June 2006 Term Summary of Kessan Tanshin Financial Report (Consolidated)

August 11, 2006

Listed Company Name: Precision System Science Co., Ltd.
Stock Exchange Listing: Osaka Securities Exchange Hercules Market
Code Number: 7707
Location of headquarters (prefecture): Chiba-ken
(URL http://www.pss.co.jp)
Representative: Hideji Tajima, President
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Date of Board of Directors' Meeting for approval of financial results: August 11, 2006
Adoption of U.S. accounting standards: No

1. Consolidated results for FY2006 ended June 30, 2006

(From July 1, 2005 to June 30, 2006)

(1) Consolidated business results

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

	Sales		Operating income		Ordinary income	
	Million yen	%	Million yen	%	Million yen	%
FY2006 ended June 2006	3,636	13.1	12	(90.4)	18	(83.1)
FY2005 ended June 2005	3,215	28.3	132	-	111	-

	Net income		Net income per share	Net income per share adjusted for full dilution
	Million yen	%	Yen	Yen
FY2006 ended June 2006	(250)	-	(5,926.68)	—
FY2005 ended June 2005	64	-	1,552.25	1,502.22

	Return on equity	Ordinary income per total assets	Ordinary income per net sales
	%	%	%
FY2006 ended June 2006	(8.3)	0.4	0.5
FY2005 ended June 2005	2.1	2.3	3.5

(Notes)

1. P/L through equity accounting:
   FY2006: - million yen, FY2005: - million yen
2. Average number of shares outstanding (consolidated)
   FY2006:42,228 shares, FY2005: 41,468 shares
3. Changes in accounting policies: None
4. The percentage indications under Sales, Operating income, Ordinary income, and net income, represent year-on-year changes.
5. Net income per share on a fully diluted basis for FY2006 is not shown, because net loss was incurred in FY2006. It should be noted however, that new share subscription rights remained outstanding.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2006 ended June 2006	4,884	2,928	59.9	68,414.70
FY2005 ended June 2005	4,636	3,107	67.0	74,948.14

(Notes) Number of shares outstanding at end of the term (consolidated)
FY2006: 42,800 shares, FY2005: 41,468 shares

(3) Consolidated statement of cash flow

	Net cash in operating activities	Net cash in investing activities	Net cash In financing activities	Cash and cash equivalents, end of year
	Million yen	Million yen	Million yen	Million yen
FY2006 ended June 2006	133	6	258	1,214
FY2005 ended June 2005	(131)	(240)	(212)	796

(4) Scope of consolidation and application of equity accounting

Consolidated subsidiaries: 3
Non-consolidated subsidiaries accounted for under equity accounting: 0
Affiliated company accounted for under equity accounting: 0

(5) Change in scope of consolidation and application of equity accounting

Consolidation (new): 0 (elimination): 0
Equity accounting (new): 0 (elimination): 0

2. Consolidated forecasts for fiscal year ending June 2007 (from July 1, 2006 to June 30, 2007)

	Sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
Semi-annual	1,750	(40)	(60)
Annual	3,900	30-60	0-30

(Ref.) Estimated net income per share (annual): 0.00yen- 700.93yen

* 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. Please refer page 7 of the attached data on detail of the above estimated numbers.

1. PSS Group information

The PSS Group ("the Group") is comprised of Precision System Science Co., Ltd. ("the Company") and its three subsidiaries. The Group's main business is the research and development in the gene/proteome analysis-related field, the development, manufacture, and sales of automated systems, other laboratory equipment, and software, etc., used in the application of the results of the above research, as well as the manufacture and sales of reagents and plastic consumables used in the automated systems. Most notably, we consider our original systems including the DNA auto-extractors, which were developed utilizing our own-patented technology, to be our main product line and we have entered into OEM contracts with such global companies as the ROCHE Group and the QIAGEN Group and our products have been supplied world-wide.

The following is a summary of our subsidiaries:

(Consolidated subsidiaries)

Name	Location	Capital or investment in subsidiary	Main line of business	Ratio of voting rights or investment ratio	Roles of subsidiaries
(Consolidated subsidiary) PSS Bio Instruments, Inc.	California, U.S.A.	US$6,579,537.95	U.S. sales company	100%	Sales company for our products intended for the U.S. market Interlocking managing directors
(Consolidated subsidiary) Precision System Science Europe GmbH	Woerrstadt, Germany	EUR1,000,000.00	European sales company	100%	Sales company for our products intended for the European market
(Consolidated subsidiary) Universal Bio Research Co., Ltd.	Matsudo-shi, Chiba-ken	¥35,000,000	Management company for intellectual property	100%	Administrative and management company for the Company's intellectual property Interlocking managing directors

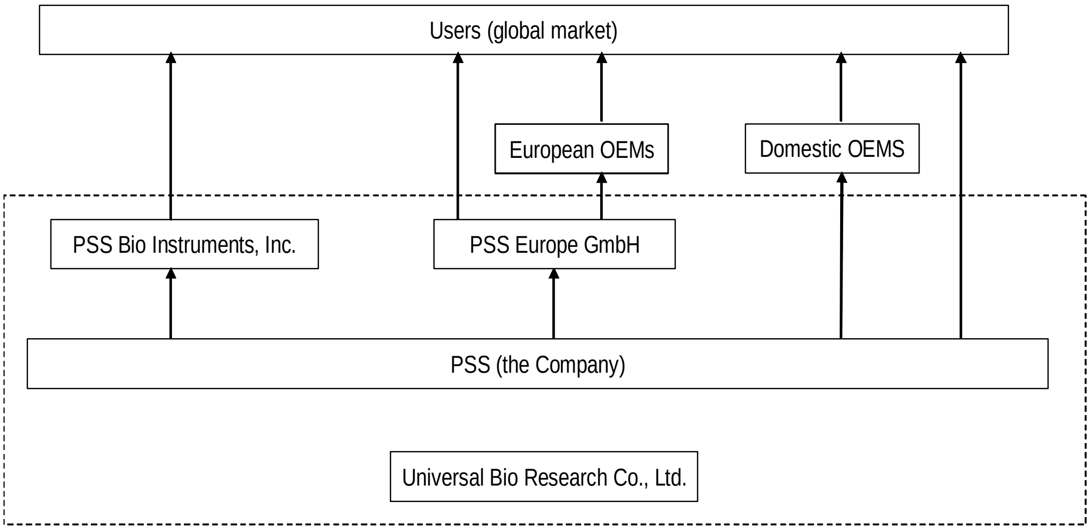
(Notes)

1. None of the above companies has submitted Securities Notifications or Securities Reports.
2. Of the three consolidated subsidiaries mentioned above, PSS Bio Instruments, Inc. and Precision System Science Europe GmbH are the specified subsidiaries.
3. Sales from Precision System Science Europe GmbH account for more than 10% of all consolidated sales (Excluding intra-company sales)

Major profit/loss information	(1) Sales	2,707 million yen
	(2) Ordinary income	88 million yen
	(3) Net income	55 million yen
	(4) Net assets	254 million yen
	(5) Total assets	952 million yen

PSS Bio Instruments, Inc. is engaged in activities such as developing new business partnerships and OEMs in the U.S., marketing our products to universities and research institutions, and the exchange of technology information through participation in exhibitions and academic conferences. In addition to the activities mentioned above for PSS Bio Instruments, Inc., PSS Europe GmbH is also involved in the strengthening of partnerships with the OEMs of Europe.

Below is a diagram of our operational system:



The above diagram illustrates the main flow of our products. The users in the various areas refer to institutions including universities, research institutions, clinical testing centers, pharmaceutical manufacturers, and chemical manufacturers.

Moreover beginning from the latest consolidated fiscal year, Precision System Science Europe GmbH has become the single sales contact for all European OEMs.

2. Management Policies

(1) Basic policies for corporate management

Biotechnology, which has been heralded as the key technology of the 21st century, has not only promoted progress in the fields of life sciences and healthcare sciences, but has come to play a vital role in offering solutions to such varied problems as the social problem of aging, environmental/food problems, and energy-related problems. We, at the Group, hope to uphold our corporate ideal of contributing to the health and happiness of mankind through our role as a Total System Integrator of the bio industry, and by becoming conducive to the development of the world-wide bio industry, realize our own medium to long term development and growth, and make our contributions to our stakeholders, including our shareholders, clients, and employees.

(2) Basic policy regarding distribution of profits

The Group recognizes that returning profit to shareholders is an important task at hand. However, at present the gene/proteome analysis-related industry is in the phase of market expansion and we, at the Group, must also continue to aggressively invest in research and development. Accordingly, for the time being, our basic policy will be to maintain sufficient internal reserves in preparation for future business expansion. Consequently, we will suspend dividend payments to our shareholders for the time being.

However we intend to repay our valued shareholders by making efforts to increase market capitalization by improving our earnings.

(3) Principles and policy of reducing the investment unit

Based on our desire for the wide distribution of our Company's shares among the general public, we believe that the per share price should be 500,000 yen or less. In the event that the per share price greatly exceeds 500,000 yen for any extended length of time, our policy will dictate a consideration of a stock split.

(4) Targeted performance indices and essential tasks at hand

The Group is a venture business in the gene/proteome analysis-related industry; an industry with a highly anticipated growth potential. Consequently, in order to answer to our shareholders, we are aware that we must continuously realize stable growth as a listed company.

Although, at present, we are not posting any specific performances indices, such as ROE, we are of one mind to maintain our continuous growth, by increasing sales of our systems, including the DNA auto-extractors, by expanding the global market through our overseas subsidiaries, by cultivating new OEMs, and by intensifying the cooperation with our existing OEMs.

At the same time, since research and development activities geared toward the future are also an integral part of our field of gene/proteome analysis related businesses, we will fortify our structure by securing development funds and development personnel.

(5) Medium and long term management strategy

In regard to the systems such as the DNA auto-extractors, which utilize our patented technology, the Magtration Technology, we distribute our products worldwide through multiple OEM contracts. Currently we are at the dawn of the new age of the gene/proteome analysis-related industry and demand has only begun to surface for these systems. Consequently, we believe that expectation for even greater expansion of the market is not totally unfounded. Building on our core business strategy of fully utilizing our European and U.S. subsidiaries, we, at the Group, will strive to achieve the global standards for the DNA extraction/purification systems. Furthermore, not limiting ourselves to DNA auto-extractors, we are planning to strengthen our research and development activities, by undertaking the development of the fully automated gene analysis system, as well as of the SNP and proteome analysis systems, and of reagents: In the medium to long range, we hope to transform ourselves into a company offering a comprehensive infrastructure to the gene-related industry. In order to achieve this end, we will implement the specific strategies enumerated below:

1) Product line-up of automated systems including the DNA auto-extractors

In order to establish the Company's product as the standard product in the field of DNA auto-extractor systems, we must meet the diverse needs encountered in the field of genetic research. To this end an expansive product line-up is essential and we already have more than twenty different models on the market, including our OEM models.

2) Mass marketing strategy through OEM distribution

We believe that the most efficient method of penetrating the worldwide market with our products is through OEM sales to large corporations. The Company adheres to a basic policy of open alliance with a number of corporations and we have concluded OEM contracts with seven companies including the Roche Group, the

QIAGEN Group, and Mitsubishi Kagaku Iatron, Inc. and a patented-technology royalty contract with one company, bringing the total of companies we have entered into contracts with to seven (The end of Consolidated current fiscal year). As a result of such OEM sales, a total of more than 4,000 units of our systems including our DNA auto-extractors were shipped out and we are also currently in the midst of further business expansion.

3) Intensifying of our research and development activities

In addition to increasing of our product line-up of systems including DNA auto-extractors, we are strengthening our research and development activities both funds-wise and personnel-wise for the eventual realization of a fully automated DNA analysis systems to be used in the automation of the gene detection process.

In gene detection of the importance of each specific detective item (contents) cannot be overemphasized. An example of such a use would be the preventive diagnosis of genetic diseases for specific illnesses. Another example would be the realization of tailor-made medical treatment using specific medications. We will need to aggressively pursue collaborations with universities, research institutions, and private sector corporations, which are in possession of these contents.

Moreover in order to further enhance the world-wide sales of our systems including our DNA auto-extractors, it will become strategically crucial for the Company to offer and provide the Company's own reagents. This is due to the fact that the business of reagents as consumables is an extremely lucrative source of revenue, in addition to the Group's inherent obligation to possess the know-how to offer reagents tailor-made for various purposes if it were to attentively respond to the needs of its end-users. Until recently, reagents had simply been used for the purpose of extraction and purification of DNA and RNA. In the future, industry demand is expected to shift toward reagents and fully automated systems intended for specific purposes such as sample preparation and uniform processing systems for genetic expression analyses and SNPs typing. In order to accommodate these demands, the Company is currently making contact with various domestic and overseas manufacturers of reagents, collecting reagents, which are compatible with the Company's systems, and undertaking application development with a view to merchandising such reagents.

4) The construction of a structure for global expansion

Since rapid progress has been taking place on a worldwide scale in the gene/proteome analysis-related industry, it is imperative for us to implement our business strategy on the U.S. and European markets, both of which are advanced in this field. We, at the Group, have established subsidiaries in the U.S, and Europe and are building structures whereby we will be able to forge new business partnerships and joint research opportunities, fortify partnerships with existing OEMs, and aggressively pursue marketing possibilities with universities and research institutions.

The activities through 1) to 4) above may put ourselves as the system supplier of the Gold Standard in term of DNA/RNA extraction and purification and our Magtration technology is becoming as the de fact standard in this fields. By accelerating current ongoing research and developing activities, we intend to create a new and noble standard as one of niche applications for our further growth.

(6) Matters related to the parent company

Not applicable.

3. Operating results and financial conditions

(1) Operating results

	FY2005 (Previous consolidated fiscal year)		FY2006 (Current consolidated fiscal year)		Year-on-year changes
	Amount	Percentage	Amount	Percentage	
	Million yen	%	Million yen	%	%
Sales	3,215	100.0	3,636	100.0	13.1
Gross profit on sales	1,509	46.9	1,462	40.2	(3.1)
Operating income	132	4.1	12	0.3	(90.4)
Ordinary income	111	3.5	18	0.5	(83.1)
Net income	64	2.0	(250)	(6.9)	—

During the current consolidated fiscal year, as a result of brisk sales of the systems including our DNA auto-extractors to our main OEM, the ROCHE Group, and our compact immunochemical luminescence measuring systems to Mitsubishi Kagaku Iatron, Inc., as well as expanded OEM sales of our plastic consumables, which were manufactured and sold by our German subsidiary, the Group achieved a substantial increase in sales by recording net sales of 3,636 million yen (a 13.1% increase compared to the previous year).

The gross profit for the period under review was 1,462 million yen (a 3.1% decrease compared to the previous year). During the previous consolidated fiscal year, the Group recorded a commission income of 204 million yen from Roche Diagnostics GmbH (hereinafter “RDG”) and when we eliminate the effects of this income from the current year’s results, the Group has virtually recorded another increase in profits.

Selling, general, and administrative expenses amounted to 1,449 million yen (a 5.3% increase compared to the previous year). In spite of the decrease in development expenses to 383 million yen (a 12.9% decrease compared to the previous year), selling, general and administrative expenses rose compared to the previous year, reflecting the effects of increased expenses spent on increasing personnel at our overseas subsidiaries and the upgrading of our facilities.

As a result of the above, the Group recorded an operating income of 12 million yen (a 90.4% decrease compared to the previous year). However by eliminating the commission income from RDG, mentioned above, we have once again virtually recorded an increase in profit.

In terms of non-operating income/loss, non-operating income from interest income and foreign currency translation gains amounted to 36 million yen, while non-operating expenses of 30 million yen were incurred from interest expenses and bond issue costs and other expenses, resulting in an ordinary income of 18 million yen (a 83.1% decrease compared to the previous year).

Moreover, an extraordinary loss of 237 million yen was recorded as a result of the adoption of impairment accounting, which commenced from this consolidated fiscal year. Impairment accounting was applied to the former research laboratory and related facilities in Matsudo-shi, which was acquired in August 1990. The lab, which was used until March 2001, was closed to coincide with the move of the headquarters and was considered to be an idle asset. In October 2005 the lab was sold and a 3 million yen gain on the sales of fixed assets was recorded. Consequently impairment losses will not be incurred on said assets in the future. Furthermore, with the posting of 35 million yen in adjustments for taxes including income taxes, the Group recorded a net loss of 250 million yen (net income of 64 million yen was recorded in the previous year).

Net sales according to customer are as follows:

	FY2005 (Previous consolidated fiscal year)		FY2006 (Current consolidated fiscal year)		Year-on-year changes
	Amount	Percentage	Amount	Percentage	
	Million yen	%	Million yen	%	%
ROCHE Group	1,456	45.3	1,870	51.4	28.4
QIAGEN Group	1,069	33.2	984	27.1	(7.9)
Mitsubishi Kagaku Iatron, Inc.	218	6.8	364	10.0	67.1
Others	471	14.7	416	11.5	(11.6)
Total	3,215	100.0	3,636	100.0	13.1

The Company’s main products, namely the systems including the DNA auto-extractors (also including the immunochemical luminescence measuring systems), are sold worldwide through its OEMs. The Company recognizes the ROCHE Group, the QIAGEN Group, and Mitsubishi Kagaku Iatron, Inc. as its three leading OEMs. The plastic consumables used exclusively in the operation of these systems are also being distributed through the Company’s OEMs.

The ROCHE Group, through the sales of the systems including the DNA auto-extractors and the plastic consumables, produced sales results far exceeding that of the same period of the previous year, to record sales of 1,870 million yen (28.4% increase compared to the same period of the previous year).

The QIAGEN Group generated net sales of 984 million yen (a 7.9% decrease compared to the previous fiscal year). The Group had achieved a massive 111.7% increase in sales toward the QIAGEN Group during the previous consolidated fiscal year. And despite the steady shipment of systems and consumables during the current consolidated fiscal year, the full year results fell slightly short of the performance of the previous year.

Mitsubishi Kagaku Iatron, Inc., which commenced full-scale sales of the compact immunochemical luminescence measuring system in April of the previous year, contributed to sales for the full consolidated fiscal year, thus substantially outperforming their previous year’s sales performance by recording net sales of 364 million yen (a 67.1% increase compared to the previous year).

Transactions with our other business partners amounted to 416 million yen (a 11.6% decrease compared to the previous year). During the previous consolidated fiscal year, the Group received a remuneration of 100 million yen for the granting of exclusive sales rights in the Asian region (excluding Japan) to a South Korean enterprise for the fully automatic protein synthesis system. During the current fiscal year, however, lacking such a source of income, we were not able to compensate for the entire amount of such decrease.

The sales conditions of each product category are as follows:

	FY2005 (Previous consolidated fiscal year)		FY2006 (Current consolidated fiscal year)		Year-on-year changes
	Amount	Percentage	Amount	Percentage	
	Million yen	%	Million yen	%	%
Systems including DNA auto-extractors	1,928	60.0	2,120	58.3	9.9
Other laboratory equipment	81	2.5	185	5.1	127.2
Other products	221	6.9	301	8.3	36.2
Merchandise (plastic consumables)	679	21.1	1,029	28.3	51.5
Other operating income	304	9.5	-	-	-
Total	3,215	100.0	3,636	100.0	13.1

1) Systems including DNA auto-extractors

This category consists of automated systems utilizing the Company's internationally patented Magtration Technology. In addition to DNA auto-extractors, this category also includes immunochemiluminescent measuring system. With progress being made in the bioresearch field and the ensuing need for speedy processing of multiple specimens, we believe that this category has strong potential for future market growth.

During the current consolidated fiscal year, smooth shipments to our OEMs, the ROCHE Group and Mitsubishi Kagaku Iatron, Inc., resulted in 1,081 units solid and sales of 2,120 million yen (9.9% increase compared to the same period of the previous year).

The quarterly sales results are indicated in the following table. The fluctuations in unit price reflect the variation in the unit prices of each system, which ranges in price from one million yen per unit to over 10 million yen per unit.

(Unit: Thousand yen, units)

	FY2005 (Previous consolidated fiscal year)				FY2006 (Current consolidated fiscal year)			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Units sold	150	232	232	287	189	359	275	258
Total amount	323,644	466,443	519,854	618,781	376,358	653,827	558,781	531,153
Unit price	2,157	2,010	2,240	2,156	1,991	1,821	2,031	2,058

2) Other laboratory equipment

This category consists of automated instruments used in institutions such as research facilities, as well as developmental projects commissioned by governmental ministries, agencies and affiliated organizations.

During the current consolidated fiscal year, the Company posted sales of 185 million yen (127.2% increase compared to the same period of the previous year). Sales in this category tend to be significantly impacted by the number of orders received for specially commissioned systems. Sales from specially commissioned systems such as the preprocessing systems for protein analysis and systems for sample handling, dispensing and delivering contributed to the substantial increase in sales for the current consolidated fiscal year.

3) Other products

This category includes sales generated from spare parts (replacement) and maintenance of equipment, pre-packaged reagents for the extraction and purification of nucleic acid used in the Company's DNA auto-extractors, and software development.

During the current consolidated fiscal year, sales in this category amounted to 301 million yen (36.2% increase compared to the same period of the previous year). Since sales derived from spare parts and equipment maintenance tends to increase in direct proportion to the cumulative number of systems sold, steady growth in the sales of this category is expected.

4) Merchandise (plastic consumables)

This category consists of disposable plastic parts such as tips and cartridges consumed in the use of systems. Consumables designed exclusively for use in the Company's DNA auto-extractors comprise the major part of this category.

The current consolidated fiscal year witnessed a promising increase in earnings to record sales of 1,029 million yen (51.5% increase compared to the same period of the previous year). Since the sales derived from plastic consumables tend to increase in direct proportion to the cumulative number of systems sold, steady growth in the sales of this category is expected in the future.

5) Other operating income

During the current consolidated fiscal year, there were no sources of income, similar to the aforementioned income generated from the granting of the exclusive sales rights of the previous consolidated fiscal year.

(2) Outlook for the fiscal year ending June 30, 2007

	FY2006 (Current consolidated fiscal year)		FY2007 (Forecast)		Year-on-year changes
	Amount	Percentage	Amount	Percentage	
	Million yen	%	Million yen	%	%
Sales	3,636	100.0	3,900	100.0	7.2
Ordinary income	18	0.5	30-60	0.8-1.5	58.7-217.4
Net income	(250)	(6.9)	0-30	0.0-0.8	-

The sales forecast by customer and the sales forecast according to product category are as follows:

	FY2006 (Current consolidated fiscal year)		FY2007 (Forecast)		Year-on-year changes
	Amount	Percentage	Amount	Percentage	
	Million yen	%	Million yen	%	%
Roche Group	1,870	51.4	1,900	48.7	1.6
QIAGEN Group	984	27.1	850	21.8	(13.7)
Mitsubishi Kagaku Iatron, Inc.	364	10.0	500	12.8	37.1
Others	416	11.5	650	16.7	55.9
Total	3,636	100.0	3,900	100.0	7.2

Sales forecasts regarding our three major OEMs are formulated by comprehensively taking into account such factors as the forecasts predicted by each of the companies, the current order backlog, and the impressions received from the transactions themselves. During the period under review the ROCHE Group recorded an impressive 28.4% increase in sales compared to the previous year, and in the coming fiscal year, we predict that it will maintain its strong performance and that it would be possible for them to secure sales comparable to the levels achieved this year. Sales by the QIAGEN Group, on the other hand, decreased by 7.9% from the previous year. And as for the coming fiscal year, despite being capable of achieving sales of units in numbers similar to this year, the decreasing trend is expected to continue. Mitsubishi Kagaku Iatron, Inc., which entered its second year since official sales began, is expected to produce substantial increases in net sales, as it enters the period, in which orders are expected to buildup and while also being on the verge of commencing full-scale sales in the U.S. As far as our other business partners are concerned, with the new OEM products for the U.S. Invitrogen Corporation nearing completion and with increased sales anticipated for the specially commissioned systems for a leading domestic, clinical testing center, we are predicting increases in sales as seen above. Thus in terms of net sales we predict a total of 3,900 million yen.

In terms of gross profit, we are predicting 1,600 million yen, as a result of the increased sales.

Selling, general, and administrative expenses, on the other hand, are expected to rise to 1,520-1,550 million yen. This prediction is based on the fact that in addition to the increase of various expenses the personnel expenses of a overseas subsidiary, consolidated into the Group at mid-year, will be recorded as expenses for the full year. We are also predicting development expenses of 380 million yen, which is comparable to the current consolidated fiscal year.

As a result of the above, we are predicting an operating income of 50-80 million yen, an ordinary income after interest expenses, etc. of 30-60 million yen and in view of the corporate taxes to be paid for our German subsidiary, a net income of 0 to 30 million yen.

Currently the Company's full year forecasts are at the break-even point, where even seemingly minute amounts of 10 million yen in expenses could significantly impact net income, and for no particular reason, potentially precipitate changes of 30% or more, which is the standard for announcing revisions in the forecast, which would, in turn, alarm or cause a misunderstanding among our shareholders and investors. In light of these circumstances, we are allowing for a range of approximately 30 million yen in our predictions for our ordinary income and net income for the coming fiscal year. Should the predictions fluctuate beyond the margin of error, we will promptly announce the revisions in our forecasts.

The above forecast has been formulated on the assumption of exchange rates of 110 yen to the dollar and 145 yen to the euro. As an increasing number of the Company's products are being exported to Europe, the above assumption has been derived from the fact that the numbers of transactions are increasing, in which effects of exchange rate fluctuations on the yen-denominated price of our product exceeding a predetermined rate have been agreed to be born equally by both parties and said amount added to/subtracted from the transaction price. And in some cases, our products have been priced on a purely euro-denominated basis. Consequently, euro exchange rate has some impact on net sales and gross profit, while the expenses surrounding our German subsidiary are also expected to change. A yearly average fluctuation of five yen is expected to impact the Company's ordinary income by approximately 16 million yen (a weak yen will have positive effects, while a strong yen will have negative effects) during the coming consolidated fiscal year.

(3) Financial conditions

The state of cash flow during the current consolidated fiscal year is as follows:

<u>Cash flow in operating activities</u>

The Company reported a current net loss before adjustments for taxes including income taxes of 214 million yen (a 98 million yen net income was reported in the previous year). However when we eliminate losses that are unrelated to cash flows including the 237 million yen in impairment loss on fixed assets (not incurred in the previous year) and

169 million yen in depreciation (180 million yen in the previous year) and consider other factors, we are left with an overall income of 133 million yen and a vast improvement from the expenditure of 131 million yen of the previous year, resulting in a positive cash flow.

Cash flow in investing activities

The withdrawal of time deposits resulted in an income of 202 million yen (during the previous year, 56 million yen in net cash was used for time deposits), and a 44 million yen income (2 million yen in the previous year) was recorded in the form of gains on the sales of tangible fixed assets including our former laboratory. On the other hand, 239 million yen (170 million yen was spent in the previous year) was spent in the acquisition of tangible fixed assets in terms of investments in facilities. Thus overall the Company was left with 6 million yen in income (240 million yen was spent in the previous year).

Cash flow in financing activities

Income from financing activities include the 343 million yen through a private-placement bond underwritten by banks (none issued in the previous year) and the 850 million yen (320 million yen in the previous year) from long-term borrowings, while the decrease of short-term borrowings resulted in 100 million yen expenditure (none in the previous year) and in addition to the 866 million yen expenditure (532 million yen expenditure in the previous year) as a result of repayment of long-term loans. However, the repayments of long-term loans also include the switching over to the lower interests (prepayments). As a result, 258 million yen (212 million yen was spent in the previous year) in income was achieved through financing activities.

The income of 31 million yen through the issues of shares was due to the exercise of stock option rights issued before the listing or incentive warrants.

As a result of the above, with the addition of 20 million yen income in foreign exchange adjustments (4 million yen income in the previous year), the balance at the end of the current fiscal term was 1,214 million yen (796 million yen in the previous year).

(4) Operational risks and other risks

The following are risks, which may affect the Group's operating results, share prices, financial condition, etc. Please note that the forward-looking statements included below have been deemed to be true by the Group as of the end of the current consolidated fiscal year (June 30, 2006).

1) Dependence on systems including the DNA auto-extractors

The Group's dependence on systems including the DNA auto-extractors for its sales is high, at 58.3% (the current consolidated fiscal year) and is expected to continue for some time. Consequently, the Group's performance is likely to be impacted by changes in the users' demands toward said systems and by competition from products made by its rival companies.

Moreover, since the Group primarily conducts sales of the systems through its OEMs (product sales through customer brands) and since sales are largely dependent on the selling power of its OEMs, there is no denying that a substantial amount of uncertainty lies in the assumptions, upon which the Group decides on its business strategy.

With the same reason, the past performance alone will not be sufficient as decision-making parameters to determine the Group's future performance. Furthermore, it is possible that expenditures and investments unforeseen by the Group will occur, altering the Group's operation strategies or affecting the performance of the financial condition of the Group.

2) Dependence on specific OEMs

Of the Group's sales, sales to the Roche Group, the QIAGEN Group, and to Mitsubishi Kagaku Iatron, Inc. make up 88.5% of the total (the current consolidated fiscal year). Although the Group relies heavily on specific corporate group, its OEM agreements are, by no means, exclusive agreements. Therefore the Company intends to acquire other OEMs and alleviate its dependence on specific OEMs.

However for the time being, there is no guarantee that the Group will be able to increase its OEMs as planned, and will continue to rely heavily on the three OEMs.

Although the Group recognizes that the above three companies are sound customers, there is no guarantee that such relationships will last. Moreover, since the Group's sales are heavily dependent on them at the present time, the Group's business strategies and performance will be significantly impacted by the performance, financial condition, and the business strategies of the above three companies.

3) OEM agreements

In regard to the systems including the DNA auto-extractors, the Company is currently contracted to six companies (as of the end of the current consolidated fiscal year) as OEMs. According to each agreement, the OEM exclusively purchases the products customized to the specifications of the reagent manufacturers of the OEM. In principle, then, the Group is not restricted by the terms of the agreement from manufacturing, selling, and supplying its own products including standard products. Therefore, at this point in time, the Group is not under any restrictions with respect to manufacturing and selling its own products to other companies, nor is it restricted from concluding OEM agreement with other reagent manufacturers.

As explained above, the Group relies on its OEMs for the sales of its systems including the DNA auto-extractors. And in all likelihood the contents of these OEM agreements may be revised or cancelled in the future. In the event that these OEM agreements are revised or cancelled, the Group's heavy dependency on the specific OEMs for its sales at the present, will most likely have grave consequences on the Group's business strategies and performance. Although the Group is committed to expanding its operations and to mitigating risks by securing a greater number of OEMs, there is no guarantee that it will be able to successfully secure the OEMs as planned.

4) Currency exchange risks

The Group posted overseas sales of 2,795,454 thousand yen, which corresponds to 76.9% of its total sales (the current consolidated fiscal year). The greater part of the Group's overseas sales was generated through the two main OEMs, the Roche Group and the QIAGEN Group, which are both based in Europe. The contract sales prices of the products are either denominated in euros or in yen according to the type of product. As for the yen-denominated prices, an agreement has been reached to the effect that should the effects of the exchange rate on the pricing exceed a certain prescribed percentage, the exchange gains/losses resulting from the portion exceeding the prescribed percentage will be split equally between the two companies and added to /subtracted from the contract sales price. In any event, yen-denominate prices are inherently subject to the effects of the euro market.

In order to minimize the effects of the exchange rate, the Group's European subsidiary has commenced local manufacture and sales of a portion of its plastic consumables for the Roche Group and the QIAGEN Group, through its outside sources. Nevertheless the proportion of overseas sales remains high and depending on the trends of the exchange rates, the Group's performance could be materially affected.

5) Dependence on specific suppliers and outside sources

Being a small establishment without manufacturing facilities, the Group designs its own hardware but relies on outsourcing for the actual manufacture. Although the Group has begun to outsource the production of a portion of its plastic consumables to overseas manufacturers, the Group intends to pursue a policy of further diversifying its outside sources. The Group also intends to concentrate as much as possible on research and development, while leaving the actual manufacture to the cooperating factories and the maintenance to its business partners (the OEMs).

The outside sources mentioned above are considered to be cooperating factories with amicable relationships to the Group. However there are no capital relationships between the Group and the factories. For the purpose of cementing relations between the companies, capital relationships such as the mutual holding of each other' shares are possibilities worth pursuing. However, none are being actively pursued at the present. In the event that the timely manufacture of the system is impaired due to factors such as the management conditions, the production capabilities, or the quality control abilities of the outside sources, or in cases where changes take place in the relationship between the Group and the outside sources, the Group's business strategies and performance could be adversely affected.

6) The future of the gene-related industry

The Group is engaged in the manufacture and sales of systems including the DNA auto-extractors in the domestic and overseas gene-related industry (bio market). Although, the Group anticipates that the bio market to which the group belongs will continue to expand, it is aware that the market is still at its initial and underdeveloped stage. Consequently, market trends are still shrouded in obscurity and uncertainty and there exists a serious lack of objective information. In light of these circumstances, it must be understood that there is no guarantee that the market will proceed according to the Group's predictions.

7) Legal regulations

The handling of medical equipment is regulated by a vast number of regulations, but its handling in Japan differs from that of the other countries.

In Japan, the Group's systems including the DNA auto-extractors are not classified as medical equipment. This is due to the fact that these systems are used purely for pre-processing purposes such as the extraction of DNA and not for diagnostic purposes. However, the moment a system indicates a numerical value, which in turn becomes the basis for a medical act, the system is classified as a medical equipment. Moreover if the system is fully automated and equipped with measuring features it will require the acquisition of relevant permits and licenses. Incidentally, since the Group manufactures immuno-measuring systems, it has acquired the permit for the manufacture of medical equipment.

In order to lay the groundwork for its eventual entry into the clinical diagnostic field, the Group is currently preparing for the acquisition of the necessary permits and licenses. However there is no guarantee that the Group will be successful in acquiring them. In the event that the Group is unsuccessful, the Group will have failed to capture the massive Japanese-U.S.-European clinical diagnostic market and such failure will be likely to have repercussions on the Group's business strategies and performance. Furthermore, if, in the future, the Group's operations become subject to a new set of legal regulations, it could also have an impact on the Group's business strategies and performance.

8) Research and development

The gene-related industry, to which the Group belongs, being in its early stage is constantly wrought with technological innovations. Subsequently in order to remain attentive to these constant market changes, it is imperative to maintain the agility of a flexible organization, to aptly propel its patented technology strategy, and to quickly zero in on relevant research and development themes. This nature of mutability and fluidity of the market is also the very reason why a venture business such as ours has a chance of competing with a host of large corporations in conquering the market.

To this end, the Group intends to be the pioneers in selling sophisticated products with a high degree of perfection, which anticipate market demands, and to promote research and development activities focused on establishing the de facto standards of these products.

Currently the Group is pursuing research and development projects in order to realize the above. However such activities require a copious amount of funds, effective facilities, and abundant personnel of the highest caliber. For this purpose, the Group intends to continue to supplement and secure the necessary management resources. Nevertheless there is no guarantee that the acquisition of the necessary management resources and the research and development activities will proceed according to the Group's plan. Moreover due to certain changes, such as those in the technology environment, each project may be left with no alternative than to change its original development objective, whereby its content and scale may no longer be compatible with the Group's corporate capabilities. In such cases, the research and development project will inevitably be delayed, which in turn could lead to delays in recovering invested capital and to the burden of excessive interest-bearing debt. In any event such circumstances would more than likely cause the Group to fall behind the technological innovations of the market and would have adverse effects on the business strategy and the performance of the Group.

9) The Group's clientele and competition in Japan and overseas

At the present time the market for the gene-related industry is centered in the U.S.A. and Europe. Consequently the Group must seek demand for its products in the overseas market. And in reality, exports take precedence over all operations of the Group. To the end of achieving further sales expansion both domestically and abroad, the Group acknowledges the significance of the maintenance system for the Company's own products, the mass production of the OEM products, and the local production of plastic consumables and is intent on strengthening its product supply system intended for the European and U.S. markets. However there is a possibility that due to factors such as the state of affairs, the legal system, or the commercial practices of the host countries, domestic and overseas business expansion may not proceed according to the Group's plans. In such cases the Group's business strategies and performance may be affected. Moreover since the Group operates both in the domestic and overseas markets, it could become subject to fierce competition from rival companies of not only Japan but of the whole world. Therefore it is highly probable that domestic and overseas competition will have serious consequences on the operation plans and the performance of the Group.

10) Intellectual property rights

a. The Group's patented technology strategy

As of the end of the current consolidated fiscal year, the Group has applied for 283 patents worldwide, including those for our Magtration® Technology, related technologies and other technologies, of which the Group has already acquired 68 patents. Needless to say, these patents are considered extremely important for the business foundation of the Group.

However in the gene-related industry innovations in technology are taking place on a day-to-day basis. This means that even if we were to protect our technologies with patents, once a DNA extractor system with superior technology is invented, the Group would run the risk of its patented technology becoming redundant. Thus whenever a technology surpassing that of the Group is developed, it has the possibility of significantly affecting the Group's operation strategies and performance.

Furthermore the Group, so as not to infringe on the patents held by its business partners, has obtained licenses for their exclusive use. Based on this agreement, the Group, for every new licensee or OEM contracted, pays its business partners, a lump sum and a certain percentage of the sales of the systems such as the DNA auto-extractors as loyalty. Moreover, based on the Group's agreement with its business partners, sales to the Roche Group have been excluded for the loyalty calculations.

b. Litigations and claims on the Group's intellectual property rights

As of the end of the current consolidated fiscal year, there are no instances of litigations with or claims from third parties concerning the Group's intellectual property, including patents. However, since a large number of patent applications are being submitted for methods using magnetic particles, there is no denying that such problems will not arise in the future.

In order to prevent the occurrence of such problems, the Group, in its business operations, utilizes the patent attorney's office to conduct prior investigations into matters concerning infringements of intellectual property rights. However being a technology development-oriented company, the Group cannot completely eradicate the occurrence of problems concerning intellectual property rights.

In the event that the Group becomes embroiled in legal litigation with a third party, legal measures would be needed according to each specific case. Under such circumstances, regardless of the legitimacy of the third party's claims, settling the case would require huge amounts of time and money, which in turn could adversely affect the business strategies and the performance of the Group.

4. Consolidated financial statements

(1) Consolidated financial statements

1) Consolidated balance sheet

Category	End of the previous consolidated fiscal year (June 30, 2005) Amount (Thousand yen)		(%)	End of the currents consolidated fiscal year (June 30, 2006) Amount (Thousand yen)		(%)
(Assets)						
I Current assets						
1. Cash and deposits		2,012,719			2,229,337	
2. Notes receivable and accounts receivable		698,218			848,395	
3. Inventories		608,364			649,024	
4. Others		98,817			117,952	
5. Allowance for bad debt		(354)			(263)	
Total current assets		3,417,767	73.7		3,844,447	78.7
II Fixed assets						
1. Property, plant and equipment						
(1) Buildings and structures	421,858			364,644		
Accumulated depreciation	86,819	335,039		50,522	314,122	
(2) Machinery and automotive equipment	424,247			370,003		
Accumulated depreciation	287,048	137,198		252,707	117,296	
(3) Tools, furniture and fixtures	492,970			571,815		
Accumulated depreciation	253,593	239,377		307,814	264,001	
(4) Land		450,622			294,582	
Total property, plant and equipment		1,162,237	25.1		990,001	20.3
2. Intangible fixed assets						
(1) Computer software		30,770			22,844	
(2) Others		1,019			1,019	
Total intangible fixed assets		31,789	0.7		23,863	0.5
3. Investments and other assets						
(1) Investments in securities		19,948			24,315	
(2) Others		4,315			2,357	
Total investments and other assets		24,264	0.5		26,673	0.5
Total fixed assets		1,218,292	26.3		1,040,538	21.3
Total assets		4,636,059	100.0		4,884,985	100.0

	End of the previous consolidated fiscal year (June 30, 2005)		End of the currents consolidated fiscal year (June 30, 2006)	
Category	Amount (Thousand yen)	(%)	Amount (Thousand yen)	(%)
(Liabilities)				
I Current liabilities				
1. Accounts payable	317,362		488,875	
2. Short-term borrowings	100,000		_	
3. Current portion of long-term borrowings	323,688		285,852	
4. Other account payable	95,490		_	
5. Income taxes payable	20,465		25,883	
6. Accrued bonus	9,124		4,922	
7. Others	40,758		157,200	
Total current liabilities	906,890	19.6	962,734	19.7
II Long-term liabilities				
1. Bonds	-		350,000	
2. Long-term borrowings	619,034		640,253	
3. Deferred tax liability	465		2,229	
4. Others	1,718		1,565	
Total long-term liabilities	621,219	13.4	994,047	20.4
Total liabilities	1,528,109	33.0	1,956,782	40.1
(Shareholders' equity)				
I Capital stock	2,024,978	43.7	-	-
II Capital surplus	2,491,267	53.7	-	-
III Retained earnings	(1,414,205)	(30.5)	-	-
IV Unrealized gain/loss on available-for-sale-securities	686	0.0	-	-
V Translation adjustments	5,222	0.1	-	-
Total shareholders' equity	3,107,949	67.0	-	-
Total liabilities and shareholders' equity	4,636,059	100.0	-	-
(Net assets)				
I Stockholders' equity				
1. Capital stock	-	-	2,041,278	41.8
2. Capital surplus	-	-	2,507,844	51.3
3. Retained earnings	-	-	(1,664,477)	(34.1)
Total stockholders' equity	-	-	2,884,644	59.0
II Valuation and translation adjustments				
1. Unrealized gain/loss on available-for-sale-securities	-	-	3,289	0.1
2. Deferred hedging gain/loss	-	-	(18)	(0.0)
3. Translation adjustments	-	-	40,233	0.8
Total Valuation and translation adjustments	-	-	43,504	0.9
III Stock options	-	-	54	0.0
Total Net assts	-	-	2,928,203	59.9
Total liabilities and net assets	-	-	4,884,985	100.0

2) Consolidated statement of income

	The previous consolidated fiscal year (From July 1, 2004 to June 30, 2005)			The current consolidated fiscal year (From July 1, 2005 to June 30, 2006)		
Category	Amount (Thousand yen)		(%)	Amount (Thousand yen)		(%)
I Net sales		3,215,600	100.0		3,636,933	100.0
II Cost of sales		1,706,305	53.1		2,174,778	59.8
Gross profit		1,509,295	46.9		1,462,155	40.2
III Selling, general and administrative expenses		1,376,429	42.8		1,449,334	39.9
Operating income		132,865	4.1		12,820	0.3
IV Non-operating income						
1. Interest income	4,178			10,364		
2. Dividend income	25			32		
3. Foreign currency translation gain	-			22,180		
4. Others	5,186	9,390	0.3	4,163	36,741	1.0
V Non-operating expenses						
1. Interest expenses	26,247			23,498		
2. Foreign currency translation loss	4,036			-		
3. Stock issue costs	-			603		
4. Bond issue cost	-			6,450		
5. Others	335	30,619	0.9	106	30,658	0.8
Ordinary income		111,636	3.5		18,903	0.5
VI Extraordinary income						
1. Gain on sale of fixed assets	966	966	0.0	4,171	4,171	0.1
VII Extraordinary loss						
1. Loss on sale of fixed assets	115			-		
2. Loss on disposal of fixed assets	1,776			288		
3. Unrealized loss on investments in securities	12,668			-		
4. Impairment loss	-	14,560	0.5	237,503	237,792	6.5
Income/(loss) before income taxes		98,043	3.0		(214,717)	(5.9)
Income taxes		33,674	1.0		35,554	1.0
Net income/(loss)		64,368	2.0		(250,271)	(6.9)

3) Consolidated statement of cash flow

	The previous consolidated fiscal year (From July 1, 2004 to June 30, 2005)	The current consolidated fiscal year (From July 1, 2005 to June 30, 2006)
Category	Amount (Thousand yen)	Amount (Thousand yen)
I Cash flow in operating activities		
Income/ (loss) before income taxes	98,043	(214,717)
Depreciation and amortization	180,870	169,767
Impairment loss	-	237,503
Increase/ (decrease) in allowance	4,094	(4,521)
Interest and dividend income	(4,204)	(10,396)
Interest expenses	26,247	23,498
Stock issue costs	-	603
Bond issue cost	-	6,450
Gains on sale of fixed assets	(966)	(4,171)
Loss on sale of fixed assets	115	-
Loss on disposal of fixed assets	1,776	288
Unrealized loss on investments in securities	12,668	-
(Increase)/decrease in trade receivables	19,365	(109,954)
Increase in inventories	(176,301)	(40,290)
Increase/(decrease) in trade payable	(119,765)	123,178
Others	(123,850)	(6,061)
Sub total	(81,907)	171,177
Interest and dividend income-received	4,177	10,202
Interest expenses-paid	(25,935)	(21,376)
Income taxes-paid	(27,498)	(26,750)
Net cash in operating activities	(131,164)	133,252

	The previous consolidated fiscal year (From July 1, 2004 to June 30, 2005)	The current consolidated fiscal year (From July 1, 2005 to June 30, 2006)
Category	Amount (Thousand yen)	Amount (Thousand yen)
II Cash flow in investing activities		
Payment into time deposit	(56,000)	-
Repayment of time deposit	-	202,405
Purchase of property, plant and equipment	(170,247)	(239,058)
Proceeds from sales of property, plant and equipment	2,576	44,374
Purchase of Intangible fixed assets	(16,050)	(2,266)
Others	(961)	592
Net cash in investing activities	(240,683)	6,047
III Cash flow in financing activities		
Net increase/(decrease) in short-term borrowings	-	(100,000)
Proceeds from long-term borrowings	320,000	850,000
Repayments of long-term borrowings	(532,410)	(866,617)
Proceeds from issuance of bond	-	343,550
Proceeds form issuance of stocks	-	31,996
Net cash in financing activities	(212,410)	258,928
IV Translation adjustments on cash and cash equivalents	4,002	20,392
V Increase in cash and cash equivalents	(580,256)	418,621
VI Cash and cash equivalents at the beginning of the year	1,376,476	796,219
VII Cash and cash equivalents at the end of the year	796,219	1,214,841