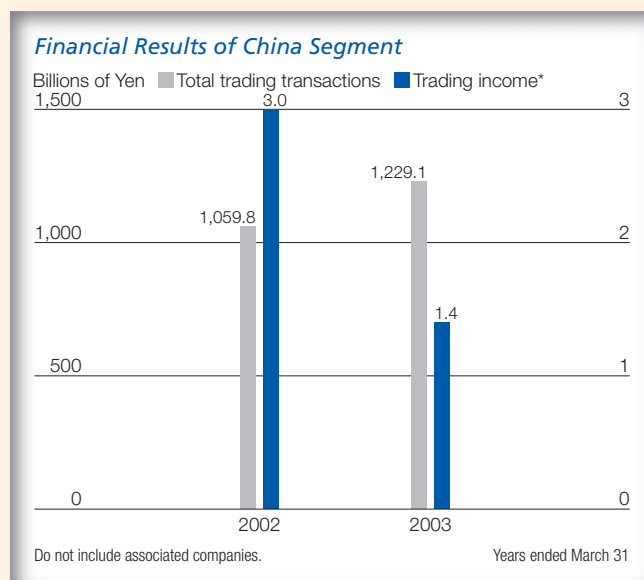


China. We are supporting the development of the Chinese market by Ito Yokado Co., Ltd., which currently runs two stores in Beijing and one in Chengdu, and plan to open new stores.

As demand expands and types of retailing change in China, the need to expand and enhance logistics becomes more and more critical. Moreover, there is also increasing demand for more sophisticated logistics to facilitate exports to Japan, Europe and



North America. Capitalizing on this opportunity, ITOCHU is expanding logistics-related businesses in China through our subsidiaries, Beijing Pacific Logistics Co., Ltd. and Guangzhou Global Logistics Corp., and exporting and importing activities through subsidiary i-LOGISTICS CORP. As part of this expansion, in September 2002, ITOCHU built China's largest chilled and frozen logistics center in Shandong Province as an export base for frozen foods headed for Japan.

Investments in prominent projects are also crucial for further growth. We are considering investing in infrastructure businesses in Beijing related to the Olympics. We are also involved in Japanese government ODA and other large-scale projects for regional transportation, environment infrastructure, and energy and natural resource development.

Numerical Targets

In fiscal year 2003, our trading volume with China was US\$4.5 billion and we had approximately 210 joint ventures in the country. While we have always been a step ahead of competitors in terms of trading and investments there, we will focus more on capital efficiency from now. Our consolidated net income from China (subsidiaries, associated companies, and overseas trading subsidiaries) including Hong Kong exceeded ¥2.0 billion in fiscal year 2003, and our target in fiscal year 2005 is to generate half of our expected ¥12.0 billion consolidated net income for the Asian region from China.

Commercialization of Innovative Technologies – Creating New Businesses –

The ITOCHU Group is accelerating its drive to develop new revenue sources through the commercialization of innovative technologies. A company-wide, cross-divisional organization, the Innovative Technology Business Development Office, plays the key role in identifying promising technologies worldwide and pursues the commercialization of new businesses in collaboration with the Division Companies.

Global expectations are high for the manufacturing of machinery on the nanometer (10^{-9} meter) scale and for developing applications ranging from information and telecommunications to medicine; biotechnology possesses the potential to administer personalized medicine, having no side-effects and optimized for individual genetic make-ups, and tissue engineering, generating cells and tissues to repair or replace damaged human organs. In Japan alone the size of the nanotech market is anticipated to grow to ¥27 trillion, and the biotech to ¥25 trillion, in the year 2010.

However, innovative technologies will not grow into big businesses on their own. It is necessary to adapt them strategically into new products and services that become parts of our daily lives. ITOCHU, a highly diversified company, leverages its multifunctionality to generate business from potential technologies developed at research institutions it has strategic relationships with. ITOCHU's strong presence in IT and in consumer and retail-related sectors presents us with a tremendous business opportunity.

Bioinformatics Center

The ITOCHU Group demonstrates its strength in the field of bioinformatics where IT and biotechnology meld, through its leading group companies, ITOCHU TECHNO-SCIENCE Corporation (CTC) and CRC Solutions Corp. In April 2002, we established the Bioinformatics Center to provide data analysis and management services to support genomic drug discovery of pharmaceutical companies. Currently, major pharmaceutical companies such as Shionogi & Co., Ltd. and Tanabe Seiyaku Co., Ltd. have joined the center.

Wireless IC Chip "μ-chip"

ITOCHU teamed up with Hitachi Ltd. in March 2003 for the development of practical applications for Hitachi's "μ-chip," the world's smallest wireless IC chip. With our strong presence in IT and foods and textiles, among other consumer goods, we will be able to outpace the competition in the dissemination of "μ-chip" and establish them as the de facto industrial standard. Currently we are testing the effectiveness of "μ-chip" in brand protection, distribution and inventory control, by embedding the chips in ITOCHU handled apparel products or price tags. In the steel sector, Marubeni-Itochu Steel Inc. has co-developed and begun sales of trial products of a steel materials inventory management system using these chips.