

Home Center Business

39 Community-focused stores around Japan

Sales

¥59.1 billion (Y-on-Y +3.4%) ▲

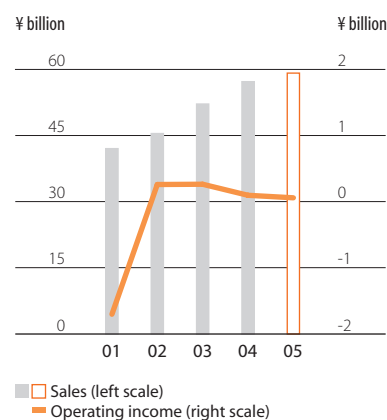
Operating income

¥0.1 billion (Y-on-Y -27.9%) ▼

As the restructuring of the industry progresses through expansion of stores, M&As, and capital tie-ups by major firms, the home center industry in fiscal year 2004 expanded as the scale of the market reached ¥3.5 trillion and sales floor space grew 23.7% compared with the end of 2000.

On April 1, 2004 Daiwa House Industry spun off this business, and a new company, Royal Home Center Co., Ltd. took over its management. We established three new centers in order to differentiate the Company's home centers from those of other firms and to provide the centers with a full line-up of products. Additionally, in November, Royal Bix was made a consolidated subsidiary of the Company.

Sales and operating income



Network 39 home centers in Japan



Strategic business development

Despite the increase in consumer spending resulting from the modest economic recovery, per-customer spending in this segment fell due to the major impact of competition from other firms both within and outside of the industry as well as due to the requirement to display prices inclusive of consumption tax. However, the Company is developing a product strategy reflecting the characteristics of the localities of the centers and with a product line-up of approximately 50,000 items at a standard center (approx. 3,300 m²) and 70,000 to 100,000 items at a superstore (approx. 8,000 m²). Within this strategy, we are focusing on distinguishing the Company's home centers from other firms' by placing staff with specialized knowledge at "Renovation Halls" and "Interior Counters," and providing a full complement of facilities. In addition to meeting the needs of consumers, the Company is also aggressively stocking commercial goods to cater to local self-employed individuals. As a result, the number of customers that made purchases in FY2004 climbed 4.6% to 24.1 million.

Concentrating on home center renovation

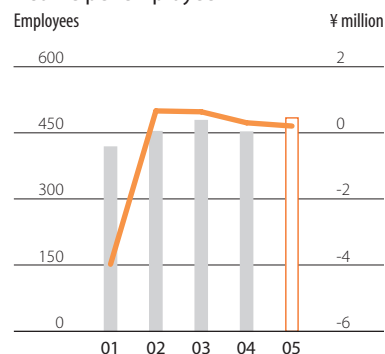
In the future, we will work to strengthen competitiveness based on existing home center business plans, and to develop centers that offer customers a high degree of convenience. For this reason, the Company is resolving major issues such as reviewing home center in-store shopping layouts, arranging sales floors to display products used in various aspects of daily life, securing regular stock which cannot be found in other stores, enriching facilities with a high degree of specialization appropriate to the local environment, reducing the cost of materials, and raising profit margins.

Sales breakdown

38%	33%	15%	14%
DIY goods, gardening goods	Interior goods, furniture, consumer electronics, daily sundries	Pet supplies, sports and leisure goods	Others

Home Center Business:

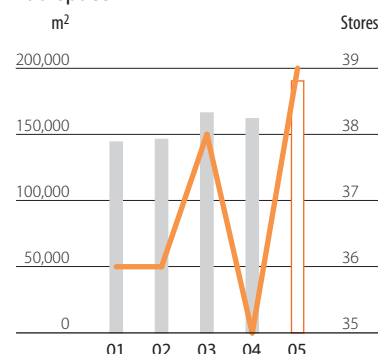
Number of employees and operating income per employee



■ Number of employees (left scale)
— Operating income per employee (right scale)

Royal Home Centers:

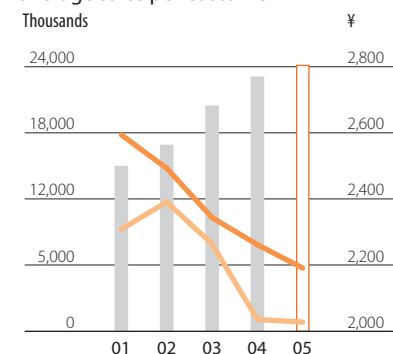
Number of home centers and floorspace



■ Floorspace (left scale)
— Number of home centers (right scale)

Royal Home Centers:

Number of customers and average sales per customer



■ Number of customers (left scale)
— Sales per customer at RHC* (right scale)
— Industry average sales per customer (right scale)
*excluding renovation