

**Notice of booking the impairment loss of the fixed assets
and the modification of earnings forecast**

Based on recent performance trends, the earnings forecast published on May 13, 2016 will be revised as follows.

The English Edition is digested translation of Japanese version, which is prepared in accordance with generally accepted accounting principles in Japan.

1. Recording of impairment losses on fixed assets

It was initially expected that supplies to the OEM customer of the pathogen identification system by gene inspection pre-processing equipment and its reagents/ consumables would contribute to the revenue but as its sales were postponed and its resumption has become uncertain, we have reviewed the business plan (please refer to the press release dated February 5, 2016)).

As a result, we recognized that impairment related to our business might be necessary examining the future recovery potential according to the "impairment of fixed assets accounting standards", we decided to reduce the book value of the fixed assets held by PSS Group (land, buildings, production equipment, etc.) to the recoverable value and record an impairment loss of 908 million yen in the extraordinary loss in the consolidated financial statements of June 30, 2016.

PSS Group will, of course, continue positively business development and strive to improve profitability. It should be noted that although a significant deficit is recorded in this current fiscal year, the amortization of fixed assets is reduced in the next fiscal year.

2. Revision of the forecast of consolidated financial earning

(1) Modification of consolidated operating results forecast (full year)

(From July 1, 2015 to June 30, 2016)

(in million yen)

	Net sales	Operating income	Ordinary income	Net income attributable to parent company shareholders	Net profit per share yen
Previous forecast(A)	4,450	(580)	(640)	(610)	(30.19)
Revised forecast (B)	4,458	(737)	(821)	(1,582)	(78.29)
Variation (B - A)	8	(157)	(181)	(972)	
Variation ratio (%)	0.2%	—%	—%	—%	
(Reference) Previous financial term results (June 2015)	5,143	(320)	(172)	(215)	(11.79)

(2) Reason for revision of consolidated earnings forecast

Net sales will be 4,458 million yen (0.2 % year-on-year increase) which is as almost forecasted.

However, as it was a start-up phase of new products such as fully automated gene diagnosis system "geneLEAD XII Plus" and DNA extraction reagent to be mounted on it, and due to strong yen, the gross profit forecast is to be 1,398 million yen (5.5% year-to-year decrease).

In addition, in the expense side, due to an development expenditure of 777 million yen, sales and general expenses would be 2,136 million yen (3.7% year-on-year increase). The operating loss will be Δ 737 million yen (previous forecast was Δ 580 million yen).

The burden of development costs is heavy but based on the experience of geneLEAD XII Plus, we are now developing the fully automated gene diagnosis system, "geneLEAD VIII" (PSS own system), which is inexpensive and compact system. In the development of geneLEAD VIII, we are incorporating our developed technologies and cost down idea. The development of a plurality of items of PCR reagents is also mounted on it. (When there is a concrete progress, such as development agreements and business contracts, it would be published.)

In addition, as there is the foreign exchange loss of 90 million yen, the ordinary loss would be $\Delta 821$ million yen (previous forecast was $\Delta 640$ million yen). By booking an impairment loss of 908 million yen in the above extraordinary loss, the net loss attributable to the parent company shareholders is expected to be $\Delta 1,582$ million yen (previous forecast was $\Delta 610$ million yen).

3. Outlook

The outlook of the next fiscal year and the medium-term business plan of three years will formally be published when the consolidated financial data is announced.

This time we are obliged to record an impairment loss of fixed assets but PSS Group intends to continue business expansion in the genetic diagnosis field aiming at profitability for two to three years, not by rather aiming at profitability by reduction of restructuring and development costs.

Although PSS main products are OEM products, we will focus on direct sales of PSS own products by

- (i) Enrichment of the lineup of PSS own products such as an automated DNA extraction instrument (magLEAD series), DNA extraction reagents, an automated gene diagnosis device (geneLEAD series), amplification and diagnostic reagents;
- (ii) Creating direct sales network in Asia, the United States and Europe and
- (iii) Establishing the distribution network covering more than 30 countries.

In addition, in NPS Co., Ltd. and PSS Odate Reagent Center, we intend to continue enhancement of a manufacturing line, labor saving of the production line while preparing for the future increase in production and reducing manufacturing cost in cooperation with the subcontractors.

We have already started these activities but, in the current fiscal year, it could not be shown up to a meaningful number as the track record. However, we would like to continue to work actively towards the next fiscal year.

※ Business forecast is prepared based on the information available as at the date of press release and actual results may differ from the forecast due to various factors.

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