

# 35 Royal Home Centers

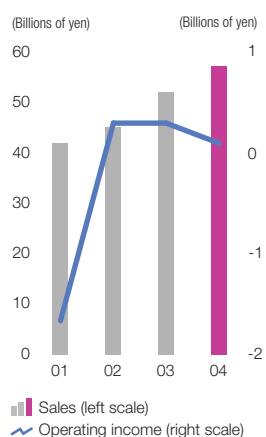
## operating with a community orientation

Number of store visits up 12.8% at 23,060 thousand with sales rising 9.7% to ¥57,227 million

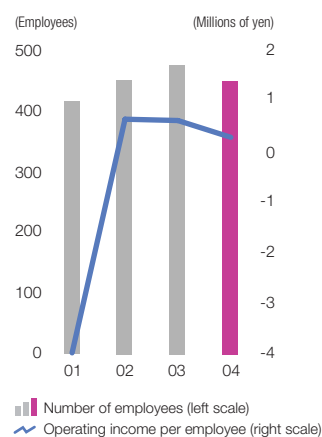


In the 2003 calendar year, the home center market expanded to a new record scale of ¥3.5 trillion, and the number of home centers increased 2.5% from the previous year, to more than 3,600. The market was, however, experiencing a period of change, with a number of mergers, acquisitions and capital alliances. We opened two large new stores and closed five existing stores that were not sufficiently profitable. The number of store visits during the term grew 12.8%, topping 23 million, while sales increased 9.7%, substantially outpacing the industry growth of 2.9%, to ¥57,227 million. However, operating income decreased 54.4%, to ¥139 million, as unit prices declined in the face of deflation.

Sales and operating income



Number of employees and operating income per employee



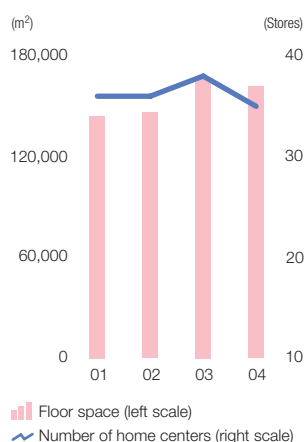


The home center industry has traditionally been characterized by the regional dominance of key players. Recently, however, the industry has been impacted by the emergence of new trends. One example is the declines in goods and distribution costs caused by deflation and the diversification of consumer needs. Another is the expansion of store sizes, in response to the entry of large foreign-affiliated retailers. And yet another is the clutch of reorganization and alliances that have taken place. In a market in which it is vital to differentiate oneself from other home centers, Royal Home Centers stock an average of 50,000 products per center, including do-it-yourself products, gardening goods, consumer electronics, interior goods, pet supplies, daily commodities as well as construction materials and tools for professionals. That figure is well above the industry average in Japan of approximately 32,000 items. We also focused on bolstering our services in the renovation business, aiming at a sales ratio of 10% by strengthening our advisory service, which is provided by experts such as first-class architects in areas including home additions and improvements.

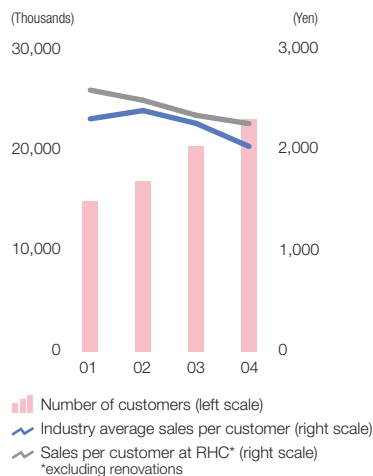
As with our *Engeikan* specialized gardening section at our Narashino Home Center and the *Pet Kan* at our Oyama Home Center which caters to all the needs of pet owners, we set up or expanded sales floors for special items that are likely to enjoy growing demand. We also stepped up product development and expanded our lineup (to include pharmaceuticals and rice, for example), taking advantage of nationwide economies of scale.

We will concentrate the opening of new home centers with a floor space of more than 8,250 m<sup>2</sup> in the Tokyo and Kobe-Osaka-Kyoto areas to improve distribution efficiency and expand sales in these areas, where consumption is greatest. By fiscal 2005, we expect to have expanded this business into a 50-store network.

Number of home centers and floorspace



Number of customers and average sales per customer



Distribution of Royal Home Centers

