

March 22, 2005

**FALCO biosystems Ltd.**

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Chairman and President: Hiroharu Akazawa

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

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**Notice of Conclusion of a Stock Swap Contract,  
and a Decision on the Stock Swap Ratio**

We announced in our February 28, 2005 press release titled “Notice of Change in Subsidiaries (Company Acquisition), a Stock Swap, and Reorganization of the Dispensing Pharmacy Business” that our Board of Directors had resolved 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. We now announce that the Board of Directors resolved at a regular meeting held March 22, 2005 to conclude a contract for a stock swap with Prot Co., Ltd. effective the same day. See below for details on the stock swap ratio. Note that there have been no changes, since our previous announcement, to any items other than the stock swap ratio.

Stock swap ratio with Prot Co., Ltd:

	FALCO biosystems Ltd. (parent company)	Prot Co., Ltd. (wholly owned subsidiary)
Stock swap ratio	1	2,000

(1) Ratio of allocation of stocks

We will allot 2,000 shares of FALCO biosystems common stock for every 1 share of Prot Co., Ltd. common stock. However, we will not allot any FALCO biosystems stock for the 150 shares of Prot Co., Ltd., stock that we currently hold.

(2) Basis for calculating the stock swap ratio

We asked the Ono Accountant’s office, a third party CPA firm, to calculate an appropriate stock swap ratio. Our company and Prot Co., Ltd. referenced the firm’s calculation method and result in determining the aforementioned stock swap ratio.

(3) The third party’s calculation basis, method, and result

The Ono Accountant’s office, used a different evaluation approach for each company’s stock to calculate an appropriate stock swap ratio: it used the market share price method to value our stock, and used the discounted cash flow (DCF) method, the peer company comparison method, and the book value method, to value the stock of Prot Co., Ltd., an unlisted company.

(4) New shares to be issued for the stock swap

Common stock: 100,000 shares

(The stock swap will not increase capital.)