

ITOCHU's China Strategy

The Potential of the Chinese Market

In the high-growth region of Asia, China in particular is poised for a new round of economic development stimulated by fast growing domestic demand, the deregulation and opening of markets resulting from its entry into the World Trade Organization (WTO). As a result, China is transforming itself from an "export and processing base" into a "promising market." International events such as the Olympic Games, which will be held in Beijing in 2008 and the 2010 Shanghai Expo are likely to accelerate this trend.

As illustrated by the ambitious goal put forth at last year's Plenary Session of the Communist Party of increasing GDP 4-fold between 2000 and 2020, China has taken many steps towards becoming an economic superpower.

ITOCHU's Strengths

ITOCHU had taken the lead on other Japanese trading companies by beginning trades with China before the normalization of diplomatic relations between Japan and China in 1972. Through our consistent trade with China, we have built a solid relationship with its central and local governments ahead of other companies.

In addition, we maintain and reinforce interpersonal exchanges with the upper echelons of government agencies including the Economic Adviser to the Mayor of Beijing (C.E.O., Uichiro Niwa), the Economic Adviser to Qingdao City (Sokichi Sasaki, General Manager for China), and the Economic Adviser to Fujian Province (Fumiaki Fujino, Adviser). With many years of interpersonal exchanges, our China business know-how, and participation in infrastructure construction and important national projects, ITOCHU has built a strong position from which it can gain the trust of the Chinese government. In recognition of ITOCHU's strengths, in December 2002 we received a request from the City of Beijing for comprehensive logistical cooperation. Specifically, this will include proposals for logistical models that can cope with the growth in distribution and transportation volume, the construction of the most advanced distribution centers, and providing know-how. In May 2002, we entered into a comprehensive economic and trade alliance with the Shandong Provincial government. We are making a major contribution to revitalizing regional economies through cooperation that takes full advantage of our functions as a

trading company. These go beyond trading and investment support to include management consulting for local companies. In addition to Shandong Province, we plan to promote businesses that leverage ITOCHU's strengths in the Huadong region (Jiangsu Province and Zhejiang Province), Sichuan Province, and Liaoning Province.

In April 2003, we set up a China Market Global Development Office at our headquarters. It will formulate a company-wide China strategy that fits the globalization of Chinese business stemming from China's economic development and WTO membership and that includes the expansion of transactions not only between Japan and China but also between China and other parts of the world, especially Europe and North America. The Office will also promote company-wide sharing of China-related information to create a new business model in China.

Basic Strategy and Areas of Focus

ITOCHU has accelerated its development of China-related businesses by designating Asia as an A&P region from fiscal year 2003. Our basic strategy for China is to use the synergy of two functions, "trading" and "investment," to focus on trade with Japan and third countries, the domestic sales and distribution business that is adjusting to expanding domestic demand, and large-scale infrastructure projects.

China's service industries and retail market are expected to grow sharply in response to new forms of consumption in areas such as food service, convenience stores, and brand products. As private ownership of cars and homes booms, automobile and housing/construction-related consumption is also expected to expand.

ITOCHU aims to expand trading in these high-growth consumer-related areas where we have expertise. Having established in October 2002 a joint venture for retailing the Italian brand SASCH, our Textile Company is already aggressively developing this area. In addition, our Chemicals, Forest Products & General Merchandise Company is considering the development of a home center franchise. In the food-related area, we are expanding processed food and other businesses in Shandong Province and are also developing beer and instant noodle sales throughout

A New Stage in our Chinese Business

