

## 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

<u>Hedging instruments</u>	<u>Hedged items</u>
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

		(Millions of yen)
	FY 2005	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	30,622
	(Thousand of shares)	(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	FY 2004
	(December 31, 2005)	(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