

Summary of Consolidated Financial Statements for the Third Quarter Ended September 30, 2005

October 31, 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

1. Matters Concerning the Preparation of the Consolidated Financial Statements for the Third Quarter Ended September 30, 2005

- (a) Adoption of simplified accounting method: Yes.
Simplified accounting is used partially with respect to the standards for the accounting of reserves.
- (b) Changes in accounting method from the most recent fiscal year: No.
- (c) Changes in the scope of consolidation or of the application of the equity method: Yes.
Consolidated subsidiaries: 2 newly included, none excluded
Equity method companies: 2 newly included, none excluded
- (d) The statements have not been audited by external auditors.

2. Consolidated Results for the Third Quarter Ended September 30, 2005 (January 1, 2005 – September 30, 2005)

a) Consolidated Results

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended September 2005	235,451	7.1	740	(79.3)	2,407	(53.0)
Nine months ended September 2004	219,748	2.4	3,566	–	5,120	–
(Reference) FY 2004	309,514		6,021		8,271	

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

	Net income		EPS	Diluted EPS
	Millions of yen	%	yen	yen
Nine months ended September 2005	1,314	(40.4)	4.66	4.65
Nine months ended September 2004	2,206	–	7.66	7.63
(Reference) FY 2004	(4,723)		(16.66)	–

Notes:

1. The percent figures under net sales, operating income, ordinary income and net income represent the percentage change from the same quarter of the previous year.

Overview of Consolidated Results of Operations

(1) Management Performance

During the third quarter of the current fiscal year, the Japanese economy showed signs of a mild recovery, with an improvement in corporate earnings accompanied by an increase in private capital investment and an improvement in the employment market. Nevertheless the high level of crude oil prices give rise to future uncertainties.

The Group's core business of household products in Japan continues to experience a particularly harsh environment characterized most severely by continuing intense price competition. There were, however, signs of a turnaround in terms of market scale.

In the period under review, consolidated net sales increased 7.1% compared with the same period of the previous fiscal year to ¥235,451 million. This was attributed to contributions from the new OTC pharmaceutical business and the Korean household business acquired at the end of the previous fiscal year, accelerated efforts to nurture operations in those two new businesses and the proactive introduction of new products in the Company's mainstay brands. On the earnings front, operating income declined 79.3% to ¥740 million year on year. Ordinary income also fell 53.0% to ¥2,407 million, while net income for the third quarter dropped 40.4% to ¥1,314 million. Despite efforts to promote a total cost down initiative focusing on production cost reduction and an improvement in the effectiveness of our marketing promotion budget, our profitability was affected by increasing materials costs due to high oil prices, fierce price competition at the domestic retail level for household products resulting in a decline in sales, and vigorous advertising investment on continuous brand strengthening.

(2) Segment Information

<Home Products>

In the Oral Care division, intense competition in the market for toothpastes and toothbrushes has caused a slight decline. However, the division made a contribution to sales in this period with the successful market launch of new interdental products and mouthwash in the Dentor Systema line (designed to completely eliminate periodontal disease) and the dental materials now re-organized into this division.

In the Beauty Care division, the launch of newly improved shampoos, conditioners, and body-washes, grouped together under the 'Shokubutsu-Monogatari (Plant Story) Herb Blend' range, which contains blends of natural herbs, together with extensive advertising and marketing promotion, served to boost sales. Hair-styling products, hair-nourishment treatments, antiperspirants and deodorants, however, declined slightly due to intensifying competition.

In the Household Products division, newly improved products in the style-preserving fabric wash Acron , and the fabric-softener Kaori to Deodorant no Soflan (Soflan with fragrance and deodorant) , which offer superlative protection against odors on clothing and leaves a pleasant, long-lasting fragrance, were launched to high acclaim. A new version of Top, the laundry detergent with a Stainzyme enzyme that removes stains that have set in over time, was launched with a vigorous advertising and marketing promotion which served to effectively build brand value, although sales were slow due to continued fierce competition.

Overseas, good progress was made in Thailand with toothpastes and laundry detergents. In Korea, we invested heavily in marketing in order to build our brands, and we restructured our marketing channels. With progress on these two initiatives, we have constructed a firm foundation for an early success.

Accounting for the aforementioned factors, net sales increased 1.8% compared with the same period of the previous fiscal year to ¥166,699 million, while operating income declined 61.5% year on year to ¥2,866 million.

<Pharmaceutical Products>

In this segment, sales of Bufferin A analgesics achieved modest growth, while Smile 40EX eye drops with three vitamin varieties, and Stoppa Anti-Diarrhea Medicine, an innovative new product that can be taken anywhere without water, were steady. In the new OTC business field, Lion introduced new products in the Guronsan line of health tonic drinks, while also investing in aggressive marketing of the insecticide Varsan. As a result of these efforts, net sales in the pharmaceuticals segment totaled ¥36,005 million, an increase of 66.2% year on year, and operating income rose 100.2% to ¥1,938 million.

<Chemicals>

In chemicals, Lion recorded strong sales of carotene for health food applications, high-purity fatty-acid methyl ester, and Ketjenblack, a carbon with excellent electro-conductive qualities. As a result, net sales in the chemicals segment rose 3.8% to ¥25,207 million. Operating income decreased 41.6% to ¥876 million, affected by the sharp rise in oil prices.

<Others>

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 24.6%, to ¥7,539 million, and operating income to decline by 14.0%, to ¥197 million.

b) Consolidated Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	yen
3rd quarter ended September 2005	229,888	102,018	44.4	360.71
3rd quarter ended September 2004	220,217	109,159	49.6	381.94
(Reference) FY 2004	235,405	101,021	42.9	356.90

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
Nine months ended September 2005	(6,950)	(4,617)	6,382	19,455
Nine months ended September 2004	(12,423)	9,750	(4,260)	24,799
(Reference) FY 2004	4,270	(10,059)	(1,553)	24,480

Financial Status

Total assets as of the end of the period stood at ¥229,888 million, a decrease of ¥5,517 million from the previous fiscal year-end. Shareholders' equity was ¥102,018 million, an increase of ¥996 million. The shareholders' equity ratio was 44.4%.

<Consolidated Cash Flows>

Cash flows from operating activities resulted in an overall decrease of ¥6,950 million. The principal components were income before income taxes of ¥2,385 million, and decreases in trade notes and accounts payables, accrued expenses and other payables.

Cash flows from investing activities resulted in an overall decrease of ¥4,617 million reflecting purchases of property, plant and equipment, and investment securities.

Cash flows from financing activities resulted in an overall increase of ¥6,382 million. Principal outflow was the payment of dividends. Major inflow was proceeds from the issuance of commercial paper.

As a result, cash and cash equivalents as of the end of the third quarter of fiscal 2005 totaled ¥19,455 million, a drop of ¥5,024 million compared with the previous fiscal year-end.

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2005 (January 1, 2005 – December 31, 2005)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Full term	335,000	9,500	5,500

(Reference) Full year EPS forecast (full term): ¥19.45

Qualitative Information Concerning the Forecast of Consolidated Financial Results

There are no changes to the results forecasts presented at the time of the announcement of the financial results for interim 2005 (August 1, 2005).

Note: 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.

Condensed Consolidated 3rd Quarter Balance Sheets

	Q3 Fiscal 2005 (Ended September 30, 2005)		Q3 Fiscal 2004 (Ended September 30, 2004)		Fiscal 2004 (Ended December 31, 2004)	
	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)
Assets						
Current assets	103,721	45.1	109,944	49.9	113,019	48.0
Cash and time deposits	19,749		36,801		27,263	
Trade notes and accounts receivable	50,591		42,302		55,528	
Short-term investments	-		999		-	
Inventories	28,063		24,286		24,966	
Other	5,317		5,552		5,261	
Fixed assets	126,166	54.9	110,272	50.1	122,385	52.0
Property, plant and equipment	68,846		68,763		68,641	
Intangible assets	9,836		2,016		10,547	
Investments and other assets	47,482		39,492		43,197	
Total assets	229,888	100.0	220,217	100.0	235,405	100.0

Condensed Consolidated 3rd Quarter Balance Sheets

	Q3 Fiscal 2005 (Ended September 30, 2005)		Q3 Fiscal 2004 (Ended September 30, 2004)		Fiscal 2004 (Ended December 31, 2004)	
	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)
Liabilities						
Current liabilities	89,113	38.8	78,320	35.6	96,211	40.9
Trade notes and accounts payable	38,531		38,401		49,440	
Commercial papers	7,688		-		-	
Short-term loans payable due within one year	8,438		8,055		6,742	
Other payables and accrued expenses	25,963		24,594		34,532	
Other	8,491		7,269		5,496	
Long-term liabilities	35,916	15.6	31,084	14.1	35,955	15.3
Long-term debt	6,273		289		6,277	
Accrued employee retirement benefits	24,378		26,090		24,963	
Other	5,264		4,704		4,714	
Total liabilities	125,029	54.4	109,405	49.7	132,167	56.2
Minority interest						
Minority interest in consolidated subsidiaries	2,840	1.2	1,651	0.7	2,216	0.9
Shareholders' equity						
Common stock	34,433	15.0	34,433	15.7	34,433	14.6
Capital surplus	31,570	13.7	31,544	14.3	31,549	13.4
Retained earnings	47,676	20.7	55,923	25.4	48,992	20.8
Unrealized holding gain on other securities	5,876	2.6	3,116	1.4	3,606	1.5
Foreign currency translation adjustments	(806)	(0.3)	(1,082)	(0.5)	(1,014)	(0.4)
Treasury stock	(16,732)	(7.3)	(14,775)	(6.7)	(16,546)	(7.0)
Total shareholders' equity	102,018	44.4	109,159	49.6	101,021	42.9
Total liabilities, minority interest and shareholders' equity	229,888	100.0	220,217	100.0	235,405	100.0

Consolidated 3rd Quarter Statements of Income

	Q3 Fiscal 2005 (January to September 2005)		Q3 Fiscal 2004 (January to September 2004)		Fiscal 2004 (January to December 2004)	
	Millions of yen	% of net sales	Millions of yen	% of net sales	Millions of yen	% of net sales
Net sales	235,451	100.0	219,748	100.0	309,514	100.0
Cost of sales	115,238	49.0	106,256	48.4	149,150	48.2
Gross profit	120,212	51.0	113,492	51.6	160,363	51.8
Selling, general and administrative expenses	119,472	50.7	109,925	50.0	154,341	49.8
Operating income	740	0.3	3,566	1.6	6,021	2.0
Other income	2,084	0.9	2,013	0.9	2,820	0.9
Interest and dividend income	385		457		509	
Equity in earnings of non-consolidated subsidiaries and affiliates	1,125		1,004		1,579	
Other	572		551		732	
Other expenses	416	0.2	460	0.2	570	0.2
Interest expenses	189		133		178	
Other	226		326		392	
Ordinary income	2,407	1.0	5,120	2.3	8,271	2.7
Extraordinary income	429	0.2	312	0.2	270	0.1
Gain on disposal of property, plant and equipment	349		1		1	
Reversal of allowance for doubtful accounts	60		150		-	
Gain on sales of investment securities	5		1		4	
Gain on sales of trademarks and patents	-		-		105	
Other	14		159		159	
Extraordinary loss	452	0.2	1,482	0.7	13,560	4.4
Loss on disposal of property, plant and equipment	418		486		847	
Loss on devaluation of investment securities	3		174		174	
Amortization of goodwill	-		-		6,385	
Impairment loss	-		-		4,592	
Loss on restructuring of subsidiaries and affiliates	-		435		435	
Early retirement payments	-		333		414	
Other	29		52		710	
Net income before income taxes	2,385	1.0	3,950	1.8	(5,017)	(1.6)
Income taxes	961	0.4	1,427	0.6	(587)	(0.2)
Minority interest in earnings of consolidated subsidiaries	108	0.0	315	0.2	293	0.1
Net income	1,314	0.6	2,206	1.0	(4,723)	(1.5)

Condensed Consolidated 3rd Quarter Statements of Cash Flows

	Q3 Fiscal 2005 (January to September 2005)	Q3 Fiscal 2004 (January to September 2004)	Fiscal 2004 (January to December 2004)
	Millions of yen	Millions of yen	Millions of yen
I. Cash flows from operating activities			
Income before income taxes	2,385	3,950	-
Loss before income taxes	-	-	(5,017)
Depreciation and amortization	7,015	5,766	14,352
Decrease in accrued retirement benefits	(3,001)	(1,046)	(2,195)
Interest and dividend income	(385)	(457)	(509)
Interest expense	189	133	178
Loss on disposal of property, plant and equipment	69	485	846
Impairment loss	-	-	4,592
Gain on sale of investment securities	(5)	(1)	(4)
Loss on devaluation of investment securities	3	174	174
Equity in earnings of non-consolidated subsidiaries and affiliates	(1,125)	(1,004)	(1,579)
Decrease in trade notes and accounts receivable	5,665	15,813	3,256
Increase in inventories	(2,405)	(1,899)	(1,213)
Decrease in trade notes and accounts payable	(9,382)	(15,333)	(5,055)
Increase (decrease) in accrued expenses and other payables	(8,979)	(9,107)	1,692
Other, net	2,960	(9,036)	(4,317)
Subtotal	(6,996)	(11,562)	5,200
Interest and dividends received	1,787	2,086	2,252
Interest paid	(193)	(123)	(167)
Income taxes paid	(1,547)	(2,823)	(3,015)
Net cash provided by operating activities	(6,950)	(12,423)	4,270
II. Cash flows from investing activities			
Decrease in time deposits	2,489	-	3,144
Purchases of short-term investments	-	(4,999)	(4,999)
Redemption of short-term investments	-	16,999	17,998
Purchases of property, plant and equipment	(7,014)	(4,485)	(11,030)
Proceeds from sale of property, plant and equipment	974	14	31
Purchases of intangible assets	(146)	(165)	(13,986)
Purchases of investment securities	(1,485)	(107)	(109)
Proceeds from sale of investment securities	506	707	711
Purchases of subsidiary shares	(0)	-	(3,618)
Additions to loans receivable	(92)	(500)	(411)
Proceeds from loans receivable	118	2,578	2,617
Other, net	33	(289)	(406)
Net cash used in investing activities	(4,617)	9,750	(10,059)
III. Cash flows from financing activities			
Increase in short-term loans payable	6,218	7,725	8,163
Repayment of short-term loans payable	(4,974)	(6,739)	(8,455)
Increase in long-term loans payable	-	-	6,000
Repayment of long-term loans payable	(76)	(72)	(72)
Proceeds from commercial paper	7,842	-	-
Redemption of commercial paper	(341)	-	-
Purchases of odd-lot shares	(114)	(89)	(155)
Net proceeds from sale/purchases of treasury	(51)	(2,938)	(4,636)

stock			
Cash dividends	(2,021)	(2,065)	(2,315)
Cash dividends to minority shareholders	(98)	(81)	(81)
Net cash used in financing activities	6,382	(4,260)	(1,553)
IV. Effect of exchange rate changes on cash and cash equivalents	70	14	104
V. Net change in cash and cash equivalents	(5,114)	(6,918)	(7,237)
VI. Cash and cash equivalents at beginning of period	24,480	32,001	32,001
VII. Cash and cash equivalents of newly consolidated subsidiaries	89	-	-
VIII. Decrease in cash and cash equivalents due to excluded subsidiaries	-	(283)	(283)
IX. Cash and cash equivalents at end of period	19,455	24,799	24,480

Segment Information

1. Industry Segments

(Millions of yen)

	Q3 Fiscal 2005 (January 1 to September 30, 2005)						
	Home products	Pharmaceutical products	Chemicals	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	166,699	36,005	25,207	7,539	235,451	-	235,451
b) Intersegment sales	-	-	-	-	-	[-]	-
Total	166,699	36,005	25,207	7,539	235,451	[-]	235,451
Operating expenses	163,832	34,066	24,330	7,342	229,572	5,139	234,711
Operating income	2,866	1,938	876	197	5,879	[5,139]	740
Reference:							
Other income (net)	107	770	135	-	1,013		
Segment management income	2,974	2,709	1,012	197	6,893		

	Q3 Fiscal 2004 (January 1 to September 30, 2004)						
	Home products	Pharmaceutical products	Chemicals	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	163,808	21,665	24,276	9,998	219,748	-	219,748
b) Intersegment sales	-	-	-	-	-	[-]	-
Total	163,808	21,665	24,276	9,998	219,748	[-]	219,748
Operating expenses	156,369	20,696	22,775	9,768	209,610	6,570	216,181
Operating income	7,438	968	1,501	229	10,137	[6,570]	3,566
Reference:							
Other income (net)	99	646	89	-	835		
Segment management income	7,537	1,615	1,591	229	10,972		

	Fiscal 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		

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, and semi-adhesive products, health tonic drinks, and insecticides
- 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.

2. Geographical Segments

(Millions of yen)

	Q3 Fiscal 2005 (January 1 to September 30, 2005)				
	Japan	Asia	Total	Corporate and eliminations	Consolidated total
1. Net sales					
a) Sales to outside customers	207,313	28,137	235,451	-	235,451
b) Intersegment sales	64,451	1,361	65,812	[65,812]	-
Total	271,765	29,498	301,264	[65,812]	235,451
Operating expenses	271,488	29,172	300,660	[65,948]	234,711
Operating income	277	326	604	135	740

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 has been disclosed from the first quarter of fiscal 2005 owing to the increased importance of sales in Asia as a percentage of total sales.

3. Foreign Sales

	Q3 Fiscal 2005 (January 1 to September 30, 2005)		
	Asia	Other regions	Total
Foreign sales (millions of yen)	30,088	2,902	32,991
Consolidated net sales (millions of yen)	-	-	235,451
Percent of foreign sales in consolidated net sales (%)	12.8	1.2	14.0

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 the first quarter of fiscal 2005 due to the fact that the share of foreign sales has exceeded 10% of consolidated net sales.