

Aug 14, 2017

Precision System Science Co., Ltd.
SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS
Fiscal Year, Ended June 30 2017
(From July 1, 2016 to June 30, 2017)

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 Fiscal Year, Ended June 30 2017

(From July 1, 2016 to June 30, 2017)

(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 Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2017	3,847	(13.7)	(440)	----	(428)	----	(555)	----
June 30, 2016	4,458	(13.3)	(737)	----	(821)	----	(1,582)	----

(Reference) Comprehensive income: 498 million yen loss for FY2017 ended June 30, 2017

1,872 million yen loss for FY2016 ended June 30, 2016

	Net income per share	Diluted net income per share
First Nine months ended	Yen	Yen
June 30, 2017	(26.50)	----
June 30, 2016	(78.29)	----

(2) Consolidated financial condition

	Total assets	Net Assets	Equity ratio	Net income per share
As of	Million yen	Million yen	%	yen
June 30, 2017	5,804	3,751	64.6	162.63
June 30, 2016	5,820	3,432	58.3	163.37

(Reference) Equity: 3,751 million yen as of June 30, 2017

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		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, 2017	2,250	16.1	(290)	----	(300)	----	(305)	----	(13.22)
For fiscal year ending June 30, 2018	5,000	30.0	(100)	----	(120)	----	(130)	----	(5.63)

(Note) Revision to previous forecast: No

4. Others

- (1) **Change in scope of consolidated subsidiaries during FY 2017 ended June 30, 2017: Yes**
- (2) **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**
- (3) **Number of outstanding stocks (common stocks)**
 - a) **Number of outstanding stocks (including treasury stock)**
23,066,900 at June 30, 2017; 20,756,900 at June 30, 2016
 - b) **Number of treasury stocks at the end of period**
None at June 30, 2017; None at June 30, 2016
 - c) **Average number of outstanding stocks**
20,953,092 for FY 2017 ended June 30, 2017
20,206,408 for FY 2016 ended June 30, 2016

* 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 2017, the Japanese economy remained on a recovery path by monetary easing of government. While personal consumption grew at a sluggish pace, 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 13.7% in comparison to the same period of previous fiscal year to 3,847 million yen and the Gross Profit decreased by 3.8% to 1,345 million yen. And The sales of “geneLEAD^{XL} 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 16.8% in comparison to the same period of previous fiscal year to 647 million yen. Overall SG&A expenses decreased by 16.4% in comparison to the same period of previous fiscal year to 1,786 million yen and the Operating Loss decreased from -737 million yen to -440 million yen. The subsidy income was 18 million yen and interest expenses was 13 million yen. Consequently, the ordinary loss was -428 million yen in comparison to -821 million for the same period of previous fiscal year and the net loss attributable to parent company shareholders was -555 million yen in comparison to -1,582 million yen for the same period of previous fiscal year.

Sales by each product category:

(Unit: Million yen)

	FY 2016 Ended June 30,2016		FY 2017 Ended June 30,2017		Year on year increase
	Amount	Amount	Amount	Ratio	%
Instruments	2,380	53.4	1,978	51.4	(16.9)
Reagent kits & Consumable	1,206	27.1	1,099	28.6	(8.8)
Maintenance	431	9.7	295	7.7	(31.6)
Customized product	439	9.8	473	12.3	7.7
Total	4,458	100.0	3,847	100.0	(13.7)

(1) Instruments

During fiscal year ended June 30, 2017, the sales in this category decreased 16.9% to 1,978 million yen. As the operating expenses decreased 21.4% to 1,829 million yen, the operating income increased 182.6% to 149 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 14.3 % to 1,294 million yen. As the operating expenses decreased 17.9% to 1,089 million yen, the operating income recorded increased 12.2% to 205 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 “geneLEAD λ II 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 21.4% to 684 million yen. As the operating expenses decreased 26.0% to 740 million yen, the operating loss recorded 55 million yen (130 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 OEM partner, but also PSS. The sales in this category decreased 8.8% to 1,099 million yen. As the operating expenses decreased 14.8% to 1,030 million yen, the operating incomes decreased 68 million yen. (3million yen loss in the previous year).

(3)Maintenance

This category consists of revenue from system maintenance and sales of spare parts (replacement) exclusively. The sales in this category decreased 31.6% to 295 million yen. As the operating expenses decreased 39.5% to 239 million yen, the operating incomes recorded 55 million yen (54.7% increase in the previous year).

(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 7.7% to 473 million yen. As the operating expenses increased 15.6% to 450 million yen, the operating income decreased 54.1% to 22 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 recorded 0 million yen (1 million yen in the previous year) and the operating income loss recorded 0 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 15million yen from the amount as of June 30, 2016 to 5,804 million yen. Cash & deposits decreased 188 million yen and Account receivable-other decreased 181 million yen, while inventory increased 297 million yen.

(2)Liabilities

Total liabilities decreased 335 million yen to 2,053 million yen compared with the amount as of June 30, 2016. Accounts payable-trade decreased 191 million yen, current portion of long-term loans payable decreased 22 million yen, deferred tax liabilities decreased 39 million yen and liability for pension decreased 53 million yen.

(3)Net Assets

Total net assets amount was 3,751 million yen, increased 319 million yen compared with the amount of as of June 30, 2016. We raised funds 853 million yen by the private allocation in the current fiscal year and both Capital stock and capital surplus increased 429 million yen. While net loss attributable to parent company shareholders decreased 555 million yen and Foreign currency translation adjustment increased 57 million yen.

3. Cash flows

During FY 2017 July 1, 2016 to June 30, 2017, cash and cash equivalents decreased 188 million yen to 2,423 million yen.

(1) **Cash flows from operating activities** decreased 802 million yen (72 million increased during the same period of previous year). There was cash flow decreased due to increase inventory (323 million yen) and income before income taxes (583 million yen) etc.

(2) **Cash flows from investing activities** decreased 268 million yen (259 million decreased during the same period of previous year). There was decrease due to purchase of property, plant and equipment (257 million yen), etc.

(3) **Cash flows from financing activities** increased 828 million yen (1,123 million increased during the same period of previous year). There was increase of short-term loans (30 million yen), long term loans (400 million yen) and proceeds from issuing stock (853 million yen), while there was decrease of repayment of long- term loans (412 million yen) etc.

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

	Fiscal Year Ended June 30, 2017		Fiscal Year Ended June 30, 2018		Year on year increase	
	Amount1	ratio	Amount2	ratio	Amount2-1	Rate of change
Net sales	3,847	100.0	5,000	100.0	1,153	30.0
Operating income	(440)	(11.5)	(100)	(2.0)	340	-
Ordinary income	(428)	(11.1)	(120)	(2.4)	308	-
Net income attributable to parent company shareholders	(555)	(14.4)	(130)	(2.6)	425	-

We estimate the growing the sales of geneLEAD XII with DNA sample preparation reagent, OEM business and direct sales of PSS own products. Net Sales will be the almost same 5,000 million yen (year-on-year increase 30.0%). Selling, general and administrative expenses will increase to 1,970 million yen (year-on-year increase 10.3%) by increasing R&D expense for Clinical Diagnostic Products to 805 million yen (year-on-year increase 24.4%) and direct sales promotion cost. Operating income will be 100 million yen loss (440 million loss for Fiscal Year 2016).

PSS Group intends to continue business expansion in the genetic diagnosis field aiming at profitability for two to three years by investing considering the balance of profitability.

Although PSS main products are OEM products, we will promote direct sales of PSS own products.

As for foreign exchange rate, we estimate as 1US\$=110 yen and 1Euro=130 yen from FY2018.

Consolidated financial statements

(1) Consolidated Balance Sheets

	As of June 30, 2016	(Thousand yen) As of June 30, 2017
(Assets)		
Current assets		
Cash and deposits	2,631,875	2,443,598
Notes and accounts receivable-trade	1,003,447	821,828
Merchandise and finished goods	931,418	836,601
Work in process	90,536	201,045
Raw materials and supplies	129,902	411,849
Deferred tax assets	6,669	4,037
Others	262,879	318,658
Allowance for doubtful accounts	(2,080)	(1,756)
Total current assets	5,054,648	5,035,863
Noncurrent assets		
Property, plant and equipment	708,506	709,290
Intangible assets	1,489	2,202
Investments and other assets	55,764	57,271
Total noncurrent assets	765,759	768,763
Total assets	5,820,407	5,804,627
(Liabilities)		
Current liabilities		
Accounts payable-trade	539,543	348,030
Short-term loans payable	470,000	500,000
Current portion of long-term loans payable	343,428	321,079
Income taxes payable	28,793	22,548
Provision for bonus	14,753	10,670
Others	272,371	183,492
Total current liabilities	1,668,889	1,385,820
Noncurrent liabilities		
Long-term loans payable	618,278	628,017
Deferred tax liabilities	45,455	6,168
Liability for pension	53,321	----
Provision for product warranties	----	1,125
Others	2,388	32,160
Total fixed liabilities	719,443	667,470
Total liabilities	2,388,333	2,053,291

(Thousand yen)

	As of June 30, 2016	As of June 30, 2017
(Net assets)		
Shareholders' equity		
Capital stock	2,972,609	3,401,899
Capital surplus	880,204	1,309,494
Retained earnings	(366,472)	(921,691)
Total shareholders' equity	3,486,340	3,789,702
Other comprehensive income		
Foreign currency translation adjustment	(95,382)	(38,366)
Total of comprehensive income	(95,382)	(38,366)
Minority interests	41,115	—
Total net assets	3,432,074	3,751,335
Total liabilities and net assets	5,820,407	5,804,627

(2) Consolidated Income Statements

	FY 2016 Ended June 30, 2016	(Thousand yen) FY 2017 Ended June 30, 2017
Net Sales	4,458,411	3,847,021
Cost of sales	3,059,778	2,501,582
Gross Profit	1,398,633	1,345,438
Selling, general and administrative expenses	2,136,347	1,786,021
Operating Income	(737,713)	(440,582)
Non-operating income		
Interest income	419	212
Foreign exchange gain	----	5,047
Subsidy income	20,658	18,073
Gain on forfeiture of unclaimed dividends	----	3,105
Return premium	5,701	2,497
Interest on refund	3,254	885
Others	1,183	865
Total non-operating income	31,217	30,687
Non-operating expenses		
Interest expenses	14,792	13,663
Foreign exchange loss	90,849	----
Stock delivery expenses	9,067	4,894
Others	----	0
Total non-operating expenses	114,709	18,558
Ordinary income and (loss)	(821,206)	(428,453)
Extraordinary gain		
Gain on sales of investment securities	4,280	----
Receive compensation	----	37,155
Gain on sale of fixed asset	----	2,118
Total extraordinary gain	4,280	39,273
Extraordinary loss		
Loss on sale of fixed asset	----	1,032
Loss on disposal of fixed asset	4,677	517
Inventory valuation loss	----	53,301
Loss on impairment	908,861	139,442
Total extraordinary loss	913,539	194,293
Income before income taxes and others	(1,730,465)	(583,473)
Income taxes-current	23,249	7,521
Income taxes-deferred	8,137	(35,766)
Total income taxes	31,386	(28,254)
Net Income	(1,761,851)	(555,218)
Profit (loss) attributable to non-controlling interests	(179,801)	----
Quarter net loss attributable to parent company shareholders	(1,582,050)	(555,218)

(3) Consolidated Comprehensive Income Statements

	FY 2016 Ended June 30,2016	(Thousand yen) FY 2017 Ended June 30,2017
Net Income	(1,761,851)	(555,218)
Other comprehensive income		
Other gain from revaluation of securities	(9,431)	----
Foreign currency transaction adjustment	(101,428)	57,015
Total of other comprehensive income	(110,859)	57,015
Comprehensive income	(1,872,711)	(498,203)
(Breakdown)		
Comprehensive income attributable to owners of parent company	(1,688,123)	(498,203)
Comprehensive income attributable to minority income	(184,588)	----

(4) Consolidated Statements of Cash flows

	FY 2016 Ended June 30,2016	(Thousand yen) FY 2017 Ended June 30,2017
(Operating activities)		
Income before income taxes	(1,730,465)	(583,473)
Depreciation	286,083	104,462
Increase (decrease) in provision	7,849	(3,281)
Increase (decrease) in pension obligation	(8,979)	(53,321)
Interest and dividend income	(419)	(212)
Interest expenses	14,792	13,663
Stock issue cost	9,067	4,894
Loss (gain) on sales of property, plant and equipment	—	(1,085)
Loss on disposal of property, plant and equipment	4,677	517
Loss (gain) from impairment loss	908,861	139,442
Loss (gain) from sales of investment securities	(4,280)	-
Amortization of goodwill	6,000	-
Decrease (increase) in notes and accounts receivables	47,880	183,681
Decrease (increase) in inventories	61,645	(323,313)
Increase (decrease) in notes and accounts payable	129,338	(191,908)
Others	66,613	(42,397)
Sub-total	(201,333)	(752,331)
Interest and dividends income received	419	212
Interest expenses paid	(14,658)	(13,693)
Income taxes refund	(23,960)	(42,490)
Income taxes paid	311,682	5,536
Net cash provided by operating activities	72,149	(802,766)
(Investing activities)		
Revenue from time deposit payback	20,000	20,000
Payment of time deposit	(20,000)	(20,000)
Purchase of property, plant and equipment	(266,272)	(257,108)
Sales of property, plant and equipment	—	3,019
Purchase of non-tangible asset	(4,365)	(13,015)
Sales of non-tangible asset	5,324	—
Payment of insurance premium	(2,251)	(1,010)
Revenue from cancellation of insurance premium	7,817	—
Others	(32)	—
Net cash provided by investing activities	(259,779)	(268,114)
(Financing activities)		
Proceeds from short-term loans payable	100,000	30,000
Proceeds from long-term loans payable	250,000	400,000
Repayment of long-term loans payable	(485,857)	(412,610)
Repayment of lease payable	(1,930)	(1,282)
Cash dividends paid	(456)	(194)
Cash allotments paid to minority	(3,214)	—
Cash distributions paid to minority interests	(33,644)	(41,116)

Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(202,999)	—
Proceeds from issuance of common shares	1,501,762	853,686
Net cash provided by financing activities	1,123,660	828,483
Effect of exchange rate change on cash and cash equivalents	(103,373)	54,120
Net increase (decrease) in cash and cash equivalents	832,657	(188,276)
Cash and cash equivalents at beginning of period	1,779,217	2,611,875
Cash and cash equivalents at end of period	2,611,875	2,423,598