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 (CO_2) 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 CO_2 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.

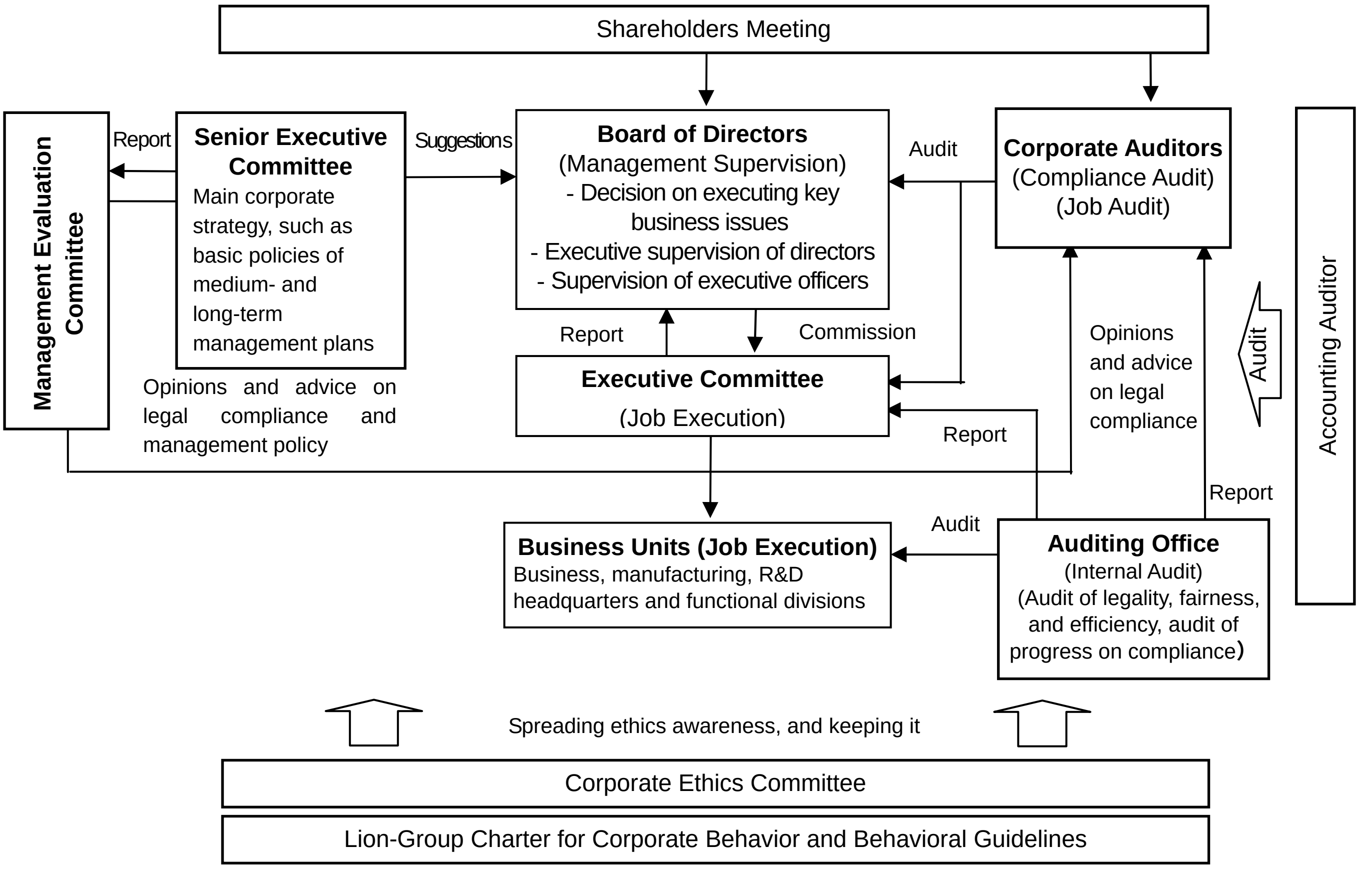
To ensure business efficiency and effectiveness, Lion has various rules that define standards for decision-making authority by the President or director in charge, and a product development management system to set operational processes and quality guarantees for each stage of product development, etc.

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.