

Precision System Science Co., Ltd.
SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS
For the First Six Months of the Fiscal Year, Ending June 30 2018
(From July 1, 2017 to December 31, 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/>

1. Consolidated financial data for the First Six Months of the Fiscal Year, Ending June 30 2018

(From July 1, 2017 to December 31, 2017)

(1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income		Quarter net income attributable to parent company shareholders	
First Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2017	1,721	(11.2)	(229)	----	(227)	----	(235)	----
December 31, 2016	1,938	(17.4)	(207)	----	(177)	----	(142)	----

(Reference) Comprehensive income: 211 million yen loss for the First Six months ended December 31, 2017

96 million yen loss for the First Six months ended December 31, 2016

	Net income per share	Diluted net income per share
First Six months ended	Yen	Yen
December 31, 2017	(10.22)	----
December 31, 2016	(6.89)	----

(2) Consolidated financial condition

	Total assets	Net Assets	Equity ratio	Net income per share
As of	Million yen	Million yen	%	yen
December 31, 2017	5,454	3,539	64.9	153.46
June 30, 2017	5,804	3,751	64.6	162.63

(Reference) Equity: 3,539 million yen as of December 31, 2017

3,751 million yen as of June 30, 2017

2. Dividend

	Dividend per share				
	1Q	2Q	3Q	FY end	Total
	Yen	Yen	Yen	Yen	Yen
FY 2017 ended June 30, 2017	----	0.00	----	0.00	0.00
FY 2018 ending June 30, 2018	----	0.00	----	----	----
FY 2018 ending June 30,2018(Forecast)	----	----	----	0.00	0.00

(Note) Revision to previous forecast of Dividend during the current Six months: None

3. Business Forecasts for the fiscal year (From July 1, 2017 to June 30, 2018)

	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
For fiscal year ending June 30, 2018	4,000	3.9	(400)	----	(420)	----	(430)	----	(18.64)

(Note) Revision to previous forecast of Business Forecasts during the current six months: Yes

4. Others

(1) Change in scope of consolidated subsidiaries during FY 2018 ending June 30, 2017: None

(2) Adoption of simplified accounting method or accounting method specify to quarterly period: None

(3) Changes in accounting principles, changes in accounting estimation, retrospective restatement

a) Changes according to the changes in accounting standards: None

b) Changes other than a): None

c) Changes in accounting estimate: None

d) Retrospective restatement: None

(4) Number of outstanding stocks (common stocks)

a) Number of outstanding stocks (including treasury stock)

23,066,900 at December 31, 2017; 23,066,900 at June 30, 2017

b) Number of treasury stocks at the end of period

None at December 31, 2017; None at June 30, 2017

c) Average number of outstanding stocks

23,066,900 for First Six months ended December 31, 2017

20,756,900 for First Six months ended December 31, 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 December 31, 2017, the Japanese economy is restored by improvement of corporate earnings and the employment environment although being gentle. In addition, the world economy continued a gradual recovery equally as well.

Under these circumstances, PSS Group has been developed business of various automated instruments (DNA Automatic extraction instrument) to extract a gene from the specimens such as blood or cell for the spot that studied genetic information in the Invitro Diagnostic industry, PSS Group developed fully automated genetic diagnostic instruments which put an amplification, measurement technology together in a genetic extraction technology, and starts the sale for the field of the clinical diagnoses such as a hospital or the inspection center other than a field of a study and the development. Furthermore, PSS Group made efforts in production and the sales of the plastic consumables such as a reagent (reagent for DNA extraction) or the reaction container used with the instrument.

These products are sold on world-wide distribution network through OEM (Original Equipment manufacturing) as well as our own brand in Europe, USA and Japan.

For the current consolidated fiscal period, the Net Sales decreased by 11.2% in comparison to the same period of previous fiscal year to 1,721 million yen and the Gross Profit decreased by 7.4% to 619 million yen. And the sales of fully automated DNA testing machine for ELITech and PSS Brand were well performed, but the existing OEM sales decreased and the Net Sales and Gross Profit decreased compared to the same period of previous fiscal year.

In regard regard to the expenses, R&D is increased by 3.1% in comparison to the same period of previous fiscal year to 299 million yen. Overall SG&A is decreased by 3.3% in comparison to the same period of previous fiscal year to 848 million yen. And Operating Loss decreased from -207 million yen to -229 million yen. Consequently, the ordinary loss was -227 million yen in comparison to -177 million for the same period of previous fiscal year and the net loss attributable to parent company shareholders was -235 million yen in comparison to -142million yen for the same period of previous fiscal year.

Sales by each product category:

(Unit: Million yen)

	First Six months ended December 31, 2016		First Six months ended December 31, 2017		Year on year increase	(Reference) Last Year Fiscal	
	Amount	ratio	Amount	Ratio	%	Amount	Ratio
Instruments	1,074	55.4	959	55.8	(10.7)	1,978	51.4
Reagent kits & Consumable	524	27.0	453	26.3	(13.5)	1,099	28.6
Maintenance	122	6.3	127	7.4	3.9	295	7.7
Customized product	217	11.3	181	10.5	(16.9)	473	12.3
Total	1,938	100.0	1,721	100.0	(11.2)	3,847	100.0

(1)Instruments

During first six months ended December 31, 2017, the sales in this category decreased 10.7% to 959 million yen. As the operating expenses decreased 12.2% to 902 million yen, the operating income increased 21.8% to 57 million yen. This category consists of 2 fields.

(a)Lab Automation

This field consists of DNA extractors and other instruments in the field of Laboratory (R&D) Automation. The sales in this category decreased 8.3 % to 641 million yen. As the operating expenses decreased 11.8% to 537 million yen, the operating income increased 14.9% to 103 million yen. Although the sales is changing by OEM sales or inventory at quarterly, the sales were decreased to the same period of previous fiscal year. The operating income increased because operating expenses decreased.

(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.

The sales in this category decreased 15.0% to 318 million yen. The operating expenses decreased 12.7% to 364 million yen, the operating loss recorded -46 million yen (-43 million yen in the previous year).

The sales of fully automated gene diagnosis system for ELITech were increased, but the sales of other OEM partners were decreased compared to the same period of previous fiscal year.

(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. And our reagent manufacturing facility “Odate Reagent Center” manufactures the reagent not only for ELITech, but also PSS. The sales in this category decreased 13.5% to 453 million yen. As the operating expenses decreased 9.3% to 449 million yen, the operating incomes decreased 87.7% to 3 million yen. The sales of Consumable for OEM partners were decreased compared to the same period of previous fiscal year. Although the sales were decreased compared to the same period of previous fiscal year, we believe that a constant growth can be expected in the near future considering current OEM business status.

(3)Maintenance

This category consists of revenue from system maintenance and sales of spare parts (replacement) exclusively. The sales in this category increased 3.9% to 127 million yen. As the operating expenses increased 6.8% to 98 million yen, the operating incomes decreased 5.0% to 28 million yen.

This segment is expected to grow in accordance with cumulative sales quantity of PSS instruments and the sales & revenue is increased compared to the same period of previous fiscal 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 decreased 16.9% to 181 million yen. As the operating expenses

decreased 19.3% to 155 million yen, the operating income increased 1.5% to 26 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, which have been dissolved for obtaining excellent results and is excluded in this fiscal year.

2. Analysis of Financial Conditions:

Assets, Liabilities and Net Assets

(1)Assets

In the first six months of current fiscal year, total assets decreased 350 million yen from the amount as of June 30, 2017 to 5,454 million yen. Account receivable-other decreased 133 million yen, inventory decreased 61 million yen and other assets decreased 185 million yen. On the other hand, Property, plant and equipment increased 34 million yen.

(2)Liabilities

Total liabilities decreased 138 million yen to 1,914 million yen compared with the amount as of June 30, 2017. Accounts payable-trade decreased 53 million yen, Accounts payable and others decreased 14 million yen. Long-term loans payable decreased 93 million yen. On the other hand, current portion of long-term loans payable increased 44 million yen,

(3)Net Assets

Total net assets were 3,539 million yen, decreased 211 million yen compared with the amount of as of June 30, 2017. With net profit for the period, retained earnings decreased 235 million yen for Quarter net loss attributable to parent company shareholders. On the other hand, foreign currency translation adjustment increased 24 million yen.

3. Cash flows

During first six months ended December 31, 2017, cash and cash equivalents decreased 3 million yen to 2,420 million yen.

(1)Cash flows from operating activities increased 67 million yen (290 million decreased during the same period of previous year). There was cash flow decreased due to income before income taxes (228 million yen) and decrease in notes and accounts payable (54 million yen) etc.

(2)Cash flows from investing activities decreased 43 million yen (167 million decreased during the same period of previous year). There was decrease due to purchase of property, plant and equipment (36 million yen), etc.

(3)Cash flows from financing activities decreased 50 million yen (91 million increased during the same period of previous year). There was increase of proceeds from long-term loans payable (100 million yen), decrease of repayment of long-term loans payable (149 million yen) etc.

4. Business Forecasts for the fiscal year (From July 1, 2017 to June 30, 2018)

		Net sales	Operating income	Ordinary income	Net income attributable to parent company shareholders	Net income per share
Previous Forecast (A)	(Million yen)	5,000	(100)	(120)	(130)	(5.63)
Revised Forecast (B)	(Million yen)	4,000	(400)	(420)	(430)	(18.64)
Change from Previous Forecast (B-A)	(Million yen)	(1,000)	(300)	(300)	(300)	----
Change from Previous Forecast	(%)	(20.0%)	----	----	----	----
June 30, 2017 Results	(Million yen)	3,847	(440)	(428)	(555)	(26.50)

Previous forecast for the FY 2018, Net sales expected to be lower than the Revised Forecast considering current sales order and forecast. Net Sales is expected to 4,000 million yen. The sales of fully automated DNA testing machine and PSS Brand sales is lower than the previous forecast, but the sale will increase steadily. We will make efforts to produce new automated system adding diverse lineup of reagents.

In the Previous Forecast for the FY 2018, Gross Profit is expected to be lower than the Previous Forecast primarily due to the revised sales plan. R&D expenses will increase but SG&A expenses decrease. As a result, Operating income expect from -100 million yen of Previous Forecast to -400 million yen of Revised Forecast. Ordinary income expect from -120 million yen of Previous Forecast to -420 million yen of Revised Forecast. Net income attributable to parent company shareholders expect from -130 million yen of Previous Forecast to -430 million yen of Revised Forecast.

Currently, we are negotiating with multiple companies in order to acquire new OEM partners regarding fully automated genetic diagnostic system developed by our technology. In the near future, we expect high possibility of acquiring a new OEM from these activities.

At the same time, we are proactively promoting PSS brand sales of DNA automatic extraction equipment. The sales is increasing in Japan and Thailand, and are willing to strengthen activities targeting Europe, the US and China in the future. In addition, as to fully automated genetic diagnostic equipment, we are promoting commercialization of "gene LEAD VIII" as a new model for PSS brand adding the diagnostic reagent.

Regarding business tie-up with Hitachi High-Technologies Corporation, which is also a shareholder, both companies are proceeding with a plan on utilization of the company's sales network and development of new automated system.

We will strive to improve business performance as soon as possible by a series of activities as described above.

These statements are based on management's assumptions, judgments and beliefs in light of the information currently available to it. PSS cautions investors that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements

Consolidated financial statements

(1) Consolidated Balance Sheets

	As of June 30, 2017	(Thousand yen) As of December 31, 2017
(Assets)		
Current assets		
Cash and deposits	2,443,598	2,440,011
Notes and accounts receivable-trade	821,828	688,387
Merchandise and finished goods	836,601	579,929
Work in process	201,045	374,950
Raw materials and supplies	411,849	432,735
Deferred tax assets	4,037	2,642
Others	318,658	132,884
Allowance for doubtful accounts	(1,756)	(1,456)
Total current assets	5,035,863	4,650,085
Noncurrent assets		
Property, plant and equipment	709,290	743,472
Intangible assets	2,202	4,371
Investments and other assets	57,271	56,482
Total noncurrent assets	768,763	804,325
Total assets	5,804,627	5,454,411
(Liabilities)		
Current liabilities		
Accounts payable-trade	348,030	294,045
Short-term loans payable	500,000	500,000
Current portion of long-term loans payable	321,079	365,596
Income taxes payable	22,548	14,793
Provision for bonus	10,670	11,801
Others	183,492	168,880
Total current liabilities	1,385,820	1,355,117
Noncurrent liabilities		
Long-term loans payable	628,017	534,167
Deferred tax liabilities	6,168	6,356
Provision for product warranties	1,125	720
Others	32,160	18,111
Total fixed liabilities	667,470	559,354
Total liabilities	2,053,291	1,914,472

(Thousand yen)

	As of June 30, 2017	As of December 31, 2017
(Net assets)		
Shareholders' equity		
Capital stock	3,401,899	3,401,899
Capital surplus	1,309,494	1,309,494
Retained earnings	(921,691)	(1,157,337)
Total shareholders' equity	3,789,702	3,554,056
Other comprehensive income		
Foreign currency translation adjustment	(38,366)	(14,118)
Total of comprehensive income	(38,366)	(14,118)
Total net assets	3,751,335	3,539,938
Total liabilities and net assets	5,804,627	5,454,411

(2) Consolidated Income Statements

	First six months ended December 31,2016	(Thousand yen) First six months ended December 31,2017
Net Sales	1,938,654	1,721,197
Cost of sales	1,268,964	1,101,313
Gross Profit	669,690	619,883
Selling, general and administrative expenses	877,533	848,993
Operating income and (loss)	(207,842)	(229,109)
Non-operating income		
Commission fee	----	6,050
Profit on sales	----	2,750
Interest income	113	84
Foreign exchange gains	16,164	----
Subsidy income	13,416	180
Gain on forfeiture of unclaimed dividends	3,105	1,149
Others	3,650	506
Total non-operating income	36,452	10,722
Non-operating expenses		
Interest expenses	6,399	6,691
Foreign exchange loss	----	1,935
Others	0	0
Total non-operating expenses	6,400	8,627
Ordinary income and (loss)	(177,791)	(227,015)
Extraordinary income		
Gain on sales of fixed asset	2,092	----
Total extraordinary loss	2,092	----
Extraordinary loss		
Loss on sales of fixed asset	777	----
Loss on disposal of fixed asset	110	1,852
Total extraordinary loss	887	1,852
Income before income taxes and others and (loss)	(176,586)	(228,867)
Income taxes-current	4,040	4,122
Income taxes-deferred	(37,703)	2,655
Total income taxes	(33,662)	6,778
Net Income and (loss)	(142,923)	(235,645)
Quarter net income attributable to parent company shareholders and (loss)	(142,923)	(235,645)

(3) Consolidated Comprehensive Income Statements

	First six months ended December 31,2016	(Thousand yen) First six months ended December 31,2017
Net Income	(142,923)	(235,645)
Other comprehensive income		
Foreign currency transaction adjustment	46,116	24,248
Total of other comprehensive income	46,116	24,248
Comprehensive income	(96,807)	(211,397)
(Breakdown)		
Comprehensive income attributable to owners of parent company	(96,807)	(211,397)

(4) Consolidated Statements of Cash flows

	First six months ended December 31,2016	(Thousand yen) First six months ended Decemb 31,2017
(Operating activities)		
Income before income taxes	(176,586)	(228,867)
Depreciation and amortization	43,354	27,549
Increase (decrease) in provision	(1634)	426
Increase (decrease) in pension obligation	(53,321)	----
Interest and dividend income	(113)	(84)
Interest expenses	6,399	6,691
Loss (gain) on sales of property, plant and equipment	(1,314)	----
Loss on disposal of property, plant and equipment	110	1,852
Decrease (increase) in notes and accounts receivables	126,036	133,998
Decrease (increase) in inventories	(182,754)	37,217
Increase (decrease) in notes and accounts payable	(66,902)	(54,045)
Others	72,370	135,186
Sub-total	(234,357)	59,924
Interest and dividends income received	113	84
Interest expenses paid	(5,707)	(5,754)
Income taxes refund	(55,616)	(9,795)
Income taxes paid	5,536	22,636
Net cash provided by operating activities	(290,031)	(67,095)
(Investing activities)		
Purchase of property, plant and equipment	(158,586)	(36,748)
Sales of property, plant and equipment	1,940	----
Purchase of non-tangible asset	(10,137)	(6,281)
Payment of insurance premium	(505)	(505)
Net cash provided by investing activities	(167,288)	(43,535)
(Financing activities)		
Proceeds from short-term loans payable	30,000	----
Proceeds from long-term loans payable	300,000	100,000
Repayment of long-term loans payable	(196,464)	(149,333)
Repayment of lease payable	(702)	(806)
Cash dividends paid	(145)	(69)
Cash allotments paid to minority	(41,116)	----
Net cash provided by financing activities	91,572	(50,208)
Effect of exchange rate change on cash and cash equivalents	42,501	23,061
Net increase (decrease) in cash and cash equivalents	(323,246)	(3,586)
Cash and cash equivalents at beginning of period	2,611,875	2,423,598
Cash and cash equivalents at end of period	2,288,628	2,420,011