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FALCO biosystems Ltd.

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FALCO biosystems Ltd. to Implement Share Swap and Business Merger with SIMENO DRUG Co., Ltd; FALCO biosystems to Change into Pure Holding Company

FALCO biosystems Ltd. announces that its Board of Directors passed a resolution at a meeting held on January 30, 2009 for the entry into a Memorandum of Agreement concerning a business merger with SIMENO DRUG Co., Ltd (hereinafter referred to as “SIMENO DRUG”).

Under the above Memorandum of Agreement, FALCO biosystems aims by March 2010 to change into a pure holding company, with SIMENO DRUG, FALCO Pharmacies, Ltd. (hereinafter referred to as “FALCO Pharmacies”) and FALCO Communications, Ltd. (which is to take over FALCO biosystems’ clinical testing business and is hereinafter referred to as “FALCO Communications”) as its 100% subsidiaries, through the implementation of: (1) a share swap making FALCO biosystems a 100% parent company and SIMENO DRUG a 100% subsidiary (hereinafter referred to as the “Share Swap”); and (2) the taking over of FALCO biosystems’ clinical testing business by FALCO Communications through an absorption-type split of Falco biosystem’s Clinical Testing Business (hereinafter referred to as “Absorption-type Split 1”).

Similarly, under the above Memorandum of Agreement, as a subsidiary of FALCO biosystems and parent of Tulip Drug Dispensary Co., Ltd. (hereinafter referred to as “Tulip Drug Dispensary”), FALCO Pharmacies shall enter into an absorption-type split agreement with SIMENO DRUG for SIMENO DRUG to take over business (including shares) related to Tulip Drug Dispensary (hereinafter referred to as “Absorption-type Split 2”; hereinafter, the Share Swap, Absorption-type Split 1 and Absorption-type Split shall be referred to collectively as the “Business Merger”).

1. Aims and Background of the Business Merger

FALCO Group is composed of FALCO biosystems and its 12 consolidated subsidiaries, and carries out clinical testing and periphery business, and dispensing pharmacy business.

A difficult market environment has continued, with a dramatic increase in competition between companies in the clinical testing and dispensing pharmacies businesses, in addition to medical system reforms and the April 2008 revisions to the medical fee scheme and drug prices.

In the FALCO Group, four specialist dispensing pharmacy companies operate dispensing pharmacy business under holding company FALCO Pharmacies, which is a 100% subsidiary of FALCO biosystems; the largest of these four companies is Tulip Drug Dispensary, which operates

40 dispensing pharmacies (as of the end of 2008), mostly in Toyama Prefecture. SIMENO DRUG operates 58 drug stores (as of the end of 2008) in Ishikawa Prefecture and Toyama Prefecture, holds a large market share in both prefectures and has developed business with strong local roots.

FALCO biosystems believes that sharing the know-how and human resources possessed by both the dispensing pharmacy and drug store businesses will be necessary in building future pharmacies that can play a role in local medicine. Moreover, our decision to attempt the Business Merger was based upon our belief that sharing the varied management resources owned by both SIMENO DRUG and Tulip Drug Dispensary will allow us to create a new model of stores that is highly convenient for customers, not only in the Tohoku region, including Toyama Prefecture and Ishikawa Prefecture, but also in other regions in the future.

2. Details of system after Business Merger

(1) Basic system

FALCO biosystems will become a pure holding company, with SIMENO DRUG, FALCO Pharmacies and FALCO Communications (which is to succeed FALCO biosystems' clinical testing business) as its 100% subsidiaries, through the implementation of the Share Swap and Absorption-type Split 1 (hereinafter, FALCO biosystems after the implementation of Absorption-type Split 1 shall be referred to as "HD"). Furthermore, by carrying out Absorption-type Split Agreement 2 to allow SIMENO DRUG to take over shares and business from Tulip Drug Dispensaries, HD will be able to place other companies and businesses under its control, including FALCO Communications, which will be responsible for clinical testing business, FALCO Pharmacies, which will be responsible for dispensing pharmacy business in the Kinki region, and SIMENO DRUG, which will be responsible for drug store business and dispensing pharmacy business in the Hokuriku region.

(2) Changes of business names

After the completion of the Share Swap and Absorption-type Split 1, the name of HD shall be changed to FALCO SD HOLDINGS Co., Ltd. and the name of FALCO Communications shall be changed to FALCO biosystems Co., Ltd. The location of the principal office of HD shall be 346, Shimizu-cho Nijo-agaru Kawaramachi-dori Nakagyo-ku, Kyoto.

(3) Boardroom composition of HD

SIMENO Drug's Chairman and Representative Director, Yoshikazu Shimeno, Executive Director, Toshio Fukuki and Director, Yoshiyuki Shimeno shall be appointed as directors of HD, assuming the approval of the Company's General Meeting of Shareholders. Yoshikazu Shimeno is to be appointed as Vice Chairman and Representative Director of HD.

3. Schedule for the Business Merger

FALCO biosystems and SIMENO DRUG plan to prepare for the Business Merger by entering into a basic agreement stipulating the basic matters of the Business Merger and a final contract stipulating the final agreement for the Business Merger, according to the following schedule outline. A detailed schedule shall be decided upon through discussions between both companies in response to the progress of various procedures aimed at implementing the Business Merger, including the approval of the General Meeting of Shareholders at both companies and investigations by securities exchanges and related authorities.

September 2009 (schedule):	entry into a basic agreement
October 2009 (schedule):	implementation of due diligence
October 2009 (schedule):	entry into the final contract

December 2009 (schedule): approval of the Share Swap at the General Meetings of Shareholders of both FALCO biosystems and SIMENO DRUG, and approval of the Absorption-type Split 1 at the General Meeting of Shareholders of FALCO biosystems

January 2010 (schedule): coming into force of the Share Swap and Absorption-type Split 1

February 2010 (schedule): approval of the Absorption-type Split Agreement 2 at the General Meetings of Shareholders of SIMENO DRUG and FALCO Pharmacies

March 2010 (schedule): coming into force of Absorption-type Split 2

4. Outline of companies involved in Share Swap

(1) Corporate Name	FALCO biosystems (consolidated) (100% parent company)	SIMENO DRUG (non-consolidated) (100% subsidiary)
(2) Content of Business	Clinical testing business and dispensing pharmacy business	Drug store business
(3) Date of Incorporation	March 1988	May 1962
(4) Location of Headquarters	346 Shimizu-cho, Nijo-agaru, Kawaramachi-dori, Nakagyo-ku, Kyoto	1-11, Ohimachi, Kanazawa City, Ishikawa Prefecture
(5) Title and Name of the Representative	Chairman and Representative Director Hiroharu Akazawa President and Representative Director Kenjiro Hirasaki	Chairman and Representative Director Yoshikazu Shimeno
(6) Capital	3,371 million yen	160 million yen
(7) Number of Outstanding Shares	12,356,177 shares	16,000 shares
(8) Net Assets	11,394 million yen (As of September 20, 2008)	702 million yen (As of February 29, 2008)
(9) Total Assets	29,257 million yen (As of September 20, 2008)	4,557 million yen (As of February 29, 2008)
(10) Fiscal Year-end	September 20	Last day in February
(11) Number of Employees	1,462 persons (As of September 20, 2008)	196 persons (As of February 29, 2008)
(12) Major customers	Medical institutions General customers	General customers
(13) Major Shareholder and Their Ownership Ratios	Hiroharu Akazawa 5.33 Kyoto Bank 4.30 Employee stock ownership 3.98 The Bank of Tokyo-Mitsubishi UFJ 2.56 Kenjiro Hirasaki 2.32 Client stock ownership 1.96 Toshio Yamori 1.88 (As of September 20, 2008)	Yoshikazu Shimeno 30.6 Nagoya Small and Medium Business Investment & Consultation Corporation 17.5 Employee stock ownership 14.4 Yoshiyuki Shimeno 13.0 Takakazu Shimeno 9.9 Chieko Shimeno 9.7 Chikako Shimeno 4.9 (As of February 29, 2008)
(14) Major banking relationships	Kyoto Bank The Bank of Tokyo-Mitsubishi UFJ Mizuho Bank Sumitomo Trust & Banking Co., Ltd.	THE HOKURIKU BANK The Hokkoku Bank The First Bank of Toyama
(15) Relationship between companies involved	N/A	N/A

*After the completion of the Share Swap, this shall be changed to FALCO SD HOLDINGS Co., Ltd.

(16) Results for the past three years

Accounting period	FALCO biosystems					
	Consolidated base			Non-consolidated base		
	Year ended Sept. 20, 2006	Year ended Sept. 20, 2007	Year ended Sept. 20, 2008	Year ended Sept. 20, 2006	Year ended Sept. 20, 2007	Year ended Sept. 20, 2008
Net Sales (Million Yen)	32,832	35,092	37,461	20,389	21,848	23,440
Operating Income (Million Yen)	1,229	1,432	1,020	843	690	226
Ordinary Income (Million Yen)	1,257	1,340	853	936	798	139
Net Income (Million Yen)	(2,003)	709	115	(3,508)	431	(169)
Annual Dividend per Share (Yen)	-	-	-	20	20	20
Net Income (Loss) per Share (Yen)	(179.69)	57.87	9.47	(314.78)	35.24	(13.89)
Net Assets per Share (Yen)	926.20	955.07	939.79	908.91	915.90	876.47

Accounting period	SIMENO DRUG					
	Consolidated base			Non-consolidated base		
	Year ended Feb. 28, 2006	Year ended Feb. 28, 2007	Year ended Feb. 29, 2008	Year ended Feb. 28, 2006	Year ended Feb. 28, 2007	Year ended Feb. 29, 2008
Net Sales (Million Yen)				13,451	14,341	15,773
Operating Income (Million Yen)				184	197	265
Ordinary Income (Million Yen)				203	233	305
Net Income (Million Yen)				111	92	138
Annual Dividend per Share (Yen)				843.75	1,000	1,000
Net Income per Share (Yen)				6,978	5,765	8,657
Net Assets per Share (Yen)				31,150	36,300	43,926

** SIMENO DRUG does not create consolidated financial documents.

5. Other

We shall provide notice of details of the Share Swap and the future outlook as soon as such matters have been decided.