RENOWN INCORPORATED

Annual Report 2006

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 company was founded on 1 March 2004 as a joint holding company of Renown Incorporated and D'urban Incorporated. In the two years since its founding, the company has consolidated the management resources of these two companies to expand the business while reorganizing the Group to boost profitability and implement corporate reforms.

Last November, our Group implemented a capital increase of approximately 10 billion yen through third-party allotment as part of our strategy to secure funds for active capital investment in our future business expansion.

In addition, in January this year, we disposed of the fixed assets of our distribution center, Narashino Intelligent Junction. This has enabled us to strengthen our financial standing by downsizing our balance sheet and reducing our interest-bearing debt, thus diminishing our interest payment burden.

Based on the above, on March 1 we established up a new company, RENOWN INCORPORATED, by merging our company with Renown Incorporated and D'urban Incorporated., to facilitate more timely and effective management-strategy decision making and business promotion.

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 our 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 importance and our basic policy is to strive to pay dividends commensurate with company profit 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 process of strengthening our profit base so that we can begin paying dividends as soon as possible.

3. Medium and long-term strategies

In response to changes in the industry and market environment, in January 2006, we revised the Group's medium-term plan with a view to creating a more muscular corporation and adopted a new medium-term plan to run through February 2009. Key planks of the plan are (1) active investment in growth strategies, (2) reduction of interest-bearing debt, (3) restructuring of the Group and overhauling of the organization. Specific strategies are described below.

To Our Shareholders

Yasuhisa Oka, President

1.Business Results

(1)Overview of business results for the year

The Japanese economy during this year showed gradual recovery, based on improved corporate profits and increased capital investments. Despite some future risk factors, such as the pension issue and tax reforms, consumer spending also showed signs of recovery.

In the apparel industry, spring clothing faced an extremely severe sales environment due to the cold weather at the beginning of this fiscal year. With the diversification of consumer trends, apparel consumption in general did not show full recovery, but there were some good signs, such as higher consumer spending and robust sales of winter clothing thanks to the cold winter.

Against this background, the Group, upon completion of its second term after its consolidation, has promoted business expansion by focusing the management resources of Renown Incorporated and D'urban Incorporated enhanced profitability by restructuring Group companies, pursued corporate reforms, expanded the scope of business through brand strategies, and diversified sales channels to address diversified consumer trends. Specifically, we have initiated reforms of our merchandiser program and implemented sales-enhancement strategies to establish a firm position in the department-store channel for both our men's and women's apparel businesses. This has resulted in steady sales of our main brands of men's apparel, *D'urban* and *Aquascutum Men's*, and robust sales of *Intermezzo*, *EX Club*, *Element of Simple Life*, and *Henry Cotton's*. In women's apparel, our main brand, *Ensuite*, had steady sales, while sales of *Rebecca Taylor* and *Arnie Arnold Palmer* were strong. In addition, we continue to exploit new sales channels, such as station buildings, fashion buildings and shopping centers, with our brands for young career people, namely *Mano*, *Sabi Sabi Deluxe*, *French Connection*, *Rebecca Taylor*, *Arnie Arnold Palmer* and *Arnold Palmer Timeless*, and GMS channels with *Nabrud* and *Hiroko Koshino Homme*. We have also had an impact on the career fashion market with our brand *Aprimary*.

Last November, our Group implemented a capital increase of approximately 10 billion yen through third-party allotment, as part of our strategy to secure active investment capital for future business expansion.

In January this year, we disposed of the fixed assets of our distribution center, Narashino Intelligent Junction. This has enabled us to strengthen our financial standing by downsizing our balance sheet and cutting interest-bearing debt, thus reducing our interest-payment burden.

Based on the above, on March 1 we established a new company, RENOWN INCORPORATED, by merging our company with Renown Incorporated and D'urban Incorporated to facilitate more timely and effective management strategy decision-making and business development.

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

The main brands of Renown Incorporated, our former wholly owned subsidiary, such as *Simple Life*, *Aquascutum Ladies'* and *J. Crew*, had sluggish sales, despite the firm women's winter clothing market aided by the cold weather. However, spring clothing started off with strong sales. As a result, net sales exceeded our interim forecast while the ordinary loss was in line with the forecast. The company recorded positive net income due to the ¥5,948 million proceeds from the sale of Narashino Intelligent Junction, the distribution center owned by a subsidiary of Renown Incorporated.

As a result, consolidated net sales of Renown Incorporated were ¥80,891 million, with an ordinary loss of ¥1,420 million and net income of ¥1,919 million.

Net sales, ordinary profit and net profit of D'urban Incorporated, our former wholly owned subsidiary, were all at the level of our interim forecast due to the firm men's apparel market, thanks to the cold winter, as well as expansion of our market share in the men's clothing market.

As a result, consolidated net sales of D'urban Incorporated. were ¥37,705 million, with ordinary profit of ¥1,845 million and net profit of ¥1,943 million.

The Group as a whole had consolidated net sales this fiscal year of ¥119,717 million (-4.0% YoY), ordinary profit of ¥99 million (-90.3% YoY) and net profit of ¥3,016 million (net loss of ¥958 million in the previous FY).

On a parent-only basis, we recorded ¥215 million as a stock issuance cost related to the capital increase by third party allotment. Net sales came to ¥2,098 million (+230.8% YoY), with an ordinary loss of ¥176 million (ordinary profit of ¥127 million in the previous FY) and net loss of ¥229 million (net profit of ¥54 million in the previous FY).

(2)Outlook for the next fiscal year

In the next fiscal year, economic recovery seems likely to gather pace, with the virtuous cycle of consumer spending and corporate capital investments becoming stronger. Although risks remain, such as overseas economies and the strong yen, a sustainable economic expansion is under way and the Japanese economy is moving towards a new path for growth.

Given these conditions, and in order to create a durable corporate structure adaptable to the changing industry and market environment, the Group inaugurated its medium-term management plan in January to run through the fiscal year ending February 2009. The Group will focus its efforts on (1) active investment in growth, (2) reduction of interest-bearing debt, (3) Group reorganization and improvement of organizational structure.

As for specific brand strategies, we will take measures to (1) further expand sales of our main brand, *Aquascutum*, (2) aggressively expand our market share in the men's clothing market by deploying new brands such as *Niblick* and *Rochas*, as well as through our main brands *D'urban* and *Aquascutum Men's*, (3) from the standpoint of selection and concentration, focus on *Ensuite* and *Aquascutum Ladies'*, which are competitive in the department-store married and single women's sector, and introduce our new brand *Le Maghreb* to the next-generation single women's zone, (4) further expand business of brands such as *Arnold Palmer Timeless* and *Mano* in new distribution channels, (5) focus on expanding *Aprimary* as a brand for young working women, and tackle the market with *Glasieux*, our first original brand for women in their twenties, (6) proactively promote M&A, alliances and collaboration to fill out our brand portfolio.

As a start on (6) above, we consolidated Leilian Co., Ltd., previously an equity-method affiliate, into our Group in March this year. We will also be focusing on new businesses such as *Anya Hindmarch* from February this year, a designer's brand of handbags, and *Fila* from April this year, a casual sportswear brand.

Our estimates of consolidated results of the new RENOWN INCORPORATED. for the fiscal year ending February 2007 are net sales of ¥182,000 million, ordinary profit of ¥2,300 million and net profit of ¥500 million, with Leilian Co., Ltd. becoming a consolidated subsidiary.

On a parent-only basis, our estimates are net sales of ¥95,000 million, ordinary profit of ¥800 million, and net profit of ¥300 million.

2.Financial position

At the end of the period under review, cash and cash equivalents on a consolidated basis were ¥3,981 million higher than those posted at the beginning of the period. Net cash provided by operating activities decreased ¥2,040 million, net cash used in investing activities increased ¥18,767 million and net cash used in financing activities decreased ¥12,895 million.

(Cash flows from operating activities)

Net cash obtained from operating activities for this fiscal year decreased by ¥2,040 million mainly because of the sale of tangible fixed assets despite the booking of ¥3,804 million as net income before taxes.

(Cash flows from investing activities)

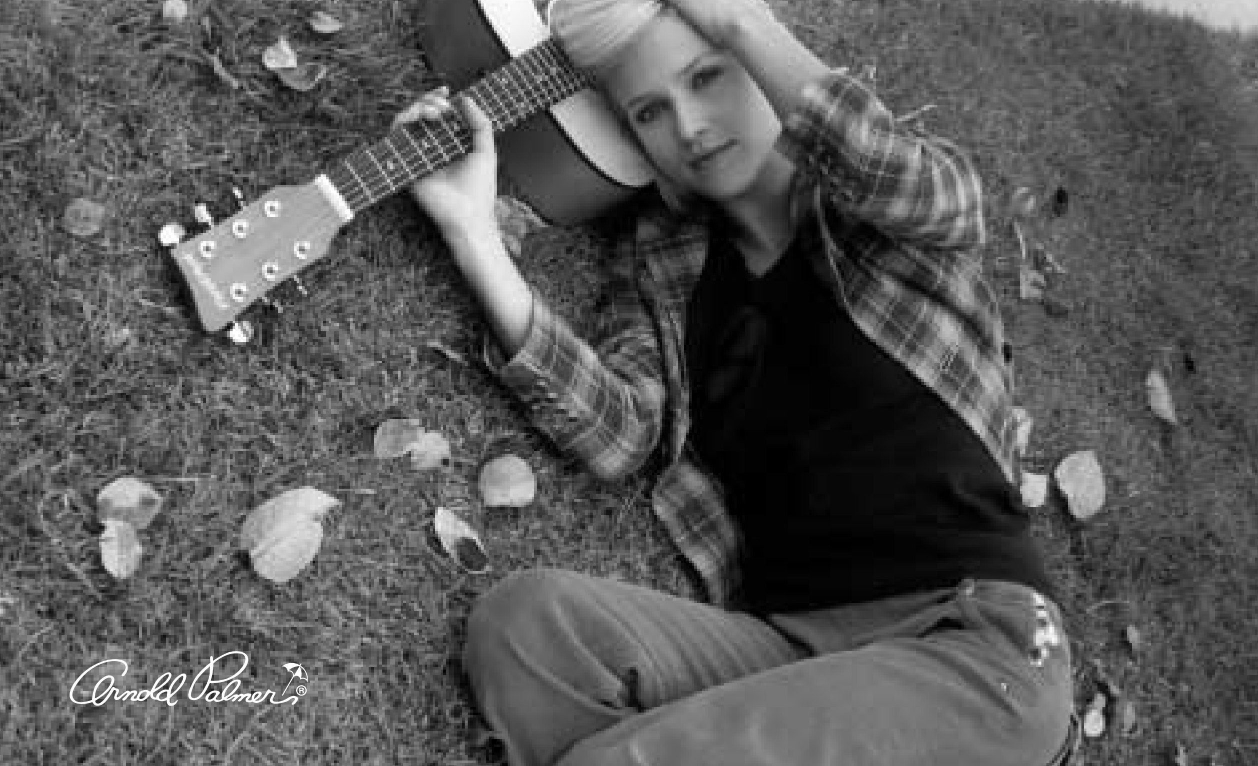
Net cash used in investing activities increased by ¥18,767 million mainly because of the sale of tangible fixed assets.

(Cash flows from financing activities)

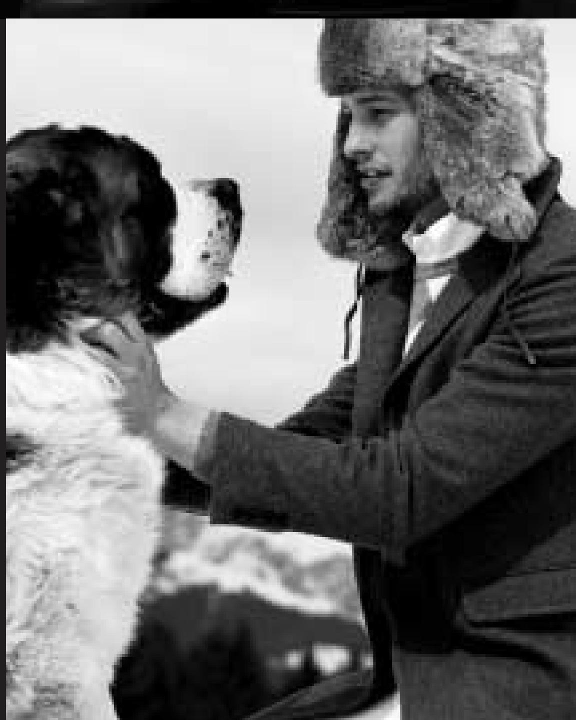
Net cash used in financing activities decreased ¥12,895 million mainly because of the repayment of borrowings, despite income from the issuance of shares.

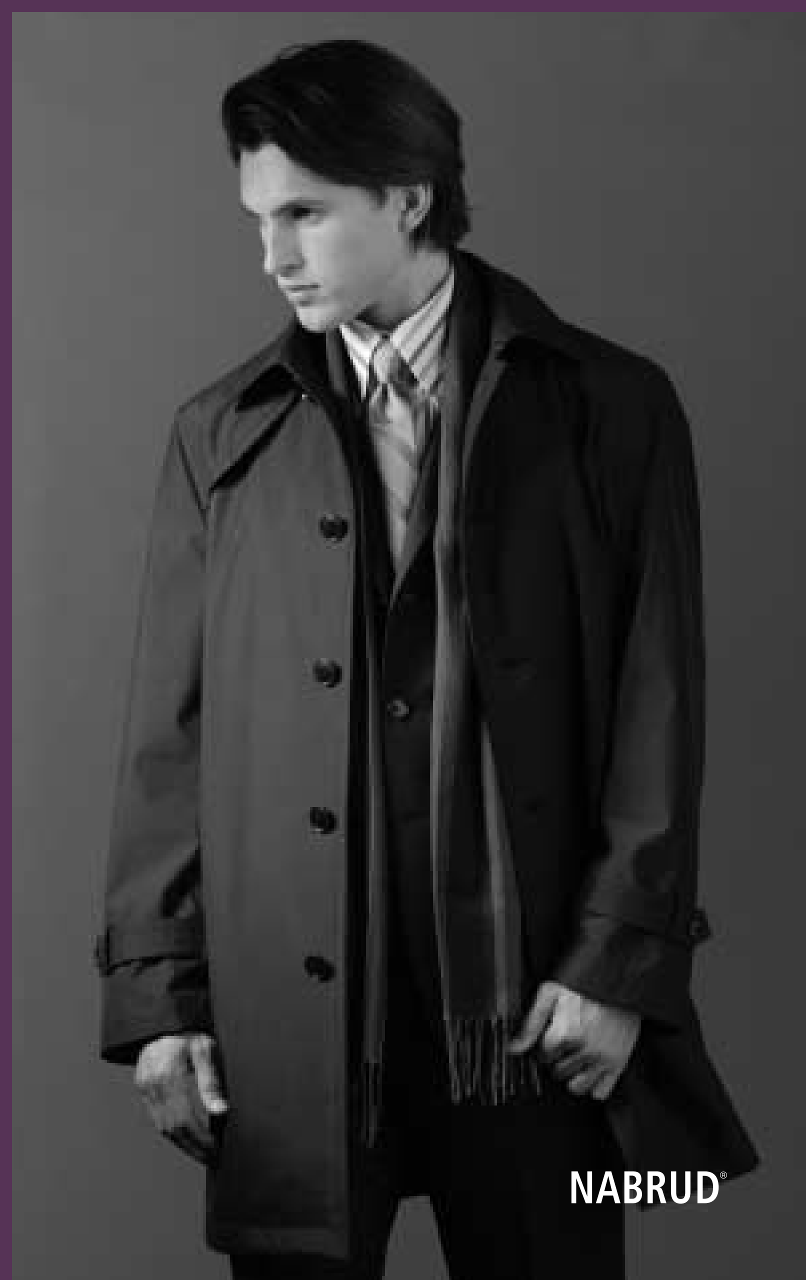
Yasuhisa Oka

Yasuhisa Oka, President

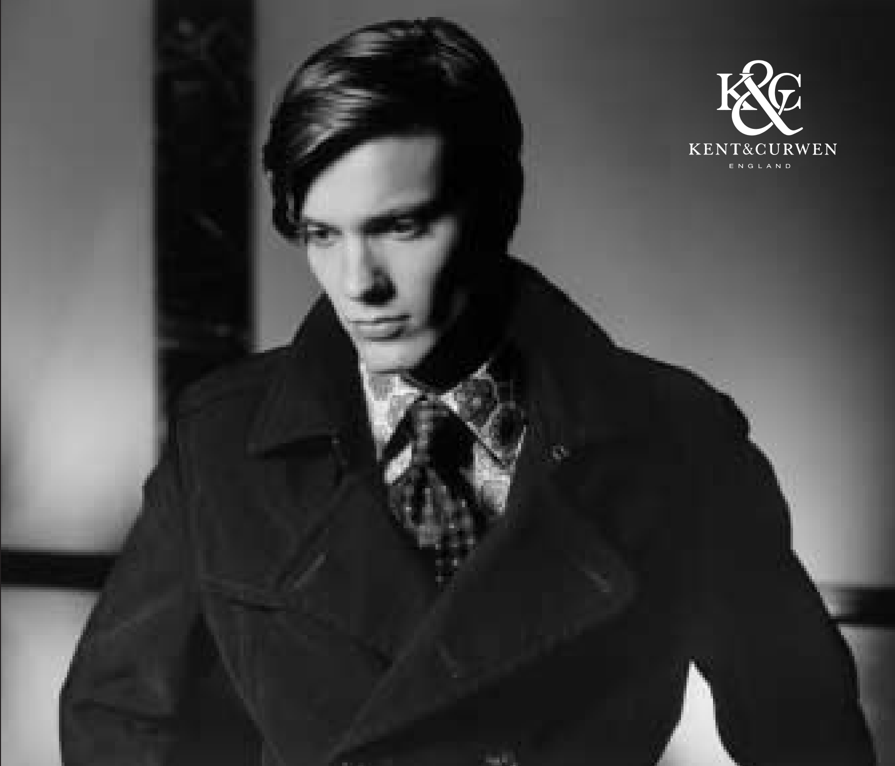


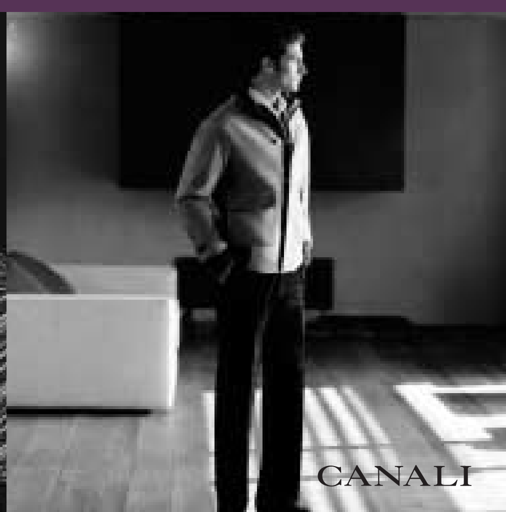
RENOWN INCORPORATAED Design & responsibility

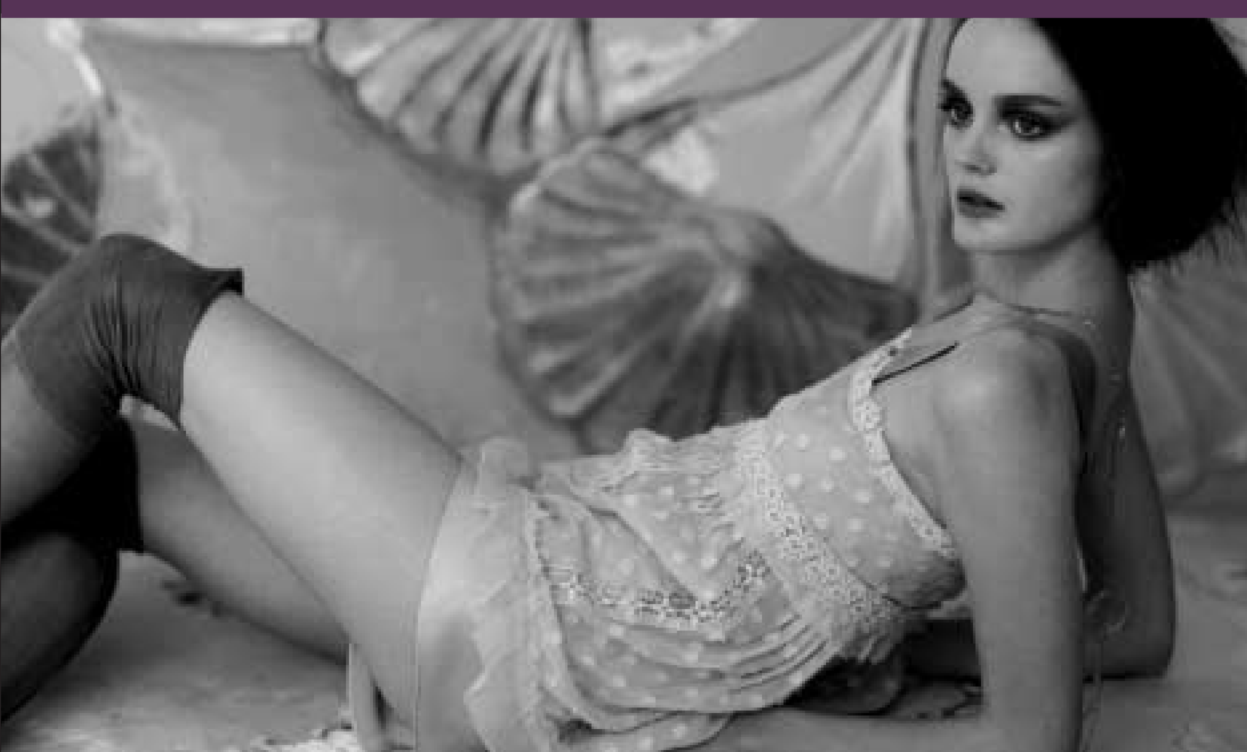




HenryCottons







rebecca taylor

Consolidated Balance Sheet

For the years ended 28th February 2005 and 2006

ASSETS	Yen (Millions) 2005	Yen (Millions) 2006	U.S. dollars (Thousands) (Note 1) 2006
Current Assets:			
Cash and bank deposits (Note 3)	¥ 19,869	¥ 23,758	$204,813
Marketable securities (Note 4)	221	169	1,458
Notes and accounts receivable-trade (Note 9)	18,556	16,403	141,408
Less: Allowance for doubtful accounts	(234)	(310)	(2,673)
	18,322	16,093	138,735
Inventories	17,703	17,680	152,415
Other current assets	2,574	2,536	21,854
Total Current Assets	58,689	60,236	519,275
Property, Plant and Equipment:			
Land (Note 5)	16,113	10,351	89,235
Buildings and structures (Note 5)	45,347	25,359	218,616
Machinery and equipment	3,208	3,158	27,222
Other	5,423	5,205	44,872
	53,978	33,722	290,710
Less: Accumulated depreciation	(34,776)	(23,399)	(201,719)
	19,202	10,323	88,991
Total Property, Plant and Equipment	35,315	20,674	178,226
Intangible Assets	662	627	5,406
Investments and Other Assets:			
Unconsolidated subsidiaries and affiliates (Note 5)	16,620	17,311	149,228
Investment securities (Note 4)	2,548	3,788	32,656
Investment in partnership	304	277	2,391
Long-term deferred tax assets	617	63	542
Other assets	6,197	5,591	48,194
Less: Allowance for doubtful accounts	(466)	(355)	(3,060)
Total Investments and Other Assets	25,820	26,675	229,951
Deferred Assets	65	—	—
Total Assets	¥120,551	¥108,212	$932,858

The accompanying notes are an integral part of the statements.

LIABILITIES	Yen (Millions) 2005	Yen (Millions) 2006	U.S. dollars (Thousands) (Note 1) 2006
Current Liabilities:			
Short-term bank loans (Note 5)	¥ 3,922	**¥ 140**	**$ 1,207**
Current portion of long-term debt (Note 5)	25,706	**3,580**	**30,863**
Notes and accounts payable-trade	12,452	**12,320**	**106,203**
Accrued income taxes (Note 8)	442	**577**	**4,971**
Accrued bonus	392	**347**	**2,993**
Other current liabilities	10,238	**7,396**	**63,761**
Total Current Liabilities	53,152	**24,360**	**209,998**
Long-term Liabilities:			
Long-term debt (Note 5)	15,572	**16,143**	**139,160**
Accrued retirement benefits (Note 6)	5,037	**4,907**	**42,304**
Accrued retirement benefits to directors and statutory auditors	323	**251**	**2,162**
Long-term deferred tax liabilities	266	**766**	**6,606**
Other non-current liabilities	1,834	**653**	**5,629**
Total Long-term Liabilities	23,032	**22,720**	**195,861**
Total Liabilities	¥ 76,184	**¥ 47,080**	**$405,859**
Minority Interests in Consolidated Subsidiaries	¥ 310	**¥ 249**	**$ 2,149**
Contingent Liabilities (Note 9)			

SHAREHOLDERS' EQUITY

Common stock			
Authorized 140,000,000 shares, issued and outstanding			
47,614,501 (37,315,801 for 2005) shares at 28th February 2006	¥ 10,000	**¥ 15,005**	**$129,355**
Additional paid-in capital	30,430	**35,367**	**304,890**
Retained earnings	5,525	**8,920**	**76,896**
Unrealized gain on investments	602	**1,698**	**14,635**
Foreign currency translation adjustments	(242)	**9**	**75**
Less: Treasury stock	(2,258)	**(116)**	**(1,001)**
Total Shareholders' Equity	¥ 44,057	**¥ 60,883**	**$524,850**
Total Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity	¥120,551	**¥108,212**	**$932,858**

The accompanying notes are an integral part of the statements.

Consolidated Statements of Income

For the years ended 28th February 2005 and 2006

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands) (Note 1)
	2005	2006	2006
Net Sales	¥124,732	¥119,717	$1,032,047
Cost of Sales	68,427	65,044	560,724
Gross profit	56,305	54,673	471,323
Selling, General and Administrative Expenses:			
Advertising	3,442	3,962	34,154
Salaries	23,878	23,234	200,297
Welfare expenses	4,865	4,409	38,004
Other	22,169	22,908	197,485
	54,354	54,513	469,940
Operating income	1,951	160	1,383
Other Income (Expenses):			
Interest income	176	185	1,596
Dividend income	58	12	104
Rental income	538	465	4,012
Royalty income	178	—	—
Exchange gain (loss)	(102)	267	2,300
Interest expense	(1,421)	(1,400)	(12,070)
Write-down of inventories	—	(333)	(2,871)
Gain (loss) on sale/disposal of property, plant and equipment, net	(419)	6,119	52,748
Loss on sale of investments in securities	(14)	—	—
Write-down of investments in securities	(102)	(210)	(1,809)
Loss on liquidation of affiliated company (Note 7)	(710)	—	—
Gain on liquidation of pension fund	—	738	6,365
Special lump-sum retirement benefits	—	(865)	(7,455)
Retirement benefits	(387)	(271)	(2,337)
Equity in earnings of affiliates (Note 2(2))	176	733	6,318
Other, net	(551)	(1,796)	(15,487)
	(2,580)	3,644	31,414
Income (loss) before income taxes and minority interests	(629)	3,804	32,797
Income Taxes (Note 8):			
Current	(311)	(536)	(4,619)
Deferred	(8)	(244)	(2,109)
	(948)	3,024	26,069
Minority Interests	10	8	66
Net Income (loss)	¥ (958)	¥ 3,016	$ 26,003

	Yen	Yen	U.S. dollars (Note 1)
Per Share:			
Net income (loss)	¥ (27.61)	¥ 77.77	$ 0.67
Weighted Average Number of Shares (thousands)	34,680	38,786	38,786

The accompanying notes are an integral part of the statements.

Consolidated Statement of Shareholders' Equity

For the years ended 28th February 2005 and 2006

		Yen (Millions)		
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings
Balance at 1st March 2004	37,316	¥10,000	¥34,157	¥(44,902)
Net loss for the year ended 28th February 2005	—	—	—	(958)
Increase due to capital reduction	—	—	18,646	20,254
Increase due to stock transfer	—	—	8,813	—
Changes in treasury stock	—	—	152	—
Transfer to retained earnings	—	—	(31,338)	—
Transfer from additional paid-in capital	—	—	—	31,338
Increase due to inclusion of newly consolidated subsidiaries	—	—	—	4
Decrease following changes in accounting standards at foreign consolidated subsidiaries	—	—	—	(211)
Balance at 28th February 2005	37,316	¥10,000	¥30,430	¥ 5,525
Net income for the year ended 28th February 2006	**—**	**—**	**—**	**3,016**
New shares issued	**10,299**	**5,005**	**4,995**	**—**
Changes in treasury stock	**—**	**—**	**467**	**—**
Transfer to retained earnings	**—**	**—**	**(525)**	**—**
Transfer from additional paid-in capital	**—**	**—**	**—**	**525**
Decrease following changes in accounting standards at a foreign affiliated company	**—**	**—**	**—**	**(146)**
Balance at 28th February 2006	**47,615**	**¥15,005**	**¥35,367**	**¥ 8,920**

		U.S. dollars (Thousands) (Note 1)		
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings
Balance at 28th February 2005	37,316	$ 86,207	$262,329	$47,634
Net income for the year ended 28th February 2006	**—**	**—**	**—**	**26,003**
New shares issued	**10,299**	**43,148**	**43,059**	**—**
Income on buyback and retirement of treasury stock	**—**	**—**	**4,026**	**—**
Transfer to retained earnings	**—**	**—**	**(4,524)**	**—**
Transfer from additional paid-in capital	**—**	**—**	**—**	**4,524**
Decrease following changes in accounting standards at a foreign affiliated company	**—**	**—**	**—**	**(1,265)**
Balance at 28th February 2006	**47,615**	**$129,355**	**$304,890**	**$76,896**

The accompanying notes are an integral part of the statements.

Consolidated Statement of Cash Flows

For the years ended 28th February 2005 and 2006

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands) (Note 1)
	2005	**2006**	**2006**
Cash Flows from Operating Activities:			
Income (loss) before income taxes	¥ (629)	**¥ 3,804**	**$ 32,797**
Depreciation and amortization	2,307	**2,305**	**19,874**
Decrease in allowance for doubtful accounts	(232)	**(35)**	**(303)**
Interest and dividend income	(234)	**(197)**	**(1,700)**
Interest expense	1,421	**1,400**	**12,070**
Loss (gain) on sale/disposal of property, plant and equipment, net	248	**(6,119)**	**(52,748)**
Loss on sale of investments in securities	14	**—**	**—**
Write-down of investments in securities	102	**210**	**1,809**
Decrease in accrued bonuses	(4)	**(44)**	**(383)**
Increase (decrease) in accrued retirement benefits	802	**(137)**	**(1,183)**
Decrease in trade receivables	551	**2,151**	**18,547**
Decrease in inventories	570	**112**	**965**
Decrease in trade notes payable	(1,064)	**(183)**	**(1,577)**
Decrease in other current assets	77	**123**	**1,058**
Increase (decrease) in other current liabilities	979	**(2,704)**	**(23,315)**
Equity in earnings of affiliates	(176)	**(733)**	**(6,318)**
Other	1,111	**(665)**	**(5,734)**
	5,843	**(712)**	**(6,141)**
Interest and dividends received	411	**417**	**3,600**
Interest paid	(1,368)	**(1,342)**	**(11,567)**
Income taxes paid	(87)	**(403)**	**(3,474)**
Proceeds from refund of income taxes	81	**—**	**—**
Net cash provided by (used in) operating activities	4,880	**(2,040)**	**(17,582)**
Cash Flows from Investing Activities:			
Increase in time deposits	(112)	**(13)**	**(109)**
Proceeds from matured time deposits	7	**105**	**903**
Payments for purchase of property, plant and equipment	(1,961)	**(1,266)**	**(10,913)**
Proceeds from sale of property, plant and equipment	417	**19,637**	**169,281**
Payments for investments in securities	—	**(332)**	**(2,860)**
Proceeds from sale of investments in securities	—	**214**	**1,844**
Payments for loans	(448)	**(1,106)**	**(9,533)**
Collections of loans	693	**1,368**	**11,794**
Other	(357)	**160**	**1,378**
Net cash provided by (used in) investing activities	(1,761)	**18,767**	**161,785**
Cash Flows from Financing Activities:			
Decrease in short-term bank loans	(459)	**(4,211)**	**(36,302)**
Proceeds from long-term bank loans	5,530	**11,205**	**96,595**
Repayments of long-term debt	(9,490)	**(32,752)**	**(282,346)**
Proceeds from issuance of new shares of common stock	—	**9,785**	**84,350**
Payments for purchases of treasury stock	(41)	**(24)**	**(206)**
Proceeds from sale of treasury stock	320	**3,104**	**26,763**
Dividends paid	(2)	**—**	**—**
Dividends paid to minority shareholders	(20)	**(2)**	**(21)**
Net cash used in financing activities	(4,162)	**(12,895)**	**(111,167)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(50)	**149**	**1,288**
Increase (decrease) in Cash and Cash Equivalents	(1,092)	**3,981**	**34,324**
Cash and Cash Equivalents at Beginning of Year	20,739	**19,647**	**169,369**
Cash and Cash Equivalents at End of Year (Note 3)	¥ 19,647	**¥ 23,628**	**$ 203,693**

The accompanying notes are an integral part of the statements.

1. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of RENOWN D'URBAN HOLDINGS 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 from 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 ¥116 U.S.$1, the rate of exchange on 28th February 2006 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 48 (52 for 2005) subsidiaries as at 28th February 2006. In addition, the Company had 12 (12 for 2005) affiliates (whose equity is 20-50% owned by the Company) at the same date.
The accompanying consolidated financial statements include the accounts of 46 (50 for 2005) significant subsidiaries (which include 17 domestic subsidiaries, and 21 Aquascutum group companies, all 21 of which are incorporated in foreign countries, plus 2 subsidiaries in the United States, 3 subsidiaries in China, and 1 subsidiary each in Singapore, Taiwan and Italy). The Company and its consolidated subsidiaries are together referred to as "the Companies".
Major subsidiaries are Renown Incorporated and D'urban Incorporated.
The remaining 2 subsidiaries were not consolidated due to the immateriality of their total assets, net sales, net income and retained earnings in the aggregate compared with those of the consolidated financial statements of the Companies.
11 domestic consolidated subsidiaries have their fiscal year end on 28th February each year, which is the same as that of the Company. However, 6 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 intercompany transactions of these subsidiaries which may have taken place during the period between 1st January and 28th February.

(2) Investments in Unconsolidated Subsidiaries and Affiliates

The equity method of accounting has been applied to investments in 12 (12 for 2005) affiliates at 28th February 2006. Investments in the remaining insignificant unconsolidated subsidiaries are carried at cost. Major affiliates of the Company accounted for by the equity method are Leilian Ltd. and 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.

When the net realizable value of certain classes of inventories is substantially less than the carrying value, and the decline of value is not expected to be recovered in the near future, appropriate write-downs are recorded on such items.

(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 shareholders' equity at a net-of-tax amount.

In cases where securities have declined significantly in fair value and such declines in fair value 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 as an asset or liability 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) 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.

(10) 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.

(11) Reclassification of Accounts

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

(12) Accounting Standard for Impairment of Fixed Assets

On 9th August 2002, the Business Accounting Council in Japan issued the Accounting Standard for Impairment of Fixed Assets (the "Standard"). 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, whichever is the higher of the net selling price or the value in use.

The Standard shall be effective for fiscal years beginning on or after 1st April 2005.

However, earlier adoption is permitted for fiscal years beginning on or after 1st April 2004 and for fiscal years ending between 31st March 2004 and 31st March 2005.

The Company has not yet applied this new standard nor has it determined the effect of applying it on the Company's consolidated financial statements.

(13) 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. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents at 28th February 2005 and 2006 consisted of:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2005	**2006**	**2006**
Cash and bank deposits	¥19,869	**¥23,758**	**$204,813**
Time deposits with a deposit term of over 3 months	222	**130**	**1,120**
Cash and Cash Equivalents	¥19,647	**¥23,628**	**$203,693**

4. 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 2005 and 2006 are summarized by type of security as follows:

(a) Other securities with determinable market value

	Yen (Millions)		
Year ending on 28th February 2005	Acquisition cost	Carrying value	Unrealized gain(loss)
(1) Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥1,063	¥1,856	¥ 793
Subtotal	¥1,063	¥1,856	¥ 793
(2) Securities whose carrying value does not exceed their acquisition cost:			
Stocks	¥ 711	¥ 567	¥(144)
Subtotal	¥ 711	¥ 567	¥(144)
Total	¥1,773	¥2,423	¥ 649

	Yen (Millions)			U.S. dollars (Thousands)		
Year ending on 28th February 2006	Acquisition cost	Carrying value	Unrealized gain(loss)	Acquisition cost	Carrying value	Unrealized gain(loss)
(1) Securities whose carrying value exceeds their acquisition cost:						
Stocks	**¥1,746**	**¥3,638**	**¥1,892**	**$15,051**	**$31,363**	**$16,312**
Subtotal	**¥1,746**	**¥3,638**	**¥1,892**	**$15,051**	**$31,363**	**$16,312**
(2) Securities whose carrying value does not exceed their acquisition cost:						
Stocks	**¥ 22**	**¥ 17**	**¥ (5)**	**$ 190**	**$ 145**	**$ (45)**
Subtotal	**¥ 22**	**¥ 17**	**¥ (5)**	**$ 190**	**$ 145**	**$ (45)**
Total	**¥1,768**	**¥3,655**	**¥1,887**	**$15,241**	**$31,508**	**$16,267**

(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 2005 and 2006 are summarized as follows:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
	2005	**2006**	**2006**
Sales proceeds	¥24	**¥87**	**$750**
Gain	¥ 3	**¥56**	**$486**
Loss	¥16	**¥ 1**	**$ 11**

(C) Securities without determinable market value

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
	2005	**2006**	**2006**
Other securities:			
Unlisted stock	¥126	**¥147**	**$1,266**
Unlisted foreign securities	¥221	**¥169**	**$1,458**

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

Short-term bank loans at 28th February 2005 and 2006 consisted of:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2005	**2006**	**2006**
Loans from banks with a weighted average interest rate of 2.17% for the year ended 28th February 2006	¥3,922	**¥140**	**$1,207**

Long-term debt at 28th February 2005 and 2006 consisted of:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2005	**2006**	**2006**
Loans from banks with weighted average interest rate of 2.67% for the year ended 28th February 2006	¥ 41,278	**¥19,723**	**$170,023**
Current portion of long-term debt	(25,706)	**(3,580)**	**(30,863)**
Total Long-Term Debt	¥ 15,572	**¥16,143**	**$139,160**

The aggregate annual maturities of long-term debt as at 28th February 2006 were as follows:

Year ending on 28th February	Yen (Millions)	U.S.dollars (Thousands)
2007	¥ 3,580	$ 30,863
2008	4,940	42,585
2009	11,203	96,575
	¥19,723	$170,023

The Company's assets pledged as collateral for the bank loans shown above at 28th February, 2005 and 2006 were as follows:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2005	**2006**	**2006**
Net book value of property			
Buildings	¥11,517	**¥ 3,668**	**$ 31,620**
Land	¥12,486	**¥ 7,324**	**$ 63,140**
Investments securities	¥14,261	**¥14,342**	**$123,636**
Treasury stock	¥ 2,126	**—**	**—**

6. ACCRUED RETIREMENT BENEFITS AND PENSION PLANS

The Company and most Japanese 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 2005 and 2006 is analyzed as follows:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2005	**2006**	**2006**
Projected benefit obligations	¥ 7,996	**¥ 7,354**	**$ 63,401**
Unrecognized prior service costs	754	**1,078**	**9,297**
Unrecognized actuarial differences	(1,568)	**(1,706)**	**(14,710)**
Unrecognized transition amount	(2,009)	**(1,819)**	**(15,684)**
Fair value of plan assets	(136)	**—**	**—**
Accrued retirement benefits	¥ 5,037	**¥ 4,907**	**$ 42,304**

Components of net periodic pension costs for the years ended 28th February 2005 and 2006 were as follows:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2005	**2006**	**2006**
Service costs	¥ 794	**¥ 980**	**$ 8,447**
Interest costs	118	**106**	**917**
Amortization of prior service costs	(119)	**(121)**	**(1,042)**
Amortization of actuarial differences	283	**195**	**1,683**
Amortization of net transition amount	283	**205**	**1,768**
Additional lump-sum retirement benefits paid	—	**736**	**6,343**
Net pension costs	¥1,359	**¥2,101**	**$18,116**

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

28th February	2005	**2006**
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 ¥323 million and ¥251 million ($2,162 thousand), at 28th February 2005 and 2006.

7. LOSS ON LIQUIDATION OF AFFILIATED COMPANY

The Company recorded a loss on the liquidation of D'urban Korea, a joint venture company in Korea in fiscal year 2005.

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 years ended 28th February 2005 and 2006. Disclosure of a reconciliation of the statutory and effective tax rate for the year ended 28th February 2005 has been omitted as a result of the company posting a loss before income taxes.

Significant components of deferred tax assets at 28th February 2005 and 2006 were as follows:

	Yen (Millions)	Yen (Millions)	U.S. dollars (Thousands)
28th February	2005	**2006**	**2006**
Deferred tax assets:			
Inventory write-downs	¥ 803	**¥ 608**	**$ 5,244**
Write down of property, plant and equipment	6,137	**—**	**—**
Allowance for doubtful accounts	287	**550**	**4,741**
Accrued retirement benefits	1,635	**1,496**	**12,901**
Net operating loss carry forwards	11,460	**12,449**	**107,316**
Unrealized income	644	**31**	**265**
Others	1,521	**1,340**	**11,552**
	22,487	**16,474**	**142,019**
Valuation allowance	(21,855)	**(16,409)**	**(141,461)**
Net deferred tax assets	¥ 632	**¥ 65**	**$ 558**
Deferred tax liabilities:			
Unrealized gains on investments	266	**766**	**6,606**
Others	—	**0**	**0**
Net deferred tax liabilities	¥ 266	**¥ 766**	**$ 6,606**

Reconciliation of the statutory income tax rate to the effective income tax rates is as follows:

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

9. CONTINGENT LIABILITIES

At 28th February 2005 and 2006 the Companies were contingently liable in aggregate amounts of ¥1,905 million and ¥1,319 million ($11,371 thousand) for guarantees of indebtedness, principally of unconsolidated subsidiaries and affiliates.

10. 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	2005	**2006**	**2006**
Finance Lease Contracts:			
The scheduled maturities of future lease rental payments on such lease contracts:			
Due within one year	¥ 529	**¥ 480**	**$ 4,139**
Due after more than one year	671	**810**	**6,984**
	¥1,200	**¥1,290**	**$11,123**
Lease rental expenses for the year	¥1,088	**¥ 670**	**$ 5,775**
Accumulated depreciation	¥ 983	**¥ 611**	**$ 5,269**
Amount representing interest	¥ 65	**¥ 54**	**$ 468**
Leased Assets (Buildings):			
Assumed acquisition cost	¥ 541	**¥ 788**	**$ 6,797**
Assumed accumulated depreciation	(143)	**(310)**	**(2,673)**
Assumed net book value	¥ 398	**¥ 478**	**$ 4,124**
Leased Assets (Machinery and Equipment):			
Assumed acquisition cost	¥2,594	**¥1,497**	**$12,906**
Assumed accumulated depreciation	(1,832)	**(720)**	**(6,211)**
Assumed net book value	¥ 762	**¥ 777**	**$ 6,695**

28th February	Yen (Millions) 2005	Yen (Millions) **2006**	U.S. dollars (Thousands) **2006**
Operating Lease Contracts:			
The scheduled maturities of future lease rental payments on such lease contracts:			
Due within one year	¥ 681	**¥ 1,642**	**$ 14,152**
Due after more than one year	7,834	**15,739**	**135,681**
	¥8,515	**¥17,381**	**$149,833**

11. BUSINESS OPERATIONS AND RELATED PARTY TRANSACTIONS

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

Relationship	Name	Address	Paid-in capital Yen (Millions)	Principal business or occupation	Percentage of direct equity ownership (%)	Transactions: Description of transactions	Transactions: Yen (Millions) **2006**	Transactions: U.S. dollars (Thousands) **2006**	Resulting account balances: Account	Resulting account balances: Yen (Millions) **2006**	Resulting account balances: U.S. dollars (Thousands) **2006**
director	Takaaki Kawashima	—	—	director	—	Payments for advisory fees	**¥100**	**$862**	—	—	—

12. SUBSEQUENT EVENT

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

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

②Fiscal year end — 31th. December

③Main 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

④Financial 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

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

Report of Independent Auditors

To the Board of Directors and Shareholders of RENOWN INCORPORATED

We have audited the accompanying consolidated balance sheets of RENOWN INCORPORATED (formerly known as RENOWN D'URBAN HOLDINGS INC) and its subsidiaries as of February 28, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
May 25, 2006

As of March 1, 2006

RENOWN INCORPORATED
8-8-20, Nishi-gotanda, Shinagawa-ku, Tokyo, 141-8520 Japan
Telephone: +81(3)5496-8485
Facsimile: +81(3)5496-8681

Capital
¥15,005 million

Common Stock
Authorized: 140,000,000 shares
Issued: 47,614,501
Number of shareholders: 69,721

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.

BOARD OF DIRECTORS AND AUDITORS

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Shozo Watanabe
President
Yasuhisa Oka*
Senior Managing Director
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Corporate Auditor
Yoshio Iwasaki

*Representative Director

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