

Precision System Science Co., Ltd.
SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS
For the First Six Months of the Fiscal Year, Ending June 30 2017
(From July 1, 2016 to December 31, 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/english/>

1. Consolidated financial data for the First Six Months of the Fiscal Year, Ending June 30 2017
(From July 1, 2016 to December 31, 2016)

(1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income		Quarter net loss attributable to parent company shareholders	
First Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2016	1,938	(17.4)	(207)	----	(177)	----	(142)	----
December 31, 2015	2,348	(4.5)	(254)	----	(288)	----	(261)	----

(Reference) Comprehensive income: 96 million yen loss for the First Six months ended December 31, 2016
341 million yen loss for the First Six months ended December 31, 2015

	Net income per share	Diluted net income per share
First Six months ended	Yen	Yen
December 31, 2016	(6.89)	----
December 31, 2015	(13.30)	----

(2) Consolidated financial condition

	Total assets	Net Assets	Equity ratio	Net income per share
As of	Million yen	Million yen	%	yen
December 31, 2016	5,580	3,294	59.0	158.70
June 30, 2016	5,820	3,432	58.3	163.37

(Reference) Equity: 3,294 million yen as of December 31, 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 2016 ended June 30, 2016	----	0.00	----	0.00	0.00
FY 2017 ending June 30, 2017	----	0.00	----	----	----
FY 2017 ending June 30,2017(Forecast)	----	----	----	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		Quarter net loss attributable to parent company shareholders		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	yen
For fiscal year ending June 30, 2017	4,400	(1.3)	(590)	----	(610)	----	(620)	---	(29.87)

(Note) Revision to previous forecast of Business Forecasts: No

4. Others

- (1) Change in scope of consolidated subsidiaries during FY 2017 ending June 30, 2017: 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 December 31, 2016; 20,756,900 at June 30, 2016
 - b) Number of treasury stocks at the end of period
None at December 31, 2016; None at June 30, 2016
 - c) Average number of outstanding stocks
20,756,900 for First Six months ended December 31, 2016
19,661,899 for First Six months ended December 31, 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 December 31 2016, the Japanese economy remained on a recovery path by monetary easing of government. While personal consumption grew at a sluggish pace, the UK's negotiations on exiting the European Union and The U.S. prevailing protectionist economic management, 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) 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 17.4% in comparison to the same period of previous fiscal year to 1,938 million yen and the Gross Profit decreased by 16.4% to 669 million yen. And The sales of "geneLEADXII Plus" fully automated DNA testing machine for Elitech that had been launched since September in 2015 was sold the twice as much as the sales in last fiscal year, while the sales of one OEM partner were postponed and the Net Sales decreased compared to the same period of previous fiscal year.

With regard to the expenses, R&D expenses decreased by 11.4% in comparison to the same period of previous fiscal year to 290 million yen. Overall SG&A expenses decreased by 16.9% in comparison to the same period of previous fiscal year to 877 million yen and the Operating Loss decreased from -254 million to -207 million. The foreign exchange gain is 16 million. Consequently, the ordinary loss is -177 million yen in comparison to -288 million for the same period of previous fiscal year and the Quarter net loss attributable to parent company shareholders is -142 million in comparison to -261 million for the same period of previous fiscal year.

Sales by each product category:

(Unit: Million yen)

	First Six months ended December 31, 2015		First Six months ended December 31, 2016		Year on year increase	(Reference) Last Year Fiscal	
	Amount	Ratio	Amount	Ratio	%	Amount	Ratio
Instruments	1,281	54.6	1,074	55.4	(16.2)	2,380	53.4
Reagent kits & Consumable	646	27.5	524	27.0	(18.9)	1,206	27.1
Maintenance	236	10.1	122	6.3	(48.2)	431	9.7
Customized product	183	7.8	217	11.3	18.9	439	9.8
Total	2,348	100.0	1,938	100.0	(17.4)	4,458	100.0

(1) Instruments

During first six months ended December 31, 2016, the sales in this category decreased 16.2% to 1,074 million yen. As the operating expenses decreased 17.8% to 1,027 million yen, the operating income increased 48.6% to 46 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 8.0 % to 699 million yen. As the operating expenses decreased 6.3% to 609 million yen, the operating income recorded decreased 18.1% to 90 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, 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. This field consists of immunochemical luminescent measuring system for LSI Medience in the field of Clinical Diagnostics. And the sales of “geneLEADXII Plus” fully automated DNA testing machine for Elitech was sold the twice as much as the sales in last fiscal year ,while the sales of one OEM partner were postponed.

The sales in this category decreased 28.2% to 374 million yen. As the operating expenses decreased 30.4% to 417 million yen, the operating loss recorded 43 million yen (78 million yen loss in the previous 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. Our reagent manufacturing facility “Odate Reagent Center” has operated and the facility manufactures the reagent not only for Elitech, but also PSS. The sales in this category decreased 18.9% to 524 million yen. As the operating expenses decreased 19.6% to 495 million yen, the operating incomes decreased 4.2% to 28 million yen.

(3)Maintenance

This category consists of revenue from system maintenance and sales of spare parts (replacement) exclusively. The sales in this category decreased 48.2% to 122 million yen. As the operating expenses decreased 53.0% to 92 million yen, the operating incomes recorded 30 million yen (24.9% decrease in the previous year). The sales and operating income improved so much compared to the same period of previous fiscal year, as Abbott request PSS to order a lot of spare parts by 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 18.9% to 217 million yen. As the operating expenses increased 20.7% to 192million yen, the operating income increased 6.6% to 25 million yen. 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.

The sales in this category are none. As the operating expenses decreased 60.4% to 0 million yen, the operating income loss recorded 0 million yen (0 million yen loss in the previous year).

2. Analysis of Financial Conditions:

Assets, Liabilities and Net Assets

(1)Assets

In the first six months of current fiscal year, total assets decreased 239 million yen from the amount as of June 30, 2016 to 5,580 million yen. Cash & deposits decreased 323 million yen and Account receivable-other decreased 124 million yen, while Inventory increased 170 million.

(2)Liabilities

Total liabilities decreased 102 million yen to 2,286 million yen compared with the amount as of June 30, 2016. Accounts payable-trade decreased 66 million yen and others decreased 83 million yen, although short-term loans payable increased 30 million yen and long-term loans payable increased 103 million yen .

(3)Net Assets

Total net assets amount was 3,294 million yen, decreasing 137 million yen compared with the amount of as of June 30, 2016. With net profit for the period, retained earnings decreased 142 million yen for Quarter net loss attributable to parent company shareholders and minority interest decreased 41 million yen and Foreign currency translation adjustment increased 46 million yen.

3.Cash flows

During FY 2017 July 1, 2016 to December 31, 2016, cash and cash equivalents decreased 323 million yen to 2,288 million yen.

(1)Cash flows from operating activities decreased 290 million yen (208 million increased during the same period of previous year). There was decrease due to income before income taxes (176 million yen loss), increase inventory (182 million yen) and decrease of notes and accounts payable (66 million yen), although there was cash flow increased due to decrease of account receivable (126 million yen), etc.

(2)Cash flows from investing activities decreased 167 million yen (142 million decreased during the same period of previous year). There was decrease due to purchase of property, plant and equipment (158 million yen) and purchase of non-tangible asset (10 million yen) etc.

(3)Cash flows from financing activities increased 91 million yen (1,473 million increased during the same period of previous year). There was increase of short-term loans (30 million yen), long term loans (300 million yen) , while there was decrease of repayment of long- term loans (196 million yen) and cash allotments paid to minority (41 million yen) etc.

Consolidated financial statements

(1) Consolidated Balance Sheets

	As of June 30, 2016	(Thousand yen) As of December 31, 2016
(Assets)		
Current assets		
Cash and deposits	2,631,875	2,308,628
Notes and accounts receivable-trade	1,003,447	879,437
Merchandise and finished goods	931,418	689,589
Work in process	90,536	208,934
Raw materials and supplies	129,902	423,353
Deferred tax assets	6,669	5,488
Others	262,879	221,926
Allowance for doubtful accounts	(2,080)	(2,091)
Total current assets	5,054,648	4,735,266
Noncurrent assets		
Property, plant and equipment	708,506	780,979
Intangible assets	1,489	6,172
Investments and other assets	55,764	58,024
Total noncurrent assets	765,759	845,176
Total assets	5,820,407	5,580,443
(Liabilities)		
Current liabilities		
Accounts payable-trade	539,543	472,888
Short-term loans payable	470,000	500,000
Current portion of long-term loans payable	343,428	343,765
Income taxes payable	28,793	12,073
Provision for bonus	14,753	10,407
Others	272,371	188,546
Total current liabilities	1,668,889	1,527,681
Noncurrent liabilities		
Long-term loans payable	618,278	721,477
Deferred tax liabilities	45,455	5,968
Liability for pension	53,321	----
Provision for product warranties	----	2,700
Others	2,388	28,466
Total fixed liabilities	719,443	758,611
Total liabilities	2,388,333	2,286,292

(Thousand yen)

	As of June 30, 2015	As of December 31, 2016
(Net assets)		
Shareholders' equity		
Capital stock	2,972,609	2,972,609
Capital surplus	880,204	880,204
Retained earnings	(366,472)	(509,396)
Total shareholders' equity	3,486,340	3,343,416
Other comprehensive income		
Foreign currency translation adjustment	(95,382)	(49,265)
Total of comprehensive income	(95,382)	(49,265)
Minority interests	41,115	----
Total net assets	3,432,074	3,294,150
Total liabilities and net assets	5,820,407	5,580,443

(2) Consolidated Income Statements

(Thousand yen)

	First six months ended December 31,2015	First six months ended December 31,2016
Net Sales	2,348,110	1,938,654
Cost of sales	1,546,643	1,268,964
Gross Profit	801,467	669,690
Selling, general and administrative expenses	1,055,517	877,533
Operating income and (loss)	(254,050)	(207,842)
Non-operating income		
Interest income	198	133
Foreign exchange income	----	16,164
Subsidy income	1,872	13,416
Gain on forfeiture of unclaimed dividends	----	3,105
Tax Refund	3,232	----
Others	823	3,650
Total non-operating income	6,127	36,452
Non-operating expenses		
Interest expenses	7,753	6,399
Foreign exchange loss	21,043	----
Stock delivery expenses	12,007	----
Others	----	0
Total non-operating expenses	40,804	6,400
Ordinary income and (loss)	(288,727)	(177,791)
Extraordinary income		
Gain on sales of fixed asset	42	----
Gain on disposal of fixed asset	----	2,092
Total extraordinary loss	42	2,092
Extraordinary loss		
Loss on sales of fixed asset	----	777
Loss on disposal of fixed asset	670	110
Total extraordinary loss	670	887
Income before income taxes and others and (loss)	(289,354)	(176,586)
Income taxes-current	13,420	4,040
Income taxes-deferred	14,453	(37,703)
Total income taxes	27,873	(33,662)
Net Income and (loss)	(317,228)	(142,923)
Minority interests and (loss)	(55,789)	----
Quarter net income attributable to parent company shareholders and (loss)	(261,438)	(142,923)

(3) Consolidated Comprehensive Income Statements

	First six months ended December 31,2015	(Thousand yen) First six months ended December 31,2016
Net Income	(317,228)	(142,923)
Other comprehensive income		
Other gain from revaluation of securities	(3,951)	----
Foreign currency transaction adjustment	(20,459)	46,116
Total of other comprehensive income	(24,411)	46,116
Comprehensive income	(341,639)	(96,807)
(Breakdown)		
Comprehensive income attributable to owners of parent company	(283,803)	(96,807)
Comprehensive income attributable to minority income	(57,836)	----

(4) Consolidated Statements of Cash flows

	First six months ended December 31,2015	(Thousand yen) First six months ended December 31,2016
(Operating activities)		
Income before income taxes	(289,354)	(176,586)
Depreciation and amortization	118,387	43,354
Negative Goodwill gain	3,000	----
Increase (decrease) in provision	6,003	(1,634)
Increase (decrease) in pension obligation	(4,594)	(53,321)
Interest and dividend income	(198)	(113)
Interest expenses	7,753	6,399
Stock issue cost	12,007	----
Loss (gain) on sales of property, plant and equipment	----	(1,314)
Loss on disposal of property, plant and equipment	670	110
Loss (gain) from sales of investment securities	(42)	----
Decrease (increase) in notes and accounts receivables	(82,531)	126,036
Decrease (increase) in inventories	57,551	(182,754)
Increase (decrease) in notes and accounts payable	(53,701)	(66,902)
Others	148,048	72,370
Sub-total	(77,000)	(234,357)
Interest and dividends income received	198	113
Interest expenses paid	(6,843)	(5,707)
Income taxes refund	311,682	5,536
Income taxes paid	(19,704)	(55,616)
Net cash provided by operating activities	208,332	(290,031)
(Investing activities)		
Purchase of property, plant and equipment	(136,881)	(158,586)
Sales of property, plant and equipment	----	1,940
Purchase of non-tangible asset	(4,005)	(10,137)
Gain on sales of investment securities	42	----
Payment of insurance premium	(1,565)	(505)
Net cash provided by investing activities	(142,408)	(167,288)
(Financing activities)		
Proceeds from short-term loans payable	50,000	30,000
Proceeds from long-term loans payable	150,000	300,000
Repayment of long-term loans payable	(220,792)	(196,464)
Repayment of lease payable	(1,227)	(702)
Proceeds from issuing stock	1,498,822	----
Cash dividends paid	(230)	(145)
Cash allotments paid to minority	(3,214)	(41,116)
Net cash provided by financing activities	1,473,357	91,572
Effect of exchange rate change on cash and cash equivalents	(20,706)	42,501

Net increase (decrease) in cash and cash equivalents	1,518,574	(323,246)
Cash and cash equivalents at beginning of period	1,779,217	2,611,875
Cash and cash equivalents at end of period	3,297,792	2,288,628