

Precision System Science Co., Ltd.
SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Year 2016
(From July 1, 2015 to June 30, 2016)

The English Edition is digested translation of Japanese financial statements, which are prepared in accordance with generally accepted accounting principles in Japan.

Company Name: Precision System Science Co., Ltd.
Listed Market: Mothers
Code Number: 7707
URL: <http://www.pss.co.jp/>

1. Consolidated financial data for the Fiscal Year 2016 Ended June 30 2016

(From July 1, 2015 to June 30, 2016)

(1) Consolidated operating results

(Million yen, fractional amounts rounded down to the nearest million yen)

	Net sales		Operating income		Ordinary income		Net income attributable to parent company shareholders	
Fiscal Year Ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2016	4,458	(13.3)	(737)	----	(821)	----	(1,582)	----
June 30, 2015	5,143	31.2	(320)	----	(172)	----	(215)	----

(Reference) Comprehensive income: 1,872 million yen loss for FY2016 ended June 30, 2016

152 million yen loss for FY2015 ended June 30, 2015

	Net income per share	Diluted net income per share
Fiscal Year Ended	Yen	Yen
June 30, 2016	(78.29)	----
June 30, 2015	(11.79)	----

(2) Consolidated financial condition

	Total assets	Net Assets	Equity ratio	Net Asset per share
As of	Million yen	Million yen	%	yen
FY 2016 ended June 30, 2016	5,820	3,432	58.3	163.37
FY 2015 ended June 30, 2015	6,454	4,035	57.3	202.47

(Reference) Equity: 3,390 million yen as of June 30, 2016

3,695 million yen as of June 30, 2015

2. Dividend

	Dividend per share				
	1Q	2Q	3Q	FY end	Total
	Yen	Yen	Yen	Yen	Yen
FY 2015 ended June 30, 2015	----	0.00	----	0.00	0.00
FY 2016 ended June 30, 2016	----	0.00	----	0.00	0.00
FY 2017 ending June 30,2017(Forecast)	----	0.00	----	0.00	0.00

(Note) Revision to previous forecast: No

3. Business Forecasts for the fiscal year (From July 1, 2016 to June 30, 2017)

	Sales		Operating income		Ordinary income		Net income attributable to parent company shareholders		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	yen
First 6 months ending December 31, 2016	2,100	(10.5)	(380)	----	(390)	----	(395)	----	(19.03)
For fiscal year ending June 30, 2017	4,400	(1.3)	(590)	----	(610)	----	(620)	----	(29.87)

(Note) Revision to previous forecast : No

4. Others

- (1) Change in scope of consolidated subsidiaries during FY 2016 ended June 30, 2016: No
- (2) Adoption of simplified accounting method or accounting method specific to quarterly period: None
- (3) Changes in accounting principles, changes in accounting estimation, retrospective restatement
 - a) Changes according to the changes in accounting standards: Yes
 - b) Changes other than a): None
 - c) Changes in accounting estimate: None
 - d) Retrospective restatement: None
- (4) Number of outstanding stocks (common stocks)
 - a) Number of outstanding stocks (including treasury stock)
20,756,900 at June 30, 2016; 18,252,000 at June 30, 2015
 - b) Number of treasury stocks at the end of period
None at June 30, 2016; None at June 30, 2015
 - c) Average number of outstanding stocks
20,206,408 for FY ended June 30, 2016;
18,252,000 for FY ended June 30, 2015

* The above forecast contains forward-looking statements based on information currently available. Consequently the Company's actual results may differ materially from the projected values due to various future factors.

Operating results and financial conditions

1. Analysis of operating results

During fiscal year ended June 30, 2016, the Japanese economy remained on a recovery path and began to show signs of a rebound in personal consumption and capital investment. In the United States, employment conditions improved, the corporate sector continued to expand gradually, and the country moved to normalize its monetary policy. The European economy continued to recover, although geopolitical risks mounted. In China, however, the economy decelerated, despite the introduction of monetary easing measures. World economies generally continued their modest recovery, but the outlook grew uncertain.

In these circumstances, PSS Group has been focusing on manufacturing and sales of automated instruments (For sample preparation or fully automated machine) and related reagents or plastic consumables for laboratory and clinical diagnostic use. These products are on world-wide distribution network through OEM (Original Equipment Manufacturing) business with major clients such as Roche, QIAGEN, Abbott, Thermo Fisher, NanoString and LSI Medience, as well as our own brand distribution through PSS overseas subsidiaries in Europe and USA or domestic distributor.

For the current consolidated fiscal period, the Net Sales decreased by 13.3% in comparison to the same period of previous fiscal year to 4,458 million yen and the Gross Profit decreased by 23.5% to 1,398 million yen. As without special order such as Ebola hemorrhagic fever inspection or many prototype products and commission revenue from OEM partner, the sales of instruments decreased in comparison to the same period of previous fiscal year. While reagent, plastic consumable and maintenance spare parts for instruments have been not bad shape. With regard to the expenses, R&D expenses decreased by 2.2% in comparison to the same period of previous fiscal year to 777 million yen. Overall SG&A expenses decreased by 0.5% in comparison to the same period of previous fiscal year to 2,136 million yen and the Operating Loss decreased from -320 million to -737 million yen. The burden of development costs is heavy but based on the experience of geneLEAD XII Plus, we are now developing the fully automated gene diagnosis system, "geneLEAD VIII" (PSS own system), which is inexpensive and compact system. In the development of geneLEAD VIII, we are incorporating our developed technologies and cost down idea. The development of a plurality of items of PCR reagents is also mounted on it.

The foreign exchange loss recorded -90 million yen. Consequently, the ordinary loss recorded -821 million yen in comparison to -172 million yen for the same period of previous fiscal year and the Net income attributable to parent company shareholders recorded -1,582 million yen in comparison to -215 million yen for the same period of previous fiscal year by recording of impairment losses on fixed assets as following; it was initially expected that supplies to the OEM customer of the pathogen identification system by gene inspection pre-processing equipment and its reagents/ consumables would contribute to the revenue but as its sales were postponed and its resumption has become uncertain, we have reviewed the business plan. As a result, we recognized that impairment related to our business might be necessary examining the future recovery potential according to the "impairment of fixed assets accounting standards", we decided to reduce the book value of the fixed assets held by PSS Group (land, buildings, production equipment, etc.) to the recoverable value and recorded an impairment loss of 908 million yen in the extraordinary loss in the consolidated financial statements of June 30, 2016.

Sales by each product category:

(Unit: Million yen)

	FY 2015 Ended June 30,2015		FY 2016 Ended June 30,2016		Year on year increase
	Amount	ratio	Amount	Ratio	%
Instruments	3,151	61.3	2,380	53.4	(24.5)
Reagent kits & Consumable	1,238	24.0	1,206	27.1	(2.6)
Maintenance	328	6.4	431	9.7	31.4
Customized product	425	8.3	439	9.8	3.4
Total	5,143	100.0	4,458	100.0	(13.3)

(1) Instruments

During fiscal year ended June 30, 2016, the sales in this category decreased 24.5% to 2,380 million yen. As the operating expenses decreased 15.1% to 2,327 million yen, the operating income decreased 87.1% to 52 million yen. This category consists of 2 fields.

(a) Lab Automation

This field consists of DNA extractors and other instruments in the field of Laboratory (R&D) Automation. The sales in this category decreased 23.6 % to 1,510 million yen. As the operating expenses decreased 20.4% to 1,327 million yen, the operating income decreased 40.6% to 182 million yen.

The sales is changing by OEM sales or inventory at quarterly. Although the sales amount was decreased to the same period of previous fiscal year without special order through QIAGEN GP such as Ebola hemorrhagic fever inspection, we do not concern about the results for continuous business with OEM partners.

These are OEM business partners as follows;

- Roche : Leading global pharmaceutical manufacturers

The Diagnostics Division is top runner for possession of PCR technology.

PSS provides our OEM products to Roche Diagnostics GmbH for world-wide sales through Roche GP.

- QIAGEN : Leading global gene extraction manufacturers and recently focus on medical field.

PSS provides our OEM products to QIAGEN Instruments AG for world-wide sales through QIAGEN GP.

- Thermo Fisher : Leading global molecular diagnostic company which have acquired Life Technologies Inc. that PSS provided our OEM products

- NanoString : Start-up company which possesses unique gene-related technology

- Diagenode : Start-up company which possesses unique reagent of epigenetics research

(b) Clinical Diagnostic

These are OEM business partners as follows;

Our business field is in the molecular diagnostic field whose market trend is shifting from R&D and laboratory automation field to clinical diagnostic field. Considering this market trend, PSS focus on clinical field. This field consists of immunochemical luminescent measuring system for LSI Medience. And fully automated DNA testing machine for Elitech has been added from Last september in this fiscal year. The sales in this category decreased 26.0% to 870 million yen. As the operating expenses decreased 6.9% to 1,000 million yen, the operating loss recorded -130 million yen (operating income: 100 million yen in the previous year).

Although commercial version for Elitech on a full scale is steadily growing, the sales amount decreased

without large order of prototype version and commission revenue for OEM supply agreement compared to the same period of previous fiscal year.

These are OEM business partners as follows;

- LSI Medience : Reagent maker in Mitsubishi group of companies and manage clinical test center

Our OEM products are provided world-wide with Medical device approval

- Abbott : Leading global diagnostic manufacturers

Global health care company which diversify the business in the field of medical, diagnostic, nutritional food. PSS provides our OEM products to Abbott Laboratories Inc. through Abbott GP.

- Elitech : Global molecular diagnostic company which provide gene-related reagent and the instruments and adopt our OEM products (Fully automated DNA testing instruments)

- Diasorin : Diagnostic reagent maker in Italy. Provide OEM products collaborated with their technology.

(2)Reagents kits and Consumable

This category consists of Reagent for sample preparation or exclusively designed plastic consumables (Tips and Cartridges) for those PSS instruments. Although most reagent is manufacture by OEM partners, plastic consumables is exclusively manufacture by PSS. The sales in this category decreased 2.6% to 1,206 million yen. As the operating expenses decreased 0.1% to 1,210 million yen, the operating loss recorded -3 million yen (operating income: 27 million yen in the previous year). Although the sales recorded almost the same, the operating incomes decreased for increasing the expense allocated by sales proportion of each segment.

(3)Maintenance

This category consists of revenue from system maintenance and sales of spare parts (replacement) exclusively. The sales in this category increased 31.4% to 431 million yen. As the operating expenses increased 42.3% to 395 million yen, the operating incomes recorded 36 million yen (28.6% decreased in the previous year). Although the sales increased, the operating incomes decreased for increasing the expense allocated by sales proportion of each segment.

(4)Customized product

This category consists of Customized product sales except for PSS by NPS which is the manufacturing subsidiary company. The sales in this category increased 3.4% to 439 million yen. As the operating expenses increased 15.1% to 389million yen, the operating income decreased 42.3% to 49 million yen. This segment is gaining business for NPS

(5)Others

This category consists of sales except above 1~4 which is mainly PSS capital, Bio Contents Fund LLP.

The sales in this category are none. As the operating expenses recorded 1 million yen, the operating income loss recorded 1 million yen (1 million yen loss in the previous year).

2. Analysis of Financial Conditions:

Assets, Liabilities and Net Assets

(1)Assets

In the current fiscal year, total assets decreased 634 million yen from the amount as of June 30, 2015 to 5,820 million yen. Cash & deposits increased 832 million yen by the public stock offering etc. Other assets decreased 376 million yen and noncurrent assets decreased 804 million yen by recording impairment loss.

(2)Liabilities

Total liabilities decreased 31 million yen to 2,388 million yen compared with the amount as of June 30, 2015. Current portion of long-term loans payable decreased 118 million yen, long-term loans payable decreased 117 million yen, although short-term loans payable increased 100 million yen.

(3)Net Assets

Total net assets amount was 3,432 million yen, decreased 603 million yen compared with the amount of as of June 30, 2015. We raised funds 1,510 million yen by the public stock offering and the private allocation in the current fiscal year and both Capital stock and capital surplus increased 755 million yen.

With net profit for the period, retained earnings decreased 1,582 million yen for net income attributable to parent company shareholders and minority interests decreased 298 million yen.

3.Cash flows

During FY 2016 July 1, 2015 to June 30, 2016, cash and cash equivalents increased 832 million yen to 2,611 million yen.

(1)Cash flows from operating activities increased 72 million yen (1,362 million decreased during the same period of previous year). There was cash flow increased due to depreciation (286 million yen) and decrease inventory (61 million yen) and income tax refund (311 million yen), although there was cash flow decrease due to income before income taxes (1,730 million yen) etc.

(2)Cash flows from investing activities decreased 259 million yen (150 million decreased during the same period of previous year). There was decrease due to purchase of property, plant and equipment (266 million yen), etc.

(3)Cash flows from financing activities increased 1,123 million yen (175 million increased during the same period of previous year). There was increase of short-term loans (100 million yen), long term loans (250 million yen) and proceeds from issuing stock (1,501 million yen), while there was decrease of repayment of long- term loans (485 million yen) etc.

4. Business Forecasts For Fiscal Year 2017 (From July 1, 2016 to June 30, 2017)

	Fiscal Year Ended June 30, 2016		Fiscal Year Ended June 30, 2017		Year on year increase
	amount	ratio	amount	ratio	%
Net sales	4,458	100.0	4,400	100.0	(58)
Operating income	(737)	(16.5)	(590)	(13.4)	147
Ordinary income	(821)	(18.4)	(610)	(13.9)	211
Net income attributable to parent company shareholders	(1,582)	(35.4)	(620)	(14.1)	962

We estimate the growing the sales of geneLEAD XII with DNA sample preparation reagent and direct sales of PSS own products, although decreasing the sales of some OEM partner. Net Sales will be the almost same 4,400 million yen (year-on-year decrease 1.3%). Selling, general and administrative expenses will decrease to 2,040 million yen (year-on-year decrease 4.5%) by decreasing the depreciation of recording impairment loss and cost down measures, although R&D expense for Clinical Diagnostic Products will increase to 795 million yen (year-on-year increase 2.3%).

Operating income will be 590 million yen loss (737 million loss for Fiscal Year 2015).

This time we are obliged to record an impairment loss of fixed assets but PSS Group intends to continue business expansion in the genetic diagnosis field aiming at profitability for two to three years, not by rather aiming at profitability by reduction of restructuring and development costs.

Although PSS main products are OEM products, we will focus on direct sales of PSS own products by

- (i) Enrichment of the lineup of PSS own products such as an automated DNA extraction instrument (magLEAD series), DNA extraction reagents, an automated gene diagnosis device (geneLEAD series), amplification and diagnostic reagents;
- (ii) Creating direct sales network in Asia, the United States and Europe and
- (iii) Establishing the distribution network covering more than 30 countries.

In addition, in NPS Co., Ltd. and PSS Odate Reagent Center, we intend to continue enhancement of a manufacturing line, labor saving of the production line while preparing for the future increase in production and reducing manufacturing cost in cooperation with the subcontractors.

As for foreign exchange rate, we estimate as 1US\$=100 yen and 1Euro=110 yen from FY2017.

Consolidated financial statements

(1) Consolidated Balance Sheets

	As of June 30, 2015	(Thousand yen) As of June 30, 2016
(Assets)		
Current assets		
Cash and deposits	1,799,217	2,631,875
Notes and accounts receivable-trade	1,075,671	1,003,447
Merchandise and finished goods	1,070,770	931,418
Work in process	127,943	90,536
Raw materials and supplies	148,342	129,902
Deferred tax assets	24,353	6,669
Others	639,687	262,879
Allowance for doubtful accounts	(1,794)	(2,080)
Total current assets	4,884,192	5,054,648
Noncurrent assets		
Property, plant and equipment	1,443,182	708,506
Intangible assets	52,050	1,489
Investments and other assets	75,126	55,764
Total noncurrent assets	1,570,359	765,759
Total assets	6,454,552	5,820,407
(Liabilities)		
Current liabilities		
Accounts payable-trade	438,396	539,543
Short-term loans payable	370,000	470,000
Current portion of long-term loans payable	461,691	343,428
Income taxes payable	21,574	28,793
Provision for bonus	7,190	14,753
Others	265,663	272,371
Total current liabilities	1,564,515	1,668,889
Noncurrent liabilities		
Long-term loans payable	735,872	618,278
Deferred tax liabilities	53,064	45,455
Liability for pension	62,300	53,321
Others	3,713	2,388
Total fixed liabilities	854,951	719,443
Total liabilities	2,419,467	2,388,333

(Thousand yen)

	As of June 30, 2015	As of June 30, 2016
(Net assets)		
Shareholders' equity		
Capital stock	2,217,194	2,972,609
Capital surplus	251,999	880,204
Retained earnings	1,215,577	(366,472)
Total shareholders' equity	3,684,770	3,486,340
Other comprehensive income		
Other gain from revaluation of securities	4,645	—
Foreign currency translation adjustment	6,045	(95,382)
Total of comprehensive income	10,691	(95,382)
Minority interests	339,622	41,115
Total net assets	4,035,084	3,432,074
Total liabilities and net assets	6,454,552	5,820,407

(2) Consolidated Income Statements

	FY 2015 Ended June 30,2015	(Thousand yen) FY 2016 Ended June 30,2016
Net Sales	5,143,465	4,458,411
Cost of sales	3,316,139	3,059,778
Gross Profit	1,827,325	1,398,633
Selling, general and administrative expenses	2,147,955	2,136,347
Operating Income	(320,630)	(737,713)
Non-operating income		
Interest income	471	419
Foreign exchange gain	51,168	—
Subsidy income	97,551	20,658
Return premium	3,774	5,701
Interest on refund	390	3,254
Others	10,780	1,183
Total non-operating income	164,136	31,217
Non-operating expenses		
Interest expenses	15,676	14,792
Foreign exchange loss	—	90,849
Stock delivery expenses	—	9,067
Total non-operating expenses	15,676	114,709
Ordinary income and (loss)	(172,170)	(821,206)
Extraordinary gain		
Gain on sales of investment securities	0	4,280
Gain on sale of fixed asset	8	—
Total extraordinary gain	8	4,280
Extraordinary loss		
Loss on sale of fixed asset	2,019	—
Loss on disposal of fixed asset	169	4,677
Loss on impairment	4,207	908,861
Total extraordinary loss	6,396	913,539
Income before income taxes and others	(178,558)	(1,730,465)
Income taxes-current	19,660	23,249
Income taxes-deferred	(12,556)	8,137
Total income taxes	7,103	31,386
Net Income	(185,662)	(1,761,851)
Profit (loss) attributable to non-controlling interests	29,558	(179,801)
Net Income attributable to parent company shareholders	(215,220)	(1,582,050)

(3) Consolidated Comprehensive Income Statements

	FY 2015 Ended June 30,2015	(Thousand yen) FY 2016 Ended June 30,2016
Net Income	(185,662)	(1,761,851)
Other comprehensive income		
Other gain from revaluation of securities	9,431	(9,431)
Foreign currency transaction adjustment	23,469	(101,428)
Total of other comprehensive income	32,900	(110,859)
Comprehensive income	(152,761)	(1,872,711)
(Breakdown)		
Comprehensive income attributable to owners of parent company	(187,106)	(1,688,123)
Comprehensive income attributable to minority income	34,344	(184,588)

(4) Consolidated Statements of Cash flows

	FY 2015 Ended June 30,2015	(Thousand yen) FY 2016 Ended June 30,2016
(Operating activities)		
Income before income taxes	(178,558)	(1,730,465)
Depreciation	285,543	286,083
Increase (decrease) in provision	1,016	7,849
Increase (decrease) in pension obligation	2,904	(8,979)
Interest and dividend income	(471)	(419)
Interest expenses	15,676	14,792
Stock issue cost	—	9,067
Loss (gain) on sales of property, plant and equipment	2,011	—
Loss on disposal of property, plant and equipment	169	4,677
Loss (gain) from impairment loss	4,207	908,861
Loss (gain) from sales of investment securities	(0)	(4,280)
Amortization of goodwill	6,000	6,000
Decrease (increase) in notes and accounts receivables	(60,428)	47,880
Decrease (increase) in inventories	(259,803)	61,645
Increase (decrease) in notes and accounts payable	(101,036)	129,338
Others	(87,767)	66,613
Sub-total	(370,534)	(201,333)
Interest and dividends income received	507	419
Interest expenses paid	(15,817)	(14,658)
Income taxes refund	(1,154,692)	(23,960)
Income taxes paid	177,934	311,682
Net cash provided by operating activities	(1,362,603)	72,149
(Investing activities)		
Purchase of property, plant and equipment	(204,913)	(266,272)
Sales of property, plant and equipment	60,522	—
Purchase of non-tangible asset	(2,838)	(4,365)
Sales of non-tangible asset	0	5,324
Payment of insurance premium	(3,125)	(2,251)
Revenue from cancellation of insurance premium	36	7,817
Others	74	(32)
Net cash provided by investing activities	(150,244)	(259,779)
(Financing activities)		
Proceeds from short-term loans payable	370,000	100,000
Proceeds from long-term loans payable	630,000	250,000
Repayment of long-term loans payable	(686,250)	(485,857)
Repayment of lease payable	(2,895)	(1,930)
Cash dividends paid	(135,716)	(456)
Cash allotments paid to minority	—	(3,214)
Cash distributions paid to minority interests	—	(33,644)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of	—	(202,999)

consolidation		
Proceeds from issuance of common shares	—	1,501,762
Net cash provided by financing activities	175,138	1,123,660
Effect of exchange rate change on cash and cash equivalents	33,609	(103,373)
Net increase (decrease) in cash and cash equivalents	(1,304,099)	832,657
Cash and cash equivalents at beginning of period	3,083,317	1,779,217
Cash and cash equivalents at end of period	1,779,217	2,611,875