

Summary of Consolidated Financial Statements for the Year Ended December 31, 2005

February 6, 2006

Company name: Lion Corporation

Code: 4912

URL: <http://www.lion.co.jp>

Listed stock exchanges: Tokyo Stock Exchange and Osaka Securities Exchange

Location of head office: Tokyo Prefecture, Japan

Representative: Sadayoshi Fujishige, Representative Director and President

Contact: Shinjiro Iwahori, Director of Finance Department

Telephone: +81-3-3621-6211

Board of Directors meeting on fiscal 2005 results: February 6, 2006

Use of U.S. accounting standards: Not used

1. Consolidated Results for the Year Ended December 31, 2005

a) Consolidated Results

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2005	331,798	7.2	6,066	0.7	8,514	2.9
FY 2004	309,514	0.3	6,021	(39.0)	8,271	(26.6)

Note: Figures in this and subsequent tables are rounded down to the nearest million.

	Net income		EPS	Diluted EPS	ROE	ROA	Ratio of ordinary income to net sales
	Millions of yen	%	Yen	Yen	%	%	%
FY 2005	5,473	-	19.10	19.05	5.2	3.5	2.6
FY 2004	(4,723)	-	(16.66)	-	(4.4)	3.4	2.7

Notes:

- Equity in earnings of non-consolidated subsidiaries and affiliates: ¥1,768 million in FY 2005 and ¥1,579 million in FY 2004.
- Average number of outstanding shares during the period (consolidated): 282,420,189 in FY 2005 and 287,030,232 in FY 2004.
- Changes in accounting practices: None
- Percent figures for net sales, operating income, ordinary income, and net income express percentage change over the previous year.

b) Consolidated Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
FY 2005	249,303	109,103	43.8	384.60
FY 2004	235,405	101,021	42.9	356.90

Note: Number of outstanding shares on balance sheet date (consolidated): 283,475,481 for FY 2005 and 282,892,789 for FY 2004.

c) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY 2005	1,865	(9,262)	(1,514)	15,788
FY 2004	4,270	(10,059)	(1,553)	24,480

d) Scope of Consolidation and Equity-Method Companies

Consolidated subsidiaries: 23

Non-consolidated equity-method companies: 4

Equity-method companies: 8

e) Change in Scope of Consolidation and Equity-Method Companies

Consolidated subsidiaries: 2 newly included, none excluded

Equity-method companies: 2 newly included, none excluded

2. Forecast of Consolidated Results for the Year Ending December 31, 2006

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Interim 2006	165,000	2,500	1,500
FY 2006	350,000	9,000	5,000

Reference: Projected earnings per share of 17.64 for FY 2006.

Refer to pages 30 through 32 in the reference materials regarding the premises for the above forecast and other related matters.

Corporate Group

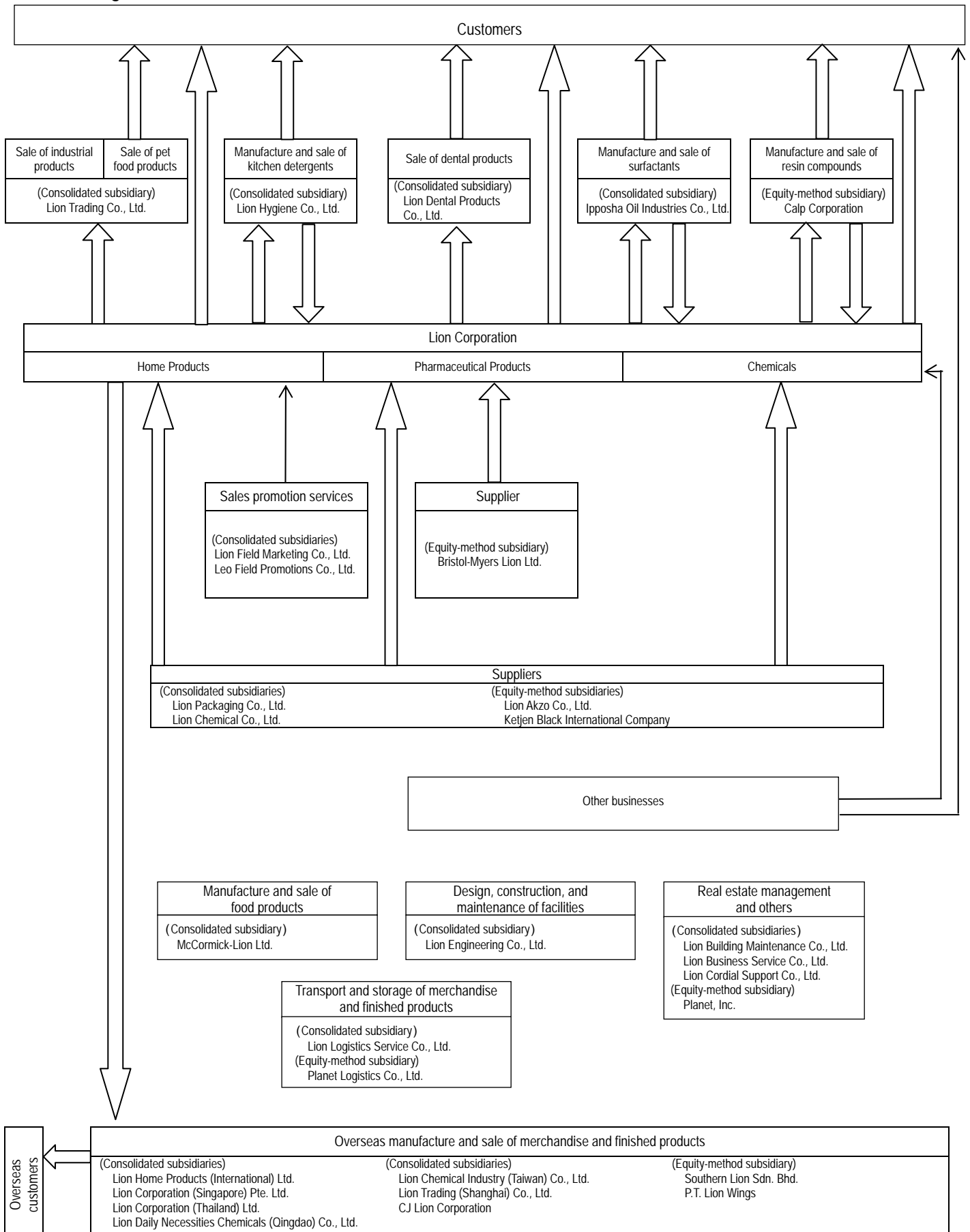
The Lion Group consists of Lion Corporation, 29 subsidiaries (including 23 consolidated subsidiaries and four non-consolidated equity-method subsidiaries), and 19 affiliates (including eight equity-method affiliates). Principal business activities consist of the manufacture and sale of home products, pharmaceutical products, and chemicals. Other business activities involve distribution related to the above business activities and other services.

The relationship between group business activities and business segments is shown below, which is based on the same categorization used for business segments.

Business segment	Main activities	Main companies	
Home Products	Manufacture and sale of home products	Domestic affiliates	Lion Corporation Lion Chemical Co., Ltd. Lion Dental Products Co., Ltd. Lion Trading Co., Ltd. Lion Hygiene Co., Ltd. Lion Packaging Co., Ltd. Lion Field Marketing Co., Ltd. Leo Field Promotions Co., Ltd. Ipposha Oil Industries Co., Ltd. Lion Akzo Co., Ltd. Calp Corporation Ketjen Black International Company
		Overseas affiliates	Lion Home Products (International) Ltd. Lion Corporation (Singapore) Pte. Ltd. Lion Corporation (Thailand) Ltd. Lion Daily Necessities Chemicals (Qingdao) Co., Ltd. Lion Advertising Ltd. CJ Lion Corporation Lion Chemical Industry (Taiwan) Co., Ltd. Lion Trading (Shanghai) Co., Ltd. Southern Lion Sdn. Bhd. P.T. Lion Wings
Pharmaceutical Products	Manufacture and sale of pharmaceutical products	Domestic affiliates	Lion Corporation Lion Packaging Co., Ltd. Bristol-Myers Lion Ltd.

Chemicals	Manufacture and sale of chemical products	Domestic affiliates	Lion Corporation Lion Chemical Co., Ltd. Lion Packaging Co., Ltd. Ipposha Oil Industries Co., Ltd. Lion Akzo Co., Ltd. Calp Corporation Ketjen Black International Company
Other businesses	Transport of merchandise and finished products; design, construction, and maintenance of storage facilities; real estate management; manufacture and sale of food products; management of value-added networks, etc.	Domestic affiliates	Lion Engineering Co., Ltd. Lion Business Service Co., Ltd. Lion Building Maintenance Co., Ltd. Lion Logistics Service Company, Ltd. Lion Cordial Support Co., Ltd. McCormick-Lion Limited Planet, Inc. Planet Logistics Co., Ltd.

Business Organization Chart



Note: The thick arrows represent transactions of merchandise, finished products, and raw materials. The line arrows represent provision of services, etc.

Subsidiaries and Affiliates

Consolidated Subsidiaries

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship				
					Shared positions		Financial support	Business dealings	Rental of facilities, etc.
					Lion officers	Lion employees			
Lion Engineering Co., Ltd.	Sumida-ku, Tokyo	Millions of yen 100	Other businesses	% 100.0	2	7	None	Design, construction, and maintenance of facilities	Rental of part of office space
*1 Lion Chemical Co., Ltd.	Sumida-ku, Tokyo	5,400	Home products Chemicals	100.0	5	5	Loans	Purchase of raw materials and merchandise	Rental of part of office space
Lion Dental Products Co., Ltd.	Sumida-ku, Tokyo	10	Home products	100.0	-	7	None	Sale of merchandise and finished products	Rental of office space
Lion Trading Co., Ltd.	Sumida-ku, Tokyo	240	Home products	100.0	2	5	None	Sale of merchandise and finished products	Rental of part of office space
Lion Hygiene Co., Ltd.	Sumida-ku, Tokyo	300	Home products	100.0	1	6	None	Purchase of merchandise	Rental of part of office and warehouse space
Lion Packaging Co., Ltd.	Ichihara -shi, Chiba	180	Home products Pharmaceutical products Chemicals	100.0	1	5	Loans	Purchase of materials and merchandise	Lease of part of land
Lion Business Service Co., Ltd.	Sumida-ku, Tokyo	490	Other businesses	100.0	3	4	Loans	Rental, dealing, and brokerage of real estate, and insuring	Rental of part of office space
Lion Building Maintenance Co., Ltd.	Sumida-ku, Tokyo	40	Other businesses	100.0	1	2	None	Maintenance and management of buildings	Rental of part of office space
Lion Field Marketing Co., Ltd.	Sumida-ku, Tokyo	50	Home products	100.0	1	8	None	Sales promotion activities	Rental of part of office space
Lion Logistics Service Company, Ltd.	Sumida-ku, Tokyo	40	Other businesses	100.0	3	3	None	Transport and storage of merchandise and finished products	Rental of part of office space
Leo Field Promotions Co., Ltd.	Sumida-ku, Tokyo	50	Home products Pharmaceutical products	100.0	1	8	None	Sales promotion activities	Rental of part of office space
*2 C.com's Company, Ltd.	Sumida-ku, Tokyo	10	-	100.0	-	-	Loans	-	-

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship				
					Shared positions		Financial support	Business dealings	Rental of facilities, etc.
					Lion officers	Lion employees			
Lion Cordial Support Co., Ltd.	Sumida-ku, Tokyo	20	Other businesses	100.0	-	4	Loans	Human resources services	Rental of office space
Ipposha Oil Industries Co., Ltd.	Ono-shi, Hyogo	200	Home products Chemicals	74.0	1	3	Loans	Sale of merchandise and finished products and purchase of raw materials and merchandise	Rental of part of office space
McCormick-Lion Ltd.	Iwata-shi, Shizuoka	770	Other businesses	51.0	2	3	None	-	Rental of part of office space
Lion Home Products (International) Ltd.	China (Hong Kong)	Thousands of HK\$ 12,000	Home products	100.0	1	4	None	Sale of merchandise and finished products	-
Lion Corporation (Singapore) Pte. Ltd.	Singapore	Thousands of S\$ 9,000	Home products	100.0	1	3	None	Sale of merchandise and finished products	-
CJ Lion Corporation	South Korea	Thousands of won 5,000,000	Home products	81.0	-	3	None	Sale of merchandise and finished products and purchase of merchandise	-
Lion Daily Necessities Chemicals (Qingdao) Co., Ltd.	China	Millions of yen 723	Home products	75.0	-	6	None	Sale of merchandise and finished products and purchase of merchandise	-
Lion Corporation (Thailand) Ltd.	Thailand	Thousands of baht 300,000	Home products	51.0	3	7	None	Sale of merchandise and finished products and purchase of merchandise	-
Lion Advertising Ltd.	China (Hong Kong)	Thousands of HK\$ 100	Home products	*3 100.0 (100.0)	-	3	None	-	-
Lion Chemical Industry (Taiwan) Co., Ltd.	Taiwan	Thousands of NT\$ 218,150	Home products Chemicals	53.8	3	4	None	Sale of merchandise and finished products and purchase of merchandise	-

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship				
					Shared positions		Financial support	Business dealings	Rental of facilities, etc.
					Lion officers	Lion employees			
Lion Trading (Shanghai) Co., Ltd.	China (Shanghai)	Millions of yen 100	Home products	100.0	-	3	None	Sale of merchandise and finished products and purchase of merchandise	-

Equity-method affiliates

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship				
					Shared positions		Financial support	Business dealings	Rental of facilities, etc.
					Lion officers	Lion employees			
Lion Akzo Co., Ltd.	Sumida-ku, Tokyo	Millions of yen 1,000	Home products Chemicals	% 50.0	2	3	None	Purchase of fatty acid nitrogen derivatives	-
Bristol-Myers Lion Ltd.	Shinjuku-ku, Tokyo	200	Pharmaceutical products	49.0	3	3	None	Purchase of pharmaceutical agents	Rental of part of office space
Ketjen Black International Company	Sumida-ku, Tokyo	50	Home products Chemicals	*4 - [66.6]	-	3	None	Purchase of anti-static agents and carbon	-
Calp Corporation	Chiyoda-ku, Tokyo	100	Home products Chemicals	50.0	2	3	None	Purchase of special synthetic resin compounds	-
Southern Lion Sdn. Bhd.	Malaysia	Thousands of M\$ 22,000	Home products	50.0	-	3	None	Sale of merchandise and finished products	-
Planet, Inc.	Minato-ku, Tokyo	Millions of yen 436	Other businesses	16.0	1	-	None	Utilization of VANs	-
Planet Logistics Co., Ltd.	Minato-ku, Tokyo	240	Other businesses	20.8	1	-	None	Transport and storage of merchandise and finished products	-
P.T. Lion Wings	Indonesia	Millions of rupiah 18,062	Home products	48.0	-	4	None	Sale of merchandise and finished products	-

*1. Lion Chemical Co., Ltd. is a specified subsidiary.

*2. Prior to its liquidation, C.com's Company, Ltd. transferred its business to Lion Business Service Co., Ltd. on December 24, 2005.

*3. The voting shares of Lion Advertising Ltd. are held by Lion Home Products (International) Ltd.

*4. The voting shares of Ketjen Black International Company are held by Lion Akzo Co., Ltd.

5. The figure in parentheses in the "Voting shares held by Lion" column is the percentage of total voting shares held indirectly by Lion Corporation. The figure in brackets in the same column is the percentage of voting shares held by closely related entities (affiliates).

6. In addition to the companies listed above, there are four small-scale, non-consolidated equity-method companies.

Management Policies

1. Basic Management Policies

Committed to its mission of active contribution to society and based on its philosophy that the market is where everything starts, Lion Corporation is striving toward becoming a “leading company in the field of products that help people lead comfortable lives” by providing customers with products and services that offer increased satisfaction in relation to the pursuit of cleanliness, health and beauty. Lion will do everything it can to maintain a good, healthy relationship with its stakeholders, including shareholders, customers, business clients, community members, and employees, and enhance the effectiveness of its corporate governance system. It will also do its utmost to fulfill corporate social responsibilities, which include environmental preservation, making every effort to further increase its corporate value as a highly trustworthy company capable of meeting the expectations of society.

2. Basic Policy on the Distribution of Earnings

Lion considers its most important management issue as increasing its capacity to generate consolidated earnings so as to return profits to shareholders on a permanent and stable basis. Its basic policy is to continue the stable payment of dividends. In addition, Lion retains a portion of profits to invest in R&D and production facilities and to purchase external resources in order to strengthen its capacity for growth and to develop a sustainable business foundation.

3. Reason and Policy for Lowering Investment Unit

Lion is aware of the importance of having sufficient stock liquidity and many investors participate in the stock market in order to invigorate the market and form appropriate share prices. Lion discloses information in a proper manner through financial reports, business reports, and its Web site. Lion is examining the feasibility of lowering its investment unit from a cost-benefit perspective and in broad consideration of share price levels and market trends.

4. Medium and Long-term Management Strategies

Emphasizing management that improves corporate value, the Lion Group changed its business structure in the current fiscal year with the acquisition of two new businesses, comprising the over-the-counter (OTC) pharmaceutical business and South Korean household business, at the end of the previous fiscal year. Accordingly, the Lion Group launched the Value Innovation Plan Part II 09, a new medium-term management plan running until fiscal 2009. The objectives of the plan are to establish a business structure with more efficient management that is able to withstand

global competition, and to strengthen growth potential by creating new businesses.

Lion will continue to implement the three reforms described below, striving to increase its corporate value through the creation of customer value, as a company helping people to lead pleasant, comfortable lives through its pursuit of cleanliness, health, and beauty. Lion aims to achieve consolidated ROE of 10% in fiscal 2009, and achieve a No. 1 position in the field of products that help people lead comfortable lives (household products, OTC drugs, and functional foods).

Reform 1: Restructuring the Foundation for Growth

Lion is shifting to a management structure that prioritizes core businesses, with the aim of becoming a highly efficient and highly profitable corporate group that is agile and has earning power.

1. We will revise business and product strategies in order to prioritize competitive and growth areas and to cultivate new business areas.
2. We will promote the integration of marketing and R&D to develop products more precisely and promptly.
3. We will increase our sales power at retail stores in order to strengthen sales capabilities dramatically.

During this fiscal year, Lion introduced distinctly new products and embarked on an aggressive marketing campaign to realize stability and steady growth in the two new businesses it acquired at the end of the previous fiscal year. In addition, Lion sought growth in sales of Acron, Soflan and Smile eyedrops, and related products by aggressively investing in marketing for principal brands. Lion also introduced new products such as Kireikirei gargle, medicine for prevention of drowsiness and anti-pollen allergy products, predicting customer needs.

Reform 2: Improvement of the Profit Structure

In fiscal 2001 Lion established a Committee for Improving the Profit Profile and since then it has engaged in efforts to reduce the total costs of the entire Lion Group in a top-down fashion. In 2005 Lion established a new target of reducing total costs by ¥10.0 billion in five years, and it is working forcefully to accomplish fundamental structural reform.

During this period, Lion implemented measures to reduce distribution costs and improve the efficiency of sales promotion costs while aggressively promoting reductions in manufacturing costs despite significant impact from increasing raw material costs caused by soaring crude oil prices,

which hovered at high levels. We also worked to manage risks in core systems and reduce operational costs. Resources saved through these measures were redirected to investment in key brands and nurturing new products.

Reform 3: Rapid Improvement of Management Capabilities

Lion will seek to increase the organizational strength of the entire Lion Group with a thoroughgoing implementation of performance-based and capacity-based evaluations, and by developing and strengthening human resources with a downsized but highly capable workforce.

In this fiscal year, Lion continued to promote profit-oriented management and to strengthen the development of employee capabilities through a performance-based compensation system and adoption of job-category and grade-based evaluation standards introduced in fiscal 2003. In addition, we established the CSR Promotion Department and engaged in enhancing the corporate system to further instill corporate social responsibility.

5. Management Issues

While the difficult business environment is expected to persist, Lion believes its most important issue is achieving a successful shift to management focused on increasing corporate value through the vigorous implementation of the Value Innovation Plan Part II 09 begun this fiscal year. In order to survive amidst severe global competition, Lion is working to 1) increase product development ability and brand strength, 2) augment sales capabilities in response to changes in the distribution structure, and 3) establish a competitive cost structure in order to promote business growth and become a highly efficient and highly profitable corporate group.

In the first stage of the plan lasting until fiscal 2006, we will concentrate Companywide efforts on making the newly acquired OTC business and South Korean household business successful. At the same time, Lion will further promote the selective and prioritized allocation of management resources, the core strategy of the Value Innovation Plan Part II 09, and redirect the resources that are freed toward marketing and R&D investments to strengthen the creation of consumer value. In the second stage of the plan from fiscal 2007, we will solidify our profit foundation and return value to stakeholders, while aiming for further growth and significant improvements in earnings capabilities by earmarking management resources for acquiring and nurturing new businesses and business sphere expansion.

In Home Products, we will strengthen our capacity to identify needs for pioneering new products through improved consumer research, and further strengthen retail development capabilities through our shelf-placement management company Lion Field Marketing Co., Ltd. At the same

time, we will effect a further restructuring of growth foundations by strengthening business operations in the ASEAN region and expanding our operations in China and South Korea. In the pharmaceutical segment, we will place priority on strengthening the OTC business, including new areas, and augment sales and market-response capabilities. We will position chemicals as a potential core business, and will work to switch to a business structure centered on high-performance, environmentally friendly products along the theme of ecology, performance, and oleo-chemicals (EPOC), seeking to develop chemicals as a business that will support Lion's future growth.

Lion will work to promote further management efficiency reform by making major reductions to the manufacturing costs of mainline products with process innovations, by using information technology to increase the efficiency of supply chain management, and by rationalizing indirect operations, and will also work to reform the profit structure by examining an optimum production system for the corporate group including foreign operations.

We will strive to further improve management capability through the implementation of consolidation-oriented management and the establishment of profit-oriented management. We intend to develop a consolidated management system based on the centralized administration of management resources at the Group level and to thoroughly implement performance- and results-oriented evaluations and further strengthen the system of profit-centered responsibility.

Furthermore, as a part of our efforts to prevent global warming, Lion engages in various activities to reduce carbon dioxide (CO₂) emissions, develop eco-friendly products and minimize packaging materials. Since June 2005, Lion has also participated in the Team Minus 6% project, a new national project advocated by the Japanese government to accomplish the goal of reducing greenhouse gas emissions by 6%. In line with this, the Lion Group reduced its CO₂ emissions by introducing a COOL BIZ workplace, instituting informal dress without ties and jackets, and maintaining office temperatures at approximately 28 degrees during the summer. In order to realize a recycling-oriented society, Lion contributes to society through a variety of energy-saving activities and is committed to being in the environmentally friendly vanguard.

6. Basic Thinking on Corporate Governance and Its Implementation

(1) Basic Thinking on Corporate Governance

Enhancing management transparency, strengthening auditing functions, promoting swift decision-making, and ensuring compliance are positioned as priority issues in corporate governance at Lion. We aim to enhance corporate value by strengthening our corporate governance structure.

(2) Implementation of Corporate Governance

1) Status of corporate governance and management organization related to business decision-making, execution and auditing, and efforts to improve

We have been supervising the management of our business under a corporate auditor system. Since March 2004, we have had an executive officer system to separate business supervision and execution, which was previously handled by the Board of Directors. Management decision-making and supervision are handled by the Board of Directors, while executive officers handle business execution.

Moreover, we reduced the number of directors in an aim to invigorate the Board of Directors and enhance maneuverability. In October 2003, we established the Management Evaluation Committee composed of prominent citizens from outside the Company so as to have their evaluations and views reflected in future business management.

Directors, Board of Directors, and Executive Committee

The Board of Directors comprises 11 directors, although currently the number is 10 because Executive Director Horiguchi passed away on January 22, 2005. The Board of Directors meets regularly once a month, and as necessary to make decisions on important management matters and observe the business execution activities of directors and executive officers.

Moreover, critical corporate strategies such as the fundamental policies of medium- and long-term management plans are debated in Senior Executive Committee whose members are mainly senior executive directors and higher ranked officials, completing a structure enabling the Board of Directors to quickly reach appropriate decisions.

In addition, measures directly related to business execution are deliberated and examined from various viewpoints at the Executive Committee, which comprises the Chief Executive Officer (President), Executive Vice President, directors, 12 executive officers including heads of business divisions and standing corporate auditor.

Management Evaluation Committee

Comprising eight prominent citizens from outside the Company, the Management Evaluation Committee meets twice a year to reflect in management the committee members' opinions about every aspect of the business, including the status of corporate governance, future direction of

business and product development, and approach to corporate social responsibility.

Corporate Auditors and the Board of Corporate Auditors

Lion has four corporate auditors comprising two external corporate auditors and two standing corporate auditors. The Board of Corporate Auditors meets regularly once every two months and on a provisional basis as necessary. One employee is assigned to assist the corporate auditors and Board of Corporate Auditors.

Corporate auditors participate in meetings of the Board of Directors and other important meetings in accordance with the auditing policies and plans determined by the Board of Corporate Auditors, review reports on business execution from directors and the internal auditing division, conduct visiting audits at headquarters and primary offices, and audit subsidiaries. In addition, auditors receive auditing reports from accounting auditors, examine financial documents and supplementary itemizations, and periodically exchange views with directors once every three months with the chairman of the Board of Directors and once every six months with other directors.

Accounting Audits

Lion has an auditing agreement with Ernst & Young ShinNihon to perform accounting audits based on the Commercial Code and the Securities and Exchange Act of Japan.

A description follows for the certified public accountants, their years of service and assistants that performed their duties during this fiscal year under review.

* Names and years of service for certified public accountants that performed their duties:

Designated employee, engaged employee: Toshio Matsumura 21 years

Designated employee, engaged employee: Shoji Sakakura 15 years

Designated employee, engaged employee: Osamu Tada 8 years

* Assistants in accounting work:

10 certified public accountants, 14 junior accountants

Internal Audits

The Auditing Office, comprising six corporate auditors, conducts audits related to compliance and internal controls in the context of legality, fairness, and efficiency for the business execution at operational divisions and affiliated companies based on annual internal audit plans. The results of

internal audits are reported to the President, director in charge, Executive Committee, and Board of Corporate Auditors to enhance collaboration on auditing among corporate auditors.

Maintenance of Internal Control System

Lion has formulated a Group Charter for Corporate Behavior and created behavioral guidelines as a basis for compliance and strengthening corporate ethics. In order to thoroughly instill compliance among directors and employees, Lion established the Corporate Ethics Committee with a dedicated corporate ethics manager to chair the Committee. This committee promotes an enhanced compliance structure through specific measures to fully engender corporate ethics awareness, respond to breaches of ethics or behavior, prevent recurrence, and establish an Internal Control System.

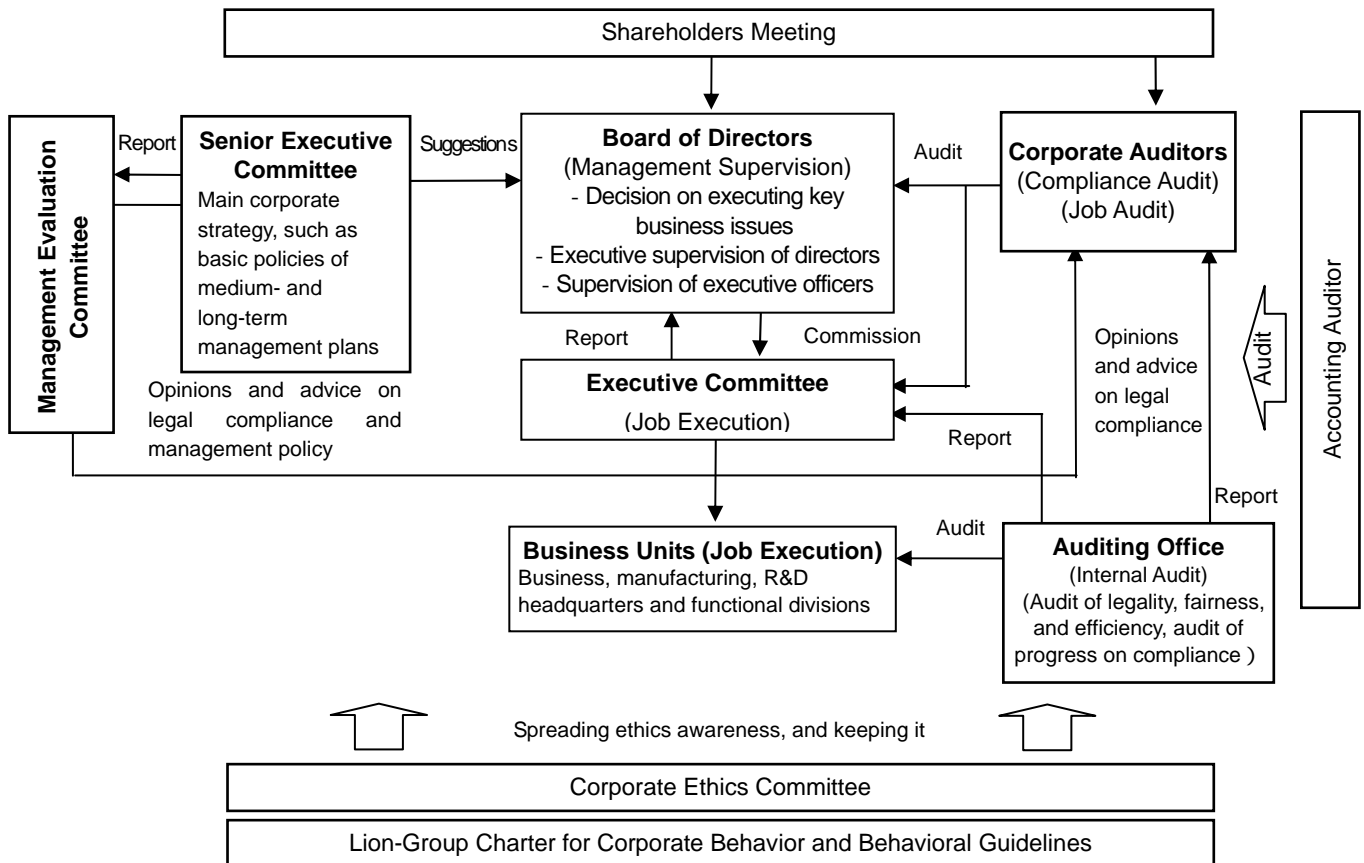
To ensure business efficiency and effectiveness, Lion has various rules that define standards for decision-making authority by the President or director in charge, and a product development management system to set operational processes and quality guarantees for each stage of product development, etc.

Corporate auditors and the Auditing Office periodically perform audits to monitor whether these measures are being appropriately deployed.

Lion ensures appropriate information disclosure by seeking the opinions of standing corporate auditor regarding whether certain information should be disclosed.

Lion's framework for monitoring business execution and management as well as internal control systems are as follows.

<Lion's Corporate Governance System>



Risk Management Structure

There are various types of business risks including those related to management, laws, the environment, accidents, and natural disasters. Of these risks, Lion manages daily business risks with the cooperation of business divisions and specialized organizations. The Lion Group manages risks likely to have a considerable impact on business activities by analyzing risks in affiliated divisions beforehand, examining countermeasures and deliberating these risks in the Senior Executive Committee and at the Executive Committee. For risks related to the environment, accidents and natural disasters, countermeasures are examined beforehand in the Environmental Action Promotion Committee, Product Liability Committee and Safety and Disaster Prevention Committee, and deliberated as necessary at the Executive Committee. In addition, Lion receives advice about risk management from attorneys and other specialists as necessary.

Other

Compensation for directors and auditors in this fiscal period is as follows.

Compensation for directors

1 Compensation for directors and corporate auditors

Eleven directors ¥288 million

Four corporate auditors ¥46 million

2 Employee's salary and bonuses for employee who is currently director

One employee ¥19 million

Compensation for auditors

Compensation for accounting auditor Ernst & Young ShinNihon

Compensation for audit certification under the audit contract ¥32 million

Other compensation ¥5 million

2) Summary of human-related interests between external directors and external corporate auditors, transaction-related capital relationships, and other third-party interests

Lion does not have any external directors.

Lion has two external corporate auditors, appointed on March 28, 2003.

Based on a resolution passed at the 143rd Ordinary General Meeting of Shareholders held on March 30, 2004, Lion has issued for free 40 units (40,000 shares) of new stock subscription rights as stock options. The stock subscription rights have an exercise price of ¥651 per share, and can be exercised between April 1, 2007 and March 31, 2009.

Besides these stock options, there are no human-related interests between external corporate auditors, transaction-related capital relationships, or third-party interests.

3) Recent activities in enhancement of corporate governance

During fiscal 2005, Lion's Senior Executive Committee has been reviewing various measures to enhance corporate governance, reflecting opinions from the Management Evaluation Committee. In accordance with the findings of the review, a resolution was approved at the Board of Directors Meeting on February 6, 2006, to submit a resolution at the 145th Meeting of the Company's shareholders scheduled on March 30, 2006 (hereinafter the "upcoming Shareholders' Meeting"). The resolution calls for the cessation of additional accrued retirement allowances for directors, the

introduction of stock options under a stock-based compensation plan, the shortening of directors' terms and the appointment of external directors.

4) Strengthening corporate governance structure through installation of trust-type rights plan

The Board of Directors of Lion Corporation ("Lion" or "the Company") met on February 6, 2006, to devise a response in the event a particular shareholder proposes to acquire or purchase over 20% of Lion Corporation's stock without its prior consent. In preparation for such cases, the Board of Directors decided to introduce a trust-type rights plan incorporating both subscription rights and a trust structure. As one link in that plan, the Board of Directors will submit a resolution seeking approval of a gratis issue of subscription rights at the 145th regular shareholders' meeting on March 30, 2006.

This trust-type rights plan would allow Lion to issue subscription rights to be held in trust by a designated trust bank. Lion shareholders of record, excluding the acquirer, at a pre-determined date would be the beneficiaries. In the event of an acquisition that is deemed potentially detrimental to Lion and its stakeholders, said trust bank will issue stock acquisition rights to all beneficiaries excepting the acquirer and certain parties concerned. Thus, the beneficiaries would be able to exercise their rights to acquire additional shares of Lion's common stock at a discount.

Lion's trust-type rights plan provides the following measures to safeguard the effectiveness of the trust-type rights plan and ensure its successful implementation.

- (i) Special approval must be obtained at a Shareholders' Meeting for issuance of stock acquisition rights at no charge.
- (ii) The exercise period would be defined as three years through the establishment of a sunset clause, and another resolution would be required to extend the trust-type rights plan beyond this three-year period.
- (iii) A mechanism would be established allowing the Board of Directors (including directors appointed by the acquirer) to cancel the stock acquisition rights before the acquirer obtains a specified percentage of Lion's stock.
- (iv) Objective terms and conditions would be established for the cancellation of the stock acquisition rights when the proposed acquisition is deemed to not be detrimental to Lion and its shareholders.
- (v) The existing corporate governance structure would be further strengthened through:
 - (a) Establishment of the Corporate Governance Committee

In the event of a proposed acquisition, the Board of Directors would collect information

regarding the acquirer, consider the proposal and negotiate with the acquirer. In accordance with the results, the Board of Directors will determine whether the trust-type rights plan should be implemented by instructing the trust bank to issue stock acquisition rights to all beneficiaries, excluding the acquirer.

In order to secure an objective and impartial decision-making process, Lion plans to establish a Corporate Governance Committee comprised solely of independent, outside members. This Corporate Governance Committee is authorized to advise the Board of Directors regarding the necessity of activating the trust-type rights plan.

In addition, the Corporate Governance Committee has the authority to report to the Board of Directors on the propriety of taking countermeasures against acquisition proposals with ownership constituting less than 20% of Lion's outstanding stock. The Board of Directors will utilize the recommendations of the Corporate Governance Committee in arriving at their final determination..

The Corporate Governance Committee will be comprised of two external directors and two external corporate auditors.

(b) Appointment of external directors

In tandem with strengthening its supervisory function, Lion Corporation plans to recommend the appointment of two external directors at the upcoming Shareholders' Meeting, in conjunction with introduction of the aforementioned trust-type rights plan. External directors are scheduled to serve as members of the Corporate Governance Committee, in addition to their other oversight functions.

(c) The shortening of directors' terms

To increase the opportunities of shareholders to confirm their trust in directors, Lion is planning to propose at the upcoming Shareholders' Meeting an amendment of the Company's Articles of Incorporation, which would shorten to one year the terms of directors, from the current term of two.

7. Matters Related to the Parent Company

None.

Operating Results and Financial Position

1. The Year in Review

(1) Overview of Results of Operations

Staging an overall recovery throughout the year, the Japanese economy reflected a modest increase in consumer spending, encouraged by improved corporate profitability and robust private sector capital investment. However, Lion's mainstay domestic household product business and its over-the-counter (OTC) pharmaceutical business, on which the new growth strategy is centered, were negatively affected by the dual impact of spiraling crude oil prices and declining retail prices with some product exceptions.

Consolidated net sales totaled ¥331,798 million, an increase of 7.2% from the previous fiscal year. Operating income increased 0.7% to ¥6,066 million and ordinary income rose to ¥8,514 million, up by 2.9%. As a result, net income amounted to ¥5,473 million, compared with a net loss of ¥4,723 million in the previous year.

<Consolidated>

(Millions of yen)

Net sales	FY 2005	FY 2004	Increase/ decrease	Change
Home Products	237,241	230,398	6,842	3.0%
Pharmaceutical Products	50,315	32,162	18,152	56.4%
Chemicals	33,898	33,108	789	2.4%
Others	10,343	13,844	(3,501)	(25.3%)
Total	331,798	309,514	22,283	7.2%

Note: Previously included in the Pharmaceutical Products segment until the previous fiscal year, dental materials handled by Lion Dental Products Co., Ltd. is classified under the Home Products segment (oral care business field) from FY 2005. The impact of this change on sales was ¥2,919 million in this fiscal year (¥2,835 million in FY 2004).

(Millions of yen)

	FY 2005	Ratio to net sales	FY 2004	Ratio to net sales	Increase/ decrease	Change
Operating income	6,066	1.8%	6,021	2.0%	44	0.7%
Ordinary income	8,514	2.6%	8,271	2.7%	243	2.9%
Net income	5,473	1.7%	(4,723)	(1.5%)	10,196	-

<Non-consolidated>

(Millions of yen)

Net sales	FY 2005	FY 2004	Increase/ decrease	Change
Home Products	191,863	205,040	(13,177)	(6.4%)
Pharmaceutical Products	50,291	32,137	18,154	56.5%
Food Products	-	701	(701)	-
Chemicals	26,717	27,551	(833)	(3.0%)
International	2,021	1,951	70	3.6%
Total	270,894	267,382	3,511	1.3%

Note: Previously included in the Pharmaceutical Products segment until the previous fiscal year, dental materials is classified under the Home Products segment from FY 2005. The impact of this change on non-consolidated sales was ¥2,920 million in FY 2005 (¥2,835 million in FY 2004).

(Millions of yen)

	FY 2005	Ratio to net sales	FY 2004	Ratio to net sales	Increase/ decrease	Change
Operating income	2,907	1.1%	1,600	0.6%	1,306	81.6%
Ordinary income	6,453	2.4%	5,295	2.0%	1,157	21.9%
Net income	4,657	1.7%	(5,428)	(2.0%)	10,086	-

< Geographical Segments >

(Millions of yen)

Net sales	FY 2005	
	Net sales	Operating income
Japan	295,220	5,720
Asia	39,636	272
Corporate and eliminations	(3,058)	73
Consolidated total	331,798	6,066

(2) Segment Information**<Home Products>**

(Millions of yen)

	FY 2005	Ratio to net sales	FY 2004	Ratio to net sales	Increase/ decrease	Change
Net sales	237,241		230,398		6,842	3.0%
Operating income	8,434	3.6 %	11,249	4.9 %	(2,814)	(25.0%)

Net sales of Home Products totaled ¥237,241 million, representing an increase of 3.0% year on year.

The Lion Group's mainstay household product market in Japan encountered bleak business conditions amidst price-cutting of laundry detergents and fabric softeners by retailers.

Against this backdrop, Lion strengthened its domestic home products business with the introduction of differentiated products while utilizing strategic marketing investment in principal products to pursue its aim of creating No.1 brands with ¥10 billion in sales. In light of this, Lion is making efforts to reduce sales promotion expenses and increase productivity.

Overseas, Lion focused on reinforcing its business foundation by streamlining sales systems and advertising core brands, in preparation for rapidly developing the Home Products business in Korea that was acquired at the end of the previous fiscal year.

Operating income fell 25.0% from the previous fiscal year to ¥8,434 million, impacted by heavy market competition and soaring crude oil prices despite an overall decrease in manufacturing costs and aggressive cutting of domestic sales promotion expenses.

<Principal divisions>

(Millions of yen)

	FY 2005	FY 2004	Increase/ decrease	Change
Oral Care Products Division	50,431	45,358	5,072	11.2%
Beauty Care Products Division	35,909	35,109	800	2.3%
Household Products Division	150,900	149,930	969	0.6%

Oral Care Products

Dentor Systema is Lion's comprehensive brand for gum disease prevention. To further develop the brand, Lion introduced new mouthwash and interdental products with innovative technology to complement existing toothpaste and toothbrush offerings. A new Clinica Kid's series, which proposed a new cavity prevention lifestyle for parents and children, enjoyed favorable toothpaste, toothbrush and dental rinse sales.

In the toothpaste business, Lion launched an improved Clinica Toothpaste for Caries Risk Control that promotes re-mineralization of teeth and introduced a new flavor of Prime Stain Off that restores teeth to their original whiteness and sparkle, while the Company's mainstay Dentor series showed steady sales. However, overall sales of toothpaste were stagnant due to severe market competition.

Regarding toothbrush sales, the ultra-fine bristles Dentor Systema showed strong performance with its clear, appealing message of gum disease prevention. Lion upgraded the Clinica toothbrush for more effective brushing behind teeth and better access to rear teeth, places where plaque can easily build up. Overall toothbrush sales were, however, on par with the previous period.

Sales of mouthwash remained bolstered from the previous year, owing to new release of Dentor Systema Dental Rinse that penetrates deep inside the "biofilm" (communities of

periodontal-disease producing bacteria) to kill bacteria, along with the release of mild and safe non-alcohol type Clinica Kid's Dental Rinse.

As for dental products, sales increased reflecting the popularity of DENT.EX Systema and the new Brilliant toothpaste for healthy and white shining teeth.

Overseas, demand for the Systema series grew significantly in Thailand. Lion actively updated its selection of toothpastes and toothbrushes for the Chinese market, resulting in remarkable year-on-year sales growth.

As a result, net sales of this segment totaled ¥50,431 million, up by 11.2% from the previous year.

Beauty Care Products

In its Kireikirei series, Lion introduced Kireikirei Gargle that is highly effective in sterilization. Coupled with existing hand soaps and body washes, Lion has actively developed this series as an all-round brand that promotes hygienic lifestyles.

Sales of shampoos and conditioners significantly exceeded sales in the previous period, owing to new Shokubutsu-Monogatari (Plant Story) Herb Blend Shampoo and Shokubutsu-Monogatari (Plant Story) Herb Blend Conditioner, along with the popularity of Soft-in-One moisturizing shampoo with seaweed extract.

Despite strong demand for Kireikirei Medical Foaming Hand Soap, a product that is easily used by children who have trouble making lather with conventional soaps, sales of hand soaps were sluggish due to intensifying market competition.

In the field of body washes, Lion introduced new products Shokubutsu-Monogatari (Plant Story) Herb Blend Body Wash and Kireikirei Medicated Body Wash that contains sanitizing, deodorizing ingredients to prevent body odor and the smell of sweat.

Lion enhanced its lineup of hair-nourishment treatments to meet demand from a wider range of consumers from young to old. In this light, the Company introduced Neo and Scalp Tonic to its Mouhatsuryoku Innovate series. However, sales underran figures from the previous period due to severe competition in the market.

Tough competition in the antiperspirant and deodorant market impeded sales of the mainstay Ban Powder Spray, and weakened overall sales fell below previous period sales despite strong performance in the Men's Ban Zero series.

Overseas, Lion enhanced Thailand's favorite Shokubutsu-Monogatari (Plant Story) series and launched hand soap in South Korea. As a result, overseas sales surged, doubling those of the previous fiscal year.

Net sales in this segment amounted to ¥35,909 million, with an increase of 2.3%.

Household Products

In the Household Products business, Lion placed the highest priority on reducing sales promotion expenses for laundry detergents and fabric softeners. Sales of laundry detergents decreased amid heavy market competition, however, Lion made steady progress in restructuring its sales network for greater profitability.

Lion improved its mainstay laundry detergents, including Top that breaks down sebaceous stains from body oils and Heyaboshi (Hang-to-Dry Indoors) Top that controls unpleasant smells generated by laundry hung inside to dry. Lion also enhanced the effectiveness of Acron, a delicate fabric wash that prevents clothes from losing their style and fit. Furthermore, the Company introduced new Liquid Heyaboshi (Hang-to-Dry Indoors) Top. Despite the Company's efforts, overall sales of laundry detergents declined from the previous fiscal year against the backdrop of intensifying competition.

Overall sales of bleaches increased, owing to the steady performance of Temanashi Bright and the further development of Super Temanashi Bright that contains powerful stain-removing additives.

Lion introduced the new fabric softeners Kaori to Deodorant no Soflan ("Soflan with Fragrance and Deodorant") with superlative odor protection advantages and Heyaboshi (Hang-to-Dry Indoors) Soflan that controls the cause of musty smells associated with indoor drying. As a result, sales of fabric softeners saw strong year-on-year growth.

Against the backdrop of intensifying market competition, sales declined in dishwashing detergents despite the improvement of Charmy Liv with strong cleaning power and the introduction of new Charmy Liv Mild to the market.

Overall sales of household cleaners were weak compared with the previous fiscal year, and reflected sluggish sales of Kabitori (Mold-Removing) Look Powerful Gel that masked robust sales of high-detergency Ofuro no Look (bath cleaner).

Among cooking-aid products, sales of Lion's mainstay Reed Cooking Paper were affected by market consolidation. As a result, overall sales fell year on year.

Overseas sales expanded overall to levels twice those of the previous fiscal year. This result can be attributed to the strong performance of laundry detergent Top in Singapore, soaring demand for the new hang-to-dry indoor type laundry detergent Pao in Thailand, and quality enhancement of Beat, a laundry detergent sold in South Korea.

As a result, net sales of the segment totaled ¥150,900 million, representing an increase of 0.6%.

Principal new products

Clinica Toothpaste for Caries Risk Control (Brisk cool mint flavors type)

Clinica Toothbrush

Shokubutsu-Monotari (Plant story) Herb Blend Shampoo

Shokubutsu-Monogatari (Plant story) Herb Blend Conditioner

Shokubutsu-monogatari (Plant story) Herb Blend Body Wash

Liquid Hheyaboshi (Hang-to-Dry Indoors) Top / Laundry detergent

Kaori to Deodorant no Soflan ("Soflan with Fragrance and Deodorant") / Fabric softener

Heyaboshi (Hang-to-Dry Indoors) Soflan / Fabric softener

Charmy Liv Mild / Dishwashing detergents

<Pharmaceutical Products>

(Millions of yen)

	FY 2005	Ratio to net sales	FY 2004	Ratio to net sales	Increase/decrease	Change
Net sales	50,315		32,162		18,152	56.4%
Operating income	3,619	7.2%	2,231	6.9%	1,387	62.2%

In the Pharmaceutical Products business, net sales increased 56.4% compared with the corresponding period of the previous fiscal year to ¥50,315 million.

With prompt introduction of new products to core brands in the over-the-counter (OTC) drugs business that was acquired at the end of the previous fiscal year, Lion placed priority on establishing a firm foundation in this market by advertising aggressively. Operating income increased 62.2% year on year to ¥3,619 million due to early contribution of new products in the OTC drugs business, despite the cost of market competition to nurture new products and brands.

Principal divisions

In the area of analgesics, mainstay Bufferin A enjoyed robust sales as sales promotion activities were strengthened by the product's own features of being both fast-acting and mild on the stomach.

Sales of eye care products significantly increased, owing to strong performance of Smile 40 EX. In this fiscal year, Lion launched new eye drops Smile PIT Dry Eye, which effectively relieve dry eye distress, and Smile Contact Fine Fit Plus, a medical eye drop that makes insertion of contact lenses easier.

In the gum-disease treatment business, Lion enhanced effectiveness of new Dent-health, an ointment to ease symptoms of gum disease, which contributed to the strong sales increase.

Sales of Stoppa Anti-Diarrhea Medicine, which can be taken anywhere without water, were robust, contributing to overall sales of anti-diarrheic drugs along with Stoppa L with herbal medicine introduced in this fiscal year.

In addition, Lion released Tomerumin, an easy-to-carry remedy for sleepiness and fatigue that can be taken without water, which also contributed to sales.

At the end of the previous fiscal year, Lion took over the nonprescription products (OTC) business of Chugai Pharmaceutical Co., Ltd., including its tonic and insecticide businesses.

To that end, the Company endeavored to develop new products while nurturing its core brands by releasing Guronsan Red, a health tonic drink that is effective at relieving fatigue. In parallel, Lion vigorously facilitated sales promotion activities for the Varsan series, calling attention to the need to protect family members from allergenic substances. These activities largely contributed to sales expansion within this segment.

Principal new products

Smile PIT Dry Eye / Eyedrops
 Dent-health Brushing Care / Gum-disease treatments
 Stoppa L Anti-Diarrhea Medicine
 Tomerumin / Medicine for prevention of drowsiness
 Guronsan Red / Health tonic drink
 Chugai Ichoyaku S / Gastrointestinal medicine

<Chemicals>

(Millions of yen)

	FY 2005	Ratio to net sales	FY 2004	Ratio to net sales	Increase/decrease	Change
Net sales	33,898		33,108		789	2.4%
Operating income	1,020	3.0%	1,623	4.9%	(602)	(37.1%)

In this segment, net sales rose by 2.4% to ¥33,898 million compared with the corresponding period of the previous fiscal year.

Despite the severe business environment, marked by surging crude oil prices and inventory adjustments associated with the ongoing IT recession, Lion engaged in the development of new products that meet customer demands, along with other high-value added products

Operating income decreased by 37.1% to ¥1,020 million, impacted by soaring crude oil prices and related factors, overshadowing improvements in profitability through rationalization.

Principal divisions

Demand for surfactants and fatty-acid nitrogen derivatives for fabric softeners showed steady increase in the domestic market. However, overall sales of surfactants and fatty-acid nitrogen derivatives declined year on year due to intensifying export competition to China.

On the contrary, sales of fatty-acid methyl ester were buoyed both at home and overseas, owing to the high-purity features of its palm oil ingredient, with strong demand for use in metalworking processes and in alcohol.

Exports of electro-conductive carbon increased markedly, reflecting high appreciation by overseas users of its excellent conductivity for use in electronic components. In the domestic market, however, sales decreased compared with the previous fiscal year due to increased competition, leading to an overall sales decrease.

Overseas, the South Korean acquisition of the chemicals division of CJ Corporation at the end of the previous fiscal year contributed to the increase of segment sales.

<Others>

(Millions of yen)

	FY 2005	Ratio to net sales	FY 2004	Ratio to net sales	Increase/decrease	Change
Net sales	10,343		13,844		(3,501)	(25.3%)
Operating income	(97)	-	258	1.9%	(356)	-

The decrease in the number of works completions in the construction contracting business was a factor that caused net sales in this segment to down by 25.3%, to ¥10,343 million, and operating loss was ¥97 million (Operating income of FY 2004 was ¥258 million).

Financial Status

	FY 2005	FY 2004	Change
Total assets (million yen)	249,303	235,405	13,898
Total shareholders' equity (million yen)	109,103	101,021	8,081
Shareholders' equity ratio (%)	43.8	42.9	0.9p
Shareholders' equity per share (yen)	384.60	356.90	27.70

(Millions of yen)

	FY 2005	FY 2004	Change
Cash flows from operating activities	1,865	4,270	(2,405)
Cash flows from investing activities	(9,262)	(10,059)	796
Cash flows from financing activities	(1,514)	(1,553)	38
Translation gain related to cash and cash equivalents	130	104	25
Increase (decrease) in cash and cash equivalents	(8,781)	(7,237)	(1,544)
Cash and cash equivalents at end of the fiscal year	15,788	24,480	(8,691)

Total assets at the end of fiscal 2005 amounted to ¥249,303 million, an increase of ¥13,898 million compared with the corresponding period of the previous fiscal year. Shareholders' equity totaled ¥109,103 owing to a shift to net income from net loss in the previous fiscal year, an increase in retained earnings and unrealized holding gains on other securities. The shareholders' equity ratio stood at 43.8%.

<Consolidated Cash Flows>

Net cash provided by operating activities totaled ¥1,865 million, compared with ¥4,270 million during the previous fiscal year. While net income before income taxes amounted to ¥8,737 million (compared with a net loss of ¥5,017 million in the previous fiscal year), major factors behind the decrease included decreases in depreciation and amortization charges, as well as in accrued expenses and other payables, coupled with increases in trade notes and accounts receivable, and in inventories.

Net cash used in investing was ¥9,262 million, compared with ¥10,059 million in the previous fiscal year, owing to purchases of property, plant and equipment of ¥8,943 million and investment securities of ¥4,562 million.

Net cash used in financing activities was ¥1,514 million, compared with ¥1,553 million at the end of the previous fiscal year. Cash dividends totaled ¥2,260 million.

<Changes in major indicators for financial status>

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Shareholders' equity ratio (%)	44.6	43.1	45.0	42.9	43.8
Shareholders' equity ratio on a market value basis (%)	58.3	56.5	66.6	71.9	85.8
Debt redemption (years)	1.2	0.5	0.7	3.9	9.8
Interest coverage ratio	40.8	119.8	86.7	25.6	7.1

(Notes)

Shareholders' equity ratio: Total shareholders' equity / Total assets

Shareholders' equity ratio on a market value basis: Value of shares / Total assets

Debt redemption (years): Interest bearing liabilities / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest payment

* All the indicators are based on consolidated financial data.

* "Value of shares" is calculated on the basis of "closing stock price as of the end of the term" multiplied by "the number of outstanding stocks as of the end of the term" (after the deduction of treasury stocks).

* "Cash flows from operating activities" are those in the consolidated cash flow data.

"Interest bearing liabilities" mean all liabilities that are bearing interests among the liabilities in the consolidated balance sheet.

For the amount of interest paid, figures in the consolidated cash flow data are used.

(4) Appropriation of Earnings

<Dividends>

The dividend for the second half of fiscal 2005 will be ¥5 per share, up from the first half of fiscal 2005, and a total dividend will be ¥9 per share for the full year.

<Repurchase of Treasury Stock>

In January 2005, Lion repurchased one million shares of treasury stock with an aggregate value of ¥605 million.

2. Outlook for FY 2006

(1) Forecasts

<Consolidated>

(Millions of yen)

	FY 2006 forecast	FY 2005	Increase/decrease	Change
Net sales	350,000	331,798	18,201	5.5%
Ordinary income	9,000	8,514	485	5.7%
Net income	5,000	5,473	(473)	(8.6%)

<Non-Consolidated>

(Millions of yen)

	FY 2006 forecast	FY 2005	Increase/decrease	Change
Net sales	280,000	270,894	9,105	3.4%
Ordinary income	7,000	6,453	546	8.5%
Net income	5,000	4,657	342	7.4%

In 2006, gradual recovery is expected in the Japanese economy. However, a continuing severe business environment is predicted to prevail in the household product market, reflecting intensifying sales competition among manufacturers as well as hovering raw material costs.

Against this backdrop, the Home Products business will facilitate the development and launch of new value-added products in advance of our competitors, as well as nourish core brands by focusing on marketing investment and strengthening in-store management activities.

Overseas, active business development is expected to produce an upswing in sales throughout South Korea and ASEAN countries.

In the pharmaceutical products business, greater sales within the new OTC drugs business are anticipated through the addition of new products to mainstay brands, while sales are also expected to increase with Lion's entry into the functional food products business utilizing proprietary technology.

Despite the Company's endeavors to expand sales in eco-friendly high-value-added products, sales in the chemicals business are expected to be on par with the fiscal 2005 due to continuing severity in the business environment.

In the other business segment, possible sales growth is seen in the construction contracting business.

As a result, consolidated net sales are estimated to increase by 5.5% to ¥350,000 million. Estimated ordinary income is expected to reach ¥9,000 million, up 5.7%, with estimated net

income of ¥5,000 million, a decrease of 8.6% year on year.

Cash dividends for fiscal 2006 are forecast at ¥5 per share both for interim and year-end dividends, up ¥1 from fiscal 2005.

(2) Consolidated Cash Flows

In cash flows from operating activities, income before income taxes is projected at approximately ¥8.0 billion. Depreciation and amortization charges are projected to total around ¥10.0 billion.

In cash flows from investing activities, capital expenditures are projected to total ¥11.5 billion.

The cash flows from financing activities are expected to decline by about ¥3.0 billion from the fiscal 2005 level because of the payment of dividends.

Consequently, cash and cash equivalents at the end of fiscal 2006 are projected at ¥19.0 billion.

The forecasts and projected operating results contained in this report are based on information available at the time of preparation, and thus involve inherent risks and uncertainties. Accordingly, readers are cautioned that actual results may differ materially from those projected as a result of a variety of factors.

1. Business Risks

The Lion Group's management performance and financial status may be adversely affected by various risks as business activities are pursued in the future. Of these risks, the following items in particular may have a material impact on the decisions of investors.

Forward-looking statements are based on decisions made by the Lion Group as of the date of release of this business report. Business risks are not limited to the items listed below.

(1) Product quality and value

The Lion Group plans, develops, produces, and sells products under management based on international quality standards while strictly following related laws and regulations, such as the Pharmaceutical Affairs Law, to provide worry-free, safe, convenient, and environmentally conscious products to customers. In addition, we use customer opinions received through our Consumer Service Office to improve our products, packaging text and displays.

In the event of an unforeseen and serious problem with product quality, however, the affected product and all products made by the Lion Group may lose their perceived value. This may adversely affect the Lion Group's management performance and financial status.

(2) Changes in raw material prices

The Lion Group's products use minerals and vegetable oils and fats as basic materials. Since these materials are easily affected by international market prices, we have measures in place to reduce costs and diversify the range of materials used. However, an increase in raw material prices may adversely affect the Lion Group's management performance and financial status.

(3) Exchange rate fluctuations

The Lion Group translates into yen the financial statements of overseas subsidiaries when preparing consolidated financial statements. For items denominated in foreign currency, their yen values may be affected by prevailing foreign exchange rates when translated into yen. The Lion Group has taken steps to minimize the risk of an increase in raw material costs by hedging against exchange rate fluctuations. However, short-, medium-, and long-term changes in foreign exchange rates may adversely affect the Lion Group's management performance and financial status.

(4) Major lawsuits

During this fiscal year under review, the Lion Group was not subject to any lawsuits that would materially affect its operations. In a future lawsuit, however, if the Lion Group is successfully sued for significant damages, it may adversely affect the Lion Group's management performance and financial status.

(5) Earthquakes and other natural disasters

In the product manufacturing process, the Lion Group has put in place safety measures against earthquakes and other natural disasters. In the event of a major disaster, however, our production equipment may be damaged or business activities may cease, adversely affecting the Lion Group's management performance and financial status.

Consolidated Balance Sheets

	FY 2005 (Ended December 31, 2005)		FY 2004 (Ended December 31, 2004)		Increase/ decrease
	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)	Millions of yen
Assets					
Current assets	117,699	47.2	113,019	48.0	4,680
Cash and time deposits	15,943		27,263		(11,319)
Trade notes and accounts receivable	68,282		55,528		12,754
Short-term investments	500		-		500
Inventories	27,399		24,966		2,432
Deferred tax assets	3,038		2,790		248
Other	4,258		4,407		(148)
Allowance for doubtful accounts	(1,721)		(1,936)		214
Fixed assets	131,604	52.8	122,385	52.0	9,218
Property, plant and equipment	68,570	27.5	68,641	29.2	(70)
Buildings and structures	22,143		22,309		(166)
Machinery and equipment	22,545		20,006		2,538
Land	19,726		20,190		(463)
Construction in progress	1,297		3,515		(2,217)
Other	2,857		2,619		238
Intangible assets	10,481	4.2	10,547	4.5	(65)
Consolidation adjustment account	1,154		1,282		(128)
Trademarks, etc.	9,326		9,264		62
Investments and other assets	52,552	21.1	43,197	18.3	9,355
Investment securities	35,277		25,029		10,248
Long-term loans receivable	302		329		(27)
Prepaid pension cost	3,727		-		3,727
Deferred income tax assets	12,250		16,836		(4,585)
Other	1,229		1,295		(65)
Allowance for doubtful accounts	(235)		(292)		57
Total assets	249,303	100.0	235,405	100.0	13,898

	FY 2005 (Ended December 31, 2005)		FY 2004 (Ended December 31, 2004)		Increase/ decrease
	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)	Millions of yen
Liabilities					
Current liabilities	101,402	40.7	96,211	40.9	5,190
Trade notes and accounts payable	53,995		49,440		4,554
Short-term loans payable	8,088		6,742		1,346
Current portion of long-term debt due within one year	-		48		(48)
Other payables and accrued expenses	31,322		34,532		(3,209)
Accrued income taxes	1,371		918		452
Allowance for returns	788		473		315
Allowance for sales promotion expenses	710		556		154
Other	5,126		3,500		1,626
Long-term liabilities	36,008	14.4	35,955	15.3	53
Long-term debt	6,284		6,277		7
Accrued employee retirement benefits	24,868		24,963		(95)
Accrued director retirement allowances	910		800		110
Other	3,944		3,913		30
Total liabilities	137,411	55.1	132,167	56.2	5,244
Minority interest					
Minority interest in consolidated subsidiaries	2,789	1.1	2,216	0.9	573
Shareholders' equity					
Common stock	34,433	13.8	34,433	14.6	-
Capital surplus	31,584	12.7	31,549	13.4	34
Retained earnings	51,834	20.8	48,992	20.8	2,842
Unrealized holding gain on other securities	7,654	3.1	3,606	1.5	4,048
Foreign currency translation adjustments	38	0.0	(1,014)	(0.4)	1,053
Treasury stock	(16,443)	(6.6)	(16,546)	(7.0)	102
Total shareholders' equity	109,103	43.8	101,021	42.9	8,081
Total liabilities, minority interest and shareholders' equity	249,303	100.0	235,405	100.0	13,898

Consolidated Statements of Income

	FY 2005 (January to December 2005)		FY 2004 (January to December 2004)		Increase/ decrease
	Millions of yen	% of net sales	Millions of yen	% of net sales	Millions of yen
Net sales	331,798	100.0	309,514	100.0	22,283
Cost of sales	163,153	49.2	149,150	48.2	14,002
Gross profit	168,644	50.8	160,363	51.8	8,281
Selling, general and administrative expenses	162,577	49.0	154,341	49.8	8,236
Operating income	6,066	1.8	6,021	2.0	44
Other income	3,088	1.0	2,820	0.9	267
Interest and dividend income	445		509		(63)
Equity in earnings of non-consolidated subsidiaries and affiliates	1,768		1,579		189
Other	873		732		141
Other expenses	640	0.2	570	0.2	69
Interest expenses	255		178		77
Other	384		392		(7)
Ordinary income	8,514	2.6	8,271	2.7	243
Extraordinary income	1,009	0.3	270	0.1	738
Gain on disposal of property, plant and equipment	880		1		879
Reversal of allowance for doubtful accounts	85		-		85
Gain on sales of investment securities	5		4		0
Gain on sales of goodwill	-		105		(105)
Other	37		159		(122)
Extraordinary loss	786	0.3	13,560	4.4	(12,774)
Loss on disposal of property, plant and equipment	697		847		(149)
Loss on devaluation of investment securities	3		174		(171)
Amortization of goodwill	-		6,385		(6,385)
Impairment loss	-		4,592		(4,592)
Loss on restructuring of subsidiaries and affiliates	-		435		(435)
Early retirement payments	-		414		(414)
Other	84		710		(625)
Net income before income taxes	8,737	2.6	-		8,737
Net loss before income taxes	-		5,017	(1.6)	(5,017)
Income taxes	1,710	0.5	1,689	0.5	20
Adjustment of income taxes	1,606	0.4	(2,277)	(0.7)	3,883
Minority interest in earnings of consolidated subsidiaries	-		293	0.1	(293)
Minority interest in loss of consolidated subsidiaries	51	0.0	-		51
Net income	5,473	1.7	-		5,473
Net loss	-		4,723	(1.5)	(4,723)

Consolidated Statements of Capital Surplus and Retained Earnings

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)
	Millions of yen	Millions of yen
Capital surplus		
1. Capital surplus at beginning of period	31,549	31,505
2. Increase in capital surplus	34	44
Gain on disposal of treasury stock	34	44
3. Capital surplus at end of fiscal period	31,584	31,549
Retained earnings		
1. Retained earnings at beginning of period	48,992	56,076
2. Increase in retained earnings	5,603	77
Increase due to subsidiaries newly included in consolidation	33	-
Increase due to affiliates newly accounted for by the equity method	97	77
Net income	5,473	-
3. Decrease in retained earnings	2,761	7,161
Cash dividends	2,259	2,311
Bonuses to directors and corporate auditors [Of which, bonuses to corporate auditors]	55	95
Decrease due to subsidiaries included as consolidated companies	[10]	[10]
Decrease due to subsidiaries excluded from consolidation	28	-
Decrease due to companies included as equity-method companies	-	30
Decrease due to companies included as equity-method companies	417	-
Net loss	-	4,723
Other decreases	0	0
4. Retained earnings at end of fiscal period	51,834	48,992

Consolidated Statements of Cash Flows

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)
	Millions of yen	Millions of yen
I. Cash flows from operating activities		
Income before income taxes	8,737	-
Loss before income taxes	-	(5,017)
Depreciation and amortization	9,754	14,352
(Decrease) in accrued retirement benefits	(3,760)	(2,195)
Interest and dividend income	(445)	(509)
Interest expense	255	178
Loss on disposal of property, plant and equipment	(183)	846
Impairment loss	-	4,592
Gain on sale of investment securities	(5)	(4)
Loss on devaluation of investment securities	3	174
Equity in earnings of affiliates	(1,768)	(1,579)
Decrease (increase) in trade notes and accounts receivable	(11,717)	3,256
Increase in inventories	(1,483)	(1,213)
Increase (decrease) in trade notes and accounts payable	6,345	(5,055)
Increase (decrease) in accrued expenses and other payables	(4,198)	1,692
Other, net	191	(4,317)
Subtotal	1,725	5,200
Interest and dividends received	1,970	2,252
Interest paid	(262)	(167)
Income taxes paid	(1,568)	(3,015)
Net cash provided by operating activities	1,865	4,270
II. Cash flows from investing activities		
Decrease in time deposits	2,627	3,144
Purchases of short-term investments	-	(4,999)
Redemption of short-term investments	-	17,998
Purchases of property, plant and equipment	(8,943)	(11,030)
Proceeds from sale of property, plant and equipment	1,899	31
Purchases of intangible assets	(805)	(13,986)
Purchases of investment securities	(4,562)	(109)
Proceeds from sale of investment securities	506	711
Purchases of subsidiary shares	(0)	(3,618)
Additions to loans receivable	(153)	(411)
Proceeds from loans receivable	188	2,617
Other, net	(18)	(406)
Net cash used in investing activities	(9,262)	(10,059)
III. Cash flows from financing activities		
Increase in short-term loans payable	6,473	8,163
Repayment of short-term loans payable	(5,688)	(8,455)
Increase in long-term loans payable	-	6,000
Repayment of long-term loans payable	(78)	(72)
Proceeds from commercial paper	15,448	-
Redemption of commercial paper	(15,448)	-
Purchases of odd-lot shares	(177)	(155)

Proceeds from sale of treasury stock	920	912
Purchases of treasury stock	(605)	(5,548)
Cash dividends	(2,260)	(2,315)
Cash dividends to minority shareholders	(98)	(81)
Other	0	-
Net cash used in financing activities	(1,514)	(1,553)
IV. Effect of exchange rate changes on cash and cash equivalents	130	104
V. Net change in cash and cash equivalents	(8,781)	(7,237)
VI. Cash and cash equivalents at beginning of period	24,480	32,001
VII. Cash and cash equivalents of newly consolidated subsidiaries	89	-
VIII. Decrease in cash and cash equivalents due to excluded subsidiaries	-	(283)
IX. Cash and cash equivalents at end of period	15,788	24,480

Notes to Consolidated Financial Statements

1. Scope of Consolidation

Lion Corporation has 29 subsidiaries, of which 23 are consolidated subsidiaries.

Principal companies: Lion Engineering Co., Ltd., Lion Logistics Service Company, Ltd., Lion Trading Co., Ltd., Lion Packaging Co., Ltd., Lion Chemical Co., Ltd., CJ Lion Corporation, and Lion Corporation (Thailand) Ltd.

Inclusion: Lion Chemical Industry (Taiwan) Co., Ltd. and Lion Trading (Shanghai) Co., Ltd. were included as consolidated subsidiaries.

2. Application of Equity-Method Accounting

Equity-method accounting is applied to four out of 6 non-consolidated subsidiaries and to eight out of 19 affiliated companies.

Principal companies: Lion Akzo Co., Ltd., and Bristol-Myers Lion Ltd.

Inclusion: Planet Logistics Co., Ltd. and P.T. Lion Wings were included as equity-method companies.

3. Balance Sheet Date of Consolidated Subsidiaries

December 31 is the balance sheet date of 23 consolidated subsidiaries (consolidated balance sheet date).

4. Accounting Policies

a) *Valuation of Assets*

1) Marketable securities

(a) Held-to-maturity debt securities

Valuation is by the amortized cost method (straight-line method).

(b) Other marketable securities

Securities with market value

Carried at market value prevailing on the balance sheet date (changes in valuation are recorded in full as a separate component of shareholders' equity, and sales cost is determined by the moving-average method).

Securities without market value

Stated primarily at cost based on the moving-average method.

2) Derivatives

Stated at market value.

3) Valuation of inventories

Merchandise and finished products are stated at cost determined primarily by the first-in, first-out method.

Raw materials, work-in-progress, and supplies are stated at cost determined primarily by the moving-average method.

b) Depreciation

1) Property, plant and equipment

Depreciation is primarily by the declining balance method, with some consolidated subsidiaries using the straight-line method.

2) Intangible assets

Amortization is by the straight-line method. Software for in-house use is amortized primarily by the straight-line method, assuming a useful life of five years. Goodwill is amortized at one time as acquisition costs.

c) Recognition of Allowances

1) Allowance for doubtful accounts

To provide for potential losses on loans, an allowance is made by the parent company and by domestic consolidated companies for general claims using the default rate for such claims, and an allowance is also made for doubtful claims in accordance with individually estimated uncollectible amounts. In the case of foreign consolidated companies, an allowance is made for the estimated uncollectible amounts of certain claims.

2) Allowance for returns

To provide for the return of merchandise and finished products after the balance sheet date, the estimated loss on returns is recorded.

3) Allowance for sales promotion expenses

The estimated payment of rebates and other sales promotion expenses related to consolidated sales are recorded.

4) Allowance for retirement benefits

To provide for the payment of retirement benefits to employees, an allowance is made based on projected benefit obligations and fair value of pension plan assets at the end of the consolidated fiscal year.

Past benefit liabilities are amortized from the time they accrue by the straight-line method for a given number of years (five years) within employees' average remaining years of service.

Actuarial gain or loss is amortized from the consolidated fiscal year following the year in which the gain or loss is recognized by the straight-line method for employees' average remaining years of service.

5) Allowance for director retirement benefits

To provide for the payment of director retirement benefits, an allowance is made for the estimated amount accruing as of the balance sheet date in accordance with Lion's director retirement allowance regulations.

d) Foreign Currency Translation

All current and long-term monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at current rates prevailing on the consolidated balance sheet date, and the resulting translation gains or losses are taken into income. All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at current rates prevailing on the consolidated balance sheet date, and all income and expense accounts are translated at average rates for the fiscal year. The resulting translation adjustments are accumulated as foreign currency translation adjustments under shareholders' equity.

e) *Leases*

Finance leases are accounted as operating leases excluding leases where ownership is transferred to the lessee.

f) *Hedge Accounting*

1) Hedge accounting

Deferred hedge accounting is used. Translation at the contract rate is applied in accounting for forward currency contracts and currency swaps when appropriate conditions are met. Hedges meeting conditions for the special treatment of interest-rate swaps are accounted for separately.

2) Hedging instruments and hedged items

Hedging instruments	Hedged items
Forward currency contracts	Transactions to be denominated in a foreign currency
Interest-rate swaps	Interest of loans payable

3) Hedging policy

Currency risk and interest-rate risk are hedged by the accounting unit of the parent company and by the management units of subsidiaries primarily in accordance with internal regulations.

g) *Other Significant Matters in the Presentation of Consolidated Financial Statements*

The tax-excluded method is used in consumption tax accounting.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of consolidated subsidiaries are valued by the full fair value method.

6. Amortization of Consolidation Adjustment Account

The consolidation adjustment account is amortized equally over the estimated number of years (10) with respect to items for which rational estimates can be made, and is amortized at the time at which they arise with respect to immaterial items.

7. Treatment of Items in the Appropriation of Earnings

Treated by the final-settlement-of-account method.

8. Scope of Cash and Cash Equivalents in Consolidated Statements of Cash Flows

For the purpose of consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, demand deposits, and short-term liquid investments that mature within three months from the purchase date and can be converted easily into cash with little risk of change in value.

Notes to Consolidated Balance Sheets

	FY 2005	(Millions of yen) FY 2004
1. Cumulative depreciation of property, plant and equipment	156,277	151,513
2. Assets pledged as collateral		
Land	323	-
Buildings and structures	1,417	-
Machinery and equipment	429	-
Total	2,170	-
Secured debt		
Short-term loans payable	324	-
Account payable	259	-
Total	583	-
3. Endorsed notes receivable	44	38
4. Guarantees of debt	3,406	3,408
5. Treasury stock held at consolidated balance sheet date	30,039 (Thousand of shares)	30,622 (Thousand of shares)
6. Trade notes maturing on the consolidated balance sheet date are settled on the note clearance dates.		

Notes to Consolidated Statements of Income

Breakdown of significant selling, general and administrative expenses:

	(Millions of yen)	
	FY 2005	FY 2004
Sales incentive expenses	14,307	12,575
Sales promotion expenses	58,538	58,719
Freight and storage expenses	17,528	15,336
Advertising expenses	23,752	21,536
Salaries	14,898	14,119
R&D expenses	8,506	7,844

(No R&D expenses have been included in production expenses for FY 2005)

Notes to Consolidated Statements of Cash Flows

Balance of cash and cash equivalents at the end of the fiscal year and relationship with consolidated balance sheet:

	(Millions of yen)	
	FY 2005 (December 31, 2005)	FY 2004 (December 31, 2004)
Cash and deposits	15,943	27,263
Marketable securities	500	-
Time deposits with maturities greater than three months	(154)	(2,782)
Debt securities with maturities greater than three months	(500)	-
Total	15,788	24,480

Segment Information

1. Industry Segments

(Millions of yen)

	FY 2005 (January 1 to December 31, 2005)						
	Home products	Pharmaceutical products	Chemicals	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	237,241	50,315	33,898	10,343	331,798	-	331,798
b) Intersegment sales	-	-	-	-	-	[-]	-
Total	237,241	50,315	33,898	10,343	331,798	[-]	331,798
Operating expenses	228,806	46,695	32,877	10,441	318,821	6,910	325,731
Operating income	8,434	3,619	1,020	(97)	12,977	[6,910]	6,066
Reference:							
Other income (net)	147	1,150	169	-	1,467		
Segment management income	8,581	4,770	1,190	(97)	14,444		
2. Assets, depreciation, impairment loss and capital expenditures							
Assets	132,961	40,463	28,695	4,279	206,400	42,902	249,303
Depreciation and amortization	7,187	1,365	823	95	9,470	283	9,754
Capital expenditures	9,418	409	1,029	43	10,900	894	11,794

	FY 2004 (January 1 to December 31, 2004)						
	Home products	Pharmaceutical products	Chemicals	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	230,398	32,162	33,108	13,844	309,514	-	309,514
b) Intersegment sales	-	-	-	-	-	[-]	-
Total	230,398	32,162	33,108	13,844	309,514	[-]	309,514
Operating expenses	219,149	29,930	31,485	13,585	294,151	9,341	303,492
Operating income	11,249	2,231	1,623	258	15,363	[9,341]	6,021
Reference:							
Other income (net)	148	1,055	139	-	1,343		
Segment management income	11,397	3,286	1,763	258	16,706		
2. Assets, depreciation, impairment loss and capital expenditures							
Assets	132,384	35,036	27,863	3,412	198,695	36,709	235,405
Depreciation and amortization	6,397	6,640	741	99	13,878	474	14,352
Impairment loss	-	-	-	56	56	4,535	4,592
Capital expenditures	8,136	13,996	722	42	22,898	367	23,266

Notes:

1. Categorization of industry segments and principal products

Industry segments are categorized in accordance with the similarity of products and markets.

- Home products: Toothpastes, toothbrushes, laundry detergents, dishwashing detergents, and fabric softeners
- Pharmaceutical products: Analgesics, eyedrop solutions, inflammation and pain-relieving first-aid products, semi-adhesive products, health tonic drinks, and insecticide
- Chemicals: Surfactants and fatty acid nitrogen compounds
- Other businesses: Spices, seasonings, salad dressings, sauces, plant construction, building maintenance, and transportation and storage

2. Unallocated operating expenses are expenses of the general affairs, accounting, and other management units of Lion Corporation.

3. Corporate assets included under "Corporate and eliminations" are primarily assets of the management units of Lion Corporation.

2. Geographical Segments

(Millions of yen)

	FY 2005 (January 1 to December 31, 2005)				
	Japan	Asia	Total	Corporate and eliminations	Consolidated total
1. Net sales					
a) Sales to outside customers	293,660	38,137	331,798	-	331,798
b) Intersegment sales	1,559	1,498	3,058	[3,058]	-
Total	295,220	39,636	334,856	[3,058]	331,798
Operating expenses	289,500	39,363	328,863	[3,132]	325,731
Operating income	5,720	272	5,992	73	6,066
Assets	187,808	19,083	206,892	42,411	249,303

Notes:

1. Countries and regions have been grouped according to geographic proximity.

2. The key countries and regions grouped as countries other than Japan are as listed below.

Asia: China, South Korea, and Thailand

* Geographical segment information is provided from this fiscal year due to the fact that the share of Asia's sales has exceeded 10% of aggregate segment sales.

3. Foreign Sales

	FY 2005 (January 1 to December 31, 2005)		
	Asia	Other regions	Total
Foreign sales (millions of yen)	41,194	3,849	45,044
Consolidated net sales (millions of yen)	-	-	331,798
Percent of foreign sales in consolidated net sales (%)	12.4	1.2	13.6

Notes:

1. Countries and regions have been grouped according to geographic proximity.
 2. The key countries and regions grouped as each segments are as listed below.
Asia: China, South Korea, and Thailand
Other regions: Europe, America and others
 3. Foreign sales include exports by Lion and its domestic consolidated subsidiaries as well as sales (other than exports to Japan) by overseas consolidated subsidiaries but exclude intercompany sales.
- * Foreign sales are provided from this fiscal year due to the fact that the share of foreign sales has exceeded 10% of consolidated net sales.

Notes to Lease Transactions

Finance leases excluding leases where ownership is transferred to the lessee:

(Millions of yen)

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)
1. Equivalent acquisition cost, equivalent accumulated depreciation, and equivalent balance at end of period		
Equivalent acquisition cost		
Machinery and equipment	80	48
Other property, plant and equipment	1,623	2,131
<u>Intangible assets</u>	<u>196</u>	<u>779</u>
Total	1,900	2,959
Equivalent accumulated depreciation		
Machinery and equipment	31	19
Other property, plant and equipment	839	1,264
<u>Intangible assets</u>	<u>107</u>	<u>642</u>
Total	978	1,926
Equivalent balance at end of period		
Machinery and equipment	48	28
Other property, plant and equipment	783	867
<u>Intangible assets</u>	<u>89</u>	<u>137</u>
Total	921	1,032
2. Equivalent lease commitments at end of period		
Due within one year	368	415
<u>Due after one year</u>	<u>553</u>	<u>617</u>
Total	921	1,032
3. Lease payments (Equivalent depreciation)	472	662
4. Equivalent depreciation is calculated according to the straight-line method.		
5. The interest inclusive method is used above since equivalent lease commitments at end of period account for only a small proportion of the balance of property, plant and equipment at end of period.		

Related Party Transactions

Affiliated companies

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship		Nature of transaction	Transaction amount	Account	Year-end balance
					Shared positions, etc.	Operational relationship				
Lion Akzo Co., Ltd.	Sumida-ku, Tokyo	Millions of yen 1,000	Production and sales of fatty acid nitrogen derivatives	50.0% direct	3 shared 2 seconded	Purchase of fatty acid nitrogen derivatives	Purchase of fatty acid nitrogen derivatives	5,385	Accounts payable	2,298
Bristol-Myers Lion Ltd.	Shinjuku-ku, Tokyo	200	Production and sale of pharmaceutical agents	49.0% direct	6 shared	Purchase of pharmaceutical agents	Purchase of pharmaceutical agents	14,446	Accounts payable	7,463

Notes: 1. Transaction terms and determination method for transaction terms

The terms of transactions with Lion Akzo Co., Ltd. and Bristol-Myers Lion Ltd. are in principle determined through consultation between Lion Corporation and each of these affiliates based on market price, the affiliate's overall cost, and Lion's suggested price.

2. The transaction amount is net of consumption tax, but year-end balances are gross of consumption tax.

Tax Effect Accounting

1 . Main reasons for the accrual of deferred tax assets and deferred tax liabilities

(Millions of yen)

FY 2005

(Dec. 31, 2005)

Deferred tax assets

Allowance for doubtful accounts in excess of the amount allowable	709
Taxable portion of sales return reserve	320
Taxable portion of sales promotion reserve	268
Retirement benefits reserve in excess of the amount allowable	15,870
Taxable portion of reserve for directors' retirement benefits	367
Excess of amortization of goodwill	2,078
Taxable portion of impairment loss	34
Accrued enterprise tax	256
Tax loss carryforwards	4,798
Unrealized profits of inventory assets and fixed assets	415
<u>Other</u>	<u>2,696</u>
Deferred tax assets subtotal	27,817
<u>Valuation allowance</u>	<u>(351)</u>
Deferred tax assets total	27,466

Deferred tax liabilities

Special tax-purpose reserve	(995)
Taxable portion of gain of employee pension trust	(5,712)
Temporary difference from distribution of retained earnings of foreign affiliates	(310)
<u>Unrecognized holding gain on other securities</u>	<u>(5,232)</u>
Deferred tax liabilities total	(12,251)
Net deferred tax assets	<u>15,214</u>

(Note) "Others" under the current liabilities includes ¥22 million in deferred tax liabilities, and "others" under fixed liabilities includes ¥51 million in deferred tax liabilities.

2. Breakdown of the difference between statutory tax rates and the tax burden rates of corporate tax after applying tax effect accounting, etc.

(%)

Statutory tax rate	40.7
	(Adjustments)
Equity in earnings of non-consolidated subsidiaries and affiliates	(8.2)
Expenses not deductible for tax purposes	1.7
Dividends earned and other items permanently excluded from gross revenue	(0.7)
Deductible net income before income taxes due to tax loss carryforward	2.2
<u>Corporate inhabitant tax on a per capita basis</u>	<u>2.3</u>
Effective tax rates	38.0

Securities

Consolidated fiscal 2005 (at December 31, 2005)

a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for fiscal period	Difference
Securities whose book value exceeds their acquisition cost Stocks	14,097	27,088	12,990
Securities whose book value does not exceed their acquisition cost Stocks	0	0	(0)
Total	14,098	27,088	12,990

b) Other marketable securities sold during fiscal 2005

(Millions of yen)

Sale price	Total gain on sale	Total loss on sale
5	5	-

c) Securities without market prices

(Millions of yen)

	Book value for fiscal period
1. Held-to-maturity bonds Unlisted yen-denominated foreign bonds	500
2. Other marketable securities Unlisted stocks	1,378

d) Redemption schedule for other marketable securities with maturities and for held-to-maturity bonds

(Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Held-to-maturity securities Unlisted yen-denominated foreign bonds	500	-	-	-
Local government bonds	-	-	2	-
Total	500	-	2	-

Consolidated fiscal 2004 (at December 31, 2004)

a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for fiscal period	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	8,919	15,080	6,160
Securities whose book value does not exceed their acquisition cost			
Stocks	474	403	(70)
Total	9,393	15,484	6,090

b) Held-to-maturity bonds sold during fiscal 2004

(Millions of yen)

	Cost	Sale price	Loss/gain on sale	Reason for sale
Unlisted yen-denominated foreign bonds	500	500	-	Advance redemption
Total	500	500	-	-

c) Other marketable securities sold during fiscal 2004

(Millions of yen)

Sale price	Total gain on sale	Total loss on sale
10	4	-

d) Securities without market prices

(Millions of yen)

	Book value for fiscal period
1. Held-to-maturity bonds	
Unlisted yen-denominated foreign bonds	500
2. Other marketable securities	
Unlisted stocks	1,381

e) Redemption schedule for other marketable securities with maturities and for held-to-maturity bonds

(Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Held-to-maturity securities				
Unlisted yen-denominated foreign bonds	-	-	500	-
Local government bonds	-	-	3	-
Total	-	-	503	-

Derivatives Position, Market Value, and Valuation Gain or Loss

There is no derivatives position to disclose as of the end of fiscal 2005 and fiscal 2004.

Retirement Benefits

1. Outline of the retirement benefit plans adopted by the company

The Company and certain domestic consolidated subsidiaries have defined benefit pension plans: for example, corporate pension plans and lump-sum severance benefit plans. In certain cases, additional severance indemnities are paid when an employee retires.

Certain foreign consolidated subsidiaries have defined contribution plans.

The primary plans are the Lion Corporate Pension Fund and the tax-qualified retirement pension plan joined by four of the Company's domestic consolidated subsidiaries. Thirteen of the Group companies also have lump-sum severance indemnity plans.

In addition, the Company has a pension trust.

In April 2004, the Company decided to revise its retirement benefits plans, which since July of the same year have been switched over to a cash balance plan (linked to market interest rates).

2. Items concerning retirement benefit obligation

(Millions of yen)

	FY 2005 (Dec. 31, 2005)	FY 2004 (Dec. 31, 2004)
A. Projected benefit obligation	(71,300)	(72,405)
B. Fair value of pension plan assets	65,390	46,105
C. Funded status (A + B)	(5,910)	(26,300)
D. Unrecognized actuarial difference	10,147	8,703
E. Unrecognized prior service cost	(5,093)	(6,621)
F. Unrecognized pension plan assets	(20,285)	(745)
G. Net amount on consolidated balance sheet (C + D + E + F)	(21,141)	(24,963)
H. Prepaid pension expense	3,727	
I. Accrued employees' retirement benefits (G - H)	(24,868)	(24,963)

FY 2005	FY 2004
Notes: 1. Consolidated subsidiaries have adopted the simplified method for calculating their retirement benefit obligation.	Notes: 1. Same as at left.

3. Items concerning retirement benefits costs

(Millions of yen)

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)
A. Service cost (See Notes 1, 2)	2,169	2,171
B. Interest cost	1,742	1,837
C. Expected return on pension plan assets	(635)	(876)
D. Amortization of actuarial loss	762	971
E. Amortization of prior service cost	(1,528)	(1,018)
F. Extra payment for premium severance payments		385
G. Premium contribution for defined-contribution pension plan	40	35
H. Retirement benefits costs (A + B + C + D + E)	2,550	3,504

FY 2005	FY 2004
Notes: 1.	Notes: 1. Employees' contributions to the national government welfare pension fund plan are deducted.
2. Where the simplified method is adopted, the retirement benefit costs are recorded to "A. Service Costs."	2. Same as at left.

4. Items concerning the basis for calculating retirement benefit obligation, etc.

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)
A. Method adopted to allocate expected retirement benefits	Method of allocating fixed amount throughout the period	Method of allocating fixed amount throughout the period
B. Discount rate	2.5%	2.5%
C. Expected rate of return on pension plan assets (See Note 1)	2.0%	3.5%
D. Recognition period of actuarial gain or loss (See Note 2)	15 years	16 years
E. Amortization period of prior service cost (See Note 3)	5 years	5 years

FY 2005	FY 2004
<p>Notes:</p> <p>1. Expected dividend yield is used for the pension trust.</p>	<p>Notes:</p> <p>1. Same as at left.</p>
<p>2. Actuarial differences are expensed from the subsequent consolidated fiscal year using the straight-line method based on the employees' average remaining service period as at the time such differences arise.</p>	<p>2. Same as at left.</p>
<p>3. Prior service liabilities are expensed from the current consolidated fiscal year using the straight-line method based on a certain number of years not exceeding the employees' average remaining service period as at the time such liabilities arise.</p>	<p>3. Same as at left.</p>

Production, Orders, and Sales

1. Production

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)	Change
	Millions of yen	Millions of yen	%
Home products	204,546	197,355	3.6
Pharmaceutical products	5,437	1,661	227.4
Chemicals	13,388	13,729	(2.5)
Other businesses	4,713	5,414	(13.0)
Total	228,085	218,159	4.6

Note: Yen amounts are calculated from producer prices and do not include the consumption tax.

2. Orders

Lion Corporation does not engage in production to order.

3. Sales

	FY 2005 (January to December 2005)	FY 2004 (January to December 2004)	Change
	Millions of yen	Millions of yen	%
Home products	237,241	230,398	3.0
Pharmaceutical products	50,315	32,162	56.4
Chemicals	33,898	33,108	2.4
Other businesses	10,343	13,844	(25.3)
Total	331,798	309,514	7.2

Note: Figures above do not include the consumption tax.

Summary of Non-consolidated Financial Statements for the Year Ended December 31, 2005

February 6 2005

Company name: Lion Corporation

Code: 4912

URL: <http://www.lion.co.jp>

Listed stock exchanges: Tokyo Stock Exchange and Osaka Securities Exchange

Location of head office: Tokyo Prefecture, Japan

Representative: Sadayoshi Fujishige, Representative Director and President

Contact: Shinjiro Iwahori, Director of Finance Department

Telephone: +81-3-3621-6211

Board of Directors meeting on fiscal 2005 results: February 6, 2006

Existence of interim dividend: Yes

Start date for payment of year-end dividend: March 31, 2006

Ordinary general meeting of shareholders: March 30, 2006

Existence of odd-lot system: Yes (1,000 shares)

1. Non-consolidated Results for the Fiscal Ended December 31, 2005

a) Non-consolidated Results

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2005	270,894	1.3	2,907	81.6	6,453	21.9
FY 2004	267,382	(2.3)	1,600	(63.0)	5,295	(32.3)

Note: Figures in this and subsequent tables are rounded down to the nearest million.

	Net income		EPS	Diluted EPS	ROE	ROA	Ratio of ordinary income to net sales
	Millions of yen	%	Yen	Yen	%	%	%
FY 2005	4,657	-	16.33	16.28	5.0	3.0	2.4
FY 2004	(5,428)	-	(19.04)	-	(5.6)	2.4	2.0

Notes:

1. Average number of outstanding shares during the period: 282,420,189 in FY 2005 and 287,030,232 in FY 2004.
2. Changes in accounting practices: No
3. Percent figures for net sales, operating income, ordinary income, and net income express percentage change over the previous fiscal year.

b) Dividend

	Annual dividend per share			Annual dividend paid	Dividend payout ratio	Dividend on equity
	Annual	Interim	Year-end			
	Yen	Yen	Yen	Millions of yen	%	%
FY 2005	9.00	4.00	5.00	2,545	54.7	2.6
FY 2004	8.00	4.00	4.00	2,281	-	2.5

c) Non-consolidated Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
FY 2005	217,016	96,819	44.6	341.38
FY 2004	212,420	90,320	42.5	319.15

Notes:

1. Number of outstanding shares on balance sheet date: 283,475,481 for FY 2005 and 282,892,789 for FY 2004.
2. Shares of treasury stock on balance sheet date: 30,039,865 for FY 2005 and 30,622,557 for FY 2004.

2. Forecast of Non-consolidated Results for the Year Ending December 31, 2006

	Net sales	Ordinary income	Net income	Annual dividend per share		
				Interim	Year-end	Annual
	Millions of yen	Millions of yen	Millions of yen	Yen	Yen	Yen
Interim 2006	135,000	3,000	2,000	5.00	-	-
FY 2006	280,000	7,000	5,000	-	5.00	10.00

Reference: Projected earnings per share of ¥17.64 for fiscal 2006.

Refer to pages 30 through 32 in the reference materials regarding the premises for the above forecasts and other related matters.

Personnel Changes

- (1) Executive Appointments (positions will be announced at the Board of Directors' Meeting following the Ordinary Annual General Meeting of Shareholders scheduled on March 30, 2006)
(Current job titles are in brackets)

Executive Director Haruo Iwasaki
(Executive Officer, Senior; Executive General Manager of Pharmaceutical Products Division)

Executive Director Yasunobu Horiguchi
(Executive Officer, Senior; Executive General Manager of Chemicals Division)

Executive Director Teruhisa Satsuki
(Executive Officer; Director of Research Planning & Administration Department, Research & Technology Headquarters)

Executive Director Kazuo Obayashi
(Executive Officer; Executive General Manager of International Division)

Director Mitsuaki Shimaguchi
(Professor of Graduate School of Business Administration, Keio University)

Director Hideo Yamada (Attorney at Law)

Note: Messrs. Mitsuaki Shimaguchi and Hideo Yamada qualify as external directors in accordance with Article 188, Paragraph 2-7-2 of the Commercial Code.

- (2) Appointment of Substitute Corporate Auditor

Kazumi Idogawa (Certified Public Accountant)

Note: Mr. Kazumi Idogawa qualifies as an external corporate auditor in accordance with Article 18, Paragraph 1 of the Commercial Code regarding "The Law concerning Exceptional Measures to the Commercial Code with Respect to Auditing, etc. of Joint Stock Corporations."

- (3) Retiring Directors

(Current job titles are in brackets)

Michinao Takahashi
(Representative Director and Chairman; Chairman of Board)

Hiroyuki Hirashima
(Representative Director and Executive Vice President; Assistant to President, Responsible for Pharmaceutical Products Division, International Division (including general overseas affairs), Purchasing Headquarters, Corporate Planning, and Strategic Business Development)

Yasuhisa Kinugasa
(Representative Director and Senior Executive Director; Responsible for Logistics Planning & Development, Finance, System, Public Relations, and Investor Relations)

Shuji Yamada
(Executive Director; Responsible for Secretary, Personnel, General Affairs, Legal Affairs,
CSR, and Corporate Ethics)

Norihiro Ohno
(Director; Director of Corporate Planning Department)
----- Recommended for appointment as Executive Officer, Senior

- (4) Representative Director(Recommended for appointment at the Ordinary Annual General Meeting of Shareholders on March 30, 2006)
(Current job titles are in brackets)

Representative Director and Senior Executive Director Makoto Imai
(Executive Director; Responsible for Chemicals Division, Executive General Manager of Production Headquarters)

Representative Director and Senior Executive Director Kazuo Ohbu
(Executive Director; Executive General Manager of Research & Technology Headquarters)

- (5) Biographies of New External Directors and Substitute Corporate Auditor

a. Biography of the New External Director

Name: Mitsuaki Shimaguchi
Biography April 1987 Professor of Graduate School of Business Administration, Keio University (Current)
 June 1998 External corporate auditor of Ishii Shokuhin Co., Ltd. (Current)
 April 2001 Director of the Health Care Science Institute (Current)
 June 2002 External Director of Eisai Co., Ltd.
 August 2003 Member of Lion's Management Evaluation Committee
 June 2005 Retired External Director of Eisai Co., Ltd.

Name: Hideo Yamada
Biography April 1984 Registered as a lawyer at Daini Tokyo Bar Association
 April 1992 Established Yamada Hideo Law Firm (Currently Yamada/ Ozaki Law Firm)(Current)
 May 1998 External corporate auditor of Taiyo Chemical Engineering Corporation
 April 2001 Vice Chairman of Daini Tokyo Bar Association
 June 2004 External director of Sato Co., Ltd. (Current)

b. Biography of new substitute corporate auditor

Name:	Kazumi Idogawa	
Biography	February 1967	Entered Isobe CPA Cooprative Firm (Currently Ernst & Young ShinNihon)
	February 1970	Acquired CPA certification
	May 1988	Representative partner of Ohta Showa Audit Corporation (Currently Ernst & Young ShinNihon)
	July 2004	External corporate auditor of Business Brain Showa-Ota Inc.
	June 2005	Substitute Corporate auditor of DMW Corporation (Current)

<Promotion>

(Subject to the Board of Directors following Ordinary Annual General Meeting of Shareholders on March 30, 2006)

(Current job titles are in brackets)

(1) Appointments of Executive Officer

Executive Officer, Senior Norihiro Ohno
(Director; Director of Corporate Planning Department)

Executive Officer Takao Terui
(Plant Manager of Chiba Plant, Production Headquarters)

Executive Officer Shuichi Ohta
(Director of Personnel Department)

Executive Officer Shinjiro Iwahori
(Director of Finance Department)

Executive Officer Shozo Hanada
(General Manager of Sales Planning & Administration Department, Home Products Sales
Headquarters)

(2) Retiring Executives

Haruo Iwasaki
(Executive Officer, Senior; Executive general manager of Pharmaceutical Products Division)
----- Recommended for appointment as Executive Director

Yasunobu Horiguchi
(Executive Officer, Senior; Executive General Manager of Chemicals Division)
----- Recommended for appointment as Executive Director

Teruhisa Satsuki
(Executive Officer; Director of Research Planning & Administration Department, Research & Technology Headquarters)
----- Recommended for appointment as Executive Director

Kazuo Obayashi
(Executive Officer; Executive General Manager of International Division)
----- Recommended for appointment as Executive Director

Takemi Miyasaka
(Executive Officer; General Manager of Tokyo Sales Head Office, Home Products Sales Headquarters)

Kunio Okanaga
(Executive Officer; General Manager of Osaka Sales Head Office, Home Products Sales Headquarters)

Hirofumi Kanao
(Executive Officer; Director of Production Coordinating Department, Production Headquarters)

(3) Promotion of Executives

Managing Executive Officer Eiji Natsukawa
(Executive Officer, Senior; Director of Home Products Business Planning Department)

Executive Officer, Senior Mitsuharu Kachi
(Executive Officer; Executive General Manager of Purchasing Headquarters)

New management structure after the transfer is as follows:

(Positions will be announced at the Board of Directors following the Ordinary Annual General Meeting of Shareholders on March 30, 2006)

Representative Director and President Sadayoshi Fujishige
Chairman of the Board, CEO, Responsible for Home Products Business

Representative Director and Senior Executive Director Makoto Imai
Responsible for Corporate Ethics, Secretary, System, Personnel, General Affairs, CSR,
Legal Affairs, and Pharmaceutical Affairs

Representative Director and Senior Executive Director Kazuo Ohbu
Responsible for Research & Development Headquarters, Chemicals Division, Production
Headquarters, and Intellectual Property Department

Executive Director Tetsuo Yamada
Responsible for Corporate Planning, Logistics Planning & Development, Finance, Public
Relations, and Investor Relations

Executive Director Naokazu Kubo
Executive General Manager of Household Products Division, Home Products Business,
Responsible for Home Products Sales Headquarters, Distribution Development, and
Business Coordination

Executive Director Haruo Iwasaki
Executive General Manager of Health Care Products Division, Home Products Business,
Executive General Manager of Pharmaceutical Products Division, Responsible for
Advertising, Creative, and Behavioral Science Research

Executive Director Yasunobu Horiguchi
Executive General Manager of Chemicals Division

Executive Director Teruhisa Satsuki
Executive General Manager of Research & Development Headquarters

Executive Director Kazuo Obayashi
Responsible for International Division (including general overseas affairs), Purchasing
Headquarters, Strategic Business Development

Director Mitsuaki Shimaguchi
Professor of Graduate School of Business Administration, Keio University

Director Hideo Yamada Attorney at Law

Standing Corporate Auditor Yasutaka Hashimoto

Standing Corporate Auditor Tsuneo Ohashi

Corporate Auditor Kosaku Onishi Certified Tax Accountant

Corporate Auditor Masakazu Matsuo Certified Public Accountant

Managing Executive Officer Eiji Natsukawa
Executive General Manager of Gift and Channel-Specific Business Division, Home Products
Business

Executive Officer, Senior Norihiro Ohno
Executive General Manager of Purchasing Headquarters

Executive Officer, Senior Mitsuharu Kachi
Executive general manager of International Division

Executive Officer Shinjiro Iwahori
Director of Finance Department

Executive Officer Shuichi Ohta
Director of Personnel Department

Executive Officer Keikichi Sugiyama
Director of Research Planning & Administration Department, Research & Development
Headquarters

Executive Officer Shozo Hanada
Director of Home Products Business Planning Department, Home Products Business

Executive Officer Kenjiro Kobayashi
Director of Oral Care Business Department, Health Care Products Division, Home Products
Business

Executive Officer Yuji Watari
Director of Beauty Care Business Department, Health Care Products Division, Home
Products Business

Executive Officer Takao Terui
Executive General Manager of Production Headquarters