

**E**ver  
**P**rogressing  
**S**ystem

## **CONTENTS**

Greeting -----	2
Business Strategy -----	4
Review of Operation -----	6
Selected Consolidated Financial Data -----	9
Consolidated Balance Sheets -----	10
Consolidated Statements of Operations -----	11
EPS Group-----	12
Company Profile -----	14
Members of the Board and Auditors -----	14
Current situation of shares -----	15
Principal shareholders -----	15
Guide of Stock -----	16

## To our shareholders



Japanese domestic economy has been unable to recover for last fiscal year yet. However, it is very encouraging to note EPS group mainly consisting of CRO (Contract Research Organization) business and SMO (Site Management Organization) business seems unaffected by this tough environment and continues growing in domestic market.

In last fiscal year our CRO business solely increased its net revenue 15.5% to ¥4.25 Billion. It is not only because we continued successful operations for the existing projects but also expanded our new client base. Especially, EPS was awarded a new project by one of the most promising bio-venture companies in Japan. In terms of profit, however, the delay of some projects and the initial investments for training and education of employees, new medical device department and the launch of the patient recruitment and advertisement center reduced the ordinary income 25.5% to ¥434 Million as well as the net income 4% to ¥270 Million.

On the other hand, our subsidiaries showed good results. Above all, EP Link, SMO expanded its business remarkably in both CRC (Clinical Research Coordinator) services and investigator site supporting business such as setting up study centers for local clinic's sites. Therefore, in the consolidated income statement, EPS group increased its net revenue 38.1% to approximately ¥5.97 Billion, its ordinary income 42.9% to ¥788 Million and its net income 90.0% to ¥444 Million.

Although it is anticipated that Japanese economy will continue sluggish, we expect that the needs for both CRO and SMO will continuously increase due to the recent revise of Japan Pharmaceutical Law.

In the current fiscal year, EPS aims at promoting its market penetration of its broad range of services based on the recent announced management strategy. Simultaneously, we will enhance the information technology and the project management to increase our customer's satisfaction. Then, in the current fiscal year which 30th September, 2003, we expect that EPS will solely increase its net revenue 33.0% to ¥5.65 Billion, ordinary income 86.9% to ¥811 Million and net income 67.0% to ¥451 Million.

On a consolidated basis, it will increase its net revenue 55.5% to ¥9.28 Billion, ordinary

income 59.0% to ¥1,25 Billion and net income 40.1% to ¥622 Million.

EPS will keep on growing as its name; “Ever Progressing System”. Your continuous support will be greatly appreciated.

**YAN Hao**  
**Chairman of the Board and Chief Executive Officer**

## **Business Strategy**

### **1. The Policy and Strategy of EPS**

Our mission is to explore and establish a system that is dedicated to improve the efficiency of our day-to-day operation while ensuring that the highest quality standards are adhered to with regard to observing current regulatory requirements. We believe this focus will lead to our achieving high levels of customer satisfaction.

Based on this mission, EPS “Ever Progressing System” will pursue the following strategies to expand its business. These strategies will carry EPS to leadership in the Japanese CRO industry.

#### **1) Broadening services:**

To meet the increasing number of pharmaceutical outsourcing needs for drug development in Japan, EPS will enhance its capabilities to offer a broader range of services from study design through regulatory affairs, including the operation of clinical studies.

In the current fiscal year, EPS increases its holding share of LSG Corporation, dedicated to the business of pre-clinical studies field, which makes LSG to be a subsidiary of EPS. In addition, EPS also expects to explore the possibility of business collaborations in Phase I clinical trial institutions.

#### **2) Expansion of SMO business:**

Since the demand for support services for investigators sites in clinical trials is expected to increase, EPS will enhance the operation of our subsidiary company, EPLink, to enlarge our SMO (Site Management Organization) business. We believe this SMO operation will provide a significant synergistic effect to the CRO business of EPS.

#### **3) IT (Information Technology)**

EPS has a keen interest to implement web-based capabilities in Japan. This will bring about significant efficiencies in the Data Management and Clinical Monitoring process. In addition, EPS has significant experience in providing pharmaceutical companies and investigator sites with customized IT services.

#### **4) Globalization**

EPS will continue to explore business opportunities outside of Japan in responding to the increasing demands for the international drug development and the need to comply with ICH (International Conference on Harmonization). This includes

utilizing the business alliance with our CRO partner in the USA and enhancing the operation of subsidiary companies in China.

#### 5) New Business Opportunities

Based on the successful track record of both the CRO and SMO business, our subsidiary company, Cyber Medical Net will focus on temporary employment agency and hospital consultancy businesses. In addition, EPS will aggressively explore further business opportunities in the pharmaceutical and medical industry. Another new business opportunity is All Right Software Co., Ltd. This is our subsidiary company and is expected to grow in the field of software development business in both Japan and China.

#### Remarks:

ICH stands for International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use.

### **2. The policy of sharing profit**

As a company policy, EPS deems that sharing profits with its shareholders is significantly important. Our primary policy is to pay appropriate dividends based while retaining reasonable internal reserves for the strategic investment of the company in future.

### **3. The challenges**

Under the environment that Outsourcing and Globalization in our customers are increasing, it is our long-term objective to improve the quality of our operations, which we intend to achieve through enhancing our QC/QA division, strict compliance with Standard Operating Procedures, training and education.

In terms of International operation, we set up EPS China to provide our customers with the custom made services in China. In other overseas area, we will establish a business alliance with an appropriate partner.

It is also important to make our operation even more efficient in order to strengthen our price competitiveness. This will be achieved through the establishment of a work flow management system from order to final report submission.

## **Review of Operation**

### **Overview of Fiscal Year 2002**

In the fiscal year 2002 ended September, 2002, the Japanese domestic economy still remained sluggish, being affected by the slowdown of the world economy due to the bursting of the information technology bubble, 9.11 terrorist attacks and so on. Under this environment, however, the CRO (Contract Research Organization) as well as SMO (Site Management Organization) businesses have been continuously growing in Japan.

In long-term post-marketing clinical studies, EPS continues to provide Data Management and Monitoring services for drugs such as cholesterol lowering agent, anti cancer drug and diabetes treatment drug.

As to clinical studies in drug development stage, enhancing clinical development division contributed to award projects from new clients that include one of the most promising Bio-venture company in Japan.

In other areas such as patient registration services and advertisement services for patient recruitment, we have expanded our business.

In terms of profit, however, we have fell short of the last year's level due to the following reasons:

- A couple of the projects that were expected to contract delayed.
- We made a significant investment in last fiscal year for training and education of our employee to enhance the quality of work.
- We launched the medical device department to provide services for development and registration in Japan.
- We moved both of our Osaka and Nagoya branches due to the expansion of business.

On the other hand, our subsidiaries have been rapidly growing for last fiscal year. Especially, Cyber Medical Net Co., Ltd., the company that made a financial loss last fiscal year showed a remarkable recovery to turn into black ink due to concentrating on the temporary employment agency business for pharmaceutical development.

As for software development services, All Right Software Co., Ltd., as well as All Right Software (Beijing) Inc. that has changed its name from EPS (Beijing) Co., Ltd. starting

from June, 2002 have been rapidly growing due to utilizing the IT (Information Technology) in China.

In addition, LSG Corporation that is dedicated to pre-clinical business joined EPS group as a subsidiary company of EPS to make a synergy effect between clinical and non-clinical study field.

During fiscal 2002, in our CRO business field we increased net revenue 24.2% to ¥4.82 Billion, but decreased operating income 3.3% to ¥489 Million.

On the other hand, in our SMO business field, EP Link, our subsidiary has been significantly expanding its business due to winning a few large contracts.

EP Link's various services including CRC (Clinical Research Coordinator) services as well as investigator site support services in collaboration with local medical sites.

As a result, in SMO business field, we increased net revenue 160.6% to ¥1.16 Billion and operating income by 861.1% to ¥247 Million.

On the whole, we increased net revenue 38.1% to ¥5.97 Billion, operating income by 37.5% to ¥732 Million and ordinary income by 42.9% to 788 Million on a consolidated basis.

Remarks:

1. Clinical Monitoring Service:

As clinical trials are conducted in accordance with a study protocol, the required clinical data are recorded in CRFs (Case Report Forms). The protocol, which is developed by sponsors (usually pharmaceutical companies), defines the purpose and endpoints of the study, study design, management system, responsible organization and the statistical analysis plan. CRAs (Clinical Research Associates) or Monitors visit medical sites to have face to face meetings with investigators for purposes such as explaining the content of the protocol, reviewing the status of studies and ensuring that the CRFs are completed correctly prior to collecting the CRFs.

2. Data Management Service:

Data Management Services include review and coding of CRF data collected from medical sites, data entry, database verification, statistical analysis and the creation of customized databases to meet each client's needs.

3. Forward-looking statements:

Forward-looking statements are based on judgments made with the information available to the EPS group at the date of their formulation and are subject to potential risks or uncertain factors. Various factors that form the basis of these forward-looking statements may differ from the EPS group's assumption and actual results may differ significantly from those presented here.

## Selected Consolidated Financial Data

The selected Consolidated Statements of Operations (Year ended September 30 2002 and 2001) and Consolidated Balance Sheet (as of March 31 2001 and 2002) set forth below are arranged to U.S style accounting form from audited Japanese statement for reference purpose only, therefore we don't obtain audited English statements.

YEAR ENDED SEPTEMBER 30  
(IN THOUSANDS,JPY)

	2002	2001
Net revenue	5,971,457	4,321,656
Ordinary income	788,503	551,527
Income before income taxes and minority interest	853,317	495,633
Net income	444,684	233,943
Net income per share (Note)	<u>16,469</u>	<u>8,664</u>

Note: These figures are computed from dividing net income with 27,000 shares which were provided with the stock split ( the ratio 1 to 3 ) on 20th May 2002

AS OF SEPTEMBER 30  
(IN THOUSANDS,JPY)

Cash and cash equivalents	1,500,808	1,111,851
Working capital	1,745,801	1,537,512
Total assets	3,809,412	2,995,735
Long-term debt including current portion	25,640	130,180
Shareholders'equity	2,371,941	1,965,525
Employees	561	422

Consolidated Balance Sheets  
(IN THOUSANDS,JPY)

ASSETS		2002	2001
CURRENT ASSETS			
	Cash and cash equivalents	1,500,808	1,111,851
	Notes and accounts receivables	1,157,265	1,007,853
	Inventories	33,904	59,761
	Deferred income tax assets	91,396	38,972
	Temporary payments	50,517	89,227
	Others	56,252	41,145
	Allowance for doubtful accounts	(4,036)	(3,624)
	Total current assets	<u>2,886,109</u>	<u>2,345,187</u>
FIXED ASSETS			
	Tangible Assets ;		
	Buildings and leasehold improvements	81,329	55,414
	Less accumulated depreciation	(22,761)	(13,063)
	Furniture and fixtures	92,417	93,009
	Less accumulated depreciation	(58,181)	(56,874)
	Others	2,644	16,251
	Less accumulated depreciation	(1,586)	(2,006)
	Total tangible Assets	<u>93,861</u>	<u>92,730</u>
	Intangible assets	52,923	20,876
	Investment&other assets		
	Investments securities	112,644	-
	Long-term Loan(credit)	100,000	-
	Deposits	419,493	321,333
	Investment to anonymous union	-	48,229
	Deferred income tax assets	77,423	55,878
	Others	66,956	133,238
	Allowance for investment loss	-	(21,738)
	Total intangible and other assets	<u>829,440</u>	<u>557,816</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS		-	-
TOTAL ASSETS		<u>3,809,412</u>	<u>2,995,735</u>
LIABILITIES			
CURRENT LIABILITIES			
	Accounts payable	93,969	84,342
	Current portion of Long-term debt	25,640	104,540
	Income taxes payable	354,252	178,305
	Provision for bonus	205,498	143,213
	Others	460,948	297,274
	Total current liabilities	<u>1,140,308</u>	<u>807,675</u>
LONG-TERM LIABILITIES			
	Long-term debt less current portion	-	25,640
	Provision for retirement	90,244	63,574
	Provision for director's retirement	89,705	70,233
	Others	2,396	-
	Total long-term liabilities	<u>182,346</u>	<u>159,448</u>
	TOTAL LIABILITIES	<u>1,322,655</u>	<u>967,123</u>
	Minority interests	114,815	63,085
	Common stock	618,750	618,750
	Additional paid-in capital	568,800	568,800
	Retained earnings	1,184,772	778,337
	Unrealized gain on available-for-sales securities	459	534
	Foreign currency translation adjustments	(840)	(896)
	TOTAL SHAREHOLDERS' EQUITY	<u>2,371,941</u>	<u>1,965,525</u>
	TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	<u>3,809,412</u>	<u>2,995,735</u>

Consolidated Statements of Operations  
(IN THOUSANDS,JPY)

	2002	2001
Net revenue	5,971,457	4,321,656
Cost of sales	4,143,144	2,839,511
Gross profits	1,828,312	1,482,145
Selling, General and Administrative Expenses	1,095,608	949,609
Income from operations	732,704	532,535
Other Income (Expense)		
Interest income	1,479	428
Interest expenses	(1,073)	(3,313)
Gain on investment to anonymous unions	21,738	18,181
Gain on cancellation of life insurance	6,329	4,589
Service fee income	8,163	8,366
Equity in earnings of affiliated companies	21,981	-
Share issue expense	-	(12,045)
Loss on cancellation of lease contract	(2,424)	-
Loss on cancellation of tenant contract	(4,000)	-
Payment to the Association for employment of persons with disabilities	(1,300)	-
Gain on changing life insurance policy	79,358	-
Charge for full amount of transitional obligations for retirement benefits	-	(50,666)
Loss on sales and disposal of property and equipment	(14,545)	(5,226)
Other- net	4,904	2,784
Other income (expenses)-net	120,612	(36,902)
Income before income taxes and minority interests	853,317	495,633
Income taxes		
Current	427,997	312,562
Deferred	(73,915)	(51,728)
Total	354,082	260,834
Minority interests	54,551	856
Net Income	444,684	233,943
Net Income per share	16,469	8,664

## **EPS Group**

### **EP Link Co., Ltd.**

It provides SMO and clinical study support services in clinical investigation sites.

### **Cyber Medical Net Co., Ltd.**

It provides temporary employment agency services for pharmaceutical development.

### **All Right Software Co., Ltd.**

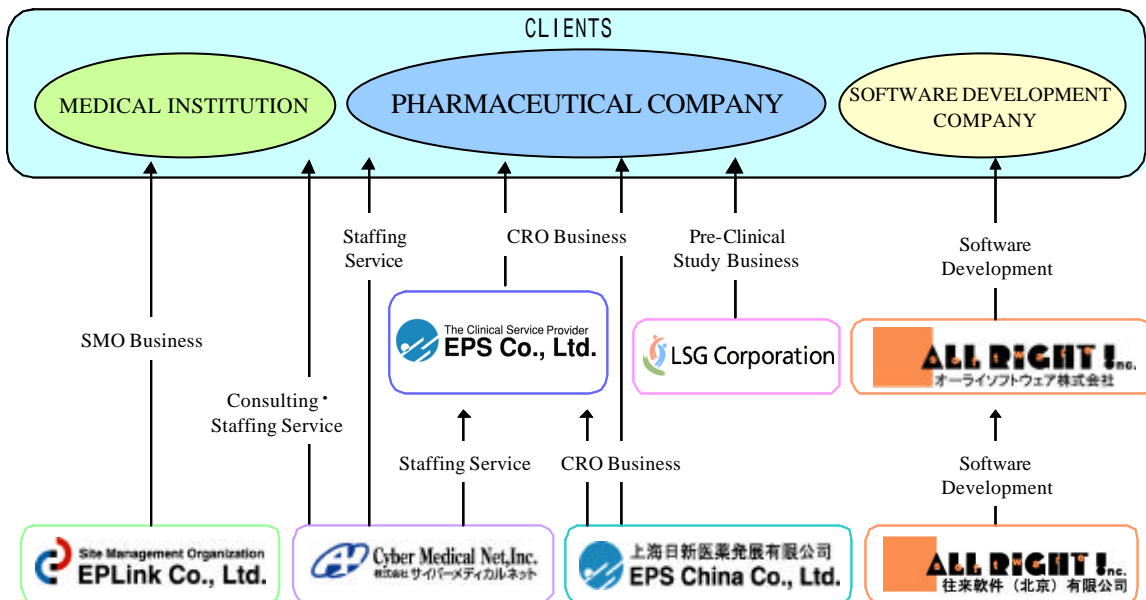
It provides software development and consulting services with utilizing Chinese IT (Information Technology) engineers.

### **EPS China Co., Ltd.**

It provides CRO services in clinical studies in China.

### **LSG Corporation**

It provides sales and marketing services in pre-clinical studies field. It will turn into a subsidiary company from affiliated company on a consolidated basis starting from the current fiscal year which ends in September, 2003.



Remarks:

**CRO (Contract Research Organization) :**

Companies or individuals that conduct clinical studies and the managements on behalf of pharmaceutical company on contract basis.

**CRC (Clinical Research Coordinator):**

Individuals that provide services to support investigators for the purpose of facilitating clinical studies in investigator (medical) sites.

**SMO (Site Management Organization):**

Companies or individuals that provide services for parts of clinical studies on behalf of investigator sites.

## **Company Profile**

Capital            ¥ 618.75 Million  
Main Services    CRO business and System Development  
E-Mail            info@eps.co.jp  
URL                www.eps.co.jp

## **Locations**

### **(Headquarter)**

Shuwaiidabashi Bldg., 2-3-19 Koraku, Bunkyo-ku,  
Tokyo 1120004    TEL. + 81-3-5684-7797    FAX. + 81-3-5684-4785

### **(Annex.1)**

2<sup>nd</sup> floor, Hongo TK Bldg., 1-28-10 Hongo, Bunkyo-ku,  
Tokyo 1130033    TEL. + 81-3-5800-7560    FAX. + 81-3-5800-7562

### **(Annex.2)**

4<sup>th</sup> floor, Kyodo Bldg., 2-26 Shimomiyabi-cho, Shinjuku-ku,  
Tokyo 1620822    TEL. + 81-3-5804-7744    FAX. + 81-3-5804-7827

### **(Annex.3)**

3<sup>rd</sup> floor, S&S Bldg., 6-36 Shin-ogawa-cho, Shinjuku-ku  
Tokyo 1620814    TEL. +81-3-5206-8697    FAX. +81-3-5206-8698

### **(Osaka Branch)**

11<sup>th</sup> floor, Nissei Shin-osaka Bldg., 3-4-30 Miyahara, Yodogawa-ku,  
Osaka 5320003    TEL. + 81-6-4807-7107    FAX. + 81-6-4807-1035

### **(Nagoya Branch)**

A-2 6<sup>th</sup> floor, Horiuchi Bldg., 3-25-9 Meieki, Nakamura-ku,  
Nagoya 4500002    TEL. + 81-52-581-8887    FAX. + 81-52-581-8817

### **(Fukuoka Branch)**

5<sup>th</sup> floor, Hakatamitui Bldg., 10-1 Kamigofukumachi, Hakata-ku,  
Fukuoka 8120036    TEL. + 81-92-263-5480    FAX. + 81-92-263-5416

## **Members of the Board and Auditors**

Chairman	Mr. Hao Yan
Executive Director	Mr. Koichi Jingu
Directors	Mr. Takeshi Adachi Mr. Kiyoshi Fujimaru Mr. Tomohiro Tominaga Mr. Yasuharu Tamai
Auditors	Mr. Kozo Okunaga Mr. Toshihiko Shichida Mr. Junichi Ishikawa Mr. Toru Ebihara

### Current situation of shares

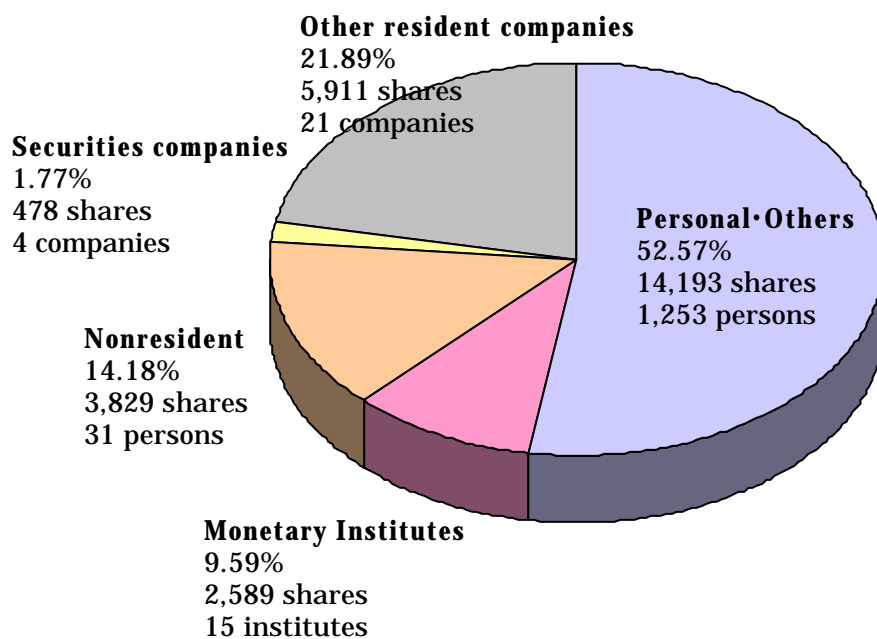
Authorized stocks	108,000
Share of common stock issued	27,000
Number of stockholders	1,324 (as of 30 <sup>th</sup> September 2002)

### Principal shareholders

Shareholder	Share held	Percentage of total
Hao Yan	6,248	23.1%
Y&G Limited	5,756	21.3%
Ireland Special Jasdric Lending A/C	968	3.6%
Sumitomo Life Insurance Mutual Co.	900	3.3%
EPS employees shareholding union	610	2.3%
C.M.B.L. Mutual Fund	591	2.2%
Goldman Sachs International	574	2.1%
Tokyo Marin & Fire Insurance	540	2.0%
Shinko Securities Co., Ltd.	460	1.7%

Note: The above number of shares is revealed after stock split as of 20<sup>th</sup> May 2002

### Classification of stockholders (as of 30<sup>th</sup> September 2002)



**Guide of Stock**

Yearend	End of September	
Annual general stockholders meeting	Within December	
The date stockholders are decided to be entitle to obtain dividends	Annual dividend Interim dividend	End of September End of March
Official bulletin	Nikkei (newspaper)	

Transfer agent: Chuoh Mitsui Trust and Banking Co., Ltd.