

Right-on Report

For Lasting Growth

Right-on®

The 27th Business Report
(August 21, 2005 – August 20, 2006)

Stock Code : 7445

To Our Shareholders

I am pleased to report to our shareholders the financial results and business activities of RIGHT ON Co., Ltd. for the 27th fiscal term ended August 20, 2006.



Management Philosophy

EMPATHY COMES FIRST

The 5 types of admiration we strive for:

1. A company admired by its employees
2. A company admired by its customers
3. A company admired by its shareholders
4. A company admired by its suppliers
5. A company admired by its local community

Results for the Term

During the fiscal term under review, we moved ahead with the development of our “*Scheme for Large Sales*” (a back-up system that supports our merchandise strategies, store-opening strategies, sales strategies, and product supply), which is based on the concept of the “*primacy of the business front line*,” the Company’s basic philosophy. We also took steps to realize our five pillars of success, namely “the right time, the right product, the right quantity, the right place, and the right price.”

We planned and sold models in collaboration with national brands while at the same time developing our own original products, thereby differentiating ourselves and meeting the diverse needs of customers.

We steadily increased the number of national brands with which we collaborate and sold a broader variety of items.

After having produced our main, basic brand “HARVARD,” we launched “BACK NUMBER,” a trend-conscious brand to attract younger customers.

On the sales front, our staff managed to improve marketing techniques in cooperation with our fashion advisors. We strengthened the motivation and willingness of store staff to sell out goods by introducing products that reflect the opinions of staff in our stores.

In sales promotion, we sought synergy effect using a variety of media such as circulars, TV commercials, magazines, direct mail, and email magazines, and integrated products, sales promotion and sales to maximize sales.

Looking at store openings and closings, we opened 61 new stores while closing three to improve efficiency. The number of stores at the end of the term consequently stood at 373.

We also newly launched a specialized store for children’s wear called “MPS”. We plan to build the brand by bolstering its product strengths and visibility.

Although we tried to achieve our sales targets through the actions mentioned above, we failed to reach the amount of sales set at the beginning of the term. The main reason was an error in

the data migration that occurred in the latter half of the term, which led to confusion in our supply chain system. We tried to correct the problem promptly and bring its influence on sales under control, but it was not until August that we could operate the system as smoothly as originally planned.

Despite these difficult circumstances, however, we made steady progress with our business restructuring and improvement. In doing so, we reduced opportunity losses and losses on price cuts and improved inventory efficiency. At the same time, we improved store operational efficiency and created an environment in which staff could focus on sales activities.

As a result, we posted for the term net sales of 95,312 million yen (up 13.7% year-on-year), ordinary income of 9,814 million yen (up 4.5%), and net income of 6,262 million yen (up 17.5%).

We look forward to your continued support and encouragement

We will continue to strengthen our business foundations and achieve lasting growth by improving the efficiency and accuracy of the *Scheme for Large Sales* based on the principle of the *primacy of the business front line*.

As we pursue these initiatives, we look forward to your continued support and encouragement.

November 2006

Masahiro Fujiwara
President and Representative Director



Net Sales ▶ **95,312** million yen
(up 13.7%)

Although we could not achieve the sales targets set at the beginning of the term due to unseasonable weather and temporary system problem, net sales increased 13.7% year-on-year as a result of the opening of 61 new stores and business restructuring and improvement.

Gross Profit on Sales ▶ **45,346** million yen
(up 15.4%)

Our gross margin rose with the reduction in opportunity losses, an improvement in the percentage of merchandise sold at tag prices, and the strengthening of private brands (from 46.9% for the previous term, to 47.6% for this fiscal term).

Operating Income ▶ **9,674** million yen
(up 3.9%)

Operating income increased 3.9 % year-on-year thanks to an increase in sales and the gross margin, offsetting expenses associated with the start of full operation of our new system.

Ordinary Income ▶ **9,814** million yen
(up 4.5%)

We achieved our target of a 10% ratio of ordinary income to net sales, as we did in the previous fiscal term (from 11.2% for the previous term to 10.3% for this fiscal term).

Net Income ▶ **6,262** million yen
(up 17.5%)

Net income exceeded our initial target and increased 17.5% from the previous fiscal term, reflecting a reduction in corporate tax attributable to an IT investment tax reduction.

Capital Investment ▶ **10,133** million yen
(up 34.5%)

Total capital investment reached 10,133 million yen as a result of aggressive investment in tangible fixed assets for new store openings and the acquisition of a new flagship store, and intangible fixed assets for building systems.

The *Scheme for Large Sales* is a back-up system that supports our store-opening strategies, merchandise strategies, sales strategies, and product supply, and is based on the concept of the *primacy of the business front line*. It integrates the dynamics of stores (superiority in the design of sales floors, locations and other factors), products (a rich assortment of popular products), and sales (ability to sell out products), which are the source of our business strength. With the *Scheme for Large Sales*, we aim to strengthen our business foundations and realize the five pillars of success, namely “the right time, the right product, the right quantity, the right place, and the right price.”

Cycle of the *Scheme for Large Sales*

●Plan

We produce detailed merchandizing plans, taking into account sales floor development. The whole company shares management’s intentions and planning information through the visualization of plans.

●Do

We operate in a way that optimizes inventory and maximizes sales based on merchandizing plans. We ensure that actual sales situations are reflected in the operations.

●Check

The system displays real-time indicators enabling prompt business judgments and accurate analysis of the difference between plans and actual performance, and provides useful information for operations.

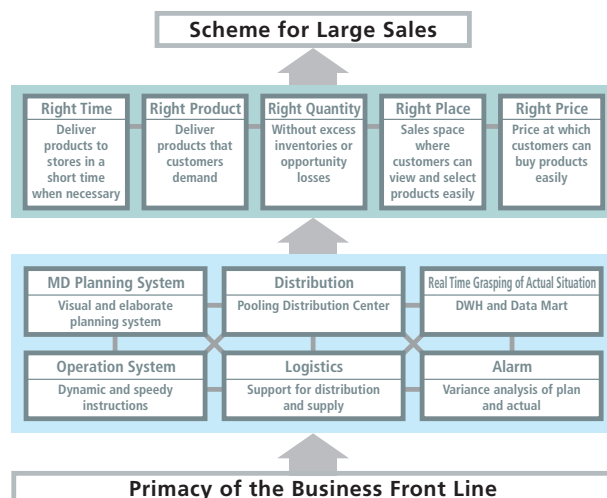
●Action

Each department deals with the disparities between plans and actual performance promptly and appropriately based on the principle of the *primacy of the business front line*.

Through the flow above, we achieve the five pillars of success and maximize sales and profits.

Future direction

The operation system has started to perform this time in addition to planning and information systems already carried out in the previous term. This means that all systems supporting the scheme have begun to operate. Partial operation of the *Scheme for Large Sales* has already produced results, such as improvements in inventory efficiency and the gross margin. We will aim to achieve growth by making full use of this new system and enhancing the dynamics of stores, products and sales.



●Cycle of the *Scheme for Large Sales*



HARVARD



BACK NUMBER



● Private-brand products

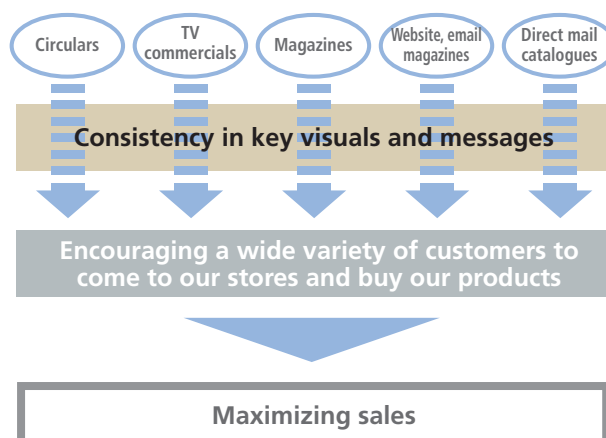


SOMETHING



● National-brand products

● Media mix strategy



Merchandise strategy

We offer a range that reflects the opinions of customers by listening to opinions from the front lines, and are going to provide a wide selection of popular items with our planning ability based on front-line opinions and our dynamic product-procurement ability based on our economies of scale.

We also plan to differentiate ourselves by planning and selling models in collaboration with national brands, releasing popular items in advance, and developing a broad array of private brand products.

Future outlook

We are going to introduce “visible merchandising” (a tool for visually comprehending merchandise line of various wears in each season) to review the balance of merchandise both in quality and quantity on the sales floors, and to improve the product dynamics in order to meet customers’ expectations.

Marketing strategy

We have adopted a media mix strategy in which we use multiple media geared to our targeted customer groups. We are carrying out sales promotion activities, using a wide range of media such as circulars, TV commercials, magazines, direct mail, and email magazines for different purposes.

To maximize sales, we interlock these sales promotion media and tools such as catalogues and posters in stores with main products and sales floors.

Future direction

From the autumn of 2006, we will use renowned TV personalities in our television commercials. This will improve our advertisements and our ability to attract more customers.

We will also institute more effective one-to-one marketing by sending direct mail to specific customer segments and running campaigns designed to boost the number of subscribers to our email magazines. This will stimulate customer interest in visiting our stores and motivate them to buy our products.

Sales strategy

We are improving sales dynamics by training our staff and instituting a personnel evaluation system centered on the “ability to sell out products.” We strive to improve the sales skills and capabilities of staff with fashion advisors (staff members who excel at customer service and selling products) at the core, and to introduce products that reflect the opinions we receive from the sales front lines so that we can better motivate store staff to sell out the products on the floor.

We display the main products for each season in a way that integrates products, sales floors and sales promotion. Furthermore, we introduce products based on detailed sales floor plans developed through the

system of the *Scheme for Large Sales*, thereby creating comfortable sales floors that make it easy for customers to browse and choose products.

Future direction

We will newly introduce an area manager system. An area manager who holds concurrent post of store manager of parent shop will conduct fine-tuned store management as well as education of his or her successor through running of 5 or 6 shops in the area. With this system, we will respond to improve sales at existing stores as well as future new store openings, while training store manager or its candidate who is able to earn profit.



Upper photo: Role-playing training by a fashion adviser (in a training session for store managers)
Lower photo: National store manager training session

Umeda store

Store-opening strategy

As we have strong expertise in flexible store opening in terms of location, size and form, in addition to an excellent ability to attract customers to each store, we are able to open stores in more favorable locations with better conditions. Taking advantage of this superiority in store dynamics, we will aggressively open more new stores.

In the term under review, we opened 61 new stores, including the Nagoya Dome-mae Aeon Store (Higashi-ku, Nagoya, Aichi Prefecture). We also closed three stores to improve efficiency. Consequently, the number of stores at the end of the term was 373.

Future direction

In the next fiscal term, we plan to open about 70 stores. Also, we will renovate and revitalize existing stores to keep the sales floors fresh and attractive.

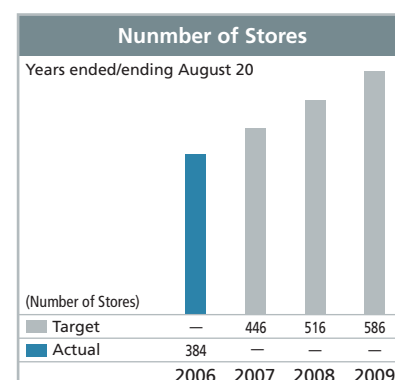
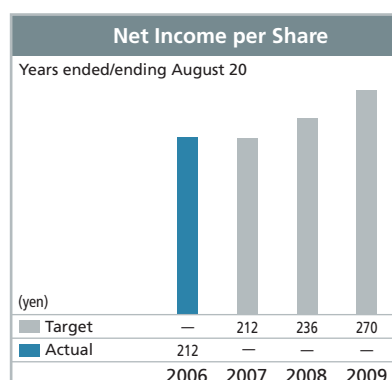
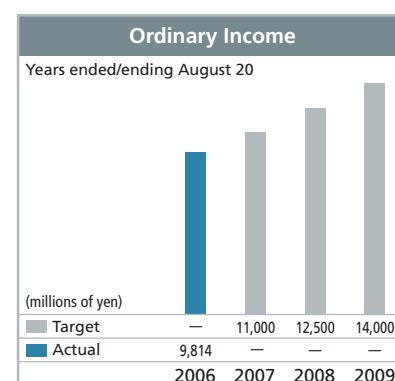
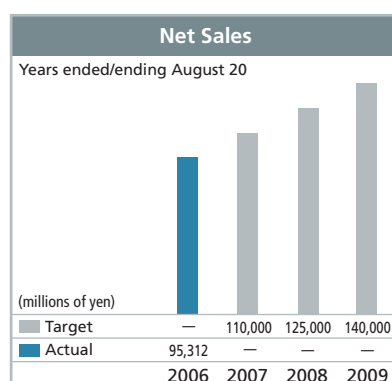


As the Japanese economy recovers, competitors are likely to create larger stores and speed up the opening of new ones, and competition in the industry will become more intense as a result.

Under such circumstances, we will seek to bolster earnings by improving the efficiency and accuracy of the *Scheme for Large Sales* based on the concept of the *primacy of the business front line*.

For our full-term business results, we forecast net sales of 110,000 million yen, ordinary income of 11,000 million yen, and net income of 6,300 million yen.

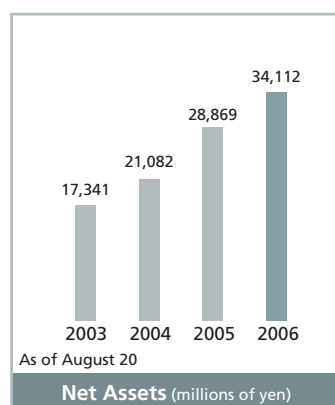
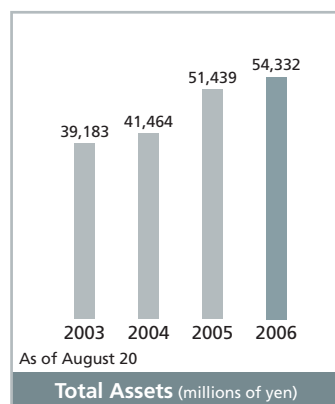
Medium-Term Target Figures



* Effective from the 28th fiscal term (August 21, 2006 – August 20, 2007), the counting method of store numbers has been changed. As a result, total number of stores as of August 20, 2006 is 384 stores by the new counting method.

Non-consolidated Balance Sheets (Summary)

(Unit: thousands of yen)



Item	Current term (as of August 20, 2006)		Previous term (as of August 20, 2005)	
Assets				
Current assets	21,304,537	39.2%	25,035,753	48.7%
Cash and time deposits	6,432,681		7,040,424	
Accounts receivable-trade	1,191,604		907,727	
Point. 1 — Marketable securities	—		4,407,938	
Merchandise	9,466,817		9,181,324	
Accrued income	2,863,495		2,514,263	
Other	1,349,937		984,074	
Fixed assets	33,027,932	60.8%	26,403,561	51.3%
Point. 2 — Tangible assets	16,382,258	30.2%	12,076,304	23.5%
Buildings	10,451,686		6,467,413	
Structures	439,684		193,699	
Tools, furniture and fixtures	3,422,105		2,416,687	
Land	1,952,310		1,946,579	
Construction in progress	116,470		1,051,924	
Point. 3 — Intangible assets	3,331,871	6.1%	2,068,656	4.0%
Investments and other assets	13,313,802	24.5%	12,258,600	23.8%
Guarantee and rental deposits	12,695,876		11,738,402	
Other	1,194,239		1,271,527	
Allowance for doubtful accounts	(576,313)		(751,329)	
Total assets	54,332,469	100.0%	51,439,314	100.0%

Point. 1

Marketable securities decreased with the redemption of a beneficial interest in trust by lump-sum payment.

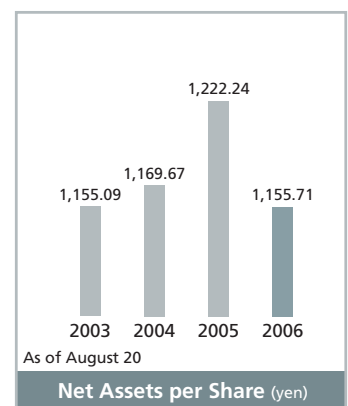
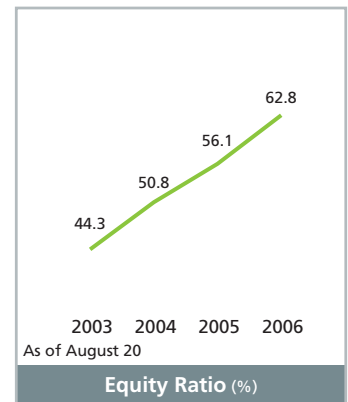
Point. 2

Tangible fixed assets increased with the opening of 61 new stores and the construction of a new flagship store and a new head office building.

(Unit: thousands of yen)

Item	Current term (as of August 20, 2006)		Previous term (as of August 20, 2005)	
Liabilities				
Current liabilities	19,970,257	36.7%	21,426,759	41.7%
Notes payable—trade	31,760		89,344	
Trust payable	11,271,514		11,182,869	
Accounts payable—trade	1,689,746		2,519,159	
Short-term borrowings	907,345		1,834,840	
Accounts payable—other	2,261,536		1,111,145	
Income taxes payable	2,022,000		2,512,293	
Reserve for bonuses	415,610		356,000	
Other	1,370,744		1,821,108	
Long-term liabilities	249,684	0.5%	1,142,805	2.2%
Long-term debt	—		907,345	
Long-term other accounts payable	—		12,280	
Reserve for directors' retirement allowances	—		149,130	
Other	249,684		74,050	
Total liabilities	20,219,942	37.2%	22,569,564	43.9%
Shareholders' equity				
Capital stock	—		6,176,118	12.0%
Capital surplus	—		6,462,357	12.5%
Capital reserve	—		6,462,357	
Retained earnings	—		16,242,837	31.6%
Legal reserve	—		78,219	
Voluntary reserve	—		4,000,000	
Special reserve	—		4,000,000	
Unappropriated retained earnings at end of the term	—		12,164,617	
Unrealized gains on available-for-sale securities	—		92,985	0.2%
Treasury stock	—		(104,548)	(0.2%)
Total shareholders' equity	—		28,869,749	56.1%
Total liabilities and shareholders' equity	—		51,439,314	100.0%
Net assets				
Shareholders' equity	33,935,478	62.5%	—	
Capital stock	6,176,118	11.4%	—	
Capital surplus	6,462,357	11.9%	—	
Capital reserve	6,462,357		—	
Retained earnings	21,442,744	39.5%	—	
Legal reserve	78,219		—	
Other retained earnings	21,364,524		—	
Special reserve	4,000,000		—	
Retained earnings carried forward	17,364,524		—	
Treasury stock	(145,741)	(0.3%)	—	
Valuation and translation adjustments	177,049	0.3%	—	
Unrealized gains on marketable securities	177,049		—	
Total net assets	34,112,527	62.8%	—	
Total liabilities and net assets	54,332,469	100.0%	—	

Point. 4



Point. 3

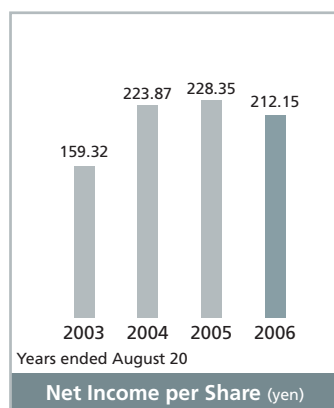
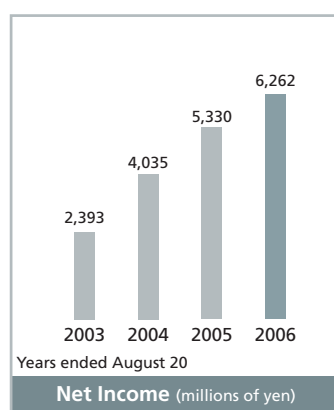
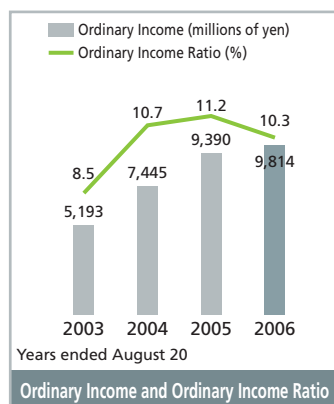
Intangible fixed assets increased with investment in systems for the establishment of the *Scheme for Large Sales*.

Point. 4

Interest-bearing debt decreased due to the repayment of debt.

Non-consolidated Statements of Income (Summary)

(Unit: thousands of yen)



Item	Current term (year ended August 20, 2006)		Previous term (year ended August 20, 2005)	
Net sales	95,312,322	100.0%	83,841,574	100.0%
Cost of sales	49,966,026		44,535,948	
Gross profit on sales	45,346,296	47.6%	39,305,625	46.9%
Selling, general and administrative expenses	35,672,158		29,992,775	
Operating income	9,674,137	10.2%	9,312,850	11.1%
Non-operating income	291,783		264,884	
Non-operating expenses	151,833		186,740	
Ordinary income	9,814,087	10.3%	9,390,995	11.2%
Extraordinary income	470,420		121,379	
Extraordinary losses	239,468		238,170	
Income before income taxes	10,045,039	10.5%	9,274,204	11.1%
Income taxes				
Current:	3,871,548		3,885,759	
Deferred:	(89,173)		58,121	
Net income	6,262,664	6.6%	5,330,323	6.4%
Retained earnings brought forward from previous term	—		7,070,092	
Interim dividends	—		235,798	
Unappropriated retained earnings at end of the term	—		12,164,617	

Point

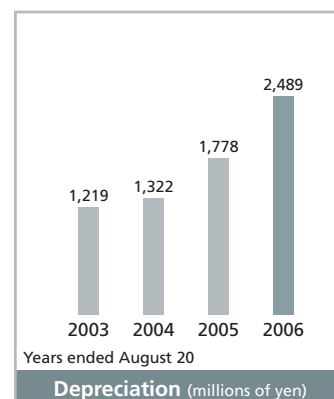
Sales increased, mainly because of the opening of 61 new stores, despite the influence of temporary system problem and unreasonable weather.

The gross margin rose with the improvement in the percentage of merchandise sold at tag prices, a decline in opportunity losses, and strengthening of private-brand products.

Statements of Cash Flows (Summary)

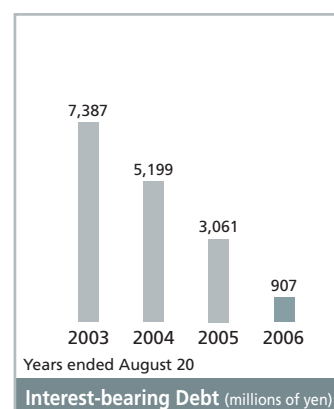
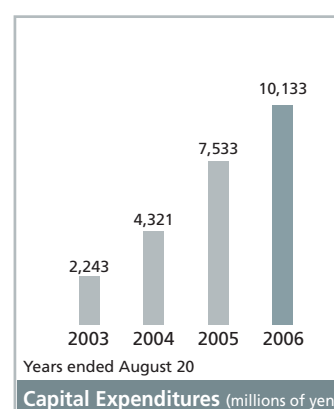
(Unit: thousands of yen)

Item	Current term (year ended August 20, 2006)	Previous term (year ended August 20, 2005)
Cash flows from operating activities	7,423,553	8,862,440
Cash flows from investing activities	(4,792,505)	(8,720,914)
Cash flows from financing activities	(3,238,791)	282,217
Net decrease in cash and cash equivalents	(607,743)	423,743
Cash and cash equivalents at beginning of the term	7,040,424	6,616,681
Cash and cash equivalents at end of the term	6,432,681	7,040,424



Point

Cash and cash equivalents at end of the term fell 607 million yen from the end of the previous term, to 6,432 million yen (down 8.7% year-on-year). This result reflected the cost of acquisition of tangible fixed assets and guarantee money deposited associated with the opening of new stores, as well as the cost of acquisition of intangible fixed assets associated with system investment, all of which offset income before income taxes of 10,045 million yen.



Statement of Changes in Net Assets

(From August 21, 2005 to August 20, 2006)

(Unit: thousands of yen)

	Shareholders' equity					Valuation and translation adjustments	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity		
Balance at end of the previous term	6,176,118	6,462,357	16,242,837	(104,548)	28,776,764	92,985	28,869,749
Changes during the current term							
Dividends from retained earnings	—	—	(472,406)	—	(472,406)	—	(472,406)
Dividends (Interim) from retained earnings	—	—	(590,351)	—	(590,351)	—	(590,351)
Net income	—	—	6,262,664	—	6,262,664	—	6,262,664
Acquisition of treasury stock (odd-lot shares)	—	—	—	(41,193)	(41,193)	—	(41,193)
Increase/(decrease) on unrealized gains on marketable securities directly recorded in net assets	—	—	—	—	—	84,064	84,064
Total changes during the current term	—	—	5,199,907	(41,193)	5,158,713	84,064	5,242,778
Balance at end of the current term	6,176,118	6,462,357	21,442,744	(145,741)	33,935,478	177,049	34,112,527

Network

Shopping Centers

Our mainstay store type, and one that attracts large numbers of customers. The sales space is constantly evolving, reflecting prevailing trends.



Suburban Roadside Stores

A store type with a parking lot, located alongside trunk roads. A broad array of items is displayed by category in a spacious sales yard.



Urban Street Stores

A store type that responds to diverse customer needs, while introducing the latest fashion trends. The product line-up consists of our own merchandise.

New Store Types

FLASH REPORT



- FLASH REPORT provides all round American casual wear. This is a new basic style outlet with lifestyle themes.
- FLASH REPORT provides a rich line-up of products using carefully washed, high-quality materials filled with a vintage taste.

SPICE ISLAND



- SPICE ISLAND is a new daily casual store based on the concept of “providing daily wear in a more sophisticated way at a reasonable price.”
- SPICE ISLAND provides a broad array of daily casual items including jeans, tops and fashion goods.

MPS®



- MPS is a casual shop that offers nostalgic but new comfort wear with the rich American taste of the 1950s through 1970s.
- MPS provides a line-up of comfortable products with second-hand rough taste emphasizing a well-washed texture.

Voice of Staff

We introduced the area manager system in the 28th fiscal term. An area manager manages a parent store and is responsible for several other stores in the area.



Masaomi Hara
Area Manager in Sapporo

I was assigned in August as area manager responsible for seven stores in the Sapporo area.

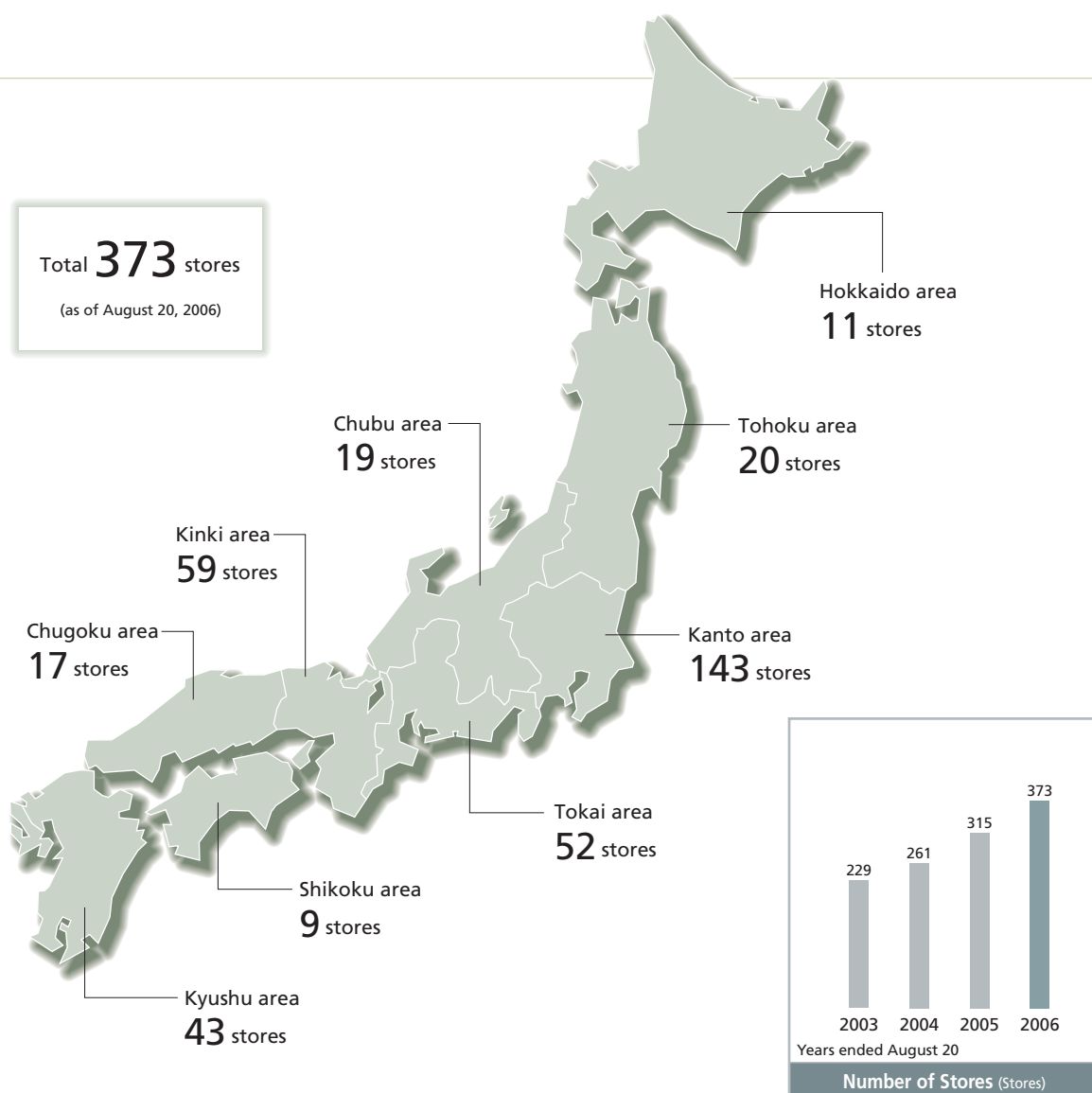
With the introduction of the new system, the area that each supervisor covers has become smaller compared with the previous management system and the supervisor, or area manager, can spend more time with each store. This change enables the area manager to discover issues in each store at an early stage and propose timely plans for improvement. The accuracy of the management of each store has therefore improved significantly. Moreover, I have been able to give more detailed instructions through on-the-job training to store

manager candidates who lack experience.

I am also involved in distribution. Since I have more opportunities now to look at each store, I am able to make timely inventory adjustments in the area using my own judgment and not just relying on data.

I believe that the success of the area manager system, which allows area managers to deal more effectively with stores that differ in terms of size, customers, and the careers of their store managers, will be an indispensable element of the Company's lasting growth.

Number of Stores at end of the 27th Fiscal Term



Relocation of Flagship Store

The Tsukuba flagship store moved to the address below on September 21, 2006.
(The headquarters moved on August 21.)



**Address of new Tsukuba
flagship store and headquarters
1-11-1 Azuma, Tsukuba-shi,
Ibaraki 305-8503**

Stock Information (as of August 20, 2006)

Total number of shares authorized	60,000,000
Total number of shares issued and outstanding	29,588,300
Number of shareholders	5,456

Major shareholders

Name	Number of shares held (thousands of shares)	Ratio of shares held (%)
Masahiro Fujiwara	5,209	17.61
Fujiwara Kosan Inc.	4,873	16.47
Goldman Sachs International	1,956	6.61
The Master Trust Bank of Japan, Ltd. (Trust account)	1,951	6.60
Yusuke Fujiwara	1,723	5.82
The Bank of New York Treaty JASDEC Account	793	2.68
Japan Trustee Services Bank, Ltd. (Trust account)	713	2.41
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	687	2.32
Eiko Fujiwara	674	2.28
Nippon Life Insurance Company	635	2.15

Special Benefit Plan for Shareholders

We present discount coupons available at all of our stores as a gift to shareholders recorded or registered on the final list of shareholders and those recorded or registered on the beneficial shareholders' register on August 20.

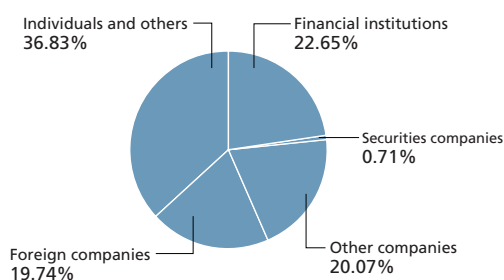
The gift is as follows.

Number of Shares Held	Value of Discount Coupon
100 – 499	3,000 yen (1,000 yen coupon × 3)
500 – 999	5,000 yen (1,000 yen coupon × 5)
1,000 –	7,000 yen (1,000 yen coupon × 7)

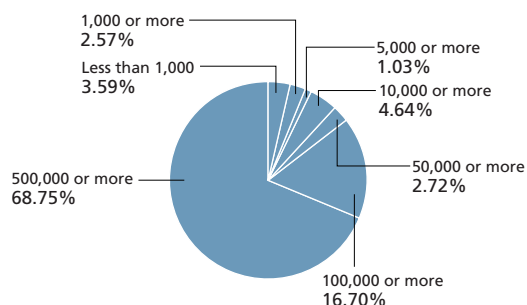
The expiration date is November 20 of the year after the coupon is presented.



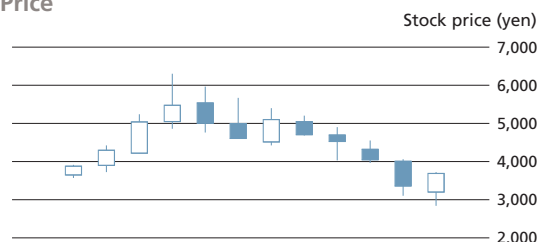
Status of Stock by Type of Shareholder



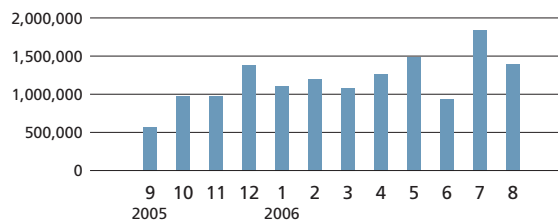
Status of Stock by Number of Shares Held



Stock Price



Volume of trading (shares)



Corporate Data (as of August 20, 2006)

Company name: RIGHT ON Co., Ltd.
Headquarters: 37-1 Higashi-arai, Tsukuba-shi, Ibaraki
305-8503 Japan
*The headquarters moved to the address
below on August 21, 2006.
1-11-1 Azuma, Tsukuba-shi, Ibaraki
305-8503, Japan
Phone +81-29-858-0321 (pilot number)
Fax +81-29-858-0331
URL: <http://www.right-on.co.jp/>
Establishment: April 1, 1980
Capital stock: 6,176,118,600 yen
Representative: Masahiro Fujiwara,
Representative Director
Number of employees: 748
Business Contents:

- A specialty store that sells jeans as the core item and other casual wear to male and female customers of all ages.
- A nationwide chain store operation with different types of stores for different locations, such as shops located in shopping centers, power centers and station buildings, urban street stores and suburban roadside stores.

Directors and Corporate Auditors

(as of November 17, 2006)

Masahiro Fujiwara	President and Representative Director
Hideaki Wakabayashi	Senior Managing Director
Tatsuharu Yokouchi	Managing Director
Hiroshi Nakagawa	Managing Director
Hiroataka Minamiya	Managing Director
Yasuhiro Umeda	Director
Kazushi Orita	Director
Yusuke Fujiwara	Director
Makoto Kobayashi	Standing Corporate Auditor
Toshihiro Nagai	Corporate Auditor
Tadakazu Yoshikawa	Corporate Auditor
Shinichi Hiraide	Corporate Auditor

Notes

1. Corporate auditors, Toshihiro Nagai and Shinichi Hiraide, are outside corporate auditors as stipulated in Article 2, Item 16 and Article 335, Paragraph 3 of the Company Law.
2. Makoto Kobayashi was appointed as Standing Corporate Auditor by mutual vote of the corporate auditors and assumed the post after the 27th general meeting of shareholders held on November 17, 2006.

IR Information

Business Year: August 21 to August 20 of the following year
Date of General Meeting of Shareholders: November
Base Date for the Above: August 20
We will fix the base date for the occasion as the need arises and announce it in advance.
Record Date for Shareholders
Year-end Dividend: August 20
Interim Dividend: February 20
Method of Public Notice: Notification will be given in the Nihon Keizai Shimbun
Administrator of Shareholders' Register: Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo
Handling Office: Stock Transfer Agency Department, Head Office, Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo
For Mails & Contact: Stock Transfer Agency Department, Mizuho Trust & Banking Co., Ltd.
17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722
Phone: 0120-288-324 (toll free number)
Intermediary Offices: Domestic Branches of Mizuho Trust & Banking Co., Ltd.
Head Office and Domestic Branches of Mizuho Investors Securities Co., Ltd.



RIGHT ON Co., Ltd.

1-11-1 Azuma, Tsukuba-shi, Ibaraki JAPAN 305-8503

Phone +81-29-858-0321 Fax +81-29-858-0331

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■ Relocation of Headquarters ■

The headquarters moved to the above address on August 21, 2006.