

September 28, 2009

**FALCO biosystems Ltd.**

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**Announcement Concerning the Signing of the Basic Agreement for FALCO biosystems Ltd. to Implement Share Swap and Business Merger with SIMENO DRUG Co., Ltd. and the Conversion of FALCO biosystems Ltd. into a Pure Holding Company**

FALCO biosystems Ltd. entered into Memorandums of Agreement (hereinafter referred to collectively as “the Memorandums”) with SIMENO DRUG Co., Ltd. (hereinafter referred to as “SIMENO DRUG”) on January 30, 2009 and September 4, 2009 aimed at a business merger, after which the parties continued discussions towards the business merger. FALCO biosystems hereby announces that its Board of Directors approved the entry into the basic agreement concerning this business merger at a meeting held today and has signed the memorandum on the basic agreement with SIMENO DRUG.

As announced in the news release titled “FALCO biosystems Ltd. to Implement Share Swap and Business Merger with SIMENO DRUG Co., Ltd; FALCO biosystems to Change into Pure Holding Company” issued by FALCO biosystems on January 30, 2009 and the news release titled “Changes in the Schedule, etc. of the Share Swap and Business Merger with SIMENO DRUG Co., Ltd. and Related Matters of Agreement” issued by FALCO biosystems on September 4, 2009 (hereinafter referred to collectively as the “News Releases”), FALCO biosystems will [1] aim by March 2010 to implement a takeover of FALCO biosystems’ clinical testing business and other related business by the FALCO Communications as a successor company and FALCO biosystems as a splitting company through an absorption-type split (hereinafter referred to as “Absorption-type Split 1”); and [2] aim by April 2010 to implement a share swap making FALCO biosystems a 100% parent company and SIMENO DRUG a 100% subsidiary (hereinafter referred to as the “Share Swap”).

Similarly, based on the Memorandums, as a subsidiary of FALCO biosystems and parent of Tulip Drug Dispensary Co., Ltd., FALCO Pharmacies, Ltd. (hereinafter referred to as “Pharmacies”) shall enter into an absorption-type split 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 2 shall be referred to collectively as the “Business Merger”).

For details of the Business Merger, please refer to the news releases.

1. Overview of the Business Merger

(1) Schedule for the share swap

September 28, 2009:	approval of the Board of Directors for entry into a basic agreement
September 28, 2009:	signing of a memorandum on the basic agreement
October 2009 (schedule):	approval of the Board of Directors for entry into a final contract
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 Absorption-type Split 1 at the General Meeting of Shareholders of FALCO biosystems
March 2010 (schedule):	coming into force of Absorption-type Split 1
April 2010 (schedule):	coming into force of the Share Swap

(2) Share swap ratio

The share swap ratio in this share swap shall be 64 shares in FALCO biosystems for each share in SIMENO DRUG. This share swap ratio was determined in discussions between FALCO biosystems and SIMENO DRUG with reference to the results of calculations by AGS Consulting Co., Ltd, a third-party accounting institution. This share swap ratio may be changed in discussions between FALCO biosystems and SIMENO DRUG if any significant fluctuations occur in the conditions upon which the calculations were based.

(3) Number of shares to be delivered due to this share swap

On the occasion of this share swap, FALCO biosystems plans to issue 624,000 new common shares and provide SIMENO DRUG with 1,024,000 shares in combination with 400,000 shares in treasury stock (common shares).

2. Composition of directors of FALCO biosystems following this share swap

It was previously announced in the news releases that 3 executives of SIMENO DRUG: Representative Director and Chairman, Yoshikazu Shimeno, Executive Director Toshio Fukuki and Director Yoshiyuki Shimeno, would be appointed as directors of FALCO biosystems following this share swap, assuming the approval of the company's General Meeting of Shareholders. However, this will be changed to having the 2 executives Yoshikazu Shimeno and Toshio Fukuki appointed as directors of FALCO biosystems following this share swap.

3. Outline of the companies involved in the Share Swap

Please refer to the news releases for outlines of the companies involved in the share swap.