

Precision System Science Co., Ltd.
SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS
For the First Six Months of the Fiscal Year, Ending June 30 2016
(From July 1, 2015 to December 31, 2015)

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 2016
(From July 1, 2015 to December 31, 2015)

(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, 2015	2,348	(4.5)	(254)	----	(288)	----	(261)	----
December 31, 2014	2,459	28.9	(289)	----	(208)	----	(219)	----

(Reference) Comprehensive income: 341 million yen loss for the First Six months ended December 31, 2015
182 million yen loss for the First Six months ended December 31, 2014

	Net income per share	Diluted net income per share
First Six months ended	Yen	Yen
December 31, 2015	(13.30)	----
December 31, 2014	(12.01)	----

(2) Consolidated financial condition

	Total assets	Net Assets	Equity ratio	Net income per share
As of	Million yen	Million yen	%	yen
December 31, 2015	7,551	5,200	65.2	237.15
June 30, 2015	6,454	4,035	57.3	202.47

(Reference) Equity: 4,922 million yen as of December 31, 2015

3,695 million yen as of June 30, 2015

2. Dividend

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

	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, 2016	5,100	(0.8)	(300)	----	(340)	----	(360)	---	(17.82)

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

4. Others

- (1) Change in scope of consolidated subsidiaries during FY 2016 ending June 30, 2016: No
- (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: Yes
 - b) Changes other than a): None
 - c) Changes in accounting estimate: None
 - d) Retrospective restatement: None
- (4) Number of outstanding stocks (common stocks)
 - a) Number of outstanding stocks (including treasury stock)
20,756,900 at December 31, 2015; 18,252,000 at June 30, 2015
 - b) Number of treasury stocks at the end of period
None at December 31, 2015; None at June 30, 2015
 - c) Average number of outstanding stocks
19,661,899 for First Six months ended December 31, 2015
18,252,000 for First Six months ended December 31, 2014

* 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

In Japanese macro economy of the current consolidated fiscal period, as the economic aid or monetary easing by the government continues to improve overall employment and income situation as well as corporate earnings, the economy shows gradual recovery. On the other hand, the forecast of macro economy is still sluggish because of concerning downturn in Chinese economy.

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

For the current consolidated fiscal period, the Net Sales decreased by 4.5% in comparison to the same period of previous fiscal year to 2,348 million yen and the Gross Profit decreased by 4.4% to 801 million yen. As to the existing segment of automated DNA extraction instruments, some OEM clients have been in good shape or not. The sales of instruments decreased in comparison to the same period of previous fiscal year. On the other hand, reagent, plastic consumable and maintenance spare parts for instruments have been in good shape.

With regard to the expenses, R&D expenses decreased by 30.5% in comparison to the same period of previous fiscal year to 328 million yen. Overall SG&A expenses decreased by 6.4% in comparison to the same period of previous fiscal year to 1,055 million yen and the Operating Loss decreased from -289 million to -254 million.

The foreign exchange loss is -21 million. Consequently, the ordinary loss is -288 million yen in comparison to -208 million for the same period of previous fiscal year and the Quarter net loss attributable to parent company shareholders is -261 million in comparison to -219 million for the same period of previous fiscal year.

Sales by each product category:

(Unit: Million yen)

	First Six months ended December 31, 2014		First Six months ended December 31, 2015		Year on year increase	(Reference) Last Year Fiscal	
	Amount	ratio	Amount	Ratio	%	Amount	Ratio
Instruments	1,536	62.5	1,281	54.6	(16.6)	3,151	61.3
Reagent kits & Consumable	573	23.3	646	27.5	12.7	1,238	24.0
Maintenance	164	6.7	236	10.1	43.6	328	6.4
Customized product	185	7.5	183	7.8	(0.9)	425	8.3
Others	-	-	-	-	-	-	-
Total	2,459	100.0	2,348	100.0	(4.5)	5,143	100.0

(1) Instruments

During first six months ended December 31, 2015, the sales in this category decreased 16.6% to 1,281 million yen. As the operating expenses decreased 8.4% to 1,250 million yen, the operating income decreased 81.7% to 31 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 25.2 % to 760 million yen. As the operating expenses decreased 23.1% to 650 million yen, the operating income recorded decreased 35.4% to 110 million yen.

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

These are OEM business partners as follows;

- Roche : Leading global pharmaceutical manufacturers

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

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

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

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

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

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

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

(b) Clinical Diagnostic

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 & a front-end sample preparation instrument for Abbott in the field of Clinical Diagnostics. And fully automated DNA testing machine for Elitech has been added from Last september in this fiscal year. The sales in this category increased 0.2% to 521 million yen. As the operating expenses increased 15.6% to 599 million yen, the operating loss recorded 78 million yen (1 million yen in the previous year). Although commercial version for Abbott or Elitech on a full scale is steadily growing, the sales amount was almost the same without prototype version compared to the same period of previous fiscal year.

These are OEM business partners as follows;

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

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

- Abbott : Leading global diagnostic manufacturers

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

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

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

(2)Reagents kits and Consumable

This category consists of Reagent for sample preparation or exclusively designed plastic consumables (Tips and Cartridges) for those PSS instruments. Although most reagent is manufacture by OEM partners, plastic consumables is exclusively manufacture by PSS. Our reagent manufacturing facility “Odate Reagent Center” has operated in previous fiscal year. The facility manufactures the reagent not only for Abbott or Elitech, but also PSS. The sales in this category increased 12.7% to 646 million yen. As the operating expenses increased 14.7% to 616 million yen, the operating incomes decreased 16.8% to 29 million yen. Although the sales increased, the operating incomes decreased for increasing the expense allocated by sales proportion of each segment.

(3)Maintenance

This category consists of revenue from system maintenance and sales of spare parts (replacement) exclusively. The sales in this category increased 43.6% to 236 million yen. As the operating expenses increased 32.8% to 196 million yen, the operating incomes recorded 40 million yen (136.6% increase 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 decreased 0.9% to 183 million yen. As the operating expenses decreased 7.3% to 159million yen, the operating income increased 82.6% to 24 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 6.5% to 0 million yen, 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 first six months of current fiscal year, total assets increased 1,096 million yen from the amount as of June 30, 2015 to 7,551 million yen. Cash & deposits increased 1,518 million yen by the public stock offering etc. Account receivable-other increased 75 million yen and other assets decreased 448 million yen

(2)Liabilities

Total liabilities decreased 69 million yen to 2,350 million yen compared with the amount as of June 30, 2015. Current portion of long-term loans payable decreased 46 million yen, long-term loans payable decreased 24 million yen, although short-term loans payable increased 50 million yen.

(3)Net Assets

Total net assets amount was 5,200 million yen, increasing 1,165 million yen compared with the amount of as of June 30, 2015. We raised funds 1,510 million yen by the public stock offering and the private allocation in the first six months of current fiscal year and both Capital stock and capital surplus increased 755 million yen. With net profit for the period, retained earnings decreased 261 million yen for Quarter net loss attributable to parent company shareholders.

3.Cash flows

During FY 2016 July 1, 2015 to December 31, 2015, cash and cash equivalents increased 1,518 million yen to 3,297 million yen.

(1)Cash flows from operating activities increased 208 million yen (625 million decreased during the same period of previous year). Although there was cash flow increased due to depreciation (118 million yen) and decrease inventory (57 million yen) and income tax refund (311 million yen), there was cash flow decrease due to income before income taxes (289 million yen), increase of account receivable (82 million yen) and decrease of notes and accounts payable (53 million yen), etc.

(2)Cash flows from investing activities decreased 142 million yen (72 million decreased during the same period of previous year). There was decrease due to purchase of property, plant and equipment (136 million yen), etc.

(3)Cash flows from financing activities increased 1,473 million yen (6 million decreased during the same period of previous year). There was increase of short-term loans (50 million yen), long term loans (150 million yen) and proceeds from issuing stock (1,498 million yen), while there was decrease of repayment of long- term loans (220 million yen) etc.

Consolidated financial statements

(1) Consolidated Balance Sheets

	As of June 30, 2015	(Thousand yen) As of Dec 31, 2015
(Assets)		
Current assets		
Cash and deposits	1,799,217	3,317,792
Notes and accounts receivable-trade	1,075,671	1,151,440
Merchandise and finished goods	1,070,770	997,040
Work in process	127,943	125,796
Raw materials and supplies	148,342	161,747
Deferred tax assets	24,353	7,106
Others	639,687	191,048
Allowance for doubtful accounts	(1,794)	(1,191)
Total current assets	4,884,192	5,950,781
Noncurrent assets		
Property, plant and equipment	1,443,182	1,483,512
Intangible assets	52,050	46,131
Investments and other assets	75,216	70,792
Total noncurrent assets	1,570,359	1,600,435
Total assets	6,454,552	7,551,216
(Liabilities)		
Current liabilities		
Accounts payable-trade	438,396	377,364
Short-term loans payable	370,000	420,000
Current portion of long-term loans payable	461,691	415,404
Income taxes payable	21,574	18,768
Provision for bonus	7,190	13,796
Others	265,663	282,230
Total current liabilities	1,564,515	1,527,563
Noncurrent liabilities		
Long-term loans payable	735,872	711,367
Deferred tax liabilities	53,064	50,645
Liability for pension	62,300	57,706
Others	3,713	3,011
Total fixed liabilities	854,951	822,730
Total liabilities	2,419,467	2,350,294

(Thousand yen)

	As of June 30, 2015	As of Dec 31, 2015
(Net assets)		
Shareholders' equity		
Capital stock	2,217,194	2,972,609
Capital surplus	251,999	1,007,414
Retained earnings	1,215,577	954,138
Total shareholders' equity	3,684,770	4,934,162
Other comprehensive income		
Other gain from revaluation of securities	4,645	2,739
Foreign currency translation adjustment	6,045	(14,413)
Total of comprehensive income	10,691	(11,673)
Minority interests	339,622	278,433
Total net assets	4,035,084	5,200,922
Total liabilities and net assets	6,454,552	7,551,216

(2) Consolidated Income Statements

	First Six months ended December 31,2014	(Thousand yen) First Six months ended December 31,2015
Net Sales	2,459,499	2,348,110
Cost of sales	1,620,820	1,546,643
Gross Profit	838,678	801,467
Selling, general and administrative expenses	1,128,102	1,055,517
Operating Income	(289,423)	(254,050)
Non-operating income		
Interest income	208	198
Foreign exchange gain	77,679	----
Subsidy income	2,553	1,872
Tax Refund	----	3,232
Others	8,164	823
Total non-operating income	88,606	6,127
Non-operating expenses		
Interest expenses	7,541	7,753
Foreign exchange loss	----	21,043
Stock delivery expenses	----	12,007
Total non-operating expenses	7,541	40,804
Ordinary income and (loss)	(208,358)	(288,727)
Extraordinary gain		
Gain on sales of investment securities	----	42
Total extraordinary gain	----	42
Extraordinary loss		
Loss on sale of fixed asset	798	----
Loss on disposal of fixed asset	49	670
Loss on impairment	4,303	----
Total extraordinary loss	5,151	670
Income before income taxes and others	(213,510)	(289,354)
Income taxes-current	6,157	13,420
Income taxes-deferred	5,467	14,453
Total income taxes	11,624	27,873
Net Income	(225,134)	(317,228)
Minority interests	(5,893)	(55,789)
Quarter net loss attributable to parent company shareholders	(219,241)	(261,438)

(3) Consolidated Comprehensive Income Statements

	First Six months ended December 31,2014	(Thousand yen) First Six months ended December 31,2015
Net Income	(225,134)	(317,228)
Other comprehensive income		
Other gain from revaluation of securities	2,328	(3,951)
Foreign currency transaction adjustment	40,550	(20,459)
Total of other comprehensive income	42,879	(24,411)
Comprehensive income	(182,254)	(341,639)
(Breakdown)		
Comprehensive income attributable to owners of parent company	(177,776)	(283,803)
Comprehensive income attributable to minority income	(4,477)	(57,836)

(4) Consolidated Statements of Cash flows

	First six months ended December 31,2014	(Thousand yen) First six months ended December 31,2015
(Operating activities)		
Income before income taxes	(213,510)	(289,354)
Depreciation and amortization	131,508	118,387
Negative Goodwill gain	3,000	3,000
Increase (decrease) in provision	6,210	6,003
Increase (decrease) in pension obligation	1,553	(4,594)
Interest and dividend income	(208)	(198)
Interest expenses	7,541	7,753
Stock issue cost	----	12,007
Loss (gain) on sales of property, plant and equipment	798	----
Loss on disposal of property, plant and equipment	49	670
Loss (gain) from impairment loss	4,303	----
Loss (gain) from sales of investment securities	----	(42)
Decrease (increase) in notes and accounts receivables	85,733	(82,531)
Decrease (increase) in inventories	(212,962)	57,551
Increase (decrease) in notes and accounts payable	179,330	(53,701)
Others	40,817	148,048
Sub-total	34,165	(77,000)
Interest and dividends income received	244	198
Interest expenses paid	(6,550)	(6,843)
Income taxes refund	177,917	311,682
Income taxes paid	(831,399)	(19,704)
Net cash provided by operating activities	(625,622)	208,332
(Investing activities)		
Purchase of property, plant and equipment	(128,631)	(136,881)
Sales of property, plant and equipment	60,554	----
Purchase of non-tangible asset	(3,228)	(4,005)
Sales of non-tangible asset	74	----
Gain on sales of investment securities	----	42
Payment of insurance premium	(1,564)	(1,565)
Revenue from cancellation of insurance premium	36	----
Net cash provided by investing activities	(72,758)	(142,408)
(Financing activities)		
Proceeds from short-term loans payable	300,000	50,000
Proceeds from long-term loans payable	100,000	150,000
Repayment of long-term loans payable	(270,585)	(220,792)
Repayment of lease payable	(1,565)	(1,227)
Proceeds from issuing stock	----	1,498,822
Cash dividends paid	(134,793)	(230)
Cash allotments paid to minority	----	(3,214)
Net cash provided by financing activities	(6,943)	1,473,357

Effect of exchange rate change on cash and cash equivalents	64,204	(20,706)
Net increase (decrease) in cash and cash equivalents	(641,120)	1,518,574
Cash and cash equivalents at beginning of period	3,083,317	1,779,217
Cash and cash equivalents at end of period	2,442,197	3,297,792