

Precision System Science Co., Ltd.

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS For the First Three Months of the Fiscal Year, Ending June 30 2017 (From July 1, 2016 to September 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 First Three Months of the Fiscal Year, Ending June 30 2016 (From July 1, 2016 to September 30, 2016)

(1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income		Quarter net income attributable to parent company shareholders	
First three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2016	781	(25.8)	(171)	----	(175)	----	(179)	----
September 30, 2015	1,054	(4.5)	(153)	----	(178)	----	(182)	----

(Reference) Comprehensive income: 185 million yen loss for the First three months ended September 30, 2016

215 million yen loss for the First three months ended September 30, 2015

	Net income per share	Diluted net income per share
First three months ended	Yen	Yen
September 30, 2016	(8.64)	----
September 30, 2015	(9.82)	----

(2) Consolidated financial condition

	Total assets	Net Assets	Equity ratio	Net income per share
As of	Million yen	Million yen	%	yen
September 30, 2016	5,359	3,205	59.8	154.43
June 30, 2016	5,820	3,432	58.3	163.37

(Reference) Equity: 3,205 million yen as of September 30, 2016

3,390 million yen as of June 30, 2016

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 ending June 30, 2016	----	----	----	----	----
FY 2016 ending June 30,2016(Forecast)	----	0.00	----	0.00	0.00

(Note) Revision to previous forecast of Dividend during the current three months: 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 of Business Forecasts during the current three months: No

4. Others

- (1) **Change in scope of consolidated subsidiaries during FY 2017 ending June 30, 2016: Yes**
- (2) **Adoption of simplified accounting method or accounting method specify to quarterly period: None**
- (3) **Changes in accounting principles, changes in accounting estimation, retrospective restatement**
 - a) **Changes according to the changes in accounting standards: None**
 - 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 September 30, 2016; 20,756,900 at June 30, 2016
 - b) **Number of treasury stocks at the end of period**
None at September 30, 2016; None at June 30, 2016
 - c) **Average number of outstanding stocks**
20,756,900 for First three months ended September 30, 2016
18,586,783 for First three months ended September 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 September 30 2016, the Japanese economy remained on a recovery path and began to show signs of a rebound in personal consumption and capital investment. 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 25.8% in comparison to the same period of previous fiscal year to 781 million yen and the Gross Profit decreased by 31.9% to 255 million yen.

Although the sales of fully automated gene diagnosis system, “geneLEAD XII Plus” which was sold last year have been steadily increasing, the sales of one OEM partner were postponed and its resumption has become uncertain. The sales of instruments decreased in comparison to the same period of previous fiscal year. With regard to the expenses, R&D expenses decreased by 15.8% in comparison to the same period of previous fiscal year to 132 million yen and other expenses decreased by cost cutting measures at the same time. Overall SG&A expenses decreased by 19.3% in comparison to the same period of previous fiscal year to 427 million yen. Consequently, the Operating Loss decreased from -153 million to -171 million. The ordinary loss is -178 million yen in comparison to -175 million for the same period of previous fiscal year and the Quarter net loss attributable to parent company shareholders is -182 million in comparison to -179 million for the same period of previous fiscal year.

Sales by each product category:

(Unit: Million yen)

	First three months ended September 30, 2015		First three months ended September 30, 2016		Year on year increase	(Reference) Last Year Fiscal	
	Amount	ratio	Amount	Ratio	%	Amount	Ratio
Instruments	482	45.7	346	44.3	(28.2)	2,380	53.4
Reagent kits & Consumable	328	31.2	277	35.5	(15.5)	1,206	27.1
Maintenance	151	14.4	60	7.8	(60.0)	431	9.7
Customized product	91	8.7	96	12.4	5.6	439	9.8
Total	1,054	100.0	781	100.0	(25.8)	4,458	100.0

(1) Instruments

During first three months ended September 30, 2016, the sales in this category decreased 28.2% to 346million yen. As the operating expenses decreased 23.5% to 367 million yen, the operating income decreased to -20 million yen (2million yen in the previous year). 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 26.1 % to 217 million yen. As the operating expenses decreased 21.1% to 211 million yen, the operating income recorded decreased 77.2% to 6 million yen.

The sales is changing by OEM sales or inventory at quarterly. Although the sales are decreased to the same period of previous fiscal year, 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

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.

The sales in this category decreased 31.3% to 128 million yen. The operating expenses decreased 26.6% to 155 million yen, the operating loss recorded -26 million yen (-24 million yen in the previous year).

Although the sales of fully automated gene diagnosis system, “geneLEAD XII Plus” which was sold last year have been steadily increasing through OEM partner, the sales of one OEM partner were postponed and the sales is decreased 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.

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(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. Our reagent manufacturing facility “Odate Reagent Center” manufactures the reagent not only for some OEM partners, but also PSS. The sales in this category decreased 15.5% to 277 million yen. As the operating expenses decreased 12.5% to 286 million yen, the operating incomes loss was -8 million yen (1 million yen in the previous year). Although the sales of one OEM partner were postponed and the sales & revenue is decreased compared to the same period of previous fiscal year, the sales of other OEM partners are steadily growing.

(3)Maintenance

This category consists of revenue from system maintenance and sales of spare parts (replacement) exclusively. The sales in this category decreased 60.0% to 60 million yen. As the operating expenses decreased 58.6% to 53 million yen, the operating incomes recorded 7 million yen (67.4% decrease in the previous year).

The sales of one OEM partner were postponed and the sales & revenue is decreased compared to the same period of previous fiscal year that had requested us to order a lot of spare parts for product sales on a full scale.

(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 5.6% to 96 million yen. As the operating expenses decreased 3.3% to 92million yen, the operating income recorded 4 million yen (-3 million yen in the previous year). This segment is not our main business, but also gaining business for NPS

(5)Others

This category consists of sales except above 1~4 which is mainly PSS capital, Bio Contents Fund LLP, which have been dissolved for obtaining excellent results.

The sales in this category are none. As the operating expenses decreased 27.3% to 0 million yen, the operating income loss recorded -0 million yen loss (-0 million yen loss in the previous year).

2. Analysis of Financial Conditions:

Assets, Liabilities and Net Assets

(1)Assets

In the first three months of current fiscal year, total assets decreased 460 million yen from the amount as of June 30, 2016 to 5,359 million yen. Cash & deposits decreased 372 million yen, Account receivable-other decreased 386 million yen and other assets decreased 111 million yen.

(2)Liabilities

Total liabilities decreased 233million yen to 2,154 million yen compared with the amount as of June 30, 2016. Current portion of long-term loans payable decreased 51 million yen, long-term loans payable decreased 51 million yen.

(3)Net Assets

Total net assets were 3,205 million yen, decreased 226 million yen compared with the amount of as of June 30, 2016. With net profit for the period, retained earnings decreased 179 million yen for Quarter net loss attributable to parent company shareholders.

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

We do not change our business forecast for this fiscal year for considering current financial results and status.

Consolidated financial statements

(1) Consolidated Balance Sheets

	As of June 30, 2016	(Thousand yen) As of September 30, 2016
(Assets)		
Current assets		
Cash and deposits	2,631,875	2,259,728
Notes and accounts receivable-trade	1,003,447	617,443
Merchandise and finished goods	931,418	1,143,461
Work in process	90,536	163,082
Raw materials and supplies	129,902	197,478
Deferred tax assets	6,669	4,717
Others	262,879	151,129
Allowance for doubtful accounts	(2,080)	(1,494)
Total current assets	5,054,648	4,535,547
Noncurrent assets		
Property, plant and equipment	708,506	764,705
Intangible assets	1,489	3,612
Investments and other assets	55,764	55,917
Total noncurrent assets	765,759	824,235
Total assets	5,820,407	5,359,782
(Liabilities)		
Current liabilities		
Accounts payable-trade	539,543	534,320
Short-term loans payable	470,000	470,000
Current portion of long-term loans payable	343,428	291,941
Income taxes payable	28,793	9,467
Provision for bonus	14,753	43,049
Others	272,371	158,178
Total current liabilities	1,668,889	1,506,957
Noncurrent liabilities		
Long-term loans payable	618,278	567,215
Deferred tax liabilities	45,455	45,120
Liability for pension	53,321	----
Provision for product warranties	----	6,286
Others	2,388	28,757
Total fixed liabilities	719,443	647,379
Total liabilities	2,388,333	2,154,337

(Thousand yen)

	As of June 30, 2015	As of September 30, 2016
(Net assets)		
Shareholders' equity		
Capital stock	2,972,609	2,972,609
Capital surplus	880,204	880,204
Retained earnings	(366,472)	(545,914)
Total shareholders' equity	3,486,340	3,306,899
Other comprehensive income		
Foreign currency translation adjustment	(95,382)	(101,454)
Total of comprehensive income	(95,382)	(101,454)
Minority interests	41,115	----
Total net assets	3,432,074	3,205,445
Total liabilities and net assets	5,820,407	5,359,782

(2) Consolidated Income Statements

(Thousand yen)

	First three months ended September 30,2015	First three months ended September 30,2016
Net Sales	1,054,451	781,966
Cost of sales	678,551	526,043
Gross Profit	375,900	255,923
Selling, general and administrative expenses	529,637	427,451
Operating income and (loss)	(153,737)	(171,528)
Non-operating income		
Interest income	143	64
Subsidy income	132	5,202
Gain on forfeiture of unclaimed dividends	----	3,105
Tax Refund	1,986	----
Others	256	498
Total non-operating income	2,518	8,870
Non-operating expenses		
Interest expenses	3,926	3,284
Foreign exchange loss	14,499	9,323
Stock delivery expenses	8,424	----
Others	----	0
Total non-operating expenses	26,850	12,608
Ordinary income and (loss)	(178,068)	(175,266)
Extraordinary income		
Gain on sales of fixed asset	----	9
Total extraordinary loss	----	9
Extraordinary loss		
Loss on sales of fixed asset	----	561
Loss on disposal of fixed asset	270	98
Total extraordinary loss	270	659
Income before income taxes and others and (loss)	(178,339)	(175,916)
Income taxes-current	12,287	2,061
Income taxes-deferred	10,787	1,463
Total income taxes	23,074	3,524
Net Income and (loss)	(201,414)	(179,441)
Minority interests and (loss)	(18,872)	----
Quarter net income attributable to parent company shareholders and (loss)	(182,541)	(179,441)

(3) Consolidated Comprehensive Income Statements

	First three months ended September 30,2015	(Thousand yen) First three months ended September 30,2016
Net Income	(201,414)	(179,441)
Other comprehensive income		
Other gain from revaluation of securities	(3,248)	----
Foreign currency transaction adjustment	(10,574)	(6,071)
Total of other comprehensive income	(13,823)	(6,071)
Comprehensive income	(215,237)	(185,513)
(Breakdown)		
Comprehensive income attributable to owners of parent company	(194,669)	(185,513)
Comprehensive income attributable to minority income	(20,567)	----