



**BUSINESS REPORT 2003**  
The year ended September 30, 2003

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

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## An Interview with the President

With regard to:

### Mid-term projection and return of the profit to our shareholders

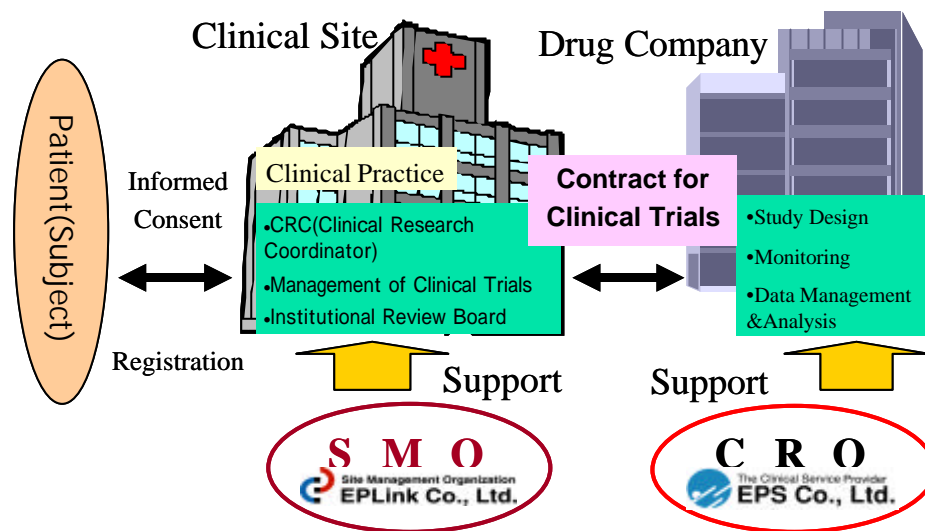


#### **Question 1: What are your strategies and approaches for the mid-term?**

The business operation of EPS Group is quite diversified, including CRO & SMO services and pre-clinical services, which are the Group's core businesses, as well as synergistically expanding businesses like temporary staffing, valid development of medical and pharmaceutical information system, overseas CRO services in China, Southeast Asia and Oceania and development of software for our clients.

Please refer to the following figure that provides you more practical and comprehensive information on our operation strategy.

#### Outline of clinical trials



#### Strengthening system of CRO which is able to provide full service

We are eagerly expanding our full service operation system in line with the current business environment that accelerates outsourcing of various stages of new drug development. Such full service operation includes planning and management of clinical trials as well as submission of new drug applications. Additionally, EPS Group comprises LSG Corporation which is engaged in pre-clinical trial business and we have

incorporated the performance of this company in our consolidated accounts as from this fiscal year. Also we are seeking more chances to form business collaboration with clinical sites where we conduct healthy volunteer studies. In this manner, we will keep growing to become CRO that can completely provide full services to support entire drug development in all fields.

### **Expansion of SMO business**

After the 1998 revision of GCP (\*1) clinical trials have come to involve a seriously heavier responsibility and burden especially for medium and small medical institutions. As a result, the scientific and rational services provided by SMOs are now attracting very much attentions and interests. Under the circumstances, further increase is anticipated in the services provided by SMOs to support the clinical trials at medical institutions. In this context we are planning to further promote the services of EPLink Co., Ltd. to expand our SMO business as a whole. We believe our SMO activities will work synergistically with our CRO-related activities.

### **Utilization of IT**

Our operation program prescribes continued use of IT (\*4) in our data management (\*2) and clinical monitoring (\*3) services as well as full utilization of the Internet to support satisfactory clinical trials. We are going to organize a project team within EPS to provide optimum IT services for pharmaceutical companies and medical institutions.

#### **\* 1: GCP:**

GCP stands for Good Clinical Practice, which had been issued by the Ministry of Welfare. It applies to medical institutions, medical practitioners and companies engaged in clinical trials.

#### **\*2: Data Management Services**

The services include investigation, fixing, compilation and biostatistics of CRF data accumulated from clinical trials as well as data preparation for various related meetings.

#### **\*3: Clinical Monitoring Services**

The services include visiting investigators at medical sites for clarification of protocol details, follow-up on trial progress, collection and analysis of properly filled-out CRFs. Protocols are the documents provided by clients (pharmaceutical companies) and statement of the purposes, designs, methods, statistical requirements of the studies as well as applicable structure of studies and responsibility.

#### **\* 4: IT: Short for information technology**

### **Development of overseas operations**

In recent years new drug development has been increasingly globalized including simultaneous developments in different countries. In line with this trend and as a part of our program to create new businesses, we have recently established another CRO business company in Singapore in addition to the one that we already had in China. As for collaboration with overseas CROs, we will continue to work out productive tie-up deals with CROs like the tie-ups we now have with “FHI”, a US CRO and “RDDA”, a South African CRO.

### **Promotion of new businesses**

We are now working hard to positively reform the business operation of our subsidiary, EP Medical Co., Ltd.(\*5) which has been engaged in CRO and SMO services as well as in pre-clinical studies. The purpose is to utilize the expertise and business relationship it has to evolve new services for pharmaceutical companies and medical institutions. The business of our All Right Software Co., Ltd.is development of software and is another example of our new business activities

\*5 Previously the name of this company was Cyber Medical Net, Inc. until it was renamed on January 1, 2004.

~ Column ~

#### **When did the CRO business start?**

CRO stands for Contract Research Organization and actually it means organization to which pharmaceutical drug development is outsourced. In the US and Europe the CRO business was initiated in the second half of 1970s. In Japan, the CRO business was started in 1990s, nearly 15 years after it began in the US. The 1998 revision of GCP called for higher quality levels for clinical trials. It means that pharmaceutical companies had to face much stricter trial requirements. As a result they chose to also utilize CRO services as they could no longer sustain all their new drug development activities in-house. This is the reason why the CRO services have since been steadily growing.

#### **Comparison of CRO activities in the US and Japan**

	In the US	In Japan
Start	latter half of 1970s	first half of 1990s
Number of CROs	about 500	about 100
Number of Employees per CRO	Several thousand	Several hundred
Sales per CRO (JPY)	in two-digit billions	in single-digit billions
% outsourced by pharmaceutical companies	30-40 %	ca, 8%

(As of 2003, searched by EPS) )

**Question 2: What will be the challenges of EPS Group's oncoming activities?**

Since more and more outsourcing is expected to take place in relation to clinical trials. It is imperative for EPS and the Group to continue to improve the quality of our services through valid reinforcement of our QC/QA division, complete compliance with standardized work procedures as well as education / training for skillful services desired. To globally support the development of new drugs we will extend our businesses in Southeast Asia and Oceania on our own while trying to work out tie-ups in other overseas areas.

Also, we anticipate increasing cost-competition, which requires us to urgently establish a management system that will most efficiently control the costs of all our projects from start to finish.

**Question 3: What is your policy for return of the profit to shareholders?**

Our fundamental policy is to strengthen our organizational structure to secure higher corporate profitability as well as to maintain proper profit sharing with our shareholders. Although stock prices are subject to changes in the stock market the dividends will be paid on a stable basis.

Please note that we have decided to split the stock at the rate of 1 to 3 in view of reasonable price for individual shareholder.

It was taken place on November 20, 2003 targeted for shareholders as of September 30, 2003.

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

## **Topics**

### **Stock-split (delivery without compensation) (September 2003)**

This decision was made to boost the stock liquidity and increase the number of shareholders. It splits each single common share into 3 common shares and applies to shareholders listed in the shareholders list as of September 30, 2003 and becomes effective on November 20, 2003

### **Participation in CRO Association specialized in Health Food & Nutrition Food**

EPS and 3 other parties jointly established this organization to promote the reliability of clinical trials for health / Nutrition food as quality improvement and business development of this line food is socially very desirable.

### **Capital increase by public offering (June 2003) and by allocation to a third party (July 2003)**

The first capital increase was taken place on June 19, 2003 and the second on July 16, 2003.

### **Start of new consulting service for licensing in-and-out and planning business development in pharmaceutical industry on the world wide basis (May, 2003)**

Our strategic consulting services were commenced both in Japan and overseas for all aspects of new drug development. This team can also provide the service to plan the business development of the products in considering the marketing after the approval.

### **Development of overseas activities (April, 2003)**

With the establishment in Singapore of EPS Singapore our Group is now ready to proceed more positively with our CRO business coupled with updated consulting services in Southeast Asia and Oceania.

### **Worker dispatching service started (April, 2003)**

This service was started in April 2003 to complete our Group's readiness for all aspects of temporary staffing business (CRA etc.)  
(Application approval No. TOKU 13-01-1630)

## **EPS Group**

The focal aim of the Group:

Establishment of an efficient system to provide a full service for drug development

The core business of EPS Group is CRO services. Other types of services the Group provides are related to SMO, temporary staffing, pre-clinical studies and other aspects and stages of drug development like regulatory application. Our mid-term targets include promotion and expansion of our existing businesses, further development of overseas activities, exploration of new businesses, and sustained efforts to improve our service quality and efficiency generally.



The company provides SMO services as well as clinical trial support for clinical sites and investigators.

Located in Tokyo, Hokkaido, Nagoya, Osaka, Hiroshima, Fukuoka and Miyazaki

URL <http://www.eplink.co.jp>



The company provides CRO services for clinical trials in China.

Located in Shanghai and Beijing

URL <http://www.epscn.com>



A strategic base of EPS in Southeast Asia to accommodate the growing local needs

Local full name: Ever Progressing System Pte, Ltd.



Marketing agent for overseas pre-clinical and clinical CROs, mainly providing pharmaceutical companies with services for pre-clinical studies.

Located in Tokyo, the US (Chicago) and the Philippines (Makati)

URL <http://www.lsg.co.jp>



### EPMedical Co., Ltd.

The company provides staffing and consulting services mainly for pharmaceutical companies as well as clinical sites.

URL <http://www.epmedical.co.jp>

\*Previously the name of this company was Cyber Medical Net, Inc. until it was renamed on January 1, 2004



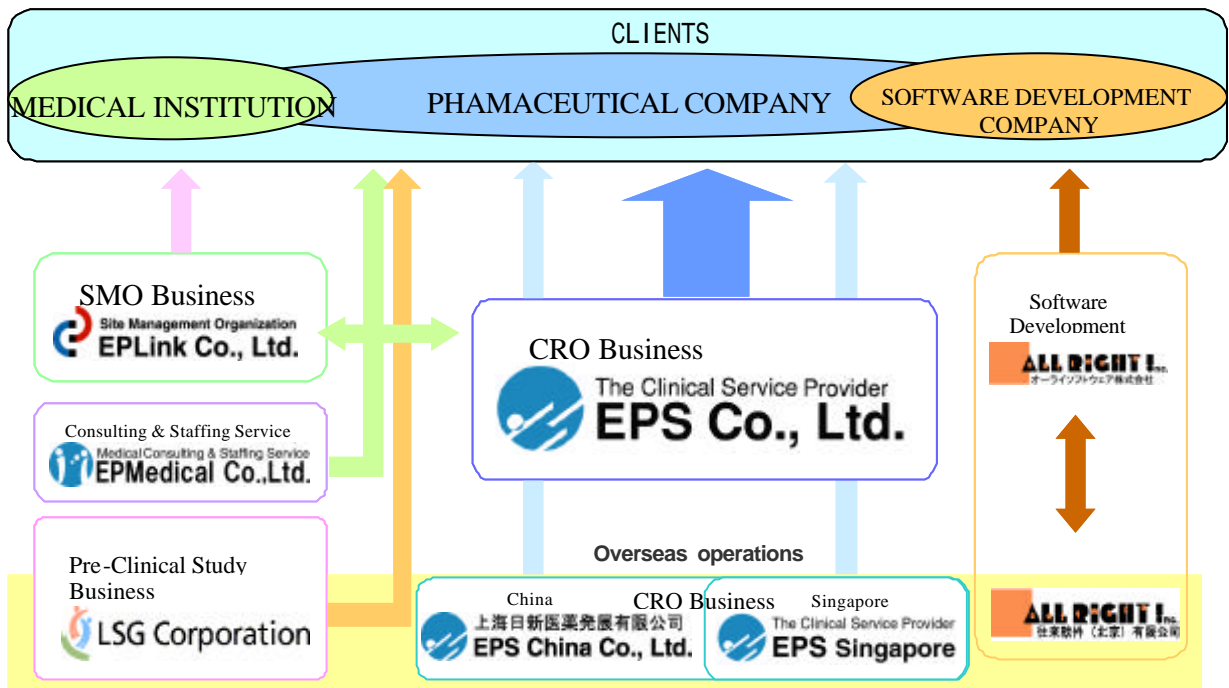
### All Right Software Co., Ltd.

The company develops computer software utilizing skillful and experienced Chinese engineers. It is also engaged in provision of consulting services.

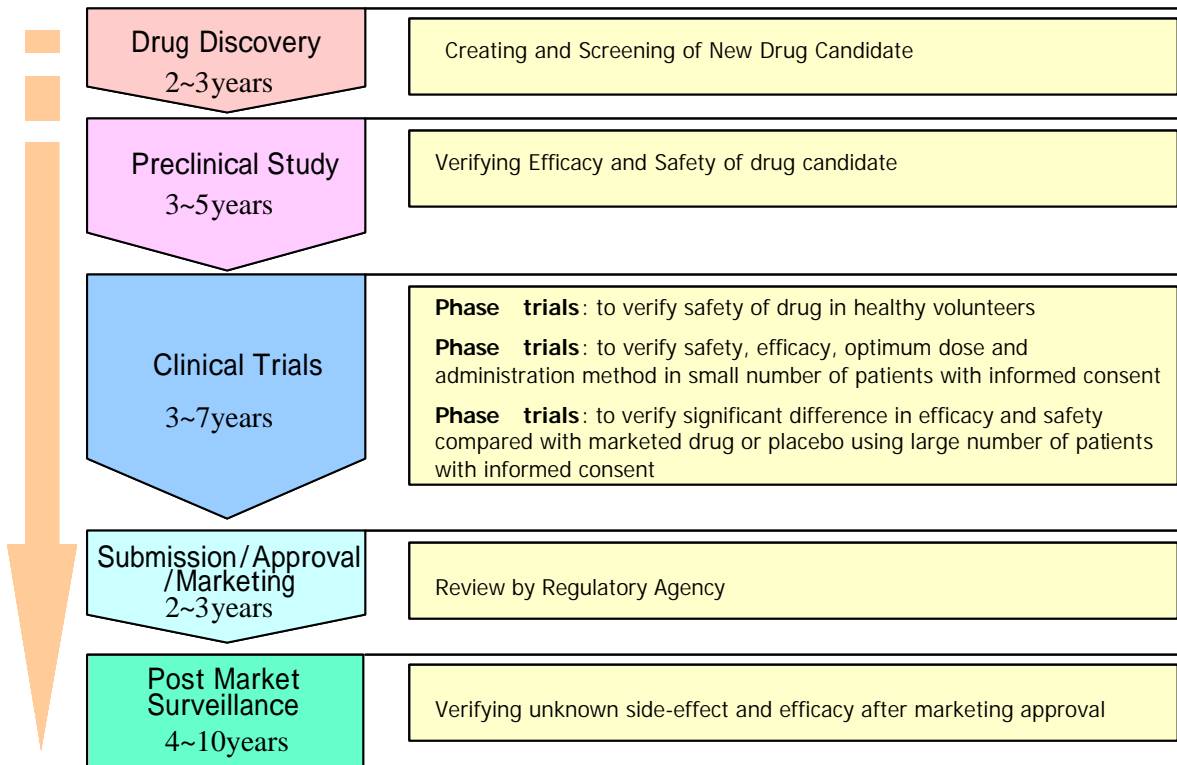
Located in Tokyo and Beijing

URL/<http://allrightsoft.co.jp>

## EPS Group



## Process of Pharmaceutical Development



\* Please note that the numbers of the years indicated above are variable depending on the nature of the clinical trials.)

## **Review of Operation**

### **Summary of this fiscal year**

Japanese economy is still suffering from prolonged business stagnation although we are finally seeing some good signs of recovery like increase in export and production. We are pleased to say that generally the CRO (contract research organization) business in which EPS takes part, the SMO (site management organization) business in which our EPLink is actively working, and pre-clinical study business are growing steadily.

In the CRO business we continue to provide data management and monitoring services for long term and large scale post-marketing clinical trials of drugs including antihyperlipemia and diabetic medicine.

For trials of drugs still under development, we have duly followed up on the projects carried over from preceding fiscal years while putting in a lot of efforts to obtain new projects. Also, we have started the business of dispatching temporary monitors.

In the field of system development, our sales related to data management are showing satisfactory increase.

We have been updating our readiness since the last fiscal year for development of medical instruments and installation of a call center to recruit individuals voluntarily participating in clinical trials. Those operations are not in full swing yet but our sales are gradually rising encouraging our further endeavor along this line.

As consolidated subsidiaries, we would inform you of our establishment in April, 2003 of EPS Singapore (Ever Progressing System Pte, Ltd.) in Singapore to conduct in Southeast Asia and Oceania clinical trials outsourced by Japanese, US and European pharmaceutical companies.

The operation of EPMedical Co., Ltd. is expanding in good order in temporary staffing business. All Right Software Co., Ltd. and its subsidiary in Beijing are proceeding with their system development business using the skills of Chinese IT engineers. Their performances, however, have been rather limited due to current general decline in the software development demand, postponement and suspension of some development orders as well as the costs of personnel required for the operation.

During fiscal 2003 in the CRO business field, consolidated net revenue was ¥ 6.28 billion, an increase of 29.2 %, and consolidated operating income showed an increase of 73.6%, amounting to ¥ 850 million compared to the previous fiscal year, respectively.

Our SMO business is being handled by EPLink Co., Ltd. The CRC (clinical research coordinator) operation is on the rise coupled with the site support services that they provide for clinical trials in collaboration with local medical institutions. However, their profit level during this fiscal year has been low because of postponement and suspension of some orders on hand and the cost of prior investment required opening new offices (in local cities with higher availability of voluntary individuals for clinical trials) as well as to hire personnel required for the operation.

As a result, as for SMO business filed, consolidated net revenue was ¥1.481 billion, an increase of 28.2 % while consolidated operating income was ¥ 100 million, a decrease of 59.3 % over the previous fiscal year, respectively.

In the pre-clinical field, the business of LSG Corporation has been steady with fairly good profitability due to increase in their agency business for various types of toxicity studies. Also, the restructuring of their overseas subsidiaries contributed to cost reduction and higher profitability.

As a result, in the pre-clinical field, consolidated net revenue reached ¥1.233 billion while consolidated operating income reached ¥222 million.

On the whole, consolidated net revenue of fiscal 2003 increased to ¥8.935 billion, 49.6% up, and consolidated operating income increased to ¥1.178 billion, 60.9% up over the previous fiscal year, respectively.

## Financial Data

### Selected Consolidated Financial Data

The selected Consolidated Statements of Operations (year ended September 30, 2003 and 2002) and Consolidated Balance Sheet (as of September 30, 2003 and 2002 ) set forth below are arranged to U.S style accounting form from audited Japanese statements for reference purpose only, therefore we don't obtain audited English statements.

YEAR ENDED SEPTEMBER 30  
(IN THOUSANDS,JPY)

	2003	2002
Net revenue	8,935,991	5,971,457
Ordinary income	1,153,111	788,503
Income before income taxes and minority interest	1,150,880	853,317
Net income	571,878	444,684
Net income per share(JPY) - *	<u>20,759</u>	<u>16,469</u>

\* These figures are computed from dividing net income with 27,548 shares (the average of period).  
Capital increase, which led to 29,000 shares from 27,000 shares, were conducted by public offering of 1,700 shares on June 19, 2003 and by allocation of 300 shares to a third party on July 16, 2003.

AS OF SEPTEMBER 30  
(IN THOUSANDS,JPY)

Cash and cash equivalents	3,074,955	1,500,808
Working capital	3,884,301	1,745,801
Total assets	6,573,394	3,809,412
Long-term debt including current portion	64,600	25,640
Shareholders'equity	4,321,867	2,371,941
Employees	846	560

## Consolidated Balance Sheets

(IN THOUSANDS,JPY)

ASSETS		2003	2002
CURRENT ASSETS			
	Cash and cash equivalents	3,074,955	1,500,808
	Notes and accounts receivable	1,949,777	1,157,265
	Inventories	121,850	33,904
	Deferred tax assets	150,154	91,396
	Pocket through expense	85,056	50,517
	Others	93,897	56,252
	Allowance for doubtful accounts	4,707	4,036
	Total current assets	<u>5,470,984</u>	<u>2,886,109</u>
FIXED ASSETS			
	Tangible Assets ;		
	Leasehold improvements	228,194	81,329
	Accumulated depreciation	121,660	22,761
	Furniture and fixtures	160,413	92,417
	Accumulated depreciation	102,578	58,181
	Others	60,035	2,644
	Accumulated depreciation	33,600	1,586
	Total property and equipment	<u>190,804</u>	<u>93,861</u>
	Intangible assets	79,042	52,923
	Investment and other assets ;		
	Investment securities	96,180	112,644
	Long-term loans	52,262	100,000
	Deposits	481,930	419,493
	Deferred tax assets	83,022	77,423
	Others	119,166	66,956
	Total investments and other assets	<u>832,563</u>	<u>776,517</u>
	TOTAL FIXED ASSETS	<u>1,102,409</u>	<u>923,303</u>
	TOTAL ASSETS	<u>6,573,394</u>	<u>3,809,412</u>
LIABILITIES			
CURRENT LIABILITIES			
	Accounts payable	182,355	93,969
	Current portion of long-term debt	26,400	25,640
	Income taxes payable	350,476	354,252
	Accrued bonuses	283,862	205,498
	Others	743,590	460,948
	Total current liabilities	<u>1,586,683</u>	<u>1,140,308</u>
LONG-TERM LIABILITIES			
	Long-term debt	38,200	-
	Liability for retirement benefits	123,910	90,244
	Liability for director's retirement benefits	105,603	89,705
	Others	20,047	2,396
	Total long-term liabilities	<u>287,761</u>	<u>182,346</u>
	TOTAL LIABILITIES	<u>1,874,444</u>	<u>1,322,655</u>
MINORITY INTERESTS			
	Common stock	1,325,250	618,750
	Additional paid-in capital	1,275,300	568,800
	Retained earnings	1,705,922	1,184,772
	Unrealized gain on available-for-sale securities	25,971	459
	Foreign currency translation adjustments	<u>10,576</u>	<u>840</u>
	TOTAL SHAREHOLDERS' EQUITY	<u>4,321,867</u>	<u>2,371,941</u>
	TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	6,573,394	3,809,412

Consolidated Statements of Income  
(IN THOUSANDS,JPY)

	2003	2002
NET SALES	8,935,991	5,971,457
COST OF SALES	6,173,727	4,143,144
Gross profit	<u>2,762,264</u>	<u>1,828,312</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,583,336	1,095,608
Operating income	<u>1,178,927</u>	<u>732,704</u>
OTHER INCOME (EXPENSES)		
Interest income	5,554	1,479
Interest expenses	(5,405)	(1,073)
Gain on investment to anonymous unions	-	21,738
Gain on cancellation of life insurance	7,918	6,329
Service fee income	5,803	8,163
Equity in earnings of associated companies	-	21,981
Share issue expense	(12,183)	-
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 consumption tax	5,988	
Foreign exchange loss	(34,970)	
Gain on changing life insurance policy	-	79,358
Gain on sales and disposal of property and equipment	1,685	-
Loss on sales and disposal of property and equipment	(3,916)	(14,545)
Other- net	1,477	4,904
Other income (expenses)-net	<u>(28,047)</u>	<u>120,612</u>
Income before income taxes and minority interests	1,150,880	853,317
INCOME TAXES		
Current	545,767	427,997
Deferred	(65,990)	(73,915)
Total	<u>479,777</u>	<u>354,082</u>
MINORITY INTERESTS	99,225	54,551
NET INCOME	<u>571,878</u>	<u>444,684</u>
NET INCOME PER SHARE(JPY)	<u>20,759</u>	<u>16,469</u>

## Company Profile

Capital                    ¥ 1325.25 Million  
Main Services        CRO business and System Development  
E-Mail                    [info@eps.co.jp](mailto:info@eps.co.jp)                    URL                    www.eps.co.jp

### Locations

#### (Headquarter)

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)

4th, 5th and 6th floor, K.I.S Iidabashi Bldg., 2-3-28 Koraku, Bunkyo-ku  
Tokyo 1620822    TEL. + 81-3-5206-1791 FAX. + 81-3-5804-1792

#### (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)

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 Statutory Auditors

Chairman	Mr. Hao Yan
Executive Director	Mr. Koichi Jingu
	Mr. Tatsuhiko Ichiki
Directors	Mr. Tomohiro Tominaga
	Mr. Yasuharu Tamai
	Mr. Akihiro Shimosaka
	Mr. Takeshi Adachi
Statutory Auditors	Mr. Kozo Okunaga
	Mr. Toshihiko Shichida
	Mr. Junichi Ishikawa
	Mr. Toru Ebihara

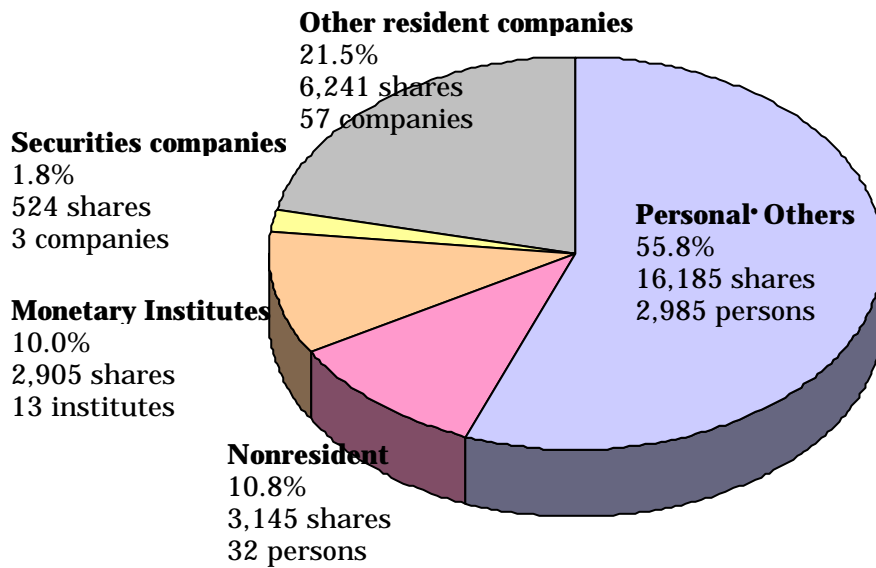
## Current situation of shares

Authorized stocks	324,000
Share of common stock issued	87,000
Number of stockholders	3,090 (as of 30 <sup>th</sup> September, 2003)

**Principal shareholders (as of 30<sup>th</sup> September, 2003)**

Shareholder	Share held	Percentage of total
Hao Yan	5,910	20.3%
Y&G Limited	5,756	19.8%
Sumitomo Life Insurance Mutual Co.	900	3.1%
Ireland Special Jasdic Lending A/C	820	2.8%
Japan Trustee Services Bank	752	2.5%
CBLDN-Trustee for Invesco PP Japanese Smaller Co Fund	600	2.0%
Tokyo Marin & Fire Insurance	540	1.8%

**Classification of stockholders (as of 30<sup>th</sup> September, 2003)**



## **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: The Chuo Mitsui Trust and Banking Company, Limited

For more information, please contact:

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Fax +81-3-5804-0361

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