

## Notes to Consolidated Financial Statements

### 1. Scope of Consolidation

Lion Corporation has 26 subsidiaries, of which 21 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.

Exclusion: C.com's Company, Ltd. was excluded from consolidation because its liquidation was completed. Lion Building Maintenance Co., Ltd. was excluded from consolidation because transfer of subsidiary shares was completed.

### 2. Application of Equity-Method Accounting

Equity-method accounting is applied to three out of 5 non-consolidated subsidiaries and to eight out of 17 affiliated companies.

Principal companies: Lion Akzo Co., Ltd., and Bristol-Myers Lion Ltd.

Exclusion: Well Pack Innovation Co., Ltd. which had been a subsidiary company of Lion Corporation (Thailand) Ltd. was excluded from equity-method companies because it no longer treated as a consolidated subsidiary following the transfer of subsidiary shares.

### 3. Balance Sheet Date of Consolidated Subsidiaries

December 31 is the balance sheet date of 21 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 net assets, 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.

*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 bonuses to directors and statutory auditors

To provide for the payment of bonuses to directors and statutory auditors, an allowance is made based on projected amount.

5) 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.

6) 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.

In accordance with the adoption of stock options under a stock-based compensation plan at the parent company, no additional allowances have been made after March 30, 2006.

*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 minority interest in consolidated subsidiaries and valuation and translation adjustments under net assets.

*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

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

Valuation of assets and liabilities of consolidated subsidiaries is made by market value method.

## 6. Amortization of goodwill

Goodwill 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. 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.

### **Changes in Significant Matters in the Presentation of Consolidated Financial Statements**

#### 1. Accounting Standards relating to Director and Auditor Bonuses

Traditionally Lion and its domestic consolidated companies had recorded bonuses to directors and auditors as an appropriation from profits, deducted from unappropriated retained earnings. From the fiscal year ended December 31, 2006, Lion adopted Accounting Standard No. 4, Accounting Standard for Presentation of Net Assets on the Balance Sheet, which was issued on November 29, 2005 by the Accounting Standards Board of Japan (ASBJ). As a result, bonuses to directors and auditors are recorded as expenses at the time they are incurred. In comparison with the traditional accounting method, operating income, ordinary income and income before income taxes each declined by ¥26 million.

#### 2. Accounting Standards for Presentation of Net Assets on the Balance Sheet

From this fiscal year under review, Lion has adopted "Accounting Standard No. 5, Accounting Standard for Presentation of Net Assets on the Balance Sheet" and "Guidance No. 8, Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet," both of which were issued on December 9, 2005 by the Accounting Standards Board of Japan (ASBJ). Lion expects no significant impact on the presentation of its statements of income as a result of this application.

Under conventional accounting standards, the amount equivalent to total shareholders' equity on the balance sheet for the fiscal year under review was ¥101,781 million.

## Notes to Consolidated Balance Sheets

	(Millions of yen)	
	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>
1. Cumulative depreciation of property, plant and equipment	144,961	156,277
2. Assets pledged as collateral		
Land	327	323
Buildings and structures	1,626	1,417
Machinery and equipment	549	429
Total	<u>2,503</u>	<u>2,170</u>
Secured debt		
Short-term loans payable	328	324
Account payable	272	259
Total	<u>600</u>	<u>583</u>
3. Endorsed notes receivable	43	44
4. Balance Outstanding of Export Bills	121	-
Negotiated		
5. Guarantees of debt	3,591	3,406
6. Treasury stock held at December 31, 2006	28,974 (Thousands of shares)	30,039 (Thousands of shares)
7. Notes with their maturity date as of the fiscal year-end are settled for accounting purposes as of their clearing date.		

## Notes to Consolidated Statements of Income

Breakdown of significant selling, general and administrative expenses:  
(Millions of yen)

	FY 2006	FY 2005
Sales incentive expenses	14,660	14,307
Sales promotion expenses	63,753	58,538
Freight and storage expenses	16,549	17,528
Advertising expenses	22,393	23,752
Salaries	14,729	14,898
R&D expenses	7,922	8,506

\*No R&D expenses have been included in production expenses for FY 2006

## Notes to Consolidated Statement of Changes in Shareholders' Equity

### 1. Outstanding Shares

Class of shares	Number of shares held at December 31, 2005	Increase	Decrease	Number of shares held at December 31, 2006
Common shares (shares)	313,515,346	-	14,400,000	299,115,346

#### Reasons for the Changes

\* Retirement of treasury stock 14,400,000 shares

### 2. Treasury stock

Class of shares	Number of shares held at December 31, 2005	Increase	Decrease	Number of shares held at December 31, 2006
Common shares (shares)	30,039,865	14,178,338	15,243,565	28,974,638

#### Reasons for the Changes

\* Increase: Purchase of odd lot shares of common stock 278,338 shares; Purchase of treasury stock under the Company's Articles of Incorporation 13,900,000 shares

\* Decrease: Release of treasury stock to allow shareholders with less than a full lot to complete their holdings 156,565 shares; Release in response to execution of stock compensation rights 687,000 shares; Retirement of treasury stock 14,400,000 shares

### 3. Dividends

#### a) Amount of dividend payments

Resolution	Class of shares	Annual dividend paid (million Yen)	Dividend par share (Yen)	Record date	Effective date
Annual Meeting of Shareholders held on March 30, 2006	Common shares	1,417	5.00	December 31, 2005	March 31, 2006

Resolution	Class of shares	Annual dividend paid (million Yen)	Dividend par share (Yen)	Record date	Effective date
Board of Directors meeting held on August 1, 2006	Common shares	1,419	5.00	June 30, 2006	September 5, 2006

#### b) Dividends with a record date that falls within FY 2006 and an effective date in the following fiscal period

Resolution	Class of shares	Dividend Resource	Annual dividend paid (million Yen)	Dividend par share (Yen)	Record date	Effective date
Board of Directors meeting held on February 9, 2007	Common shares	Retained earnings	1,350	5.00	December 31, 2006	March 5, 2007

## 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:

	FY 2006 (December 31, 2006)	(Millions of yen) FY 2005 (December 31, 2005)
Cash and deposits	26,995	15,943
Marketable securities	-	500
Time deposits with maturities greater than three months	(212)	(154)
Debt securities with maturities greater than three months	-	(500)
Total	<u>26,782</u>	<u>15,788</u>