such as Style Science lineups. At the same time, we will decisively implement measures aimed at expanding SPA operations and increasing new points of contact with customers. And, we will accelerate growth by implementing the strategies of CAP21 (Medium-to-Long-Term Growth Strategies).

In the current fiscal year, ending March 31, 2007, we project increases of 2% in consolidated net sales, to ¥168.0 billion; 9.5 times in operating income, to ¥12.6 billion; and 2.8 times in net income, to ¥8.0 billion. The main factors contributing to the significant increase in operating income will be: improved return on sales through the reduction of such items as selling, general and administrative expenses; the absence of the ¥6.9 billion special retirement related expenses, which was temporarily incurred due to the October 2005 implementation of the special voluntary retirement scheme; the absence of a ¥0.6 billion additional retirement benefit expense that was recorded in the year under review stemming from the dissolution of Fukushima Wacoal Sewing Corp.; and lower personnel costs resulting from special voluntary retirement.

In closing, I would like to ask our shareholders and other investors for their continued support and guidance as we do our utmost to further enhance enterprise value.

August 2006

A handwritten signature in black ink, appearing to read "Yoshikata Tsukamoto".

Yoshikata Tsukamoto
Representative Director