



ANNUAL INFORMATION 2006



Precision System Science Co., Ltd.

Year ended June 30, 2006

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PROFILE

The biotechnology industry is being given greater attention by researchers, clinicians and investors and as such is poised to make important contributions to the advancement of medicine.

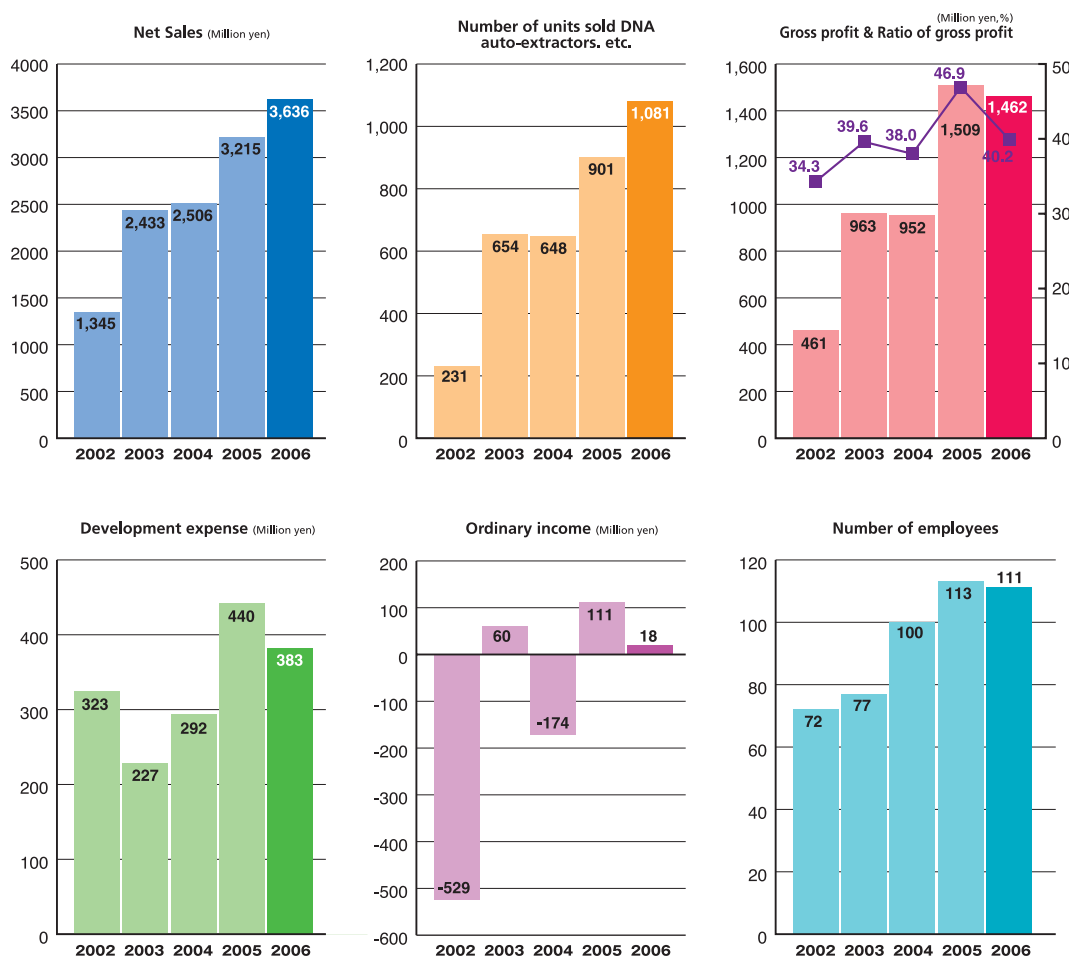
The PSS Group is a biotech venture which develops integrated systems designed specifically for biotech research, development and clinical utility. Since its inception in 1985, PSS has participated in advances in the biotech arena through its systems development capabilities.

A core competency that is pivotal for systems development at the PSS Group is “automation”. Automation is a primary goal in every aspect of laboratory medicine today. Through the use of the internationally patented Magtration® technology, the PSS Group’s automation has been recognized by leading companies. Roche Diagnostics, the industry leader in diagnostic instruments and reagents and Qiagen, a leader in the field of extraction instruments and reagents are international OEM partners. Over 4,000 DNA Auto extractors, the PSS Group’s mainstay line of products, have been sold worldwide. Sales remain robust with the PSS Group’s products as the de facto global standard.

Rapid growth is anticipated in the biotech sector. The PSS Group will focus on the “clinical” aspect of the sector, represented by molecular diagnostics and proteomics. Through the increasing clinical emphasis, which has a direct impact on the health and well being of mankind, the PSS Group will contribute to the betterment of society.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Precision System Science Co., Ltd. and Its Consolidated Subsidiaries Fiscal year ended June 30, 2006



Note:

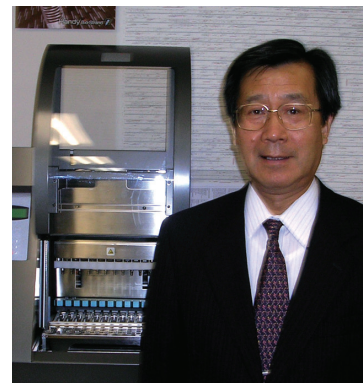
- 1) The above are based on Japanese accounting standards.
- 2) Amount of sales does not include sales tax.
- 3) The number of employees includes executives and regular employees, temporary and part time staff in the PSS Group.

Cautionary Statement with Respect to Forward-Looking Statements

Statements contained in this annual report that are not historical fact, are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from that anticipated in these statements. These factors include changes in economic conditions, currency exchange rates, the laws, regulations, government policies, or political instability in our major markets.

TO OUR SHAREHOLDERS

Message from the Top



Looking back on the 21st fiscal term

PSS has been endeavoring to achieve its ultimate goal of developing a clinical diagnostic system utilizing gene-analysis technology.

PSS recognizes that in order to achieve this goal and as prerequisites for its successful business expansion, it must continue to lay the foundation of solid technology, seek out global partners and forge ahead with productive alliances.

In this sense the 21st fiscal term has been a particularly significant year.

First of all, the DNA auto-extractors, which comprise the Company's main products, surpassed the 1,000 unit mark in the number of units per year and subsequently the total units shipped to date has reached 4,000 units.

Furthermore as a result of the longstanding efforts of PBI, PSS' U.S. subsidiary, we were able to conclude the long-sought OEM agreements with two U.S. based companies in the past year.

With the inclusion of these two new OEMs, PSS has to date concluded OEM agreements with a total of eight of the world's most cutting-edge companies in the gene, immunology, and analysis systems industries.

PSS OEM (Original Equipment Manufacturing) agreements refer to the system, based on PSS' patented technology, of agreeing on a specific specification for a product with the contracted company, and PSS manufactur-

ing and supplying products to that specification under the contracted company's brand name. Unlike simple licensing agreements, OEM agreements require a strong relationship of mutual trust in the products and technology of both parties. And we are confident that our OEM agreements are indications of the industry's wide-acceptance of our open policy of refusing to monopolize our proprietary technologies.

Looking ahead to the 22nd fiscal term

An expanded line-up of PSS' main technology products is expected to have the effect of increasing the latest market demands for PSS products and in conjunction with the new technologies currently being developed, it is hoped that it will propel PSS' business even further in the future.

The themes central to these developments include detection of SNPs (distinguishing differences in an individuals' DNA sequences), protein expression of cell, and highly sensitive immunoassay system, all of which are areas that go hand in hand with the field of clinical gene analysis.

PSS has already achieved success in the development of the various element technologies that are essential in the aforementioned analysis and has commenced the process of data analysis, while keeping our minds open to the possibility of joint ventures with a number of enterprises

and research institutions.

PSS intends to utilize its extensive experience nurtured on the global market, engage in specific and sound business activities, while continuing to put the technological principles originating in Japan to the test of the industry and of academia, and ultimately contribute to the advancement of mankind's health and prosperity.

Business Results

During the 21st fiscal term, by recording net sales of 3,636 million yen, an ordinary income of 18 million yen, and a net loss of 250 million yen (due to the effects of impairment accounting of the former companies premises), the Company is almost where it was predicted to be.

Although it may take some time before our policy of striking a balance between generating operating revenue and investments into the development is fully evaluated by our shareholders, we believe that PSS is currently in a state awaiting the chance to take its next great step forward.

We sincerely hope you will be understanding of PSS' business plans.

It is the intention of PSS to make a concerted effort and further improve our performance. We, therefore, ask that you continue to show us your support and guidance.



Hideji TAJIMA

President, Precision System Science Co., Ltd.

MESSAGES FROM THE PRESIDENTS OF THE OVERSEAS SUBSIDIARIES



Kimimichi OBATA, Ph.D.,
President, PSS Bio Instruments, Inc. (USA)

In last fiscal year, PSS Bio Instruments Inc. focused on expanding customers in nucleic acid isolation that was currently the main business in PSS, penetrating our automation experience of nucleic acid isolation into whole genome diagnostic market, and newly developing business segments applying PSS' original technologies. In the annual report of last fiscal year, I indicated the following 3 business goals.

- 1. Acquire OEM users for Magtration instruments**
- 2. Collaborative developments with 3rd parties for fully automated Genome Diagnostic instruments**
- 3. Establish direct sales of nucleic acid isolation instruments and reagents to end users**

In order to achieve the goals, at the beginning, we needed to develop new OEM businesses in the field of nucleic acid isolation in the US since the automation instruments for nucleic acid isolation are the most competitive area for PSS. To realize this plan, we reorganized by hiring 4 talented persons and expanded facilities so as to fully cover the North American market and its customers in a timely, efficient manner. Currently, 11 persons are employed at PBI, of which five are stationed in the West Coast and six in the East Coast.

As a result, we have concluded 2 OEM business contracts with major USA companies that meant PBI finally made a firm infrastructure in the US. Through the communication with these customers, the success factors we could recognize were that PSS's automation technology for nucleic acid isolation and its instruments were already well-known in Genomic automation market and

the reliability of PSS instruments recognized through the existing OEM products was very high. Such recognition and reliability will be great advantages for future business expansion.

Regarding the second goal that will be the key success factor for future PSS, we could not go into actual marketing phase because of the difficulty to develop automation system to full-fill the delicate and complicated market needs. However, since there are many small to large companies who have unique and original diagnostic technologies in the US and we have already been communicating with these companies for fully automated molecular diagnostic system, I expect to report several interesting projects in near future.

As to the third goal, Establish direct sales of nucleic acid isolation instruments and reagents to end users, we focused and invested resources to sell Magtration System 12GC, a compact model, to hospital labs for microbiology tests. Finally, we could penetrate the market in Canada although it was still small. We have contracted with Canadian Distributor to progress the business effectively as well. In addition, as a beyond Genomics project, we initiated the R/D of protein removal/purification automation. I believe we can launch several new products in this fiscal year.

It has been 3 years since I came in the US to start new business development, and now I am so delighted to report actual results to you. We will continue our best efforts to develop and expand new businesses by having same 3 goals as last year.

We look forward to your continued support.



PSS EUROPE GMBH: NETWORKING ALL OVER EUROPE – A BIG WHEEL STARTS MOVING

Udo Kubowski

President

Precision System Science Europe GmbH (Germany)

Yes, developing a network of strong distributors all over Europe is like accelerating a big wheel!

Many efforts are necessary to do the first slow movements. Nevertheless, we at PSS Europe GmbH (PSSE) consequently follow this part of our strategy; first nice successes appear to prove our way of doing business.

In general, for the time being, PSSE's strategy is based on four columns:

- **OEM**
- **Sales via Distributors**
- **Direct sales in Germany and Austria**
- **Service for PSS instrumentation, but also for others.**

Although the OEM business with its main areas instrumentation and consumables still accounts for app. 90 % of our (PSSE) 19.3 M€ turnover in the FY 06/07, it is our strong belief that only the growth of the other three strategic elements will give PSS a unique and highly respected name in the world.

Needless to say, that a strong brand will automatically result in contacts with new OEM partners, since trust will surely build new trust and more trust will create more business.

Nevertheless, we have to be even more creative. Beyond the four above mentioned strategy elements it is planned PSSE to be a strong and exclusive European merchan-

dise partner for other Japanese, but not only, companies out of our business area. First discussions with one Japanese supplier of high quality disposables for laboratories are promising.

Once we signed the contracts with our (worldwide) suppliers we will again use our newly installed European distribution network to ensure a rapid turnover of merchandise.

Further on, with our small, but very powerful Direct Sales force in Germany and Austria we will learn from end customer, develop new business ideas and support our Japanese colleagues with interesting market details.

Again, accelerating a big wheel takes time and needs some patience. But we are on the way, no doubt!

BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

Hideji TAJIMA

President

Kimimichi OBATA, Ph.D.

Executive-Director

President, PSS Bio Instruments, Inc (USA)

Masaaki TAKAHASHI, Ph.D.

Director & Executive Officer,
Research & Development Division

Jun AKIMOTO

Director & Executive Officer,
Finance & Administration Division

Nobuo NAGAOKA

Director & Executive Officer,
Quality Management Division

Tetsuji NISHIMURA

Director & Executive Officer,
Sales & Marketing Division

Yoshinao HIRAHARA

Director & Executive Officer,
Design & Manufacturing Division

Osamu CHISAKI

External Director

Tomoaki SUMITANI

Executive Officer,
Business Planning Department Operations Division

Yuriko TOJO

Executive Officer,
International Business Development Department

Tatsuo TAKAHASHI

Standing Auditor

Etsuo KAKEHI

Auditor

Hiroyasu SUZUKI

Auditor

SCIENTIFIC ADVISORY BOARDS

Collaborators on Technical Development & Information Exchange for Automated Systems
Based on Magratron® Technology and Scientific Advisory Board



Mitsuo ITAKURA, M.D., Ph.D.,
Prof., Director,
Institute for Genome Research, The
University of Tokushima

Development of gene therapy for diabetes.
Research on the development of pancreatic cells.
Highly efficient association analysis system to dis-

cover disease susceptibility genes for diabetes, using even-spacing common shared SNP markers. Development of high-speed SNP typing system.



Mathias UHLEN, Ph.D.,
Prof., Microbiology, Royal Institute of
Technology (KTH), Stockholm, Sweden.

Investigated cloning of protein A and protein G (used for IgG purifications), development of solid phase sequencing and streptavidin magnetic beads, development of the first gene fusion system for affinity purification, Pyrosequencing (a novel sequencing method) and novel combinatorial binding molecules called Affibodies. Part of a research group in Molecular Biotechnology consisting of approximately 50 scientists in the field of genomics, proteomics and biotechnology.



Yoshiro OKAMI, Ph.D.,
President, Environment Biotechnology
Institute
(Former Professor of Hokkaido University;
Former Associate Director of Institute of
Microbial Chemistry)

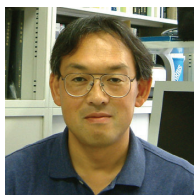
Discovery of new antibiotics and their producers
based on genomic profile.

- Sensitive assay of toxin by inhibition of activity of sensitive cell using magnetic technology.
- Gene transfer by nano-sized magnetic-particle.



Tadashi MATSUNAGA, Ph.D.,
Prof., Tokyo University of Agriculture and
Technology

Development of a High Speed Immunoassay
System for home health-care, using target protein
displayed bacterial magnetic particles by recombina-
tion. Expected applications are for blood.



Masafumi YOHDA, Ph.D.,
Prof., Tokyo University of Agriculture and
Technology

Automation of all procedures in DNA manipula-
tion and DNA diagnosis, including DNA purifi-
cation by magnetic beads, PCR reaction, agarose
gel electrophoresis and image analysis by CCD

camera. Development of a fully automated SNPs typing system for bed-side application.

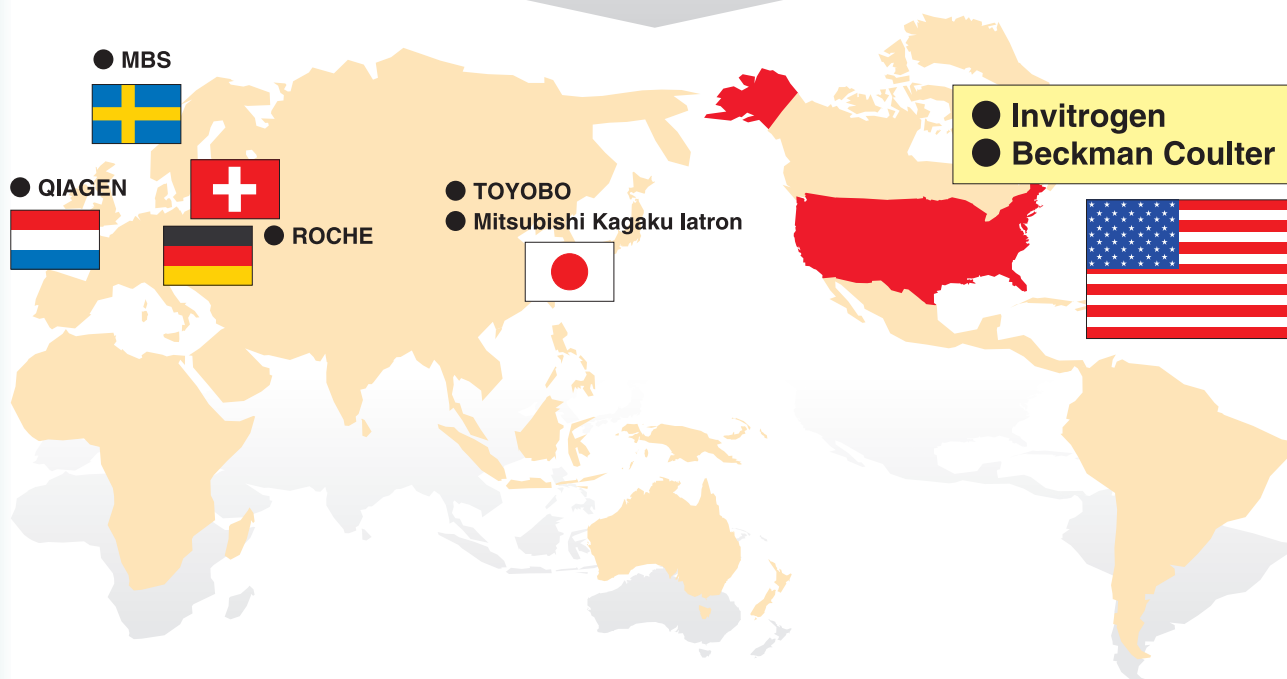
SPECIAL FEATURE 1: AIMING FOR A GLOBAL STANDARD – CONCLUSION OF NEW OEM AGREEMENTS WITH U.S. COMPANIES

PSS concluded OEM agreements concerning the DNA auto-extractors with U.S. companies, Invitrogen, in July 2006, and Beckman Coulter, in August 2006.

PSS' OEM partners, before these new OEM agreements, had been mostly European companies. With the conclusion of the above agreements, however, PSS has secured sales pipelines for its products in all the major bio-markets, namely Japan, the U.S. and Europe.

Our patented Magstration Technology has become a true global standard in technology that is being dispatched throughout the world.

**OEM agreements with eight of the world's most cutting-edge enterprises in the gene, immunology, and analysis systems industries.
(with two new OEM partners in the United States)**



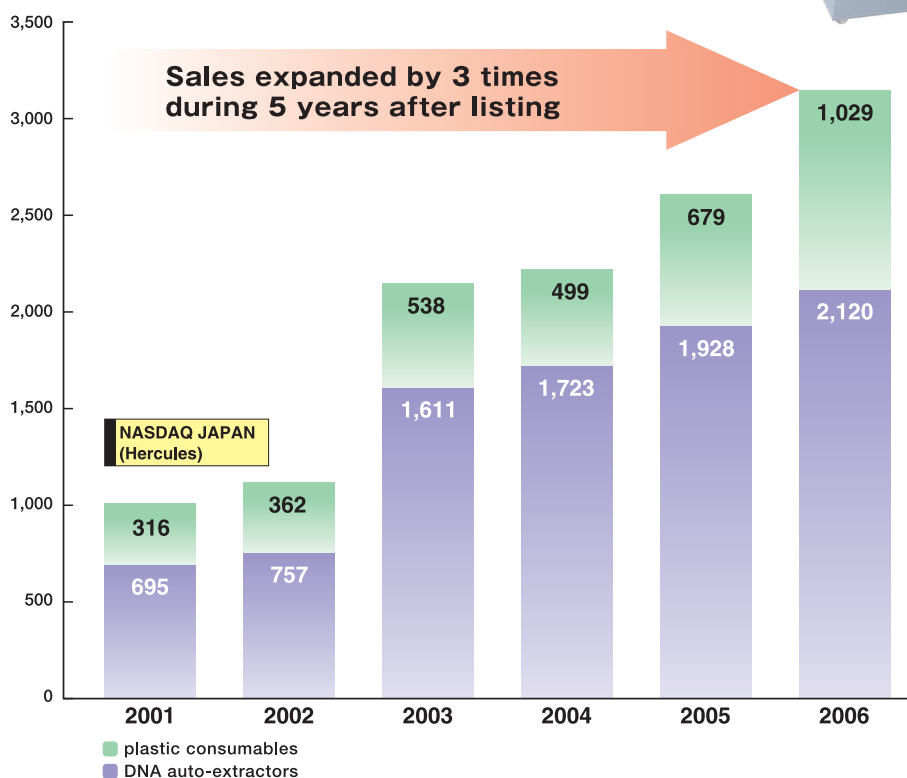
SPECIAL FEATURE 2: THE TRACK RECORD FOR OUR MAGTRATION® TECHNOLOGY

PSS' open policy on its proprietary technology has been widely accepted by the companies in Japan, the U.S., and Europe.

Sales of systems including the DNA auto-extractors (includes the immunochemical luminescence measuring systems), using PSS' proprietary technology, and plastic consumables have tripled in the five years since the Company's listing.

The expansion of its main products has been instrumental in grasping the market needs of the growing bio-industry. OEM agreements with eight of the most cutting-edge enterprises.

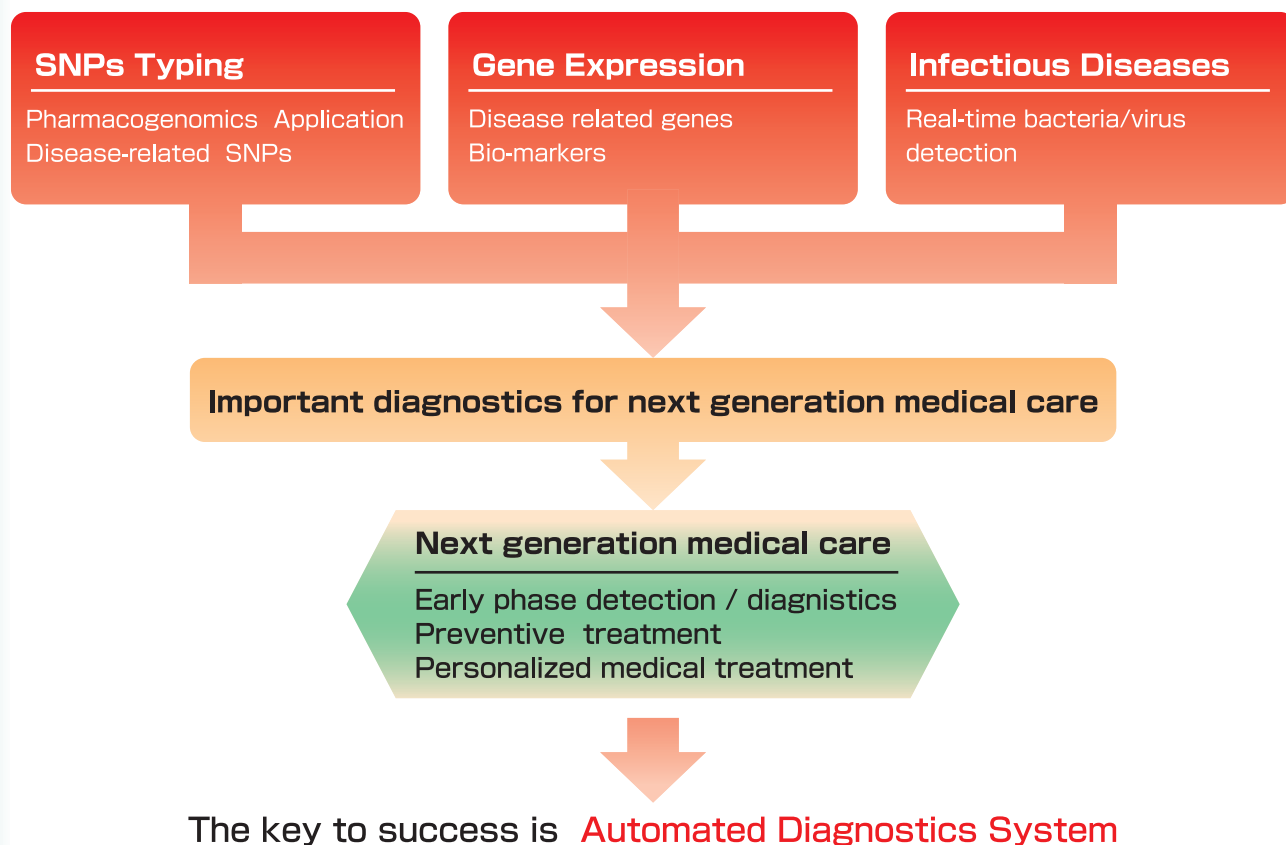
**Sales Performance of
Magtraion® Technology
Related Products** (Unit : Million yen)



SPECIAL FEATURE 3: PSS' OPERATIONAL TARGETS - THE DIRECTION TO WHICH THE BIO-INDUSTRY IS HEADING

Currently various studies are being conducted on human genes and proteins in the bio-industry. A wide variety of studies on biological materials and bio-contents are being undertaken, with a view toward their practical application; examples of research topics include the susceptibility to hereditary diseases, predisposition toward obesity, etc. and the drug metabolism and drug resistance of cancer drugs.

In light of these circumstances, PSS believes that the direction to which the bio-industry is heading, particularly in the practical application of personalized medical care and preventive medical care, which have especially close ties with our everyday lives, may be summarized in the following three movements. It should also be noted that these three targets coincide precisely with PSS' major business objectives.



SPECIAL FEATURE 4: ESTABLISHMENT OF "PSS CAPITAL CO., LTD." AND INVESTMENT IN THE "BIO CONTENTS LLP"

PSS Capital Co., Ltd. (PSSC), a subsidiary wholly owned by PSS, was established on July 7, 2006.

•Background of Establishment of PSSC

Progress into applying high level analysis to human life has occurred with knowledge, gained from various genomic and proteomic research projects. For example, practical application of various biological material or biological phenomenon (bio contents), such as genetic diagnostic of inherited diseases or disorder, judgment of drug metabolism of anti cancer drug, stress or fatigue level measurement, have been investigated.

Meanwhile, PSS now has information from research institutes, academics in universities, bio venture companies which have technology and contents that can be applied directly to the PSS's infrastructure technology.

PSS's DNA auto-extraction instruments are systems (i.e. infrastructure technology) utilizing PSS' patented reaction process control technology that have been loaded with the extraction reagent technology (i.e. content technology) of the Roche Group, the QIAGEN Group and other OEM partners and commercially manufactured. The gene-analysis systems and detection instruments currently being developed by PSS also constitute infrastructure technologies and the partnerships involving the contents technology, such as the specific genetic information and biomarkers to be loaded onto the systems is expected to become the key to PSS' future business expansion.

In view of these developments, PSS Capital Co., Ltd. intends to pursue a policy of investing into and incubating bio venture companies that have been targeted for their commercialization potential based on their partnerships with PSS and for their distinct bio contents. Through partnerships with PSS and the commercialization of the technology held by the bio contents holders, we not only hope to enhance their enterprise value and to eventually facilitate their IPOs, but hope to provide vital stepping stones in approaching the major bio-manufacturers.



Jun Akimoto

President, PSS Capital Co., Ltd. (JAPAN)

Name of the Fund	Bio Contents Limited Liability Partnership
Date of establishment	July 21, 2006
Unlimited Liability Partner	Trans-Science Inc. President and CEO: Kiyoshi Inoue Address: Chiyoda-ku, Tokyo PSS Capital Co., Ltd. (wholly owned by PSS) President / CEO : Jun Akimoto Address: Matsudo-shi, Chiba
Total amount of the fund	1 billion yen (secured) -2.5 billion yen (expected) (The fund will seek additional investment in Capital call style) Trans-Science Inc. (Unlimited liability partner) 500 million yen PSS Capital Co., Ltd. (Unlimited liability partner) 50 million yen Precision System Science Co., Ltd. (Limited liability partner) 450 million yen
Investment term	10 years (may be extended for 2 years)
Investment target	Unlisted starting up companies which have biological material or biological information ("bio contents"); which will have industrial value when it will be loaded on instruments, such as measurement, sample process system.

•On the Bio Contents Fund (investment partnership)

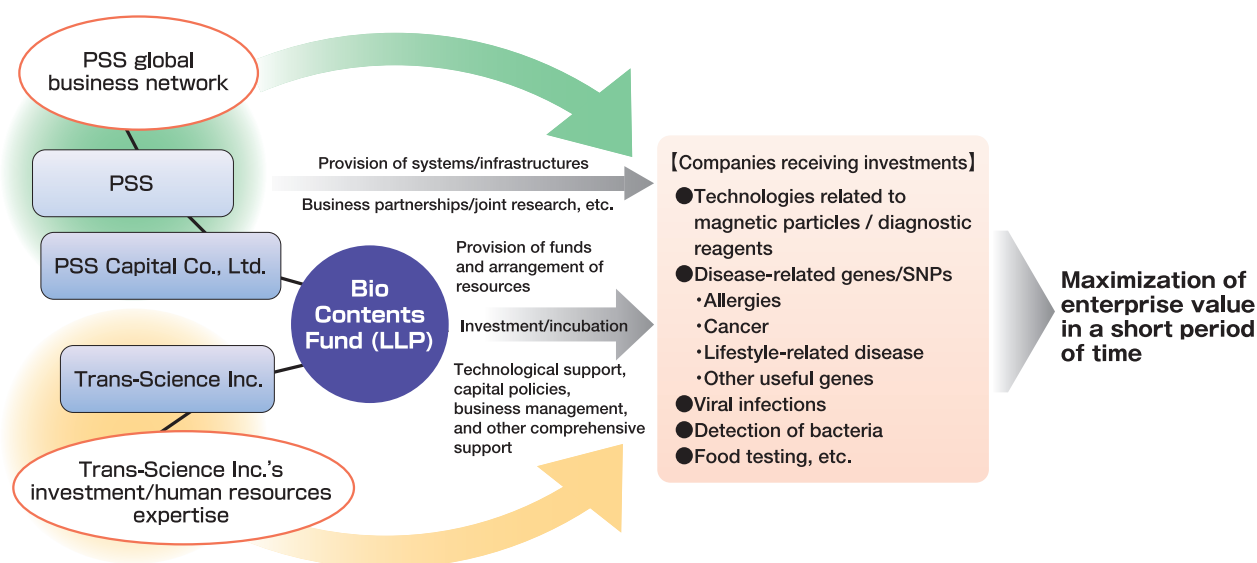
PSS Capital Co., Ltd. has decided to join hands with Trans-Science Inc., which is engaged in the incubation of venture companies in the bio-industry, and jointly manage the Bio Contents Fund (LLP). The PSS Group and Trans-Science Inc. have made commitments to invest 500 million yen a piece in the Fund.

Trans-Science has considerable experience in the management of bio-funds and has an abundance of resources in the form of indirect support to bio companies, such as their personnel placement services in the bio fields. PSS, on the other hand, will be in the position to offer infrastructure technology, including the automatic systems and the detection/measuring instruments to the venture companies. In other words, for the venture companies, not only will they have access to funds and various resources but also to a comprehensive support structure provided by PSS' infrastructure technology and PSS's world-wide network of bio companies. Thus the establishment and management of this fund are expected to lead to an even more efficient business expansion for all parties concerned.

•In conclusion

Through the pursuit of these activities, we, at PSS, intend to return the fruits of bioresearch to society at large, while at the same time, ultimately contribute to the health and welfare of citizens, as well as the advancement of our nation's bio-industry. And finally, we are confident that the above pursuits will become instrumental in the expansion of the business domain of PSS itself.

Although PSS Capital Co., Ltd. is still in its inception, as a member of the PSS Group it is determined to answer to the expectations of our shareholders. We, therefore, ask that you show us your support and guidance to this new undertaking.



MAJOR BUSINESS ACTIVITIES FOR THIS FISCAL YEAR (JULY 1,2005 – JUNE 30,2006)

	Investors' relation	Exhibitions	Development / Others
2005 July	<ul style="list-style-type: none"> • OSE IR Fair 2005 		<ul style="list-style-type: none"> • Development of the Sample Preparation System for DNA microarrays and Reagent Supply Contract with Amersham Biosciences K.K.
August	<ul style="list-style-type: none"> • Summary of Financial Reports (FY2005) • Company Information Session for institutional investors (Tokyo) 		
September		<ul style="list-style-type: none"> • The Front-line of Disease proteomics (JAPAN) • BIO Japan 2005 (JAPAN) • 64th Annual Meeting of the Japanese Cancer Association (JAPAN) 	<ul style="list-style-type: none"> • Undertaking capital increase by the consolidated US subsidiaries
October	<ul style="list-style-type: none"> • Company Information Session for private individual investors (Tokyo and Nagoya) 	<ul style="list-style-type: none"> • BIO TECHNICA (Germany) • American Society of Human Genomics (USA) 	
November	<ul style="list-style-type: none"> • Summary of Business Results: 1Q for FY2006 	<ul style="list-style-type: none"> • Lab Automation (UK) 	<ul style="list-style-type: none"> • Development of the Genome Biomarker Probing Device for Cellular Diagnostics(adoption by the New Energy and Industry Technology Development Organization (NEDO))
December	<ul style="list-style-type: none"> • The 8th Nomura Asset Management Fair • Company Information Session for private individual investors (Tokyo) 	<ul style="list-style-type: none"> • 28th Annual meeting of the Molecular Biology Society of Japan (JAPAN) 	
2006 January			<ul style="list-style-type: none"> • Development of the Automated Pretreatment System of Serum Samples for MS Analysis with Medical ProteoScope Co., Ltd. • Completion of operation contract for reagent production / quality control with Nippon Gene Co., Ltd.
February	<ul style="list-style-type: none"> • Summary of Interim Financial reports (FY2006) • Company Information Session for institutional investors (Tokyo) 		
March		<ul style="list-style-type: none"> • Japan Society for Bioscience, Biotechnology, and Agrochemistry 2006 (JAPAN) • Society of Armed Forces Medical Laboratory Scientists (USA) • Association of Medical Microbiology and Infectious Diseases (Canada) 	
April	<ul style="list-style-type: none"> • Company Information Session for private individual investors (Tokyo and Osaka) 	<ul style="list-style-type: none"> • BIO2006 (JAPAN) • ANALYTICA (Germany) • Experimental Biology 2006 (USA) • American Association for Cancer Research (USA) • Clinical Virology Symposium 2006 (USA) 	<ul style="list-style-type: none"> • Offering stock options to employees
May	<ul style="list-style-type: none"> • Summary of Business Results: 3Q for FY2006 	<ul style="list-style-type: none"> • 5th International BIO-EXPO (Tokyo) 	<ul style="list-style-type: none"> • World-wide Group Conference
June		<ul style="list-style-type: none"> • 20th IUBMB International Congress of Biochemistry and Molecular Biology (Kyoto) 	



FINANCIAL SECTION

1 CONSOLIDATED OPERATING RESULTS AND FINANCIAL CONDITIONS

(1) Operating results

	FY2005 (Previous consolidated fiscal year)		FY2006 (Current consolidated fiscal year)		Year-on-year changes %
	Amount Million yen	Percentage %	Amount Million yen	Percentage %	
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 commis-

sion 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 Matsudoshi, 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).

FINANCIAL SECTION

Net sales according to customer are as follows:

	FY2005 (Previous consolidated fiscal year)		FY2006 (Current consolidated fiscal year)		Year-on-year changes
	Amount Million yen	Percentage %	Amount Million yen	Percentage %	
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 Million yen	Percentage %	Amount Million yen	Percentage %	
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 Magstration 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 sold 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) Financial conditions

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

Cash flow in operating activities

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).

2 CONSOLIDATED FINANCIAL STATEMENTS

(1) Consolidated balance sheet

Category	End of the previous consolidated fiscal year (June 30, 2005)		End of the currents consolidated fiscal year (June 30, 2006)	
	Amount (Thousand yen)	%	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

FINANCIAL SECTION

Category	End of the previous consolidated fiscal year (June 30, 2005)		End of the currents consolidated fiscal year (June 30, 2006)	
	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

FINANCIAL SECTION

(2) Consolidated statement of income

Category	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)		
	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
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 from 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

CORPORATE DATA

Company Name	Precision System Science Co., Ltd.
Corporate Headquarters	88, Kamihongou, Matusudo-shi, Chiba, 271-0064, JAPAN Phone: +81-47-303-4800 Fax: +81-47-303-4810 E-mail: ir@pss.co.jp URL: http://www.pss.co.jp
Established	July 17, 1985
Closing Date	June 30
Capital	¥2,041 million (As of October 31, 2006)
Shares Authorized	171,200 shares (As of October 31, 2006)
Shares Outstanding	42,820 shares (As of October 31, 2006)
Number of shareholders	5,463 (As of June 30, 2006)
Number of employees	73 (non-consolidated) 83 (consolidated) (as of June 30, 2006)
Business Activities	Development, production and sales of automated systems, other laboratory equipment and software for R&D and its application in industries involving gene and proteome analysis. Production and sales of reagents and plastic consumables for automated systems.
Overseas Subsidiaries	PSS Bio Instruments, Inc. 6052 Industrial Way, Suite H, Livermore, CA94551, U.S.A. Phone: +1-925-960-9180 Fax: +1-925-960-9184 E-mail: contact@pssbio.com URL: http://www.pssbio.com Precision System Science Europe GmbH Spiesheimer Weg 32, D-55286 Woerrstadt, Germany Phone: +49-0-6732-9388-0 Fax: +49-0-6732-9388-20 E-mail: contact@pss-europe.de URL: http://www.pss-europe.de
Domestic Subsidiaries	Universal Bio Research Co., Ltd. 88 Kamihongou, Matusudo-shi, Chiba, 271-0064, JAPAN Phone: +81-47-303-4800 Fax: +81-47-303-4810 PSS Capital Co., Ltd. 88 Kamihongou, Matusudo-shi, Chiba, 271-0064, JAPAN Phone: +81-47-303-4800 Fax: +81-47-303-4810

SHAREHOLDER INFORMATION

Stock Exchange Listing	Hercules (growth), Osaka Stock Exchange (Securities code: 7707)
Transfer Agent	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo, 103-8670, JAPAN
Investor Relations	Investor's Relationship & Planning Group Finance & Administration Division 88 Kamihongou, Matusudo-shi, Chiba, 271-0064, JAPAN Phone: +81-47-303-4800 Fax: +81-47-303-4810 E-mail: ir@pss.co.jp

HISTORY

1985	July 17.	Started as a maintenance and service company for clinical laboratory instruments at Itabashi-Ku, Tokyo with a capital of 2 M Yen.
1994	Apr.	Initiated development of immunoassay systems using magnetic beads.
	Oct.	Began development of DNA extraction systems using the magnetic bead method.
1995	Oct.	Successfully developed and commercialized the DNA Auto-Extraction System using Magtration® Technology.
1996	Mar.	Ministry of Economy, Trade & Industry (METI, formerly MITI) certified to enter the New Business Sectors based on the Temporary Laws concerning Measure for the Promotion of Creative Business Activities of Small and Medium Enterprises, Clause #4
	Aug.	Entered an OEM contract for DNA Auto-Extraction Systems with TOYOBO and launched sales of the systems.
1998	Dec.	Entered the OEM contract for the DNA Auto-Extraction System with Boehringer Mannheim GmbH (as of now: Roche Diagnostics GmbH), Germany. Began worldwide sales.
1999	Jul.	Entered OEM contract for the DNA Auto-Extraction System with GenoVision, A.S., Norway.
2001	Feb.	IPO at NASDAQ-JAPAN (as of now Hercules Market)
	Jul.	Establishment of the following companies as 100 % invested subsidiary of PSS. •PSS Bio Instruments, Inc. (USA) •Precision System Science Europe GmbH (Germany)
2002	Feb.	Certification according to ISO 9001:2000
	Jun.	Entered licensing contract for the Magtration® Technology (limited) with Tepnel Life Sciences PLC, England.
	Jul.	Establishment of Universal Bio Research Co., Ltd. as a 100 % invested subsidiary of PSS.
	Aug.	Entered OEM contract for the DNA Auto-Extraction System with Qiagen A.S., Norway.
2003	Sep.	Fully underwritten capital increase of U.S.\$1.5million dollar through shareholder allocation by PSS Bio Instruments, Inc. (subsidiary)
2004	Jun.	PSS Bio Instruments, Inc. (subsidiary) merged with Bio-Strand, Inc. (subsidiary), retaining PSS Bio Instruments, Inc. as the surviving company.
2004	Aug.	Entered OEM contract for a compact immunochemical luminescence measuring system with Mitsubishi Kagaku Iatron, Inc. Certification according to ISO 13485
2005	Sep.	Fully underwritten capital increase of U.S. \$3 million through shareholder allocation by PSS Bio Instruments, Inc. (subsidiary)
2006	Jul.	Entered OEM contract for the DNA Auto-Extraction System with Invitrogen Corporation, USA.
	Aug.	Entered OEM contract for the DNA Auto-Extraction System with Beckman Coulter, Inc., USA.



Precision System Science Co., Ltd.