

# III Business Performance and Financial Position

## 1. Business Performance

### (1) Review of the Current Term

During the current fiscal year, the Japanese economy continued to grow on support of strong exports, higher corporate profits, brisk consumption and despite various uncertainties such as anticipation of a rise of interest rate caused by release of quantitative easing policy in money market, higher oil prices and overseas economy. Against this backdrop, and despite a slight slowing in our markets we serve, we were able to see continued growth in the CRO business, which is serviced primarily by our company, and the SMO business, which is serviced primarily by our subsidiary EP-Mint, as well as in our pre-clinical testing business.

EPS operates primarily in the CRO business realm.

With regards to our monitoring services, the clinical trial and planning division, which performs clinical trial in the developmental and post market stages, saw favorable trends in its existing project implementation, new project acquisition, anti-cancer, diabetes and central nervous system related drug testing businesses.

With regards to our registration and clinical information processing division also saw continued expansion in its project progress management, data management, and data analysis services. During current fiscal year, we were able to achieve higher capacity utilization rates due to increases in the number of both existing and new projects.

In the area of medical equipment development, medical writing, and safety information services, we were able to increase both our orders and sales compared to the previous fiscal year despite difficult market conditions.

And EPS was transferred developing business of medical devices from Nihon Americare Co., LTD in June 2006 for share expansion of our medical device development section and enterprise base strengthen.

Moreover, we have established a clinical research promotion center to develop new demand such as investigator-initiated clinical trial, post-marketing study, and specially designated health foods.

Looking at our company, both sales and ordinary income of our clinical planning development division and clinical information processing division grew compared to the previous fiscal year.

With regards to our consolidated subsidiaries in Japan, e-Trial Co., Ltd. (shareholding ratio: 100%), which was established in March 2006 for the purpose of being entrusted with the clinical trial utilized EDC, is having a favorable start.

With regards to our overseas consolidated subsidiaries, EPS China has started to operate in earnest with a large project received in China and contributed to achievements, and recorded increased sales and profit compared to the previous fiscal year. EPS Singapore has been performing their own original way to capture orders from new clients, and recorded increased sales and profit compared to the previous fiscal year.

Moreover, EPLUS Co., Ltd. (shareholding ratio: EPS 60%, Sosei Group 40%) acquired the business license in China and is preparing its business operations.

At the same time, EP Medical Co., Ltd. provides MR dispatch services (CSO), and the dispatched MR services are increasing for the new orders. However, EP Medical had front-loading of costs associated with the acquisition of personnel to help fuel the future growth in this business.

EP Mate Co., Ltd. which is performing temporary staffing business (dispatched CRO business) for pharmaceutical companies has been developing achievements favorably.

With regards to our system development services, All Right Software Inc. and their consolidated subsidiaries All Right ( Beijing ) are promoting their businesses by leveraging the Chinese IT engineers to develop new clients, and recorded increased sales and profit compared to the previous fiscal year.

All Right Software Inc. was transferred a business from M-net Co., Ltd. in order to strengthen business scale expansion and development organization in April, 2006.

Consequently in our CRO business consolidated sales were ¥11,151 million, up 22.9% over the previous fiscal year, with consolidated operating income of ¥1,787 million, up 37.1% over the previous fiscal year.

EP-Mint Co., Ltd. handles our SMO business.

EP-Mint Co., Ltd. efforts to fortify the internal structure since its merger, and performs mainly site support business such as clinical trial administration with local medical institutions in addition to CRC business. However, the operating ratio is falling while they are still maintaining the internal structure and could not obtain new order as expected.

Therefore, in order to attain the increase in efficiency by consolidating our Group and pursuit better service suits for the clients' needs, EP-Mint Co., Ltd. operates all our SMO business in our Group. Japan SMO Co., Ltd., mainly engaged in the site support service was decided on dissolution in the extraordinary shareholders' meeting on July 12, 2006, and it is on liquidation at present.

Consequently in the SMO business, sales were ¥2,982 million, up 14.8% over the previous fiscal year, with consolidated operating income of ¥88 million, down 66.7% from the previous fiscal year.

LSG Corporation operates the pre-clinical business. LSG Corporation is facing difficulties such as cancellation of a contract with a research organization caused by reorganization at pre-clinical testing business organization group in first- half term. However, they have been promoting to contract with overseas partners and expand sales of new products.

Consequently in the pre-clinical business, sales were ¥1,196 million, down 13.4% from the previous fiscal year, with consolidated operating income of ¥71 million, down 66.9% from the previous fiscal year.

The above sales and operating income by segment in each business are recorded including internal transactions between segments. After deducting them, for current fiscal year, sales were ¥15,257 million, up 17.3% over the previous fiscal year, with operating income of ¥1,958 million, up 9.2% over the previous fiscal year, and ordinary profit of ¥1,979 million, up 9.3% over the previous fiscal year. However, since ¥606 million was recorded for profit by proceeding investment securities in previous fiscal year, net profit was ¥1,079 million, down 4.2% from the previous fiscal year.

## (2) Earnings Projections for the Next Fiscal Year

We anticipate the Japanese economy to continue to trend strongly, however these are numerous uncertainties on the horizon including higher oil prices, conditions in overseas economies, and volatility in the domestic stock market, JPY exchange rate.

Our company seeks to achieve our earning projections in the next year through the mainly promoting of both the Biometrics division, which includes data management, statistic analysis, registration and project progress management, medical writing and pharmacovigilance, and Clinical development division, which includes monitoring, and medical device products' clinical trial development services. Furthermore we will also

promote information capturing and order activities in our Business development department, overseas clinical trial related services in our International business department, and our Clinical research promotion center for new business proposal and other services.

With regards to our consolidated subsidiaries, E-Trial Co., Ltd., which was established in March 2006 for the purpose of performing global clinical trial for pharmaceutical companies based primarily on EDC, will begin full-scale operation, and will leverage the synergies which exist between the various overseas companies within our Group.

In overseas markets, EPS China Co., Ltd., which performs CRO business seeks our new clinical trial orders in China. And mainly in East Asia and Southeast Asia, EPS Singapore cultivates orders from new clients for clinical trial. Additionally EPLUS Co., Ltd. is working to quickly locate potential new drug development work and to establish a structure to proceed it.

EP Medical Co., Ltd. is responsible for CSO business such as MR dispatch and is acquiring new orders. And EP Mate Co., Ltd. performs dispatched type CRO services and focuses its efforts upon expanding new staff dispatch business for pharmaceutical companies.

All Right Software Inc., which provides software development services utilizing Chinese IT engineers, is pursuing new orders for software development from clients in the communications, finance and network related industries. All Right Software Beijing Limited as its subsidiary also focuses its efforts upon developing new clients as well as generating more business from existing clients.

EP-Mint Co., Ltd., which is responsible for our SMO business, will pursuit the effect of its merger and will perform to obtain new orders with their employee efficiently.

Additionally LSG Corporation, which performs pre-clinical testing services, will seek new business partners, and will expand its business by performing as a domestic agent of pre-clinical testing services and providing animals for studies by adding growing markets such as mouse cages and special animal feeds.

The earnings projections for the fiscal year to September 2007 are as follows.

(Non-consolidated)

Units: Yen million

	Sales	Ordinary income	Net income	Dividend per share (JPY)		
				Interim	Year end	Total
FY9/06 Results	9,479	1,664	980	1,000	2,300	3,300
FY9/07 Projections	10,852	1,750	1,031	1,200	2,300	3,500
Change	1,373	85	51			
% Change	14.5	5.1	5.2			

(Consolidated)

Units: Yen million

	Sales	Ordinary income	Net income
FY9/06 Results	15,257	1,979	1,079
FY9/07 Projections	17,700	2,400	1,267
Change	2,443	421	188
% Change	16.0	21.3	17.4

## 2. Financial Position

### (1) Changes in Our Assets, Liabilities, and Equity

We describe changes in our financial position during the current fiscal year from the end of the previous fiscal year below.

During the current fiscal year, our consolidated current assets increased by ¥1,909 million to ¥8,400 million due to a ¥1,845 million rise in cash and cash equivalents, which was due the issuance of convertible bonds and new loan, and a ¥121 million increase in inventories. Our fixed assets rose by ¥519 million to ¥3,572 million due primarily to a ¥315 million increase in intangible fixed assets, which was due acquisition of goodwill, and a ¥172 million increase in deferred tax assets. Consequently our total consolidated assets at the end of the fiscal year rose by ¥2,428 million to ¥11,973 million from the end of the previous fiscal year.

With regards to liabilities, income taxes payable declined by ¥233 million from the end of the previous fiscal year due mainly to reduction of non-deductible expenses, and long-term debt increased by ¥796 million, and other current liabilities increased by ¥193 million. Consequently total consolidated liabilities at the end of the fiscal year grew by ¥694 million to ¥3,403 million from the end of the previous fiscal year.

With regards to net assets, both capital and additional paid-in capital rose by ¥550 million and ¥549 million respectively due to issuance of new shares, and retained earnings grew by ¥844 million, despite unrealized gain on available-for-sale securities declined by ¥276 million. Consequently net assets at the end of the current fiscal year rose by ¥1,733 million to ¥8,570 million from the end of the previous fiscal year.

## (2) Consolidated Cash Flow Conditions

During the fiscal year, consolidated cash and cash equivalents rose by ¥1,845 million from the end of the previous fiscal year to ¥3,792 million, on the back of cash inflow of ¥1,357 million and ¥1,609 million from operating and financing activities respectively, which more than offset a ¥1,139 million outflow of cash from investing activities.

### (Cash Flow from Operating Activities)

At the end of the fiscal year, consolidated cash flow derived from operating activities grew by ¥1,647 million from the previous fiscal year to ¥1,357 million. The main sources for this increase include ¥1,840 million in income before income taxes (a decline of ¥396 million from the previous fiscal year), which reflects a decline due to ¥1,006 million payment of income tax (an increase of ¥188 million from the previous fiscal year), ¥606 million in extraordinary profits derived from the proceeding of investment securities in the previous fiscal year, an inflow resulting from a decline in accounts receivables of ¥92 million (a ¥984 million increase from the previous fiscal year), an inflow of ¥24 million (a ¥122 million increase from the previous fiscal year) due to increase in accounts payable-trade, and an inflow of ¥182 million (an increase of ¥551 million from the previous fiscal year) due to increase in other current liabilities.

### (Cash Flow from Investing Activities)

We saw a net outflow of cash from our investing activities of ¥1,139 million during the fiscal year, which represents an increase in the outflow of ¥1,277 million from the previous fiscal year. The main factors for this increase include a ¥132 million increase for the acquisition of tangible fixed assets and investment securities during the current fiscal year, an inflow of ¥702 million for proceeding of investment securities in the previous fiscal year, and an outflow of ¥340 million for acquisition of goodwill during the current fiscal year.

### (Cash Flow from Financing Activities)

We saw a cash inflow from our financing activities increase by ¥2,360 million from the previous fiscal year to ¥1,609 million. The main reasons for this increase were the inflows of ¥1,997 million from the issuance of convertible bonds and ¥1,092 million of new loan during the current fiscal year, the outflows of ¥323 million due to acquisition of treasury stocks in the previous fiscal year, a ¥103 increase due to repayment of finance lease and payment of dividends, and a ¥900 million of redemption of convertible bonds in the current fiscal year.

Trends in Our Cash Flow Related Indexes

	FY9/02	FY9/03	FY9/04	FY9/05	FY9/06
Equity Ratio	62.3%	65.8%	63.6%	62.9%	64.2%
Public stock market value ratio	347.3%	156.2%	380.7%	292.8%	189.6%
Debt redemption period (years)	0.0	0.2	0.1	—	0.7
Interest coverage ratio (times)	651.9	67.0	205.4	—	65.6

Equity ratio: Shareholder's equity / total assets

Public stock market value ratio: Public stock market value / total assets

Debt redemption period: Interest bearing liabilities / Operating cash flow

Interest coverage: Operating cash flow / Interest payments

\* All indexes are based on consolidated financial data

\* Public stock market value is calculated by the closing share price multiplied with the number of outstanding shares at the end of the fiscal year (excluding treasury stock)

\* Operating cash flow is based on consolidated cash flow from operating activities at the end of the fiscal year. Interest bearing liabilities include all liabilities on the consolidated balance sheet at the end of the fiscal year upon which interest is paid. Interest payments are based on interest payments taken from the consolidated cash flow statement at the end of the fiscal year.