

February 28, 2005

FALCO biosystems Ltd.

346, Shimizu-cho, Nijo-agaru Kawaramachi-dori, Nakagyo-ku, Kyoto 604-0911 Japan

Chairman and President: Hiroharu Akazawa

(Stock code: 4671, Second Section, Tokyo Stock Exchange and Osaka Securities Exchange)

Contact: Tadashi Yasuda, Board of Director,

General Manager, Department of Finance and Strategic Planning

Telephone: +81-75- 257-8556

**Notice of Change in Subsidiaries (Company Acquisition),
a Stock Swap, and Reorganization of the Dispensing Pharmacy Business**

We announce that the Board of Directors resolved at a special meeting held February 28, 2005 to make three Pharma Prot Group companies (Prot Co., Ltd., Pharma Prot Co., Ltd., and MINORI Co., Ltd.) subsidiaries through a stock swap and share acquisitions, and that a basic agreement was signed to this effect, with details as follows:

I. Reason for making these companies wholly owned subsidiaries through a stock swap and share acquisitions

We position the dispensing pharmacy business as our company's second core business, and seek to aggressively expand this business, including through M&A activity. We found that the consolidation of group companies in the same industry was an urgent necessity in order to realize synergies and move forward with our expansion strategy.

This is why we decided to collaborate with the Pharma Prot Group, centered in Kyoto, and to develop an organizational structure whereby group synergies could be achieved with our pharmacy subsidiaries FALCO Clinical Plan, Ltd. (HQ: Kyoto City) and Tulip Drug Dispensary Co., Ltd. (HQ: Toyama City).

We plan to establish a new division to consolidate our group dispensing pharmacy business, which will unify the previously scattered management strategies, hiring strategies, and training strategies of each subsidiary to enable more efficient and integrated group management.

We are also planning to establish an intermediate holding company for the dispensing pharmacy business in autumn 2005 to cope with business expansion. The new subsidiaries Prot Co., Ltd., Pharma Prot Co., Ltd., and MINORI Co., Ltd., and our existing subsidiaries FALCO Clinical Plan, Ltd. and Tulip Drug Dispensary Co., Ltd. will be placed under this intermediate holding company. We will provide further details as soon as they become available.

In this way, we will reorganize the dispensing pharmacy business and aggressively move forward with an M&A strategy to grow the dispensing pharmacy business to a scale on par with our clinical testing business, and ensure a strong presence for our group in the pharmacy industry.

II. Stock swap with Prot Co., Ltd.

1. Conditions of the stock swap, etc.

(1) Schedule

February 28, 2005	Signing of basic agreement
March 22, 2005 (tentative)	Signing of stock swap agreement
April 17, 2005 (tentative)	Stock swap agreement approved by General Meeting of Shareholders (Prot Co., Ltd.)
May 12, 2005 (tentative)	Stock swap executed

(The stock swap does not need to be approved at a General Meeting of Shareholders of FALCO biosystems Ltd., because the agreement meets the conditions for a simple stock swap as stipulated by the Commercial Code in Article 358, Section 1.)

(2) Stock swap ratio

FALCO biosystems Ltd. has asked the Chuo Aoyama accounting firm to audit Prot Co., Ltd., and after this is finished, our company will decide the stock swap ratio jointly with Prot Co., Ltd. before concluding the stock swap agreement.

(3) Stock swap grant

There is no stock swap grant.

2. Overview of companies party to the share exchange

(1)	Company name:	FALCO biosystems Ltd. (parent company)	Prot Co., Ltd. (wholly owned subsidiary)
(2)	Main business:	Clinical testing contracting	Pharmacy management
(3)	Established:	August 24, 1982	June 24, 1996
(4)	Headquarters:	346, Shimizu-cho, Nijo-agaru Kawaramachi-dori, Nakagyo-ku, Kyoto	544, Iwakura Chuzaichi-cho, Sakyo-ku, Kyoto
(5)	Representative:	Chairman and President Hiroharu Akazawa	President Masayuki Sunagawa
(6)	Capital stock:	2,620 million yen	10 million yen
(7)	Shareholders' equity:	13,639 million yen	104 million yen
(8)	Total assets:	24,095 million yen	674 million yen
(9)	Outstanding shares:	10,868,000 shares	200 shares
(10)	Fiscal year-end:	September 20	June 30
(11)	Employees:	714	51
(12)	Principal customers:	Suppliers: SRL, Inc., Attest Co., Ltd., Japan Radioisotope Association Clients: Hospitals, etc.	Suppliers: Izutsu Pharmaceutical Co., Ltd., Suzuken Co., Ltd., KSK Corporation Clients: General public
(13)	Major shareholders and shareholding ratios:	Hiroharu Akazawa 6.01% Bank of New York for Goldman Sachs International 4.61% The Bank of Kyoto, Ltd. 3.97% FALCO biosystems employee stockholding association 2.95% UFJ Bank Limited 2.90%	Masayuki Sunagawa 50.00% Toshie Sunagawa 50.00%

(14)	Main banks:	The Bank of Kyoto, Ltd., UFJ Bank Limited, Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi, Ltd., The Sumitomo Trust & Banking Co., Ltd.	The Bank of Kyoto, Ltd., The SHIGA BANK, Ltd., The Kyoto Shinkin Bank
(15)	Relationship:	Capital	No reportable information.
		Personnel	No reportable information.
		Business	No reportable information.

(Note) The overview of FALCO biosystems Ltd. is as of September 20, 2004, and the overview of Prot Co., Ltd. is as of June 30, 2004.

(16) Results over the past three fiscal years:

(Unit: million yen)

Fiscal year-end	FALCO biosystems Ltd. (parent company)			Prot Co., Ltd. (wholly owned subsidiary)		
	Sept. 20, 2002	Sept. 20, 2003	Sept. 20, 2004	June 30, 2002	June 30, 2003	June 30, 2004
Sales	17,845	18,165	18,427	1,035	1,129	1,147
Operating income	1,191	1,266	1,466	11	66	11
Ordinary income	1,226	1,319	1,490	11	64	5
Net income	633	554	735	11	29	6
Net income per share (yen)	89.08	48.47	64.96	58,596.12	145,526.57	31,910.56
Annual dividend per share (yen)	20.00	15.00	15.00	-	-	-
Shareholders' equity per share (yen)	1,532.37	1,222.19	1,255.92	344,699.29	490,225.86	522,136.43

(Note) 1. The annual dividend per share figure of FALCO biosystems Ltd. for the fiscal year ending September 20, 2002 included a 40th anniversary commemorative dividend of 5 yen.

2. All figures are calculated on the non-consolidated basis.

3. Situation after the stock swap

(1) Company name, main business, headquarters, and representative

No change from above "2. Overview of companies party to the share exchange".

(2) Capital stock

No increase in capital stock for FALCO biosystems Ltd. through the stock swap.

III. Acquisition of Prot Co., Ltd. shares

1. Outline of company that will be made a subsidiary

Please see “2. Overview of companies party to the share exchange” in “II. Stock swap with Prot Co., Ltd.” above.

2. Shares to be acquired from

Masayuki Sunagawa	50 shares
Toshie Sunagawa	100 shares

3. Number of shares to be acquired, share acquisition price, and change in ownership ratio

- | | |
|--|--|
| (1) Share ownership before transfer:
(Number of voting rights: - units) | - shares (Ownership ratio: -%) |
| (2) Number of shares to be acquired:
(Number of voting rights: 150 units) | 150 shares (The acquisition price will be determined after the audit.) |
| (3) Share ownership after transfer:
(Number of voting rights: 150 units) | 150 shares (Ownership ratio: 75.00%) |

4. Schedule

February 28, 2005	Signing of basic agreement
March 22, 2005 (tentative)	Signing of stock acquisition contract
	Date of share transfer

IV. Acquisition of Pharma Prot Co., Ltd. shares

1. Outline of company that will be made a subsidiary

- (1) Company name: Pharma Prot Co., Ltd.
 (2) Representative: President Masayuki Sunagawa
 (3) Headquarters: 544, Iwakura Chuzaichi-cho, Sakyo-ku, Kyoto
 (4) Established: November 7, 1995
 (5) Main business: Pharmacy management
 (6) Fiscal year-end: August 31
 (7) Employees: 30 (as of August 31, 2004)
 (8) Main business area: Otsu City, Shiga Prefecture
 (9) Capital stock: 10 million yen
 (10) Outstanding shares: 200 shares
 (11) Major shareholders and shareholding ratios: Masayuki Sunagawa 75.00%
 Kazuyoshi Domoto 25.00%
 (12) Recent business results:

	Year ended August 31, 2003	Year ended August 31, 2004
Sales	715 million yen	708 million yen
Operating income	32 million yen	8 million yen
Ordinary income	30 million yen	6 million yen
Net income	21 million yen	6 million yen
Total assets	282 million yen	255 million yen
Shareholders' equity	63 million yen	70 million yen
Dividends per share	-	-

2. Shares to be acquired from

Masayuki Sunagawa	150 shares
Kazuyoshi Domoto	50 shares

3. Number of shares to be acquired, share acquisition price, and change in ownership ratio

- (1) Share ownership before transfer: - shares (Ownership ratio: - %)
 (Number of voting rights: - units)
- (2) Number of shares to be acquired: 200 shares (The acquisition price will be determined after the audit.)
 (Number of voting rights: 200 units)
- (3) Share ownership after transfer: 200 shares (Ownership ratio: 100%)
 (Number of voting rights: 200 units)

4. Schedule

February 28, 2005	Signing of basic agreement
March 22, 2005 (tentative)	Signing of stock acquisition contract
	Date of share transfer

V. Acquisition of MINORI Co., Ltd. shares

1. Outline of company that will be made a subsidiary

- (1) Company name: MINORI Co., Ltd.
 (2) Representative: President Masayuki Sunagawa
 (3) Headquarters: 544, Iwakura Chuzaichi-cho, Sakyo-ku, Kyoto
 (4) Established: November 1, 2002
 (5) Main business: Pharmacy management
 (6) Fiscal year-end: September 30
 (7) Employees: Four from Prot Co., Ltd. (as of September 30, 2004)
 (8) Main business area: Kyoto
 (9) Capital stock: 15 million yen
 (10) Outstanding shares: 300 shares
 (11) Major shareholders and shareholding ratios: Toshie Sunagawa 100%
 (12) Recent business results:

	Year ended Sept. 30, 2003	Year ended Sept. 30, 2004
Sales	82 million yen	108 million yen
Operating income	4 million yen	0 million yen
Ordinary income	4 million yen	0 million yen
Net income	2 million yen	0 million yen
Total assets	44 million yen	38 million yen
Shareholders' equity	12 million yen	17 million yen
Dividends per share	-	-

2. Shares to be acquired from

Toshie Sunagawa 300 shares

3. Number of shares to be acquired, share acquisition price, and change in ownership ratio

- (1) Share ownership before transfer: - shares (Ownership ratio: - %)
 (Number of voting rights: - units)
 (2) Number of shares to be acquired: 300 shares (The acquisition price will be determined after the audit.)
 (Number of voting rights: 300 units)
 (3) Share ownership after transfer: 300 shares (Ownership ratio: 100%)
 (Number of voting rights: 300 units)

4. Schedule

February 28, 2005 Signing of basic agreement
 March 22, 2005 (tentative) Signing of stock acquisition contract
 Date of share transfer

VI. Effect on operating results

We are currently examining the impact on earnings of making Prot Co., Ltd., Pharma Prot Co., Ltd., and MINORI Co., Ltd. subsidiaries. We will make an announcement regarding the impact by the time we release results for the interim period ending March 2005.