RENOWN
INCORPORATED

Annual Report 2007

Profile

We were established as the 100% parent company of Renown Incorporated (established on 25th September, 1947) and D'urban Incorporated (established on 24th July, 1970) by share transfer on 1st March, 2004 and we are listed on the Tokyo Stock Exchange.

The economic environment, particularly employment and income trends, continue to be severe, and a recovery in consumer consumption is likely to take some time. The apparel industry is facing the powerful tide of continual restructuring and realignment.

Under such circumstances, we have restarted management consolidation, aiming to integrate and redistribute the management resources of the two companies, as well as promote group-wide business and profit expansion in order to establish a strong business base as an apparel distributor at an early stage. While on the one hand each company in the group is developing in friendly competition with the other, the entire group hopes to achieve further growth and develop as the Renown D'urban Group by making its presence clearly felt in the market.

Maintaining a permanently proactive attitude towards new developments and having "Sensibility-Creating Company" as a shared, group-wide concept in order to contribute to our customers' fulfillment of their lifestyles through fashion, our whole group is committed to becoming a company that contributes to both society and to its stakeholders. We appreciate your support for the ongoing growth of the Renown D'urban Group.

Business Policies

The Group, as a comprehensive apparel manufacturer of men's and women's clothing, covers all distribution channels, including department stores, GMS and retail stores. We have structured the Group with an eye to our future development by reinforcing overall Group sales, enhancing management efficiency, and thereby building a corporate structure able to weather the difficult business environment.

1. Basic Business Policies

We aim to be a "sensitivity-creating company" that uses fashion to help create a fresh and spiritually rewarding lifestyle for our customers as we constantly take on new challenges. Based on this philosophy, we strive to provide consumers with satisfying products and services while meeting the expectations of our shareholders for better performance.

2. Policy Regarding Profit Sharing

We regard returning profits to shareholders as a matter of vital management importance, and our basic policy is to strive to pay dividends commensurate with Company profits while balancing that with the need to retain sufficient funds to improve the Group's overall financial condition and strengthen our operating foundations. We are in the process of strengthening our profit base so that we can begin paying dividends as soon as possible.

3. Medium- and Long-Term Management Strategies

In January 2006, we put in place a revised medium-term plan to implement reforms through a new Company structure. The plan calls for (1) active investment in growth, (2) reduction of interest-bearing debt, and (3) restructuring the Group and overhauling the organization. We have begun experiencing a measure of success in such areas as reducing long-term debt, improving operating efficiency. We have also aggressively pursued measures to strengthen Group management that were not indicated in the initial plan, such as converting Leilian Co., Ltd., to a consolidated subsidiary and commencing Fila operations. In response to these changing circumstances, we aim to launch strategic businesses onto a growth trajectory and stage a comeback to become a leading company in the apparel industry. We have established a new medium-term plan to achieve these aims. The principle thrusts of this plan are initiatives to (1) actively pursue growth strategies and (2) fortify our management structure. Specific strategies are described below.

To Our Shareholders

Yasuhisa Oka, President

1. Business Results

(1) Overview of business results for the year

During the year under review, the Japanese economy recovered on the strength of improved corporate earnings and higher capital investment. Albeit slight, personal consumption also benefited from a higher propensity to consume, as incomes eased upward. Overall, the economy remained in the recovery phase.

In the apparel industry, March 2006 sales of spring clothing and September sales of autumn clothing were firm, particularly at department stores, providing a source of optimism concerning apparel consumption.

In this economic climate, the Group completed its first year of merged operations. Now handling a full range of men's and women's apparel via the entire range of distribution channels—including department stores, general merchandise stores, retailers and other channels—we sought to boost the Group's overall sales power and raise management efficiency. We fortified our management base to withstand a challenging operating environment and put in place new future-oriented developments. In particular, we put in place merchandising reforms and enhanced our sales efforts to entrench our positioning at department stores. As a result, such core brands as D'urban, Intermezzo, Aquascutum, Ensuite, Simple Life and Charge delivered positive results. We also launched on offensive on such brands for young career people as Aprimary, Glasieux and Rebecca Taylor. We pursued new sales routes at station buildings, fashion buildings and shopping centers, centering on SPA brands, including Mano, French Connection, Arnold Palmer Timeless and Ram. We also continued to develop new sales channels, such as general merchandise stores, with the Nabrud and Hiroko Koshino Homme brands. Furthermore, on March 29, 2006, we converted Leilian Co., Ltd., a women's clothing retailer and former equity-method affiliate, to a consolidated subsidiary.

On a consolidated basis, sales of our mainstay brands remained firm, but due to the impact of unseasonably warm winter weather net sales dipped slightly below our mid-term estimates. Ordinary profit was affected by aggressively higher investment in the London-based Aquascutum Group, but we worked to reduce selling, general and administrative expenses, notably at Renown. Furthermore, such efforts as consolidating production functions as a result of the merger enabled us to reduce the cost of laying in stock, improving the profitability of sales and allowing us to outperform our mid-term estimates significantly. In terms of net loss, we posted extraordinary income owing to the sale of property, plant and equipment—comprising idle assets. On the other hand, we posted a variety of extraordinary losses with the aim of recovering sales profitability and clearing away legacy assets to create a stronger base for growth in upcoming fiscal years. Recording these extraordinary losses, which included losses on the sale of property, plant and equipment, losses on the valuation of shares held in affiliated companies, transfers to the allowance for bad debt and transfers of the reserve for losses on the guarantee of liabilities, caused income to fall below our interim forecast.

The outline of business during the year on a parent-only basis was essentially the same as on a consolidated basis. Even taking into account the impact of the unseasonably warm winter weather, net sales were slightly lower than we had expected at mid-term. As on a consolidated basis, ordinary profit was substantially higher than our mid-term forecast. For the same reasons as described for our consolidated accounts, the clearing away of legacy assets and the resulting posting of extraordinary losses caused us to record a net loss.

As a result, during the year under review consolidated net sales totaled ¥176,281 million, up 47.2% from the preceding term. Ordinary profit jumped 1,542.8%, to ¥1,626 million, whereas the net loss was ¥2,981 million, compared with net income of ¥3,016 million in the preceding term.

On a parent-only basis, we posted net sales of ¥92,475 million, ordinary profit of ¥1,483 million and a net loss of ¥174 million.

(2) Outlook for the next fiscal year

In the upcoming fiscal year, the uncertainty about the direction of the U.S. economy presents an inherent risk. However, personal consumption and capital investment appear firm, and we expect that Japanese economy to maintain stable, although gradual, growth.

Under these circumstances, we aim to regain our position as a leading company in the apparel industry. To this end, as described in our medium-term plan the entire Company will put forth every effort to (1) actively pursue growth strategies and (2) fortify our management structure.

As specific brand strategies, we will (a) maximize our Aquascutum operations, which constitute the Company's largest brand asset, (b) actively cultivate brands for young career people, including Aprimary, Glasieux, Rebecca Taylor, and (c) establish our core men's brands at the base of our business foundation.

For the year ending February 29, 2008, we forecast consolidated net sales of ¥180 billion, ordinary profit of ¥2 billion and net income of ¥0.1 billion.

On a parent-only basis, we forecast net sales of ¥96.5 billion, ordinary profit of ¥0.9 billion and net income of ¥1 billion.

2. Financial Position

At the end of the period under review, cash and cash equivalents on a consolidated basis were ¥7,153 million higher than at the beginning of the term. Cash flows from operating activities provided ¥3,613 million, and cash flows from investing activities provided ¥1,756 million, while cash flows from financing activities used ¥3,519 million. In addition, ¥5,214 million of this cash derived from an increase in the scope of consolidation.

(Cash flows from operating activities)

On a consolidated basis, the Company's cash flows from operating activities generated ¥3,613 million. Although we recorded a ¥721 million loss before income taxes, the posting of impairment losses and a decrease in trade receivables contributed to this figure.

(Cash flows from investing activities)

Cash flows from investing activities provided ¥1,756 million on a consolidated basis, bolstered by proceeds from the sale of property, plant and equipment.

(Cash flows from financing activities)

On a consolidated basis, cash flows from financing activities used cash of ¥3,519 million, owing principally to repayments of long-term debt.

Yasuhisa Oka

Yasuhisa Oka, President


D'URBAN


Aquascutum
LONDON


ensuite

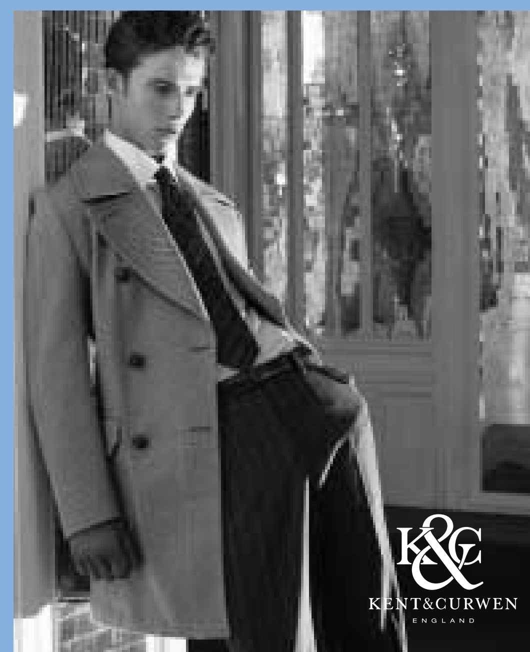

Save 15%
arnold palmer


INTERMEZZO


rebecca taylor


Glasieux


Henry Cotton's


K&C
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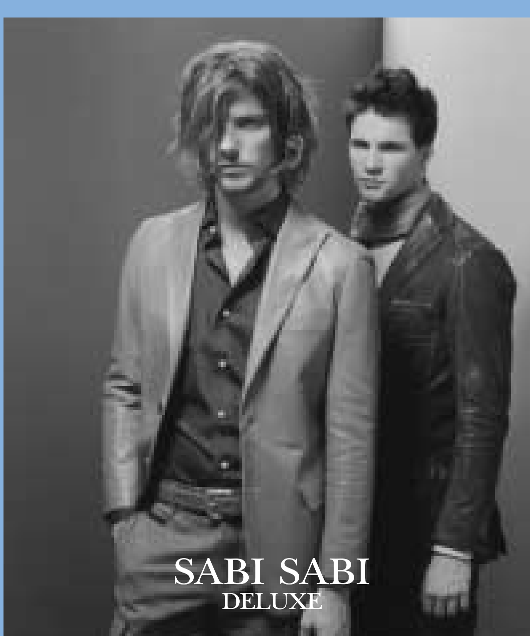
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Consolidated Balance Sheet

For the years ended 28th February 2006 and 2007

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands) (Note 1)
ASSETS	2006	**2007**	**2007**
Current Assets:			
Cash and bank deposits (Note 4)	¥ 23,758	**¥ 31,834**	**$ 269,777**
Marketable securities (Note 5)	169	**189**	**1,599**
Notes and accounts receivable-trade	16,403	**19,804**	**167,835**
Less: Allowance for doubtful accounts	(310)	**(642)**	**(5,440)**
	16,093	**19,162**	**162,395**
Inventories	17,680	**22,807**	**193,285**
Short-term deferred tax assets (Note 8)	2	**1,603**	**13,587**
Other current assets	2,534	**4,412**	**37,386**
Total Current Assets	60,236	**80,007**	**678,029**
Property, Plant and Equipment: (Note 10)			
Land (Note 6)	10,351	**10,303**	**87,309**
Buildings and structures (Note 6)	25,359	**31,425**	**266,316**
Machinery and equipment	3,158	**3,429**	**29,055**
Other	5,205	**5,856**	**49,630**
	33,722	**40,710**	**345,001**
Less: Accumulated depreciation	(23,399)	**(28,225)**	**(239,193)**
	10,323	**12,485**	**105,808**
Total Property, Plant and Equipment	20,674	**22,788**	**193,117**
Intangible Assets			
Goodwill	—	**510**	**4,324**
Other intangible assets	627	**1,902**	**16,116**
Total Intangible Assets	627	**2,412**	**20,440**
Investments and Other Assets:			
Unconsolidated subsidiaries and affiliates (Note 6)	17,311	**2,290**	**19,407**
Investment securities (Note 5)	3,788	**6,484**	**54,948**
Investment in partnership	277	**107**	**903**
Long-term deferred tax assets (Note 8)	63	**718**	**6,088**
Other assets	5,591	**8,225**	**69,703**
Less: Allowance for doubtful accounts	(355)	**(360)**	**(3,048)**
Total Investments and Other Assets	26,675	**17,464**	**148,001**
Total Assets	¥108,212	**¥122,671**	**$1,039,587**

The accompanying notes are an integral part of the statements.

LIABILITIES	Yen (Millions) 2006	Yen (Millions) 2007	U.S. dollars (Thousands) (Note 1) 2007
Current Liabilities:			
Short-term bank loans (Note 6)	¥ 140	¥ 2,546	$ 21,576
Current portion of long-term debt (Note 6)	3,580	4,810	40,763
Notes and accounts payable-trade	12,320	17,924	151,895
Accrued income taxes (Note 8)	577	1,802	15,275
Accrued bonus	347	636	5,388
Provision for loss on guarantees	—	1,000	8,475
Other current liabilities	7,396	8,885	75,299
Total Current Liabilities	24,360	37,603	318,671
Long-term Liabilities:			
Long-term debt (Note 6)	16,143	12,042	102,051
Accrued retirement benefits (Note 7)	4,907	8,625	73,090
Accrued retirement benefits to directors and statutory auditors	251	670	5,676
Long-term deferred tax liabilities (Note 8)	766	557	4,718
Other non-current liabilities	653	926	7,852
Total Long-term Liabilities	22,720	22,820	193,387
Total Liabilities	¥ 47,080	¥60,423	$ 512,058
Minority Interests in Consolidated Subsidiaries	¥ 249	¥ —	$ —
Contingent Liabilities (Note 9)			
SHAREHOLDERS' EQUITY			
Common stock			
Authorized 140,000,000 shares, issued and outstanding			
47,614,501 (47,614,501 for 2006) shares at 28th February 2007	¥ 15,005	¥ —	$ —
Additional paid-in capital	35,367	—	—
Retained earnings	8,920	—	—
Unrealized gain on investments	1,698	—	—
Foreign currency translation adjustments	9	—	—
Less: Treasury stock	(116)	—	—
Total Shareholders' Equity	¥ 60,883	¥ —	$ —
Total Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity	¥108,212	¥ —	$ —
NET ASSETS			
Shareholders' Equity:			
Common stock			
Authorized 140,000,000 shares, issued and outstanding			
47,614,501 shares at 28th February 2007	¥ —	¥ 15,005	$ 127,162
Capital surplus	—	35,438	300,321
Earned surplus	—	1,201	10,183
Less: Treasury stock	—	(95)	(807)
Total Shareholders' Equity	—	51,549	436,859
Valuation and Translation Adjustments:			
Unrealized gain on investments	—	592	5,015
Deferred gain (loss) on hedges	—	(55)	(467)
Foreign currency translation adjustments	—	374	3,171
Total Valuation and Translation Adjustments	—	911	7,719
Minority Interests:	—	9,788	82,951
Total Net Assets	—	62,248	527,529
Total Liabilities and Net Assets	¥ —	¥122,671	$1,039,587

The accompanying notes are an integral part of the statements.

Consolidated Statements of Income

For the years ended 28th February 2006 and 2007

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands) (Note 1)
	2006	2007	2007
Net Sales	¥119,717	¥176,281	$1,493,907
Cost of Sales	65,044	96,642	819,003
Gross profit	54,673	79,639	674,905
Selling, General and Administrative Expenses:			
Advertising	3,962	6,517	55,226
Salaries	23,234	30,875	261,653
Welfare expenses	4,409	6,638	56,251
Other	22,908	32,890	278,729
	54,513	76,920	651,859
Operating income	160	2,719	23,046
Other Income (Expenses):			
Interest income	185	217	1,836
Dividend income	12	36	303
Rental income	465	498	4,222
Exchange gain (loss)	267	(16)	(134)
Interest expense	(1,400)	(745)	(6,317)
Write-down of inventories	(333)	(180)	(1,528)
Gain on sale/disposal of property, plant and equipment, net	6,119	1,530	12,965
Impairment loss (Note 10)	—	(1,415)	(11,990)
Gain on investments in securities	—	107	910
Write-down of investments in securities	(210)	(16)	(132)
Write-down of investments in affiliates	—	(310)	(2,626)
Reserve for allowance for doubtful accounts	—	(333)	(2,818)
Reserve for provision for loss on guarantees	—	(1,000)	(8,475)
Gain on liquidation of pension fund	738	—	—
Special lump-sum retirement benefits	(865)	—	—
Retirement benefits	(271)	(303)	(2,571)
Equity in earnings (loss) of affiliates (Note 2(2))	733	(352)	(2,985)
Other, net	(1,796)	(1,158)	(9,814)
	3,644	(3,440)	(29,154)
Income (loss) before income taxes and minority interests	3,804	(721)	(6,108)
Income Taxes (Note 8):			
Current	(536)	(1,895)	(16,065)
Deferred	(244)	19	161
	3,024	(2,597)	(22,012)
Minority Interests	8	384	3,251
Net Income (loss)	¥ 3,016	¥ (2,981)	$ (25,263)

	Yen	Yen	U.S. dollars (Note 1)
Per Share:			
Net income (loss)	¥ 77.77	¥ (62.74)	$ (0.53)
Weighted Average Number of Shares (thousands)	38,786	47,516	47,516

The accompanying notes are an integral part of the statements.

Consolidated Statement of Changes in Net Assets

For the year ended 28th February 2007

	Number of shares of common stock (thousands)	Yen (Millions) Shareholders' equity: Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total Shareholders' equity
Balance at 28th February 2006	47,615	¥15,005	¥35,367	¥ 8,920	¥(116)	¥59,176
Net loss for the year ended 28th February 2007	—	—	—	(2,981)	—	(2,981)
Decrease in merger	—	—	—	(3,836)	—	(3,836)
Decrease following changes in scope of consolidation	—	—	—	(902)	—	(902)
Acquisition of treasury stock	—	—	—	—	(30)	(30)
Sale of treasury stock	—	—	71	—	51	122
Items other than changes in shareholders' equity	—	—	—	—	—	—
Balance at 28th February 2007	47,615	¥15,005	¥35,438	¥ 1,201	¥ (95)	¥51,549

	Yen (Millions) Revaluation and translation adjustments: Unrealized gain on investments	Gain(loss) on deferred hedges	Foreign currency translation adjustments	Total revaluation and translation adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance at 28th February 2006	¥ 1,698	¥ —	¥ 9	¥1,707	¥ 249	¥61,132
Net loss for the year ended 28th February 2007	—	—	—	—	—	(2,981)
Decrease in merger	—	—	—	—	—	(3,836)
Decrease following changes in scope of consolidation	—	—	—	—	—	(902)
Acquisition of treasury stock	—	—	—	—	—	(30)
Sale of treasury stock	—	—	—	—	—	122
Items other than changes in shareholders' equity	(1,106)	(55)	365	(796)	9,539	8,743
Balance at 28th February 2007	¥ 592	¥(55)	¥374	¥ 911	¥9,788	¥62,248

	Number of shares of common stock (thousands)	U.S.dollars (Thousands) (Note 1) Shareholders' equity: Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total Shareholders' equity
Balance at 28th February 2006	47,615	$127,162	$299,722	$ 75,592	$(984)	$501,492
Net loss for the year ended 28th February 2007	—	—	—	(25,263)	—	(25,263)
Decrease in merger	—	—	—	(32,503)	—	(32,503)
Decrease following changes in scope of consolidation	—	—	—	(7,643)	—	(7,643)
Acquisition of treasury stock	—	—	—	—	(256)	(256)
Sale of treasury stock	—	—	599	—	433	1,032
Items other than changes in shareholders' equity	—	—	—	—	—	—
Balance at 28th February 2007	47,615	$127,162	$300,321	$ 10,183	$(807)	$436,859

	U.S.dollars (Thousands) (Note 1) Revaluation and translation adjustments: Unrealized gain on investments	Gain(loss) on deferred hedges	Foreign currency translation adjustments	Total revaluation and translation adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance at 28th February 2006	$14,387	$ —	$ 73	$14,460	$ 2,113	$518,065
Net loss for the year ended 28th February 2007	—	—	—	—	—	(25,263)
Decrease in merger	—	—	—	—	—	(32,503)
Decrease following changes in scope of consolidation	—	—	—	—	—	(7,643)
Acquisition of treasury stock	—	—	—	—	—	(256)
Sale of treasury stock	—	—	—	—	—	1,032
Items other than changes in shareholders' equity	(9,372)	(467)	3,098	(6,741)	80,838	74,097
Balance at 28th February 2007	$ 5,015	$(467)	$3,171	$ 7,719	$82,951	$527,529

The accompanying notes are an integral part of the statements.

Consolidated Statement of Cash Flows

For the year ended 28th February 2006 and 2007

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands) (Note 1)
	2006	**2007**	**2007**
Cash Flows from Operating Activities:			
Income (loss) before income taxes	¥ 3,804	**¥ (721)**	**$ (6,108)**
Depreciation and amortization	2,305	**2,345**	**19,869**
Impairment loss	—	**1,415**	**11,990**
Increase (decrease) in reserve for doubtful accounts	(35)	**175**	**1,480**
Interest and dividend income	(197)	**(253)**	**(2,140)**
Interest expense	1,400	**745**	**6,317**
Gain on sale/disposal of property, plant and equipment, net	(6,119)	**(1,530)**	**(12,965)**
Gain on sale of investments in securities	—	**(107)**	**(910)**
Write down of investments in securities	210	**16**	**132**
Write down of investments in affiliates	—	**310**	**2,626**
Decrease in accrued bonuses	(44)	**(57)**	**(481)**
Increase (decrease) in accrued retirement benefits	(137)	**743**	**6,293**
Decrease in trade receivables	2,151	**2,767**	**23,448**
Increase (decrease) in inventories	112	**(948)**	**(8,033)**
Decrease in trade notes payable	(183)	**(1,608)**	**(13,624)**
Increase (decrease) in other current assets	123	**(630)**	**(5,338)**
Increase (decrease) in other current liabilities	(2,704)	**1,813**	**15,362**
Equity in earnings (loss) of affiliates	(733)	**352**	**2,985**
Other	(665)	**(364)**	**(3,086)**
	(712)	**4,463**	**37,817**
Interest and dividends received	417	**774**	**6,561**
Interest paid	(1,342)	**(760)**	**(6,439)**
Income taxes paid	(403)	**(864)**	**(7,319)**
Net cash provided by (used in) operating activities	(2,040)	**3,613**	**30,620**
Cash Flows from Investing Activities:			
Increase in time deposits	(13)	**(135)**	**(1,145)**
Proceeds from matured time deposits	105	**82**	**694**
Payments for purchase of property, plant and equipment	(1,266)	**(1,814)**	**(15,371)**
Proceeds from sale of property, plant and equipment	19,637	**3,319**	**28,125**
Payments for purchase of intangible assets	—	**(925)**	**(7,841)**
Payments for investments in securities	(332)	**(59)**	**(501)**
Proceeds from sale of investments in securities	214	**60**	**511**
Payments for investments in subsidiary	—	**(725)**	**(6,140)**
Payments for loans	(1,106)	**(713)**	**(6,045)**
Collections of loans	1,368	**2,704**	**22,917**
Other	160	**(38)**	**(324)**
Net cash provided by investing activities	18,767	**1,756**	**14,880**
Cash Flows from Financing Activities:			
Increase (decrease) in short-term bank loans	(4,211)	**881**	**7,466**
Proceeds from long-term bank loans	11,205	**720**	**6,102**
Repayments of long-term debt	(32,752)	**(5,635)**	**(47,756)**
Proceeds from issuance of new shares of common stock	9,785	**—**	**—**
Payments for purchases of treasury stock	(24)	**(30)**	**(256)**
Proceeds from sale of treasury stock	3,104	**654**	**5,546**
Dividends paid to minority shareholders	(2)	**(109)**	**(923)**
Net cash used in financing activities	(12,895)	**(3,519)**	**(29,821)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	149	**89**	**756**
Increase in Cash and Cash Equivalents	3,981	**1,939**	**16,435**
Cash and Cash Equivalents at Beginning of Year	19,647	**23,628**	**200,240**
Increase due to new consolidated subsidiary	—	**5,214**	**44,184**
Cash and Cash Equivalents at End of Year (Note 4)	¥ 23,628	**¥30,781**	**$260,859**

The accompanying notes are an integral part of the statements.

Notes to the Consolidated Financial Statements

1. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of RENOWN INCORPORATED (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain items presented in the consolidated financial statements have been reclassified for the convenience of readers outside Japan.

Amounts in U.S.dollars are included solely for the convenience of readers outside Japan. The rate of ¥118=U.S.$1, the rate of exchange on 28th February 2007 has been used in translation. The inclusion of such amounts is not intended to imply that the Japanese yen amounts have been or could be readily converted, realized or settled in U.S.dollars at this or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Scope of Consolidation

The Company had 51 (48 for 2006) subsidiaries as at 28th February 2007. In addition, the Company had 8 (12 for 2006) affiliates (whose equity is 20-50% owned by the Company) at the same date.

The accompanying consolidated financial statements include the accounts of 49 (46 for 2006) significant subsidiaries (which include 19 domestic subsidiaries, and 21 Aquascutum group companies, all 21 of which are incorporated in foreign countries, plus 2 subsidiaries each in the United States and Taiwan, 3 subsidiaries in China, and 1 subsidiary each in Singapore and Italy). The Company and its consolidated subsidiaries are together referred to as "the Companies".

A major subsidiary is Leilian Ltd.

The remaining 2 subsidiaries were not consolidated due to immateriality of total assets, net sales, net income and retained earnings in the aggregate compared with those of the consolidated financial statements of the Companies.

9 domestic consolidated subsidiaries have their fiscal year end of 28th February each year, which is the same as that of the Company. However, 10 domestic consolidated subsidiaries and all foreign consolidated subsidiaries have their fiscal year end on 31st December of each year. The consolidation of the accounts of such companies has been done using the balances or amounts as of and for the year ended 31st December each year. Necessary adjustments for consolidation have been made on any significant inter-company transactions of these subsidiaries which may have taken place during the period between 1st January and 28th February.

On 29th March 2006, Leilian Co., Ltd. an affiliate of the Company purchased its treasury stock and decided to retain this, which made Leilian Co.,Ltd. a consolidated subsidiary of the Company.

(1) Purpose of purchase To tighten group governance

(2) Overview of the subsidiary

① Main business: Retail of ready-made women's apparel

② Fiscal year end: 31th. December

③ Main shareholders and their percentages of voting rights

Renown Inc.	56.177%	499,690
Mitsubishi Rayon Co.,Ltd.	34.907%	310,500
Leilian Co.,Ltd.	—	310,500

④ Financial information of prior year-end (31th December 2005)

Sales	60,823 million yen
Gross profit	31,860
Operating income	1,894
Net income	528
Total assets	45,367
Shareholders' equity	34,736
Dividend per share	150 yen

(2) Investments in Unconsolidated Subsidiaries and Affiliates

The equity method of accounting has been applied to investments in 8 (12 for 2006) affiliates at 28th February 2007. Investments in the remaining insignificant unconsolidated subsidiaries are carried at cost. A major affiliate of the Company accounted for by the equity method is Tommy Hilfiger Japan Corporation.

An affiliate has its fiscal year end on 31st March of each year. Other affiliates have their fiscal year end on 31st December of each year.

(3) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows comprise cash in hand, bank deposits which can be withdrawn on demand and short-term investments with an original maturity of three months or less which represent a minor risk of fluctuation in value.

(4) Inventories

Inventories are stated at cost, with cost being determined by the first-in first-out method.

Certain seasonal merchandise remained unsold was written down to its net realizable value.

The recorded write-down was ¥2,200 million and ¥4,506 million ($38,185) as of years ended 28th February 2006 and 2007.

(5) Financial Instruments

Securities with market prices held by the company and its domestic subsidiaries are marked to market and those without market prices are stated at cost, with cost being determined using the moving-average method. Unrealized holding gains or losses are recognized as a separate component of net assets at a net-of-tax amount.

In cases where securities have declined significantly in fair values and such declines in fair values are not deemed temporary, the securities are written down to the fair values and the resulting losses are included in net income for the period.

The company has adopted a policy of hedging its exposure to changes in fair value and cash flows associated with trade receivables, payables denominated in foreign currencies and bank loans. The Company does not hold or issue derivative transactions for speculative purposes.

All derivatives are stated at fair value, with changes in fair value included in net income in the period in which they arise, except for derivatives designated and which qualify as "hedging instruments". Gains or losses arising from changes in the fair value of derivatives designated as "hedging instruments" are deferred and included in net income in the same period in which the gains and losses on the hedged items or transactions are recognized.

The management evaluates the effectiveness of its hedging activities by reference to the relationship between the changes in fair value of the hedging instruments and those of the related hedged items.

(6) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of assets held by the Company and its domestic subsidiaries is generally computed using the declining-balance method, at rates based on the estimated useful lives of assets prescribed by Japanese corporate income tax laws. The range of useful lives is as follows:

	Years
Buildings and structures	3–60
Machinery and equipment	3–20

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(7) Income Taxes

Deferred income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating losses carried forward.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period of enactment.

(8) Net Income (Loss) per Share

Net income (loss) per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year.

(9) Allowance for Doubtful Accounts

To prepare for the risk of possible losses on collection of accounts receivable, loans and other claims, the Company set aside a general reserve based on actual default experience. For specific claims where collection is in doubt, the possibility of recovery is considered on a case-by-case basis and the amount considered uncollectible is set aside and provided for in the reserve.

(10) Provision for Loss on Guarantees

The provision for loss on guarantees is provided for payments related to guaranteed obligations. The amount is estimated based on the financial condition of the guaranteed companies.

(11) Accrued Retirement Benefits

The accrued retirement benefits represent the estimated present value of projected benefit obligations in excess of the fair value of the plan assets. The unrecognized transition amount arising from adopting the new accounting standard is amortized on a straight-line basis over 15 years.

Prior service costs are amortized as incurred using the straight-line method over the estimated years of service of the eligible employees.

Actuarial differences are amortized using the straight-line method over the eligible employees' average remaining period of service starting from the beginning of the subsequent year.

The Company also provides for retirement benefits to its directors and statutory auditors based on the estimated amounts to be paid pursuant to its internal regulations.

(12) Finance Leases

Leases that substantially transfer the ownership of the leased assets are accounted for as capital leases, but leases that do not transfer ownership of the leased assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(13) Reclassification of Accounts

Certain prior year amounts have been reclassified to conform with the current year's presentation.

(14) Remeasurement of the Assets and Liabilities of Subsidiaries

The Company adopts the "full fair value method", which provides that the full portion of the assets and liabilities of the subsidiaries is marked to fair value as of the acquisition of the control.

3. ACCOUNTING CHANGES

(1) Adoption of New Accounting Standard for Impairment of Fixed Assets

On 9th August 2002, the Business Accounting Council of Japan issued "Accounting Standard for Impairment of Fixed Assets", which is effective for the fiscal years beginning on and after 1st April 2005, with earlier adoption permitted. The Accounting Standards Board of Japan issued related practical guidance on 31th October 2003. The Company has adopted this new accounting standard and related practical guidance from the year ended 28th February 2007. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset's net selling price and value in use. Fixed assets include land, buildings and structures, and equipment and fixtures as well as other assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets.

As a result, loss before income taxes and minority interest has increased by ¥1,415 million ($11,990 thousand) in the year ended 28th February 2007.

(2) Accounting Standard for Presentation of Net Assets in The Balance Sheet

Effective from the year ended 28th February 2007, the Company has applied "Accounting Standards for Presentation of Net Assets in The Balance Sheet(Accounting Standards Board of Japan Statement No.5)", and "Implementation Guidance for Accounting Standards for Presentation of Net Assets in The Balance Sheet(Accounting Standards of Japan Guidance No.8)" both issued by the Accounting Standard Board of Japan on 9th December 2005.

The amounts corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥52,515 million($445,045 thousand).

"Net assets" in the balance sheets for this year is presented according to the revision of "Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements".

4. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents at 28th February 2006 and 2007 consisted of:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2006	**2007**	**2007**
Cash and bank deposits	¥23,758	**¥31,834**	**$269,777**
Time deposits with a deposit term of over 3 months	(130)	**(1,052)**	**(8,919)**
Cash and Cash Equivalents	¥23,628	**¥30,782**	**$260,858**

5. SECURITIES

Securities consist of marketable securities and non-marketable securities classified as other securities. The acquisition costs, carrying value and unrealized gain(loss) on marketable securities at 28th February 2006 and 2007 are summarized by type of security as follows:

(a) Other securities with determinable market value

Year ending on 28th February 2006	Yen (Millions) Acquisition cost	Carrying value	Unrealized gain(loss)
(1) Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥1,746	¥3,638	¥1,892
Subtotal	¥1,746	¥3,638	¥1,892
(2) Securities whose carrying value does not exceed their acquisition cost:			
Stocks	¥ 22	¥ 17	¥ (5)
Subtotal	¥ 22	¥ 17	¥ (5)
Total	¥1,768	¥3,655	¥1,887

	Yen (Millions)			U.S. dollars (Thousands)		
Year ending on 28th February 2007	Acquisition cost	Carrying value	Unrealized gain(loss)	Acquisition cost	Carrying value	Unrealized gain(loss)
(1) Securities whose carrying value exceeds their acquisition cost:						
Stocks	**¥2,186**	**¥5,731**	**¥3,545**	**$18,528**	**$48,570**	**$30,042**
Subtotal	**¥2,186**	**¥5,731**	**¥3,545**	**$18,528**	**$48,570**	**$30,042**
(2) Securities whose carrying value does not exceed their acquisition cost:						
Stocks	**¥ 431**	**¥ 357**	**¥ (74)**	**$ 3,650**	**$ 3,023**	**$ (627)**
Subtotal	**¥ 431**	**¥ 357**	**¥ (74)**	**$ 3,650**	**$ 3,023**	**$ (627)**
Total	**¥2,617**	**¥6,088**	**¥3,471**	**$22,178**	**$51,593**	**$29,415**

(b) Sales of securities classified as other securities

The sales and aggregate gain and loss on sales of securities classified as other securities for the years ended 28th February 2006 and 2007 are summarized as follows:

	Yen (Millions) 2006	Yen (Millions) **2007**	U.S. dollars (Thousands) **2007**
Sales proceeds	¥87	**¥33**	**$280**
Gain	¥56	**¥14**	**$122**
Loss	¥ 1	**¥—**	**$ —**

(C) Securities without determinable market value

	Yen (Millions) 2006	Yen (Millions) **2007**	U.S. dollars (Thousands) **2007**
Other securities:			
Unlisted stock	¥147	**¥369**	**$3,124**
Unlisted foreign securities	¥169	**¥189**	**$1,599**

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at 28th February 2006 and 2007 consisted of:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2006	**2007**	**2007**
Loans from banks with a weighted average interest rate of 1.42% for the year ended 28th February 2007	¥140	**¥2,546**	**$21,576**

Long-term debt at 28th February 2006 and 2007 consisted of:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2006	**2007**	**2007**
Loans from banks with weighted average interest rate of 3.33% for the year ended 28th February 2007	¥19,723	**¥16,852**	**$142,814**
Current portion of long-term debt	(3,580)	**(4,810)**	**(40,763)**
Total Long-Term Debt	¥16,143	**¥12,042**	**$102,051**

The aggregate annual maturities of long-term debt as at 28th February 2007 were as follows:

Year ending on 28th February	Yen (Millions)	U.S.dollars (Thousands)
2008	¥ 4,810	$ 40,763
2009	11,352	96,203
2010	690	5,848
	¥16,852	$142,814

The Company's assets pledged as collateral for the bank loans shown above at 28th February 2006 and 2007 were as follows:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2006	**2007**	**2007**
Net book value of property			
Buildings	¥ 3,668	**¥4,225**	**$35,809**
Land	¥ 7,324	**¥6,590**	**$55,850**
Investments in unconsolidated subsidiaries and affiliates	¥14,342	**¥ 529**	**$ 4,485**

7. ACCRUED RETIREMENT BENEFITS AND PENSION PLANS

The Company and its main domestic consolidated subsidiaries have defined benefit pension plans, and internal-funded lump-sum retirement benefit plans for their employees.

According to the Company's rules, employees may, in the event of involuntary retirement, be entitled to additional payments of retirement benefits, which are not reflected in the actuarial calculation of the projected benefit obligations.

The reserve for retirement benefits to employees as at 28th February 2006 and 2007 is analyzed as follows:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2006	**2007**	**2007**
Projected benefit obligations	¥ 7,354	**¥13,841**	**$117,296**
Unrecognized prior service costs	1,078	**957**	**8,113**
Unrecognized actuarial differences	(1,706)	**(924)**	**(7,829)**
Unrecognized transition amount	(1,819)	**(1,625)**	**(13,775)**
Fair value of plan assets	—	**(3,624)**	**(30,715)**
Accrued retirement benefits	¥ 4,907	**¥ 8,625**	**$ 73,090**

Components of net periodic pension costs for the year ended 28th February 2006 and 2007 were as follows:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2006	**2007**	**2007**
Service costs	¥ 980	**¥1,020**	**$ 8,640**
Interest costs	106	**244**	**2,064**
Expected return on plan assets	—	**(65)**	**(547)**
Amortization of prior service costs	(121)	**(121)**	**(1,027)**
Amortization of actuarial differences	195	**273**	**2,316**
Amortization of net transition amount	205	**181**	**1,535**
Additional lump-sum retirement benefits paid	736	**—**	**—**
Net pension costs	¥2,101	**¥1,532**	**$12,981**

Assumptions used in calculation of the above information were as follows:

28th February	2006	**2007**
Discount rate	2.0%	**2.0%**
Expected rate of return on plan assets	—	**—**
Method of attributing the projected benefits to periods of services	straight-line basis	**straight-line basis**
Amortization of prior service costs	10 Years	**10 Years**
Amortization of actuarial differences	9~12 Years	**9~12 Years**
Amortization of net transition amount	15 Years	**15 Years**

In addition, the Company had a reserve for retirement benefits to directors and statutory auditors amounting to ¥251 million and ¥670 million ($5,676 thousand), at 28th February 2006 and 2007.

8. INCOME TAXES

Japanese income taxes applicable to the Company and its domestic consolidated subsidiaries consisted of corporate income tax(national), enterprise tax(local) and resident income taxes(local). The approximate aggregate statutory tax rate was 40.5% for the year ended 28th February 2006. Disclosure of a reconciliation of the statutory and effective tax rate for the year ended 28th February 2007 has been omitted as a result of the company posting a loss before income taxes.

Significant components of deferred tax assets at 28th February 2006 and 2007 were as follows:

28th February	Yen (Millions) 2006	Yen (Millions) 2007	U.S. dollars (Thousands) 2007
Deferred tax assets:			
Inventory write-downs	¥ 608	¥ 2,233	$ 18,924
Allowance for doubtful accounts	550	491	4,166
Accrued retirement benefits	1,496	3,179	26,939
Net operating loss carry forwards	12,449	8,263	70,023
Unrealized income	31	10	82
Others	1,340	3,774	31,983
	16,474	17,950	152,117
Valuation allowance	(16,409)	(15,628)	(132,442)
Net deferred tax assets	¥ 65	¥ 2,322	$ 19,675
Deferred tax liabilities:			
Unrealized gains on investments	766	557	4,718
Others	0	—	—
Net deferred tax liabilities	¥ 766	¥ 557	$ 4,718

Reconciliations of the statutory income tax rate to the effective income tax rates is as follows:
28th February 2006

Statutory income tax rate in Japan	40.5%
Permanently nondeductible expenses	1.3
Permanently nontaxble dividends received	(1.8)
Inhabitant taxes	1.0
Valuation allowance	(20.5)
Effective income tax rate	20.5

9. CONTINGENT LIABILITIES

At 28th February 2006 and 2007 the Companies were contingently liable in aggregate amounts of ¥1,319 million and ¥614 million ($5,207 thousand) for guarantees of indebtedness, principally of unconsolidated subsidiaries and affiliates.

10. IMPAIRMENT LOSS

The Company and its domestic subsidiaries recorded impairment loss on the following asset groups during this fiscal year.

28th February			Yen (Millions) 2007	U.S.dollars (Thousands) 2007
Location	Use	Classification		
Hyogo prefecture and other	Lease assets and other	Land, buildings	¥980	$8,309
Tokyo metropolitan area and other	Retail stores	Buildings, furniture and fixtures, other assets	¥434	$3,681

The Company and its consolidated domestic subsidiaries group their assets based on business unit which they constantly measure their profit and loss.
The Company and its consolidated domestic subsidiaries reviewed certain asset groups for impairment as those asset groups have continously marked operating loss. Asset groups with aggregate estimated future net cash flow less than the book value or with a significant decline in market value were written down to their recoverable value.
The recoverable value of these asset groups was calculated using the net sale value method, for leased assets and the use value for stores. The value of critical asset groups was determined by a real estate appraiser based on Japanese real estate appraisal standards. The use value was calculated based on future net cash flows.

11. ACCOUNTING FOR LEASES

The Company and its domestic subsidiaries have various lease agreements whereby the Company and its domestic subsidiaries act as a lessee.

Finance lease contracts other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method that is applicable to ordinary operating leases.

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2006	**2007**	**2007**
Finance Lease Contracts:			
The scheduled maturities of future lease rental payments on such lease contracts:			
Due within one year	¥ 480	**¥ 732**	**$ 6,206**
Due after more than one year	810	**1,249**	**10,586**
	¥1,290	**¥1,981**	**$16,792**
Allowance for impairment loss on leased property	—	**¥ 89**	**$ 759**
Lease rental expenses for the year	¥ 670	**¥ 878**	**$ 7,440**
Reverse of allowance for impairment loss on leased property	—	**¥ 47**	**$ 396**
Accumulated depreciation	¥ 611	**¥ 756**	**$ 6,408**
Amount representing interest	¥ 54	**¥ 81**	**$ 683**
Impairment loss	—	**¥ 136**	**$ 1,155**
Leased Assets (Buildings):			
Assumed acquisition cost	¥ 788	**¥ 566**	**$ 4,795**
Assumed accumulated depreciation	(310)	**(251)**	**(2,125)**
Assumed accumulated impairment loss	—	**(136)**	**(1,155)**
Assumed net book value	¥ 478	**¥ 179**	**$ 1,515**
Leased Assets (Machinery and Equipment):			
Assumed acquisition cost	¥ 446	**¥1,095**	**$ 9,276**
Assumed accumulated depreciation	(183)	**(689)**	**(5,836)**
Assumed net book value	¥ 263	**¥ 406**	**$ 3,440**
Leased Assets (Other):			
Assumed acquisition cost	¥1,051	**¥2,216**	**$18,776**
Assumed accumulated depreciation	(537)	**(978)**	**(8,287)**
Assumed net book value	¥ 514	**¥1,238**	**$10,489**

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2006	**2007**	**2007**
Operating Lease Contracts:			
The scheduled maturities of future lease rental payments on such lease contracts:			
Due within one year	¥ 1,642	**¥ 1,685**	**$ 14,276**
Due after more than one year	15,739	**15,718**	**133,204**
	¥17,381	**¥17,403**	**$147,480**

12. BUSINESS OPERATIONS AND RELATED PARTY TRANSACTIONS

Major transactions of the director for the year ended 28th February 2006 and 2007 were as follows:

							Transactions			Resulting account balances			
			Paid-in capital Yen	Principal business or	Percentage of direct equity ownership	Description of	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)		Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
Relationship	Name	Address	(Millions)	occupation	(%)	transactions	2006	**2007**	**2007**	Account	2006	**2007**	**2007**
director	Takaaki Kawashima	—	—	director	—	Payments for advisory fees	¥100	**¥100**	**$847**	—	—	**—**	**—**

Report of Independent Auditors

To the Board of Directors and Shareholders of RENOWN INCORPORATED

We have audited the accompanying consolidated balance sheet of RENOWN INCORPORATED and its subsidiaries as of February 28, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RENOWN INCORPORATED and its subsidiaries as of February 28, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note3, effective for the year ended February 28, 2007, RENOWN INCORPORATED adopted the accounting for impairment of fixed assets.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

Misuzu Audit Corporation

Misuzu Audit Corporation
Tokyo, Japan

May 24, 2007

RENOWN INCORPORATED
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Telephone: +81(3)5496-8485
Facsimile: +81(3)5496-8681

Capital
¥15,005 million

Common Stock
Authorized: 140,000,000shares
Issued: 47,614,501
Number of shareholders: 68,868

Stock Exchange Listings
Tokyo stock exchanges

Transfer Agent of Common Stock
The Sumitomo Trust & Banking Co.,Ltd

Subsidiaries and Affiliates
Renown Inx Incorporated
Aquascutum Group PLC
REDU Interface Incorporated
Leilian Co., Ltd.

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