

Management Policies

1. Basic Management Policies

Lion Corporation believes its mission is to make an active contribution to society by providing customers with products and services that offer increased satisfaction in relation to the pursuit of cleanliness, health, and beauty, based on its philosophy that the market is where everything starts. 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 the first half, 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 shampoos and conditioners by aggressively investing in marketing for key brands, and introduced anti-pollen allergy products in a timely fashion to meet 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 the first half of the current fiscal year, Lion implemented measures to reduce distribution costs and improve the efficiency of sales promotion costs while aggressively promoting reductions in production costs. 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 the first half, 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 created the CSR Promotion Department to thoroughly instill corporate social responsibility, and concentrated on enhancing corporate governance throughout the Lion Group.

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.

In addition, as a part of our efforts to prevent global warming, we are participating in the Team Minus 6% project (A national project to accomplish the goal of reducing greenhouse gas emissions by 6%, the target that Japan committed in the Kyoto Protocol). To fulfill our corporate responsibility for helping create a sustainable society, we are steadily continuing efforts to preserve the environment.

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 an 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, headed by the Chairman, while executive

officers handle business execution, with the President acting as the Chief Executive Officer.

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 Board of Executive Officers

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 beforehand in management committees whose members are mainly senior managing 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 Board of Executive Officers, which comprises the Chief Executive Officer (President), Vice President, directors, 12 executive officers including heads of business divisions and statutory auditors.

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.

Auditors and the Board of Auditors

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

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 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 independent 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 the six-month period 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:

6 certified public accountants, 7 junior accountants

Internal Audits

The Auditing Office, comprising six 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, Board of Executive Officers, and Board of Auditors to enhance collaboration on auditing among auditors.

Maintenance of Internal Control System

Lion has formulated a corporate code of conduct and created behavioral guidelines as a basis for strictly following laws and regulations and strengthening ethics in an aim to thoroughly instill compliance among directors and employees.

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

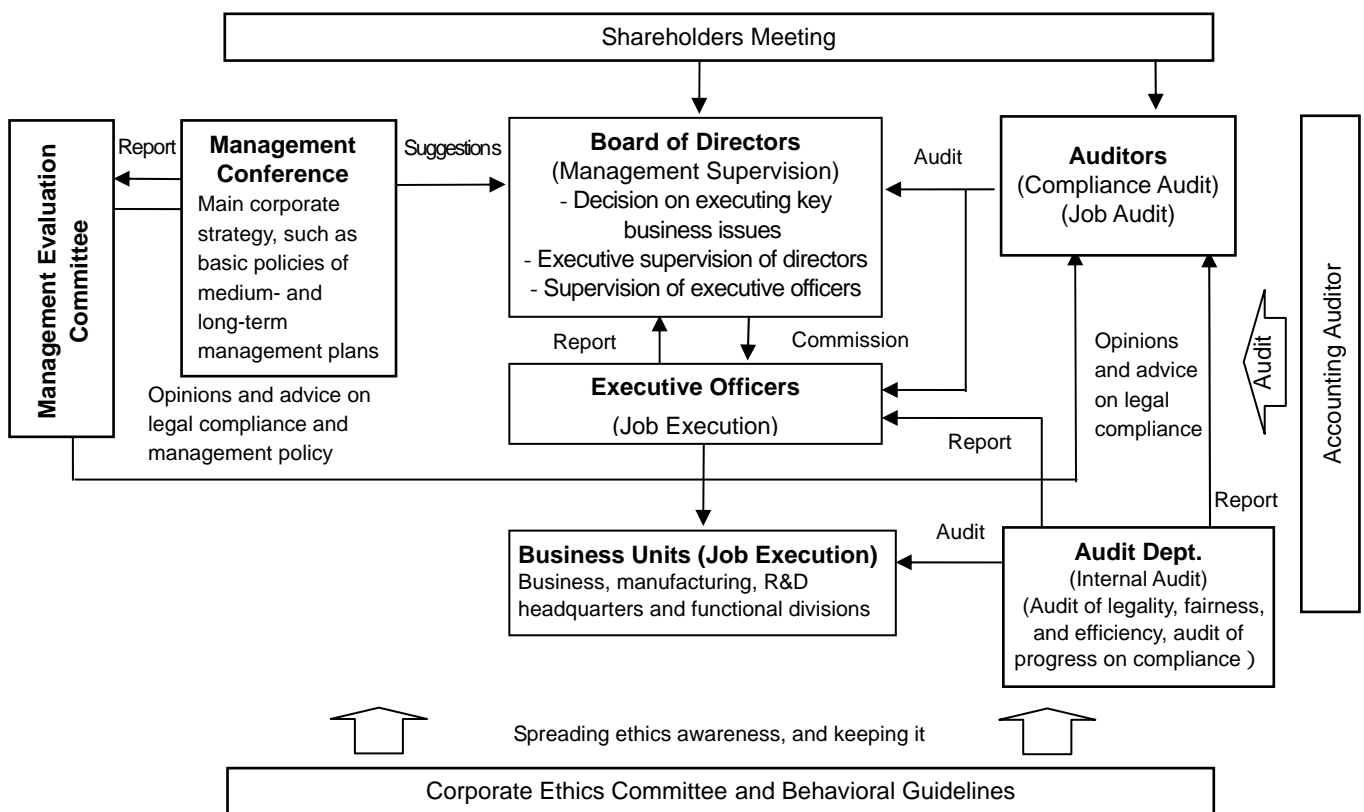
management system to set operational processes and quality guarantees for each stage of product development, etc.

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 statutory auditors 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 management meetings and at the Board of Executive Officers. 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 Board of Executive Officers. In addition, Lion receives advice about risk management from attorneys and other specialists as necessary.

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

Lion does not have any external directors.

Lion has two external 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 auditors, transaction-related capital relationships, or third-party interests.

7. Matters Related to the Parent Company

None.