

November 5, 2009

FALCO biosystems Ltd.

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Announcement Concerning Entry into a Share Swap Agreement between FALCO biosystems Ltd. and SIMENO DRUG Co., Ltd. and Entry into an Agreement with FALCO Communications Ltd. on an Absorption-Type Split

After concluding memorandums of understanding aimed at a business merger with SIMENO DRUG Co., Ltd. (hereinafter referred to as "SIMENO DRUG") on January 30 and September 4 this year, and entering into a basic agreement with the same company on September 28 this year, FALCO biosystems Ltd. continued discussions towards the business merger. FALCO biosystems hereby announces that a meeting of its Board of Directors held today (November 5, 2009) has approved entry into an agreement for the share swap with SIMENO DRUG and an agreement for an absorption-type split (hereinafter referred to as "Absorption-type Split Agreement 1") with FALCO Communications Ltd. (hereinafter referred to as "Communications"), and has signed the share swap agreement with SIMENO DRUG and the absorption-type split agreement with Communications.

I. Concerning the business merger with SIMENO DRUG and the transfer to a holding company system

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 the Company on January 30, 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 the company on September 4 and the news release titled "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" issued by the company on September 28 (hereinafter referred to collectively as the "News Releases on this Matter"), FALCO biosystems will [1] spin-off the Company's clinical testing business and other related business (including IT business and bio business) through an absorption-type split making FALCO biosystems the splitting company and Communications the successor company (hereinafter referred to as "Absorption-type Split 1") with an effective date of March 21, 2010; and [2] will implement a share swap that makes FALCO biosystems a 100% parent company and SIMENO DRUG a 100% subsidiary (hereinafter

referred to as the “Share Swap”) with an effective date of April 1, 2010.

Further, similarly, FALCO Pharmacies, Ltd. (hereinafter referred to as “Pharmacies”), a subsidiary of FALCO biosystems, plans to carry out an absorption-type split with SIMENO DRUG, having SIMENO DRUG succeed to business related to Tulip Drug Dispensary Co., Ltd., a subsidiary of Pharmacies (including shares) (hereinafter referred to as “Absorption-type Split 2”); referred to in combination with the Share Swap and Absorption-type Split 1 as “this Business Merger”) with an effective date of June 1, 2010.

For details of this Business Merger, please refer to the News Releases on this Matter.

II. Overview of Absorption-type Split 1

1. Schedule for the Absorption-type Split

November 5, 2009 (Thurs):	meeting of the Board of Directors (both companies) for a resolution on the split
November 5, 2009 (Thurs):	entry into agreement on the split
December 16, 2009 (Weds) (plan):	Ordinary General Meeting of Shareholders’ approval of the split (Communications)
December 17, 2009 (Thurs) (plan):	Ordinary General Meeting of Shareholders’ approval of the split (FALCO biosystems)
March 21, 2010 (Sun) (plan):	scheduled date of the split (effective date)

2. Method for the split

The split will be made based on a company split and absorption with FALCO biosystems as the splitting company and Communications succeeding to the Company’s clinical testing business and other related business (including IT business and bio business).

3. Details of the allotment of shares related to the split

No shares will be allotted as Communications is a 100% subsidiary of FALCO biosystems.

4. Value of capital etc. reduced due to the split

There will be no reduction in capital etc.

5. Handling related to new share warrants and bonds with new share warrants attached

The Company has issued no share warrants or bonds with new share warrants attached.

6. Rights and duties that the succeeding company will succeed to

Communications will succeed to the assets, debts, contract positions, employment agreements and all incidental rights and obligations in relation to the FALCO biosystems’ clinical testing business and other related business (including IT business and bio business) on the date of the split. For details, please refer to Appendix 1. Furthermore, the succession to liabilities will be conducted based on the method of superimposed liability acceptance.

7. Forecast of the discharge of obligations

Both FALCO biosystems and Communications have sufficient net assets and there are no problems in the forecast for the discharge of the obligations to be borne.

8. Overview of the companies involved in the split

(1) Corporate Name (*1)	FALCO biosystems Ltd. (splitting company)	FALCO Communications Ltd. (successor company)
(2) Content of Business	Clinical testing business and dispensing pharmacy business	Contract management related to clinical sample testing Development and sale of medical information systems
(3) Date of Incorporation	March 1988	June 1, 1973
(4) Location of Headquarters	346 Shimizu-cho, Nijo-agaru, Kawaramachi-dori, Nakagyo-ku, Kyoto	346 Shimizu-cho, Nijo-agaru Kawaramachi-dori, Nakagyo-ku, Kyoto
(5) Title and Name of the Representative	Representative Director, Chairman Hiroharu Akazawa Representative Director, President Kenjiro Hirasaki	Representative Director Hiroshi Eguchi
(6) Capital	3,371 million yen	200 million yen
(7) Number of Outstanding Shares	12,356,177 shares	64,360 shares
(8) Net Assets	11,547 million yen (consolidated) (As of September 20, 2009)	579 million yen (non-consolidated) (As of September 20, 2009)
(9) Total Assets	33,653 million yen (consolidated) (As of September 20, 2009)	1,368 million yen (non-consolidated) (As of September 20, 2009)
(10) Fiscal Year-end	September 20	September 20
(11) Number of Employees	1,483 persons (consolidated) (As of September 20, 2009)	129 persons (non-consolidated) (As of September 20, 2009)
(12) Major customers	Medical institutions General customers	Medical institutions
(13) Major Shareholders and Their Ownership Ratios (*2) (%)	Hiroharu Akazawa 5.12 Kyoto Bank 4.45 Employee stock ownership 4.41 The Bank of Tokyo-Mitsubishi UFJ 2.64 Kenjiro Hirasaki 2.46 Client stock ownership 2.13 Toshio Yamori 1.95 (As of September 20, 2009)	FALCO biosystems Ltd. 100.00 (As of September 20, 2009)

(14) Major banking relationships	Kyoto Bank The Bank of Tokyo-Mitsubishi UFJ Mizuho Bank Sumitomo Trust & Banking	Mizuho Bank
(15) Relationship between companies involved	Capital relationship	FALCO biosystems owns 100% of the outstanding shares of Communications.
	Personal relationship	One of the auditors of FALCO biosystems also works as an auditor of Communications and 5 employees of FALCO biosystems have either been dispatched to or also work as directors of Communications. 27 employees of FALCO biosystems are working on loan at Communications and 93 employees of Communications are working on loan at FALCO biosystems.
	Trade relationship	FALCO biosystems commissions sales related to clinical sample testing and the development of medical information systems to Communications.
	Status of related concerned parties	Communications is a consolidated subsidiary of FALCO biosystems.

(*1) Following Absorption-type Split 1, FALCO biosystems plans to change its business name to “FALCO SD HOLDINGS Co., Ltd.” and FALCO Communications plans to change its business name to “FALCO biosystems Co., Ltd.”.

(*2) The share holding ratio has been calculated after deducting treasury stock.

(16) Results for the past three years

Accounting period	FALCO biosystems Ltd. (consolidated)			FALCO Communications Ltd. (non-consolidated)		
	Year ended Sept. 20, 2007	Year ended Sept. 20, 2008	Year ended Sept. 20, 2009	Year ended Sept. 20, 2007	Year ended Sept. 20, 2008	Year ended Sept. 20, 2009
Net Sales (Million Yen)	35,092	37,461	39,458	995	1,524	2,000
Operating Income (Million Yen)	1,432	1,020	1,751	187	138	153
Ordinary Income (Million Yen)	1,340	853	1,561	188	139	162
Net Income (Million Yen)	709	115	619	99	78	194
Net Income per Share (Yen)	57.87	9.47	51.59	1,652.74	1,296.72	3,112.00
Annual Dividend per Share (Yen)	20	20	20	-	-	-
Net Assets per Share (Yen)	955.07	939.79	966.43	3,016.73	4,313.45	9,005.01

9. Overview of the business divisions to be split

(1) Description of the business of the divisions to be split

FALCO biosystems' clinical testing business and related business (including IT business and bio business)

(2) Financial results of the divisions to be split

	Clinical testing business and related business (a)	Result for the term ended September 20, 2009 (b)	Ratio (a / b * 100)
Sales (Million Yen)	24,540	24,559	99.92

(3) Types and values of assets and liabilities to be split (as of September 20, 2009)

Assets		Liabilities	
Type	Book value (Million Yen)	Type	Book value (Million Yen)
Current assets	7,716	Current liabilities	9,755
Fixed assets	3,777	Fixed liabilities	1,738
Total	11,494	Total	11,494

* Values have been assumed as of September 20, 2009.

10. State of successor company after the absorption-type split

(1) Corporate Name	FALCO biosystems Co. Ltd.
(2) Content of Business	Clinical testing business and related business (including IT business and bio business) Development and sale of medical information systems
(3) Location of Headquarters	346 Shimizu-cho, Nijo-agaru Kawaramachi-dori, Nakagyo-ku, Kyoto
(4) Title and Name of the Representative	To be announced as determined
(5) Capital	200,000,000 yen
(6) Fiscal Year-end	March 20 (plan)

Following Absorption-type Split 1, FALCO Communications plans to change its business name to "FALCO biosystems Co., Ltd.".

11. Forecast of the impact on results, etc., due to this absorption-type split

The impact on consolidated results due to this split will be minor.

III. Overview of the share swap

1. Schedule for the share swap

November 5, 2009 (Thurs):	approval of the Board of Directors for the share swap agreement (both companies)
November 5, 2009 (Thurs):	entry into the share swap agreement
December 16, 2009 (Weds) (plan):	approval of the Extraordinary General Meeting of Shareholders for the share swap (SIMENO DRUG)
December 17, 2009 (Thurs) (plan):	approval of the Ordinary General Meeting of Shareholders for the share swap (FALCO biosystems)
April 1, 2010 (Thurs) (plan):	coming into force of the share swap

2. Details of the allocation of shares related to the share swap

Company name	FALCO biosystems Ltd. (wholly-owning parent company in the share swap)	SIMENO DRUG Co., Ltd. (wholly-owned subsidiary company in the share swap)
Details of the allocation of shares related to the share swap	1	64
Number of new shares to be issued due to the share swap	Common shares: 624,000 shares (FALCO biosystems Ltd. will allocate 400,000 shares it owns in treasury stock due to this share swap.)	

(Note) 64 shares in FALCO biosystems Ltd. will be allocated for each share in SIMENO DRUG Co., Ltd.

3. Grounds for calculation of the allocation of shares related to the share swap

- (1) Foundations for and background to the calculations

As part of the efforts to guarantee fairness in the calculation of the share swap ratio to use in this share swap, the parties decided to request the opinion of a third party institution as expert advice on the calculation of the share swap ratio and requested AGS Consulting Co., Ltd. (hereinafter referred to as "AGS") to calculate the share swap ratio.

AGS calculated the share price of FALCO biosystems by adopting a market stock value method, a market approach method calculated based on the weighted average stock price after the most recent disclosure of an important matter, over the most recent 1-month period and 3-month period taking September 18, 2009 as the reference date for evaluation, and the discount cash flow method (hereinafter referred to as the "DCF method"), which is an income approach method, and calculated the share price of SIMENO DRUG by adopting a similar disclosed company comparison method and a DCF method. The calculated results for the share swap ratio that AGS submitted do not express an opinion in regard to the fairness of the share swap ratio in this share swap.

The calculated results for the number of shares in SIMENO DRUG to be allocated for each share in FALCO biosystems based on the various evaluation methods are as shown in the following table.

Adopted method	Share swap ratio evaluation range
Market share price method/ similar disclosed company comparison method	53.6 to 72.2
DCF method	44.4 to 78.0

AGS used financial information on both companies that was conceivably possible to refer to, generally disclosed information such as market data, etc., and indices related to the finance, the economy and the market in its calculations of the share swap ratio and assumed that no non-disclosed information exists that would exert a significant impact on the calculation of the share prices of both companies. In addition, AGS also assumed that the various types of

information and data that it referred to on both companies was accurate and complete, and that the future profits plans and financial forecasts submitted by both companies were created reasonably based on the best forecasts and judgements available at the time of their creation. Furthermore, AGS' calculation of the share swap ratio reflected information on the finance and capital market and other information available as of September 18, 2009.

(2) Relationship with the calculating institution

AGS does not fall under the category of related party with FALCO biosystems or SIMENO DRUG.

4. Handling related to the new share warrants and bonds with new share warrants attached of the 100% subsidiary in the share swap

SIMENO DRUG has issued no new share warrants or bonds with new share warrants attached.

5. Overview of the parties to the share swap

(1) Corporate Name (*1)	FALCO biosystems Ltd. (100% parent company)	SIMENO DRUG Co., Ltd. (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	Representative Director, Chairman Hiroharu Akazawa Representative Director, President Kenjiro Hirasaki	Representative Director, Chairman 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	11,547 million yen (consolidated) (As of September 20, 2009)	771 million yen (non-consolidated) (As of February 28, 2009)
(9) Total Assets	33,653million yen (consolidated) (As of September 20, 2009)	5,257 million yen (non-consolidated) (As of February 28, 2009)
(10) Fiscal Year-end	September 20	Last day in February
(11) Number of Employees	1,483 persons (consolidated) (As of September 20, 2009)	220 persons (non-consolidated) (As of February 28, 2009)
(12) Major customers	Medical institutions General customers	General customers

(13) Major Shareholder and Their Ownership Ratios (*2) (%)	Hiroharu Akazawa	5.12	Yoshikazu Shimeno	30.9
	Kyoto Bank	4.45	Nagoya Small and Medium	
	Employee stock ownership	4.41	Business Investment &	
	The Bank of Tokyo-Mitsubishi UFJ	2.64	Consultation Corporation	17.5
	Kenjiro Hirasaki	2.46	Employee stock ownership	13.5
	Client stock ownership	2.13	Yoshiyuki Shimeno	13.0
	Toshio Yamori	1.95	Takakazu Shimeno	9.9
	(As of September 20, 2009)		Chieko Shimeno	9.7
			Chikako Shimeno	4.9
		(As of October 30, 2009)		
(14) Major banking relationships	Kyoto Bank The Bank of Tokyo-Mitsubishi UFJ Mizuho Bank Sumitomo Trust & Banking		THE HOKURIKU BANK The Hokkoku Bank The First Bank of Toyama	
(15) Relationship between companies involved	N/A		N/A	

(*1) Following Absorption-type Split 1, FALCO biosystems plans to change its business name to "FALCO SD HOLDINGS Co., Ltd."

(*2) The share holding ratio has been calculated after deducting treasury stock.

(16) Results for the past three years

Accounting period	FALCO biosystems Ltd.					
	Consolidated base			Non-consolidated base		
	Year ended Sept. 20, 2007	Year ended Sept. 20, 2008	Year ended Sept. 20, 2009	Year ended Sept. 20, 2007	Year ended Sept. 20, 2008	Year ended Sept. 20, 2009
Net Sales (Million Yen)	35,092	37,461	39,458	21,848	23,440	24,559
Operating Income (Million Yen)	1,432	1,020	1,751	690	226	672
Ordinary Income (Million Yen)	1,340	853	1,561	798	139	758
Net Income (Loss)(Million Yen)	709	115	619	431	(169)	31
Annual Dividend per Share (Yen)	57.87	9.47	51.59	20	20	20
Net Income (Loss) per Share (Yen)	20	20	20	35.24	(13.89)	2.65
Net Assets per Share (Yen)	955.07	939.79	966.43	915.90	876.47	852.98

Accounting period	SIMENO DRUG					
	Consolidated base (*3)			Non-consolidated base		
	Year ended Feb. 28, 2007	Year ended Feb. 29, 2008	Year ended Feb. 28, 2009	Year ended Feb. 28, 2007	Year ended Feb. 29, 2008	Year ended Feb. 28, 2009
Net Sales (Million Yen)				14,341	15,773	16,132
Operating Income (Million Yen)				197	265	130
Ordinary Income (Million Yen)				233	305	181
Net Income (Million Yen)				92	138	84
Annual Dividend per Share (Yen)				1,000	1,000	1,000
Net Income per Share (Yen)				5,765	8,657	5,276
Net Assets per Share (Yen)				36,300	43,926	48,202

(*3) SIMENO DRUG does not prepare consolidated financial statements.

6. Overview of account processing

The forecast is that the share swap will fall under the category of “acquisition” in terms of accounting for business combinations. Amortization of goodwill is scheduled to occur due to this share swap, but the value of that amortization of goodwill and the years of amortization have not been determined at the present time.

7. Forecast of the impact on results due to this share swap

The details of the impact on results due to this share swap will be announced as they are confirmed.

IV. Status of FALCO biosystems after Absorption-type Split 1 and the share swap

(1) Corporate Name	FALCO SD HOLDINGS Co., Ltd.
(2) Content of Business	Formulation of the management strategy of the overall company group, business management, etc.
(3) Location of Headquarters	346 Shimizu-cho, Nijo-agaru, Kawaramachi-dori, Nakagyo-ku, Kyoto
(4) Title and Name of the Representative	Representative Director, Chairman Hiroharu Akazawa Representative Director, Vice Chairman Yoshikazu Shimeno Representative Director, President Kenjiro Hirasaki
(5) Capital	3,371 million yen
(6) Total Assets	To be announced as and when confirmed.
(7) Net Assets	To be announced as and when confirmed.
(8) Fiscal Year-end	March 31 (plan)

(Appendix 1)

Details of Rights and Duties to Be Succeeded to

Due to this split, Communications will succeed to the assets, liabilities, contract positions, employment agreements and all incidental rights and duties related to the FALCO biosystems' clinical testing business and other related business (including IT business and bio business) on the date the split comes into force. However, this will exclude the rights and duties listed in Appendix 2.

The assets and liabilities among the rights and duties that Communications takes over from FALCO biosystems shall be confirmed based on the balance sheet and other calculations made as of September 20, 2009, and rights and duties other than assets and liabilities shall be confirmed based on their values as of the date of creation of this agreement, after adding or removing changes in value that occur down to the date prior to the date that this split comes into force.

1. Assets, liabilities, debts and credits to be succeeded to

Of the assets, liabilities and all rights and duties incidental to those assets and liabilities belonging to the business to be succeeded to, those rights and duties and debts and credits related to the business to be succeeded to excluding the assets, liabilities, debts and credits set aside in Appendix 2

2. Employment agreements to be succeeded to

Agreements relating to all of those employees among the employees of FALCO biosystems belonging to the Clinical Testing Business Division and the Bio Business Division. (However, this also includes employees working on loan at both of these divisions from other companies.)

3. Rights and duties, etc., other than employment agreements to be succeeded to

Contract positions and all rights and duties incidental to those contract positions in trade agreements, subcontracting agreements and all other agreements aside from employment agreements related to the business to be succeeded to

4. Licenses, etc.

Licenses, authorization, permission, registrations, submissions, etc., belonging to the business to be succeeded to that are legally transferable

(Appendix 2)

Rights and Duties Excluded from the Rights and Duties Succeeded to

1. Excluded assets

(1) Tangible fixed assets

Land and buildings, and structures and other facilities related to that land and buildings at the headquarters of FALCO biosystems, its core research laboratories and main places of business (sales offices, laboratories, etc.); the areas of such land and buildings, etc., that the Clinical Testing Business Division and the Bio Business Division use will be leased to Communications from the date of the split

(2) Investments and other assets

- Investment securities
- Shares in related companies
- Insurance reserve funds

2. Excluded liabilities

- Accrued income tax, accrued consumption tax
- Some borrowing

3. Other excluded rights and duties

- Lease contracts related to land
- All types of contracts related to the land and buildings, etc., described in section 1 above
- Insurance contracts such as property insurance belonging to the business to be succeeded to
- Contracts related to other assets and liabilities that are listed in sections 1 and 2 above.