

Notes to Consolidated Financial Statements

1. Scope of Consolidation

Lion Corporation has 31 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 8 non-consolidated subsidiaries and to eight out of 17 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

June 30 is the interim 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 interim 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 by the parent company and by domestic consolidated companies for retirement benefit obligations that have accrued as of the consolidated interim balance sheet date 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.

6) Allowance for loss on loan guarantees

To provide for potential losses on loan guarantees, an allowance is made in accordance with the financial situations of entities receiving such guarantees.

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 interim 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 interim balance sheet date, and all income and expense accounts are translated at average rates for the interim period. 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. 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.

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

For the purpose of consolidated interim 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)		
	Interim 2005	Interim 2004	Fiscal 2004
1. Cumulative depreciation of property, plant and equipment	154,727	151,990	151,513
2. Assets pledged as collateral			
Land	314	-	-
Buildings and structures	1,185	-	-
Machinery and equipment	276	-	-
Total	1,776	-	-
Secured debt			
Short-term loans payable	192	-	-
Account payable	162	-	-
Total	355	-	-
3. Endorsed notes receivable	31	73	38
4. Guarantees of debt	3,336	3,607	3,408

Notes to Consolidated Statements of Income

Breakdown of significant selling, general and administrative expenses:

	(Millions of yen)		
	Interim 2005	Interim 2004	FY 2004
Sales incentive expenses	7,164	5,866	12,575
Sales promotion expenses	27,843	27,544	58,719
Freight and storage expenses	8,044	7,572	15,336
Advertising expenses	12,242	10,700	21,536
Salaries	7,520	6,903	14,119
R&D expenses	4,077	3,796	7,844

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:

	Interim 2005 (June 30, 2005)	Interim 2004 (June 30, 2004)	(Millions of yen) FY 2004 (December 31, 2004)
Cash and deposits	19,455	36,959	27,263
Marketable securities	-	5,002	-
Time deposits with maturities greater than three months	(282)	(4,802)	(2,782)
Debt securities with maturities greater than three months	-	(4,999)	-
Total	19,173	32,160	24,480