

Ever
Progressing
System

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Interview (Q&A) with Mr. YAN Hao, President and Chief Executive Officer

With regard to:

- ◆ The growth of the CRO business (EPS' primary business) in Japan
- ◆ EPS' business activities during the first half of the current fiscal year
- ◆ EPS' operation strategy



Question 1: First of all, what is “CRO” business?

Answer: CRO stands for Contract Research Organization. Actually it means organization to which pharmaceutical drug development work is outsourced. In the US and Europe the CRO business was initiated in the second half of 1970s and is believed to have almost fully grown.

In Japan the pressure to the Pharmaceutical industry to reduce their drug development cost by the government's policy to help curtail people's medical expenses have worked to urge the pharmaceutical companies to start partially outsourcing their drug development operation in the first half of 1990s. The CRO business in Japan is still in growing stage compared with the US and Europe. The market is also undeniably expanding. So the CRO business is expected to be as active in Japan as in the US and Europe sometime soon. (See “Comparison of CRO activities in the US and Japan” next page.)

There are several incentives for the ongoing growth of the CRO business in Japan. One of them is how to reduce the time for new drug development. Generally, it takes about 15 years to develop a new drug as it includes various stages of Research and Development up to market approval by the regulatory agency.

The cost, expenses and efforts required are so huge that it is one of the most critical management issues for pharmaceutical companies to speed up the drug development process whenever and wherever possible. Also, it directly leads to another critical issue that is how to obtain the “Priority”(*1) interest, which provides them with the patent right that completely protects the new drugs from global competition.

Another incentive is the advent of an age of advanced IT (information technology) and biotechnology in which far more candidate drugs may be discovered in a shorter period of time. Therefore, it is getting more and more important how to efficiently manage drug developments for those new drug candidates. Under the circumstance, it has become the choice of pharmaceutical companies to outsource the clinical trials (*2) and

subsequent steps to appropriate specialists so that pharmaceutical companies may concentrate more their own resources on the research for new drug discovery.

Also, the newly enforced GCP requires conduct of higher quality, more accurate and sophisticated clinical trials. This situation has also made it more difficult for pharmaceutical companies to handle all stages of new drug development by themselves.

After EPS was established in 1991, now many pharmaceutical companies including leaders in the industry are outsourcing their work to us under these circumstances.

***1 : “Priority” :**

It leads to the patent right for pharmaceutical companies to exclusively manufacture new drugs that they have successfully developed. This right is valid for 20-25 years after patent application. Based on revisions of the Pharmaceutical Law in 2002 epoch-making new drugs are now evaluated at a level 2.5 times higher than before. This provides an additional incentive for introducing new drugs.

***2 Clinical Trials :**

The efficacy of new drugs under development is tested with the coordination of patients at hospitals. For this purpose, the pharmaceutical companies have to provide study plans, to monitor the trials, and to collect, compile and statistically analyze the results of the trials. All these clinical trials involve a lot of complicated procedures which pharmaceutical companies would choose to outsource to CROs.

Comparison of CRO activities in the US and Japan.

	In the US	In Japan
Start	in the second half of 1970s	in the first half of 1990s
Number of Employee per CRO	thousands (Top 5 CROs)	hundreds (Top 3 CROs)
Sales (in yen) per CRO	in double-digit billions (Top 5 CROs)	in single-digit billions (Top 3 CROs)
% outsourced by pharmaceutical companies	30-40 %	ca, 8%

(As of 2002, searched by EPS)

Question 2: How do you think the CRO market in Japan will grow in the years to come ?

Answer: The total sales of the CRO business in Japan was approximately 38.8 billion yen in 2002. It is expected to be about 51.3 billion yen in 2003 and continue growing to 80 billion yen in 2005.

The major advantages for pharmaceutical companies resulting from outsourcing to CROs are, (1) accelerated drug development accompanied by reduced cost and expenses, (2) resulting capability to handle increased number of candidate drugs (3) possibility of attaining higher level of transparency in their drug development by having trials conducted by third parties.

Actually, the number of drug development cases outsourced to CROs is increasing yearly. It is expected that nearly 40% will be outsourced to CROs in 2008. (Based on Yano Research Institute's report dated March 25, 1998)

Question 3: How was EPS' s business operation in the first half of the fiscal year, and what is your outlook for the entire fiscal year ?

Answer: In the first half of the year, our business continued to expand as in the preceding year. Some of the contributing factors were the start of large-scale post marketing clinical trials, start of our services for our new client including Bio-venture companies, and enlarged capabilities of our Biometrics Division.

Throughout the current fiscal year we are aiming again to expand our services in all areas including data management, clinical monitoring and long term trials. Also we continue to do our very best to improve our services in terms of price, quality and efficiency so that our target will be attained still more efficiently.

As for our subsidiaries such as EP Link, LSG, Cyber Medical Net, and AllRight Software, their businesses are stable and satisfactory. Under the circumstance, we expect EPS' sales on consolidated basis at the end of this fiscal year will be about 9,282 million yen, the ordinary income about 1,253 million yen, and the net income about 622 million yen.

Question 4: What is your management strategy for the future ?

Answer: It is our aim to establish a system to provide a broad range of services for drug development efficiently by not only EPS but all the companies of the EPS Group.

EP Link Co., Ltd., for example, is engaged in provision of SMO (site management organization) services which are intended to support clinical trials in medical sites and are inseparably connected with CRO services. Just like the CRO business the SMO business is rapidly expanding and the two businesses are expected to create synergistic growth effect. Informatively, we have established two subsidiary companies in Asia, namely EPS China Co., Ltd. in Shanghai & Beijing and Ever Progressing System Pte. Ltd. (EPS Singapore for short) in Singapore to globalize our services and to reduce costs and expenses. Also, our efforts are being enhanced to work in collaboration with overseas CROs and SMOs.

Additionally, since the inclusion of LSG Corporation (a pre-clinical study outsourcing agency in Tokyo) as well as Cyber Medical Net Co., Ltd. (a temporary employment agency in Tokyo) in the EPS Group of companies, we are proceeding further toward our goal, the establishment of full-service operating system. This system supports new-drug development from the stage of pre-clinical trials to that of post marketing surveillance.

All Right Software Co., Ltd. is another company in the EPS Group. Although this company is not directly involved in CRO business, it is actively promoting software development.

Other than the above-mentioned businesses, EPS will keep on growing as its name; “Ever Progressing System” and will still pursue the new business opportunities for pharmaceutical companies and medical sites.

Recent Topics

**EPS's strategic consulting services commenced to facilitate the licensing aspect.
(May, 2003)**

EPS launched the strategic consulting services taking marketing into consideration for drug development which includes not only studies in Japan but multinational studies. The strategic consulting services cover all the areas of clinical trials and especially support the drug development strategy in pharmaceutical companies.

CRO services expanded overseas. (April, 2003)

EPS Singapore was established to support new drug development in Southeast Asia.

Worker dispatching service started. (April, 2003)

As of April 1, 2003 we are licensed to supply our monitors (CRA) upon Request to pharmaceutical companies. (Application approval No. TOKU 13-01-1630)

The portal site for clinical trials "Chicken web" opened. (February, 2003)

On February 1, 2003, EPS created a web site named "Chicken Web (clinical-trial.jp)" dedicated for clinical trial information. The headline of the site is as follows:

- 1) Updated clinical trials related news
- 2) Report from Investigators medical sites, featuring voices of both investigators and patients.
- 3) Interviews with investigators and so on

This specific web site provides viewers with the more informative and educational information about clinical trials, PMS and enable them to access the call center for registration after going through several steps of choices and screening by themselves in the site.

URL: <http://www.clinical-trial.jp>

Permit acquired for general temporary staff company.

(December, 2002)

This permit was obtained by our subsidiary, EP Link Co., Ltd. which is engaged in SMO business.

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 employment, pre-clinical trials and other aspects and stages of drug development including regulatory application. Our mid-term targets include promotion and expansion of our existing businesses, further development of our overseas activities, exploration of new businesses, and sustained improvement of our service quality and efficiency.

EP Link Co., Ltd.

The company provides SMO services as well as clinical trial supports for clinical (investigator) sites.

Located in Tokyo, Sapporo, Nagoya, Osaka, Kobe and Fukuoka

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

EPS China Co., Ltd.

The company provides CRO services in clinical trials in China.

Located in Shanghai

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

EPS Singapore

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

Local full name: Ever Progressing System Pte. Ltd.

LSG Corporation

The company has been consolidated by EPS and, as marketing agent for several overseas pre-clinical and clinical CROs, mainly provides pharmaceutical companies with services related to pre-clinical studies.

Located in Tokyo

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

Cyber Medical Net, Co., Ltd.

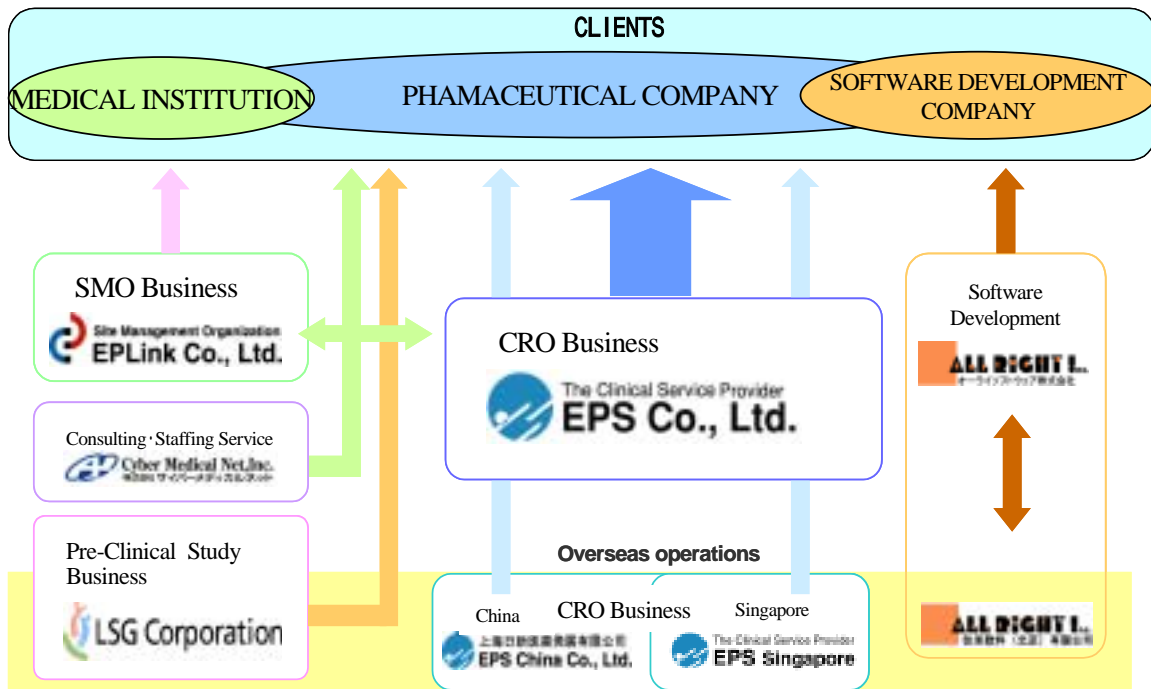
The company provides temporary employment agency services mainly for monitoring divisions in pharmaceutical companies as well as medical consultancy and human resources introduction services for clinical sites.

URL <http://www.c-medicalnet.co.jp>

ALL RIGHT Software Co., Ltd.

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

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



Review of Operation

Interim Report

Japanese economy has been struggling in severe situations such as deflationary spiral, stock market continuously depressed with generally negative outlook, the worldwide economic downturn due to the Iraqi war. However, the CRO (contract research organization) business in which we offer our main services as well as the SMO (site management organization) business in which operates EP Link Co., Ltd., a subsidiary of ours, have continued to expand.

In the CRO business, we are providing our services to support long-term and large-scale post marketing clinical trials for antihyperlipemia and anticancer agents and drugs for diabetes and so on. Also we are actively promoting our Data Management and Monitoring services.

Our Clinical Development Division is engaged in continued services to promote the early-stage projects that were carried over from preceding fiscal years as well as in procuring and supporting new projects. The bio-venture project that was outsourced to us during the preceding fiscal year is believed to have a promising future and we are dealing with this project with all the more enthusiasm.

Our Biometrics Division continues its unfaltering efforts for expansion of our services for patient registration, study management, data management and statistical analysis.

The businesses of our subsidiary companies are proceeding satisfactorily. Cyber Medical Net Co. Ltd. is in the black operating as temporary employment agent for pharmaceutical companies.

In the field of software development, All Right Software Co., Ltd. and its subsidiary, are eagerly promoting its business utilizing Chinese IT technicians.

Consequently, our interim sales amount for the CRO business was 2,774 million yen (27.5% up from the prior interim amount) while the interim operating income was 260 million yen (123.9% up).

As for the SMO business handled by EP Link Co., Ltd., it is noted that the CRC (Clinical Research Coordinator) services are growing in line with the site-support services which are provided in collaboration with related medical sites.

As a result our SMO business attained an interim sales amount of 691 million yen (24.3% up from the prior interim amount) and an interim operating income of 72 million yen (56.5% down). This decrease in operating income was unavoidable because the income of the prior period was so big a year ago due to an unusual big business we had then.

We consolidated LSG Corporation as our subsidiary in December, 2002. The company is engaged in arrangement of various preclinical CRO studies as well as import and distribution of resources for such studies. The addition of this company to the EPS Group positively contributed to extension of our overall business areas.

LSG's interim sales amount was 604 million yen while its operating income was 111 million yen.

Our interim consolidated sales rose to 4,070 million yen (49.0% up from the prior interim sales) and the operating income was 435 million yen (53.7% up) while our ordinary income increased to 440 million yen (43.1% up).

***1 Data Management Services**

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

***2 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 state the purposes, designs, methods, statistical requirements of the studies as well as applicable structure of studies and responsibility.

Interim Financial Data

Selected Interim Consolidated Financial Data

The selected Interim Consolidated Statements of Operations (Six month ended March 31 2002 and 2003) and Consolidate Balance Sheet (as of March 31 2002 and 2003) 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.

INTERIM (SIX MONTH) ENDED MARCH 31 (IN THOUSANDS,JPY)

	2003	2002
Net revenue	4,070,362	2,732,454
Ordinary income	440,602	307,774
Income before income taxes and minority interest	440,552	305,227
Net income	202,914	146,826
Net income per share(JPY) - *	<u>7,515</u>	<u>5,438</u>

* 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 MARCH 31 (IN THOUSANDS,JPY)

Cash and cash equivalents	1,385,209	1,485,765
Working capital	2,128,713	1,520,652
Total assets	4,431,211	3,383,711
Long-term debt including current portion	79,700	76,000
Shareholders' equity	2,561,369	2,100,417
Employees	746	481

Interim Consolidated Balance Sheets
(IN THOUSANDS,JPY)

ASSETS		2003	2002
CURRENT ASSETS	Cash and cash equivalents	1,385,209	1,485,765
	Notes and accounts receivables	1,633,459	837,532
	Inventories	140,402	63,071
	Others	272,467	166,228
	Allowance for doubtful accounts	4,608	2,352
	Total current assets	<u>3,426,931</u>	<u>2,550,246</u>
FIXED ASSETS	Tangible assets	187,983	93,208
	Intangible assets	66,952	47,364
	Investments and other assets		
	Deposits	453,340	371,021
	Others	296,042	333,325
	Allowance for investments loss		11,454
	Allowance for doubtful accounts	38	
	Total investments and other assets	<u>749,344</u>	<u>692,892</u>
	Total fixed assets	<u>1,004,280</u>	<u>833,465</u>
	TOTAL ASSETS	<u>4,431,211</u>	<u>3,383,711</u>
LIABILITIES			
CURRENT LIABILITIES			
	Accounts payable	188,305	79,319
	Short-term debt	68,000	
	Current portion of long-term debt	28,300	74,100
	Income taxes payable	198,448	160,713
	Advance received		214,678
	Provision for bonus	230,518	163,095
	Others	584,645	337,687
	Total current liabilities	<u>1,298,217</u>	<u>1,029,594</u>
LONG-TERM LIABILITIES	Long-term debt less current portion	51,400	1,900
	Provision for retirement	103,364	78,599
	Provision for director's retirement	97,570	81,931
	Others	5,176	
	Total long-term liabilities	<u>257,511</u>	<u>162,430</u>
	TOTAL LIABILITIES	<u>1,555,729</u>	<u>1,192,024</u>
MINORITY INTERESTS	Minority interests	314,113	91,268
SHAREHOLDERS' EQUITY			
	Common stock	618,750	618,750
	Additional paid-in capital	568,800	568,800
	Retained earnings	1,363,958	909,414
	Unrealized gain on available-for-sales securities	13,179	365
	Foreign currency translation adjustments	<u>3,318</u>	<u>3,088</u>
	TOTAL SHAREHOLDERS' EQUITY	<u>2,561,369</u>	<u>2,100,417</u>
	TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	<u>4,431,211</u>	<u>3,383,711</u>

Interim Consolidated Statements of Operations
(IN THOUSANDS,JPY)

	2003	2002
Net revenue	4,070,362	2,732,454
Cost of sales	<u>2,860,260</u>	<u>1,838,367</u>
Gross profits	1,210,102	894,086
Selling, General and Administrative Expenses	<u>775,075</u>	<u>611,007</u>
Income from operations	<u>435,026</u>	<u>283,078</u>
Other Income (Expense)		
Interest income	3,469	522
Interest expenses	(3,008)	(717)
Gain on investment to anonymous unions	-	10,284
Gain on cancellation of life insurance	2,736	3,569
Service fee income	2,095	5,550
Amotization of negative consolidation goodwill	3,079	-
Equity in earnings of affiliated companies	204	7,953
Foreign exchange loss	(6,391)	(2,289)
Loss on cancellation of lease contract	-	(2,424)
Gain on sales of property and equipment	1,942	-
Reversal of allowance of doubtful accounts	-	1,625
Loss on sales and disposal of property and equipment	(1,992)	(4,172)
Other- net	<u>3,391</u>	<u>2,247</u>
Other income (expenses)-net	<u>5,526</u>	<u>22,149</u>
Income before income taxes and minority interests	440,552	305,227
Income taxes		
Current	205,087	161,761
Deferred	<u>(18,186)</u>	<u>(32,478)</u>
Total	<u>186,900</u>	<u>129,283</u>
Minority interests	<u>50,737</u>	<u>29,118</u>
Net Income	<u>202,914</u>	<u>146,826</u>
Net Income per share(JPY)	<u>7,515.35</u>	<u>16,314.05</u>

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,
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(Annex.1)

2nd 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 floor, Kyodo Bldg., 2-26 Shimomiyabi-cho, Shinjuku-ku,
Tokyo 1620822 TEL. + 81-3-5206-1791 FAX. + 81-3-5804-1792

(Annex.3)

3rd 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)

11th 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 6th floor, Horiuchi Bldg., 3-25-9 Meieki, Nakamura-ku,
Nagoya 4500002 TEL. + 81-52-581-8887 FAX. + 81-52-581-8817

(Fukuoka Branch)

5th 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
Directors	Mr. Takeshi Adachi
	Mr. Tomohiro Tominaga
	Mr. Yasuharu Tamai
Statutory Auditors	Mr. Kozo Okunaga
	Mr. Toshihiko Shichida
	Mr. Junichi Ishikawa
	Mr. Toru Ebihara

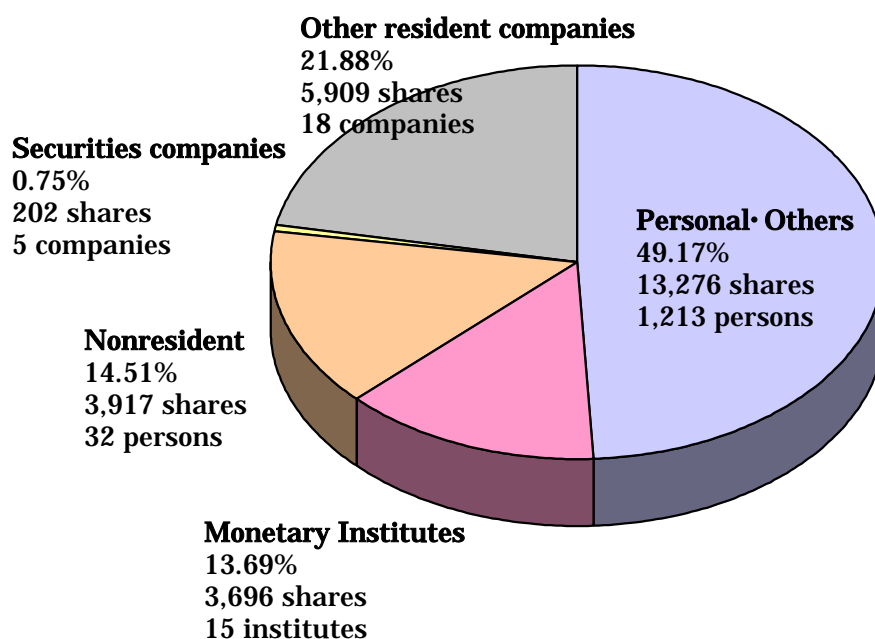
Current situation of shares

Authorized stocks	108,000
Share of common stock issued	27,000
Number of stockholders	1,283 (as of 31 st March, 2003)

Principal shareholders (as of 31st March, 2003)

Shareholder	Share held	Percentage of total
Hao Yan	6,249	23.1%
Y&G Limited	5,756	21.3%
Ireland Special Jasdic Lending A/C	905	3.3%
Sumitomo Life Insurance Mutual Co.	900	3.3%
Japan Trustee Services Bank	899	3.3%
Tokyo Marin & Fire Insurance	540	2%
Goldman Sachs International	516	1.9%
UFJ Trust Bank Limited	509	1.8%
CBLDN-Trustee for Invesco PP Japanese Smaller Co Fund	475	1.7%

Classification of stockholders (as of 31st March, 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	End of September
	Interim dividend	End of March
Official bulletin	Nikkei (newspaper)	

Transfer agent: The Chuo Mitsui Trust and Banking Company, Limited