

## Summary of Consolidated Financial Statements for Interim 2006

August 1, 2006

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

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Board of Directors meeting on interim period 2006: August 1, 2006

Use of U.S. accounting standards: Not used

### 1. Consolidated Results for the Interim Period Ended June 30, 2006 (January 1, 2006 – June 30, 2006)

#### a) Consolidated Results

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Interim 2006	163,295	2.1	1,343	(57.8)	2,508	(43.4)
Interim 2005	159,882	5.9	3,179	(17.9)	4,432	(6.9)
Fiscal 2005	331,798		6,066		8,514	

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

	Net income		EPS	Diluted EPS
	Millions of yen	%	Yen	Yen
Interim 2006	1,770	(33.4)	6.24	6.22
Interim 2005	2,659	32.3	9.43	9.42
Fiscal 2005	5,473		19.10	19.05

#### Notes:

- Equity in earnings of non-consolidated subsidiaries and affiliates: ¥814 million in interim 2006, ¥798 million in interim 2005, and ¥1,768 million in FY 2005.
- Average number of outstanding shares during the period (consolidated): 283,727,926 in interim 2006; 281,988,135 in interim 2005; and 282,420,189 in fiscal 2005.
- Changes in accounting practices: Yes
- Percent figures for net sales, operating income, ordinary income, and net income (for the interim period or full year) express percentage change over the year-ago period.

b) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity to total assets	Net assets per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2006	249,418	112,955	44.2	388.05
June 30, 2005	234,692	103,077	43.9	365.40
December 31, 2005	249,303	109,103	43.8	384.60

Note: Number of outstanding shares on balance sheet date (consolidated): 283,999,037 for interim 2006; 282,093,105 for interim 2005; and 283,475,481 for FY 2005.

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
Interim 2006	(4,976)	(1,135)	6,843	16,520
Interim 2005	(9,584)	(1,908)	6,064	19,173
Fiscal 2005	1,865	(9,262)	(1,514)	15,788

d) Scope of Consolidation and Equity-Method Companies

Consolidated subsidiaries: 22

Non-consolidated equity-method subsidiaries: 4

Equity-method companies: 8

e) Change in Scope of Consolidation and Equity-Method Companies

Consolidated subsidiaries: None included, One excluded

Equity-method companies: None included, none excluded

**2. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2006 (January 1, 2006 – December 31, 2006)**

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Fiscal 2006	350,000	9,000	5,000

Reference: Projected earnings per share of 17.61 for FY 2006.

Refer to pages 23 through 24 in the reference materials regarding the premises for the above forecast and other related matters.

## Corporate Group

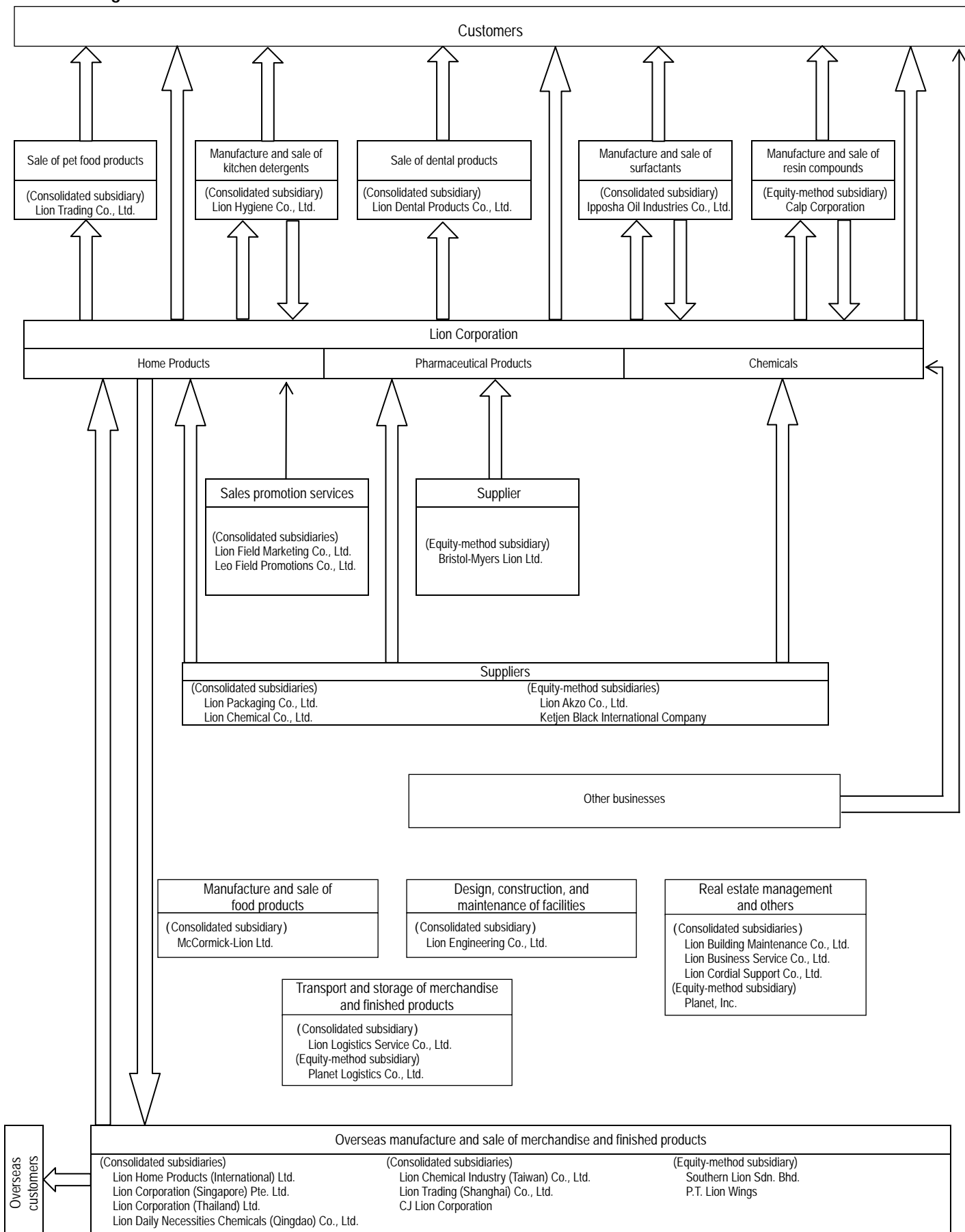
The Lion Group consists of Lion Corporation, 28 subsidiaries (including 22 consolidated subsidiaries and four non-consolidated equity-method subsidiaries), and 19 affiliates (including eight equity-method affiliates). Principal business activities consist of the manufacture and sale of home products, pharmaceutical products, and chemicals. Other business activities involve distribution related to the above business activities and other services.

The relationship between group business activities and business segments is shown below, which is based on the same categorization used for business segments.

Business segment	Main activities	Main companies	
Home Products	Manufacture and sale of home products	Domestic affiliates	Lion Corporation Lion Chemical Co., Ltd. Lion Dental Products Co., Ltd. Lion Trading Co., Ltd. Lion Hygiene Co., Ltd. Lion Packaging Co., Ltd. Lion Field Marketing Co., Ltd. Leo Field Promotions Co., Ltd. Ipposha Oil Industries Co., Ltd. Lion Akzo Co., Ltd. Calp Corporation Ketjen Black International Company
		Overseas affiliates	Lion Home Products (International) Ltd. Lion Corporation (Singapore) Pte. Ltd. Lion Corporation (Thailand) Ltd. Lion Daily Necessities Chemicals (Qingdao) Co., Ltd. Lion Advertising Ltd. CJ Lion Corporation Lion Chemical Industry (Taiwan) Co., Ltd. Lion Trading (Shanghai) Co., Ltd. Southern Lion Sdn. Bhd. P.T. Lion Wings
Pharmaceutical Products	Manufacture and sale of pharmaceutical products	Domestic affiliates	Lion Corporation Lion Packaging Co., Ltd. Bristol-Myers Lion Ltd.

Chemicals	Manufacture and sale of chemical products	Domestic affiliates	Lion Corporation Lion Chemical Co., Ltd. Lion Packaging Co., Ltd. Ipposha Oil Industries Co., Ltd. Lion Akzo Co., Ltd. Calp Corporation Ketjen Black International Company
Other businesses	Transport and storage of merchandise and finished products; design, construction, and maintenance of storage facilities; real estate management; manufacture and sale of food products; management of value-added networks, etc.	Domestic affiliates	Lion Engineering Co., Ltd. Lion Business Service Co., Ltd. Lion Building Maintenance Co., Ltd. Lion Logistics Service Company, Ltd. Lion Cordial Support Co., Ltd. McCormick-Lion Limited Planet, Inc. Planet Logistics Co., Ltd.

# Business Organization Chart



Note: The thick arrows represent transactions of merchandise, finished products, and raw materials. The line arrows represent provision of services, etc.

## Subsidiaries and Affiliates

### Consolidated Subsidiaries

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship				
					Shared positions		Financial support	Business dealings	Lease of facilities, etc.
					Lion officers	Lion employees			
Lion Engineering Co., Ltd.	Sumida-ku, Tokyo	Millions of yen 100	Other businesses	% 100.0	1	9	None	Design, construction, and maintenance of facilities	Lease of part of office space
*1 Lion Chemical Co., Ltd.	Sumida-ku, Tokyo	7,800	Home products Chemicals	100.0	5	8	Loans	Purchase of raw materials and merchandise	Rental of part of office space
Lion Dental Products Co., Ltd.	Sumida-ku, Tokyo	10	Home products	100.0	-	7	None	Sale of merchandise and finished products	Lease of office space
Lion Trading Co., Ltd.	Sumida-ku, Tokyo	240	Home products	100.0	2	6	None	Sale of merchandise and finished products	Lease of part of office space
Lion Hygiene Co., Ltd.	Sumida-ku, Tokyo	300	Home products	100.0	3	8	None	Purchase of merchandise	Lease of part of office and warehouse space
Lion Packaging Co., Ltd.	Ichihara-shi, Chiba	180	Home products Pharmaceutical products Chemicals	100.0	1	7	Loans	Purchase of materials and merchandise	Lease of part of land
Lion Business Service Co., Ltd.	Sumida-ku, Tokyo	490	Other businesses	100.0	2	5	Loans	Rental, dealing, and brokerage of real estate, and insuring	Rental of part of office space
Lion Building Maintenance Co., Ltd.	Sumida-ku, Tokyo	40	Other businesses	100.0	1	4	None	Maintenance and management of buildings	Lease of part of office space
Lion Field Marketing Co., Ltd.	Sumida-ku, Tokyo	50	Home products	100.0	1	8	None	Sales promotion activities	Lease of part of office space
Lion Logistics Service Company, Ltd.	Sumida-ku, Tokyo	40	Other businesses	100.0	3	6	None	Transport and storage of merchandise and finished products	Lease of part of office space
Leo Field Promotions Co., Ltd.	Sumida-ku, Tokyo	50	Home products Pharmaceutical products	100.0	1	9	None	Sales promotion activities	Lease of part of office space
Lion Cordial Support Co., Ltd.	Sumida-ku, Tokyo	20	Other businesses	100.0	-	5	None	Human resources services	Lease of office space

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship				
					Shared positions		Financial support	Business dealings	Lease of facilities, etc.
					Lion officers	Lion employees			
Ipposha Oil Industries Co., Ltd.	Ono-shi, Hyogo	200	Home products Chemicals	75.1	2	3	Loans	Sale of merchandise and finished products and purchase of raw materials and merchandise	-
McCormick-Lion Ltd.	Iwata-shi, Shizuoka	770	Other businesses	51.0	1	2	None	-	Lease of part of office space
Lion Home Products (International) Ltd.	China ( Hong Kong )	Thousands of HK\$ 12,000	Home products	100.0	-	4	None	Sale of merchandise and finished products	-
Lion Corporation (Singapore) Pte. Ltd.	Singapore	Thousands of S\$ 9,000	Home products	100.0	-	4	None	Sale of merchandise and finished products	-
CJ Lion Corporation	South Korea	Thousands of won 5,000,000	Home products Chemicals	81.0	-	4	None	Sale of merchandise and finished products and purchase of merchandise	-
Lion Daily Necessities Chemicals (Qingdao) Co., Ltd.	China	Millions of yen 723	Home products	85.7	-	6	None	Sale of merchandise and finished products and purchase of merchandise	-
Lion Corporation (Thailand) Ltd.	Thailand	Thousands of baht 300,000	Home products	51.0	2	8	None	Sale of merchandise and finished products and purchase of merchandise	-
Lion Advertising Ltd.	China (Hong Kong )	Thousands of HK\$ 100	Home products	*2 100.0 (100.0)	-	3	None	-	-
Lion Chemical Industry (Taiwan) Co., Ltd.	Taiwan	Thousands of NT\$ 218,150	Home products Chemicals	53.8	2	6	None	Sale of merchandise and finished products and purchase of merchandise	-
Lion Trading (Shanghai) Co., Ltd.	China (Shanghai )	Millions of yen 100	Home products	100.0	-	3	None	Sale of merchandise and finished products and purchase of merchandise	-

## Equity-method affiliates

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship				
					Shared positions		Financial support	Business dealings	Lease of facilities, etc.
					Lion officers	Lion employees			
Lion Akzo Co., Ltd.	Yokkaichi-shi, Mie	Millions of yen 1,000	Home products Chemicals	% 50.0	2	4	None	Purchase of fatty acid nitrogen derivatives	Lease of part of office space
Bristol-Myers Lion Ltd.	Shinjuku-ku, Tokyo	200	Pharmaceutical products	49.0	4	2	None	Purchase of pharmaceutical agents	-
Ketjen Black International Company	Sumida-ku, Tokyo	50	Home products Chemicals	*3 - [66.6]	1	3	None	Purchase of antistatic agents and carbon	-
Calp Corporation	Chiyoda-ku, Tokyo	100	Home products Chemicals	50.0	3	2	None	Purchase of special synthetic resin compounds	-
Southern Lion Sdn. Bhd.	Malaysia	Thousands of M\$ 22,000	Home products	50.0	-	3	None	Sale of merchandise and finished products	-
Planet, Inc.	Minato-ku, Tokyo	Millions of yen 436	Other businesses	16.0	1	-	None	Utilization of VANs	-
Planet Logistics Co., Ltd.	Minato-ku, Tokyo	240	Other businesses	20.8	1	1	None	Transport and storage of merchandise and finished products	-
P.T. Lion Wings	Indonesia	Millions of rupiah 18,062	Home products	48.0	-	4	None	Sale of merchandise and finished products	-

\*1. Lion Chemical Co., Ltd. is a specified subsidiary.

\*2. The voting shares of Lion Advertising Ltd. are held by Lion Home Products (International) Ltd.

\*3. The voting shares of Ketjen Black International Company are held by Lion Akzo Co., Ltd.

4. The figure in parentheses in the "Voting shares held by Lion" column is the percentage of total voting shares held indirectly by Lion Corporation. The figure in brackets in the same column is the percentage of voting shares held by closely related entities (affiliates).

5. In addition to the companies listed above, there are four small-scale, non-consolidated equity-method companies.

## **Management Policies**

### **1. Basic Management Policies**

Committed to its mission of active contribution to society and based on its philosophy that the market is where everything starts, Lion Corporation is striving toward becoming a “leading company in the field of products that help people lead comfortable lives” by providing customers with products and services that offer increased satisfaction in relation to the pursuit of cleanliness, health and beauty. 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 distribute earnings to shareholders on a permanent and stable basis. Lion aims to continue stable distributions of earnings through such means as dividend payments, while balancing these with the need to retain earnings within the Lion Group for use in developing 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 and our 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**

Through implementation of the Value Innovation Plan Part II 09, a medium-term management plan launched in the previous fiscal year with the aim of bolstering management capabilities to enhance corporate value, the Lion Group is working to establish a business structure capable of withstanding global competition. Lion is also strengthening growth potential by creating new businesses, while streamlining its management for enhanced operational efficiency.

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**

Aiming to grow into a highly efficient and profitable corporate group that responds flexibly and swiftly to operating environment changes, Lion is shifting toward a business structure focusing on its core businesses. Lion is also endeavoring to enter new business fields by developing pioneering and innovative products with future profit potential.

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 interim period under review, Lion conducted aggressive advertising activities in order to secure steady growth in the over-the-counter (OTC) pharmaceutical business and Home Products business in South Korea that were both acquired at the end of fiscal 2004. At the same time, Lion has boosted investment in marketing for its oral care products business, which marked 110 years of operations, and for the Top brand of laundry detergents, which has been on the market for 50 years since its debut. In line with efforts to pursue sales growth through investment in principal brands such as KireiKirei and Clinica Dental Rinse, Lion introduced new lines of customer-satisfaction-oriented products including the following: the disinfectant spray series Look Kirei no Mist for Kitchens, Bathrooms and Toilets, as well as drinks that support health and beauty such as Gussumin, Kyupurun, and Guronsan Tomato no Akazu Drink.

### **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 continuously. 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 continued its efforts to reduce manufacturing and logistics costs. However, operations were impacted by increasing raw material costs caused by soaring crude oil prices, which hovered at high levels. We are undertaking structural reforms, such as

reorganizing our production bases, to achieve more flexible production operations and further reduce production costs.

### **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- and competency-based human resource evaluation, and by developing and strengthening organizations with a downsized but highly capable workforce.

In the first half, Lion reorganized its Home Products business and Research & Development Headquarters in order to strengthen its business operating structure and ability to develop unique and innovative products ahead of its rivals. Lion also reorganized its Home Products Sales Headquarters with the aim of enhancing its capability to respond to changes in distribution structures. Aiming to reinforce consolidated management, we are advancing the introduction of new accounting systems throughout the Lion Group to improve consolidated accounting administration efficiency and centralize accounting functions.

## **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.

Lion recognizes the following as particularly immediate and important issues:

1. Reconstructing our growth foundation for greater responsiveness to changes in the business environment
2. Accelerating measures against rising raw material costs caused by surging crude oil prices
3. Expanding and deepening activities that will position Lion as a leading environmentally friendly company

To tackle the first management issue, "Reconstructing our growth foundation for greater responsiveness to changes in the business environment," Lion will continue to expand and upgrade its lineup of high-value-added products and functional food products that help customers lead pleasant and comfortable lives. To generate greater synergy through our proprietary technologies and management resources, we will examine opportunities for externally obtaining resources through mergers and acquisitions and other schemes. Furthermore, we will consider in detail the independent development of direct marketing channels, with functional foods as core products. Adding to the business reorganization in March 2006, we aim to establish a business structure that allows flexible, accurate response to market changes and continuously aims to provide

customer-satisfaction through unparalleled products. To this end, we are considering the shift toward a management structure that enables more efficient and effective business operations.

To accelerate measures against rising raw material costs caused by surging crude oil prices, which is our second management issue, the Committee for Improving the Profit Profile will play a central role, adding new cost reduction initiatives while frontloading existing initiatives. Lion aims to raise cost efficiency in its operations by effectively rationalizing sales promotion costs and fixed costs. Targeting higher management efficiency, we will strive to bring innovation to our manufacturing processes, thereby reducing manufacturing costs in our mainstay product categories, while reconstructing core systems and streamlining indirect operations. At the same time, we will shift toward an optimal production structure involving overseas operational bases and the outsourcing of unprofitable businesses. In this manner, we will implement comprehensive and structural earnings reform.

Our third management issue, "Expanding and deepening activities that will position Lion as a leading environmentally friendly corporation," calls for reduction of greenhouse gas emissions, recycling and efficient use of natural resources, creation of environmentally friendly products, safe management of chemical substances and fostering in-house awareness of the environment. These environmental protection activities constitute Lion's ECO LION activities that Lion is proactively enhancing. In specific terms, Lion is promoting switches to palm and coconut oils and other plant-based raw materials mainly used in laundry detergents and fabric softeners. This contributes to the prevention of global warming through the reduction of CO<sub>2</sub> emissions. Adding to this initiative, Lion is proactively developing environmentally friendly products and eliminating excessive use of containers and packaging. In March 2006, we released an improved version of our Top laundry detergent. The new Top, with a more than 70% plant-based composition in its total cleansing ingredients, achieved a 47% reduction of CO<sub>2</sub> emissions into the atmosphere from 1990 levels. In connection with its environmental and social activities related to palm oil production, Lion officially joined the RSPO (Roundtable on Sustainable Palm Oil), an international non-profit organization.

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. The Lion Group will examine future prospects for external sales of MES (Methyl Ester Sulfonate). We will continuously conduct various activities to preserve the environment, thereby contributing significantly to the realization of a sustainable, recycling-oriented society.

## **6. Matters Related to the Parent Company**

None.

## **Management Performance and Financial Status**

### **1. The First Half in Review**

#### **(1) Overview of Results of Operations**

During the first half of the current fiscal year, the Japanese economy showed signs of a mild recovery buoyed by increased capital investment in the private sector on the back of improved corporate earnings and moderate expansion of consumer spending. However, in the core area of business for Lion and its Group companies, the home products market in Japan, the operating environment remained difficult due to increased material costs caused by crude oil prices that rose and hovered at high levels, and continuously declining unit prices at retail stores attributable to intensifying competition.

Under these circumstances, Lion undertook aggressive initiatives in its operations. Lion worked to strengthen the Group's growth potential by quickly establishing the Home Products business in South Korea and over-the-counter (OTC) pharmaceutical business, both of which were acquired at the end of fiscal 2004. Lion also brought innovation to its sales structure aiming to raise profitability in its domestic home products business, and reorganized sales and R&D structures in Home Products for developing and fostering new high-value-added products. Furthermore, Lion entered a new field of functional food products. In ASEAN countries, Lion stepped up efforts to exclusively develop the business of its mainstay brands.

On the domestic front, the markets of Home Products, Pharmaceutical Products and Chemicals remained highly competitive, adversely affecting Lion's domestic net sales, which fell below that of the first half of the previous fiscal year. Overseas, sales in ASEAN countries were brisk, resulting in significantly increased overseas net sales compared with the first half of the previous fiscal year.

As a result of the aforementioned, consolidated net sales increased 2.1% to ¥163,295 million compared with the same period of the previous fiscal year. Operating income declined 57.8% to ¥1,343 million, and ordinary income decreased 43.4% to ¥2,508 million. Net income for the interim period under review fell 33.4% to ¥1,770 million, as Lion recorded a loss on shutdown of Tokyo plant, early retirement payments and other restructuring expenses in extraordinary loss, more than offsetting the gain on disposal of property, plant and equipment in extraordinary income.

**<Consolidated>**

(Millions of yen)

Net sales	FY 2006 1st half	FY 2005 1st half	Increase/ decrease	Change
Home Products	114,282	112,191	2,090	1.9%
Pharmaceutical Products	23,636	25,103	(1,467)	(5.8%)
Chemicals	16,074	17,110	(1,035)	(6.1%)
Others	9,301	5,476	3,824	69.8%
Total	163,295	159,882	3,412	2.1%

\* Sales to outside customers

(Millions of yen)

	FY 2006 1st half	Ratio to net sales	FY 2005 1st half	Ratio to net sales	Increase/ decrease	Change
Operating income	1,343	0.8%	3,179	2.0%	(1,835)	(57.8%)
Ordinary income	2,508	1.5%	4,432	2.8%	(1,923)	(43.4%)
Net income	1,770	1.1%	2,659	1.7%	(889)	(33.4%)

**<Non-consolidated>**

(Millions of yen)

Net sales	FY 2006 1st half	FY 2005 1st half	Increase/ decrease	Change
Home Products	89,132	90,318	(1,186)	(1.3%)
Pharmaceutical Products	23,553	25,092	(1,539)	(6.1%)
Chemicals	12,900	13,762	(861)	(6.3%)
International	1,253	1,053	199	18.9%
Total	126,839	130,228	(3,388)	(2.6%)

(Millions of yen)

	FY 2006 1st half	Ratio to net sales	FY 2005 1st half	Ratio to net sales	Increase/ decrease	Change
Operating income	155	0.1%	1,365	1.1%	(1,210)	(88.6%)
Ordinary income	3,339	2.6%	4,418	3.4%	(1,078)	(24.4%)
Net income	2,494	2.0%	3,556	2.7%	(1,062)	(29.9%)

**<Consolidated Geographical Segment>**

(Millions of yen)

Net sales	H1 2006	H1 2005	Increase/ decrease	Change
Japan	141,905	141,811	93	0.1%
Asia	21,390	18,070	3,319	18.4%
Consolidated total	163,295	159,882	3,412	2.1%

\* Sales to outside customers

	H1 2006	H1 2005	Increase/ decrease	Change
Operating income				
Japan	1,104	2,883	(1,779)	(61.7%)
Asia	95	175	(79)	(45.7%)
Corporate and eliminations	143	120	22	18.9%
Consolidated total	1,343	3,179	(1,835)	57.7%

## (2) Segment Information

### <Home Products>

(Millions of yen)

	FY 2006 1st half	Ratio to net sales	FY 2005 1st half	Ratio to net sales	Increase/ decrease	Change
Net sales	114,282		112,191		2,090	1.9%
Operating income	(58)	-	4,216	3.8%	(4,275)	-

\* From the interim period under review, expenses in administrative departments, which were previously recorded as unallocated operating expenses, are allocated to each segment. Operating income under the historic method was ¥3,061 million, declined 27.4% from the same period of the previous fiscal year.

Net sales of Home Products totaled ¥114,282 million, up by 1.9% over the same period of the previous year.

Lion continued efforts to enhance its core brands through introducing new, differentiated and superior products and focusing on aggressive advertising campaigns as well as pioneering new product categories. However, domestic net sales in the Home Products segment stagnated amid intensifying competition and other severe conditions.

On the other hand, Lion aggressively promoted its core brands in Thailand while introducing new products in South Korea, resulting in a steady sales growth overseas.

In this segment, Lion recorded an operating loss of ¥58 million, compared with the operating income of ¥4,216 million in the same period of the previous fiscal year. Lion's performance was adversely affected by rising material costs caused by high crude oil prices and the decrease in domestic net sales, despite Lion's all-out efforts to reduce production and logistics costs.

### <Net Sales of Principal divisions>

(Millions of yen)

	FY 2006 1st half	FY 2005 1st half	Increase/ decrease	Change
Oral Care Products Division	25,301	23,134	2,166	9.4%
Beauty Care Products Division	17,290	19,793	(2,503)	(12.6%)
Household Products Division	71,690	69,263	2,427	3.5%

### Oral Care Products

In the Oral Care Products business, which has seen 110 years of operations for toothpaste sales, Lion has aggressively proposed new daily oral care practices that contribute to the overall health of consumers, and consequently, to the better quality of their lives. In an effort to further strengthen Lion's standing as Japan's No. 1 oral care company, expand the sale of core brands to a ¥10 billion level and/or establish these brands as No. 1 in the category, Lion vigorously introduced new products and accelerated advertising campaigns for the new Clinica, Dentor Systema and Between product lines.

In toothpaste products, sales were brisk for PC Clinica Toothpaste, which suppresses plaque buildup and is offered in a new fresh mint flavor, in addition to the existing mild mint flavor. In addition, sales promotion activities for Clinica Toothpaste for Caries Risk Control were enhanced, positively affecting overall sales of toothpastes to exceed that of the first half of the previous fiscal year.

Lion's newly designed Between toothbrush and Clinica toothbrush, which effectively removes dental plaque, were well received by consumers. As a result, sales of toothbrushes experienced steady growth.

In mouthwash, Clinica Dental Rinse-Quick Care, a new product that prevents caries and bad breath odor with just a simple rinse, won acclaim on the market. Overall sales of mouthwash products significantly exceeded that of the same period of the previous fiscal year.

Among dental materials, sales were steady for DENT. EX Systema, an ultrafine bristle toothbrush. With the addition of the new DENT. EX Kodomo Disney toothbrush, featuring Disney character designs for kids, overall sales of dental materials were solid.

In the overseas segment, Systema toothpaste and toothbrushes maintained brisk sales in Thailand, while in South Korea a new line of Dentralla toothbrushes and toothpaste were launched, contributing to a significant increase in sales from the corresponding interim period of the previous fiscal year.

As a result, sales of Oral Care Products increased 9.4% to ¥25,301 million.

## **Beauty Care Products**

Lion focused on strengthening operations for hand soaps, antiperspirants and deodorants and hair-nourishment treatments for which Lion expects growth in the future.

In hand soaps, the KireiKirei Medicated Liquid Hand Soap was upgraded and released. The sales of hand soaps grew significantly, exceeding the results of the same period of the previous fiscal year.

Sales of antiperspirants and deodorants stagnated on the back of intensifying competition, despite the introduction of the new Ban Powder Spray, with a powder that effectively absorbs moisture created by the skin's oil and sweat.

In hair-nourishment treatments, Lion released the Mouhatsuryoku Innovate EX with deep-reaching active ingredients. Sales in this product category rose greatly compared with the same period of the previous fiscal year.

Amid intensifying competition in the shampoo and conditioner market, slumping sales of Lion's core brands, including Shokubutsu-Monogatari (Plant Story) Herb Blend Shampoo and Conditioner and Soft-in-One Shampoo and Conditioner, resulted in decreased sales in the category compared with the same period of the previous fiscal year.

Sales of body washes were sluggish for the Shokubutsu-Monogatari (Plant Story) Herb Blend Body Wash, due to intensifying competition. As a result, sales declined year on year.

Looking at overseas, the Shokubutsu-Monogatari Series of products recorded steady sales in Thailand and Taiwan, although operations in South Korea faced an increasingly competitive operating environment, constraining overseas sales to the same level as the same period of the previous fiscal year.

As a result, sales of Beauty Care Products decreased 12.6% to ¥17,290 million.

## **Household Products**

Lion stepped up efforts to strengthen the growth potential of its Household Products business, including fostering the laundry detergent brand Top, which has been on the market for 50 years, and aggressively developing the liquid detergent business for which large-scale market expansion is expected, as well as creating a new market for new-concept household cleaners. As an ongoing effort, Lion streamlined sales promotion costs in laundry detergents and fabric softeners, with the aim of further reinforcing the business foundation.

In laundry detergents, Lion released an improved version of plant-based Top, which boasts superior detergency, and Liquid Top, which is able to remove mud and grime. Lion enhanced the Top brand through such initiatives as early distribution of the products to retail stores, point-of-sales promotion and an aggressive advertising campaign. As a result of these endeavors, overall sales in laundry detergents increased compared with the same period of the previous fiscal year.

Lion worked to nurture Kaori to Deodorant no Soflan ('Soflan with Fragrance and Deodorant'), a core fabric softener brand. Adversely affected by the severe market condition of declining unit prices, sales of fabric softeners decreased year on year.

Amid market expansion for detergents specifically for use with dishwashers, Lion released Charmy Crysta Gel for Dishwashers, which is able to remove the dimness of glass and dish surfaces. Lion also upgraded Charmy V Quick dishwashing detergent. Nevertheless, the severe competitive operating environment affected result in this area, with sales remaining flat year on year.

In household cleaners, the Look Kirei no Mist Series' new concept of "preventing slimy surfaces and odors in kitchens, bathrooms and toilets" was welcomed by consumers. Consequently, sales of this product category increased considerably compared with the same period of the previous fiscal year.

Sales in the overseas Household Products business showed a marked increase year on year, buoyed by steady sales growth of Pao laundry detergent and Essence fabric softener in Thailand.

As a result, sales of Household Products increased 3.5% to ¥71,690 million.

## Principal new products

PC Clinica (Fresh mint flavor) / Toothpaste  
Clinica Dental Rinse - Quick Care / Mouthwash  
Mouhatsuryoku Innovate Ex / Hair-nourishment treatment  
Ban Powder Spray / Antiperspirants and deodorants  
Liquid Top / Laundry detergent  
Top / Laundry detergent  
Charmy Crysta Gel for dishwashers  
Look Kirei no Mist for Kitchen, Bathrooms and Toilets / Disinfectants

## <Pharmaceutical Products>

(Millions of yen)

	FY 2006 1st half	Ratio to net sales	FY 2005 1st half	Ratio to net sales	Increase/ decrease	Change
Net sales	23,636		25,103		(1,467)	(5.8%)
Operating income	1,553	6.6%	1,263	5.0%	289	22.9%

\* Operating income under the historic method was ¥2,294 million in this interim period, increased 81.6% from the same period of the previous fiscal year.

Sales of Pharmaceutical Products decreased 5.8% to ¥23,636 million.

Lion is working to strengthen its R&D capabilities with the aim of becoming a general OTC drug manufacturer, while pursuing synergistic effects between pharmaceutical and home products in the area of distribution.

The OTC drug market suffered under harsh conditions, reflecting the shrinking markets of analgesics, pollen allergy-related products, health tonic drinks and insecticides.

Under these circumstances, Lion strongly advanced its growth strategies such as entering the functional food product field and expanding the lineup of its insecticide products, as well as utilizing the sales channels for home products. Despite these efforts, sales in the pharmaceutical products business were stagnant.

Operating income, on the other hand, rose 22.9% to ¥1,553 million, due to contributions from reducing production costs, reorganizing distribution bases and streamlining sales promotion costs.

## Principal divisions

In analgesics, Lion boosted sales promotion activities for Bufferin A by increasing investment in its advertising campaign. Nevertheless, sales declined year on year, impacted by the shrinking market.

Sales of eyedrops grew significantly, buoyed by robust sales of Smile 40EX.

In health tonic drinks, Lion upgraded the Guronsan Strong Oral Liquid while accelerating point-of-sales promotion for the New Guromont. The shrinking market affected Lion's performance, however, and overall sales of health tonic drinks decreased compared with the same period of the previous fiscal year.

Lion upgraded Varsan SX Jet, a mainstay fumigation product in the Varsan Series that get rid of mites, and added seven new insecticide products to its lineup, including Varsan Insect-Repellent Cube. These products contributed to a considerable sales increase year on year.

In medicinal skin-care products, Lion released Pairacne W, a cream for treating acne at the root, which positively affected sales in this product division to grow significantly compared with the same period of the previous fiscal year.

In a new field of health drinks, Gussumin, a drink that combines tomato vinegar and GABA and supports a comfortable life, and Kyupurun, a beauty-support drink that combines collagen and flavangenol, both recorded sales exceeding projected targets. As a result, overall sales in this field were strong.

### Principal new products

Varsan Insect-Repellent Cube

Varsan Mite Elimination Pack

Gussumin / Health drink

Kyupurun / Health drink

Tomato no Akazu Drink / Health drink

Pairacne W / Acne medicine

### <Chemicals>

(Millions of yen)

	FY 2006 1st half	Ratio to net sales	FY 2005 1st half	Ratio to net sales	Increase/ decrease	Change
Net sales	16,074		17,110		(1,035)	(6.1%)
Operating income	(123)	-	786	4.6%	(910)	-

\* Operating income under the historic method was ¥101 million in this interim period, decreased 87.2% from the same period of the previous fiscal year.

Sales of Chemicals decreased 6.1% to ¥16,074 million.

Amid recovering demand for IT-related products, Lion strove to foster high-value-added products, focusing primarily on electro-conductive compounds and industrial detergents. However, slow sales of fatty-acid methyl ester and other products impacted overall sales of chemical products, declining from the level in the same period of the previous fiscal year.

Despite efforts in cost-reduction measures, including transferring production functions overseas and streamlining the manufacturing process, Lion recorded an operating loss of ¥123 million, compared with the operating income of ¥786 million in the same period of the previous fiscal year, mainly due to rising

material costs attributed to surging crude oil prices that hovered at high levels.

#### <Principal divisions>

In surfactants, domestic sales of nonionic surfactants were sluggish because of the severely competitive environment in Japan. On the other hand, overseas sales were strong, buoyed by robust demand of surfactants for use in household cleaners. As a result, overall sales of surfactants experienced solid growth.

On the back of recovering domestic demand for detergents used in the manufacture of liquid crystal displays (LCDs), sales of industrial detergents improved significantly compared with the same period of the previous fiscal year.

Fatty-acid methyl ester maintained a high level of recognition thanks to its exceptional purity. However, sales decreased year on year, impacted by inventory adjustments in domestic and overseas markets.

Electro-conductive compounds showed brisk sales overseas, reflecting Lion's creation of new markets. Overall, sales remained flat, however, due to continued severe competition in domestic markets.

#### <Others>

(Millions of yen)

	FY 2006 1st half	Ratio to net sales	FY 2005 1st half	Ratio to net sales	Increase/ decrease	Change
Net sales	9,301		5,476		3,824	69.8%
Operating income	(83)	-	143	2.6%	(227)	-

\* Operating loss under the historic method was ¥37 million in this interim period, while operating income in the same period of the previous fiscal year was ¥143 million.

In the Others segment, net sales amounted to ¥9,301 million, a 69.8% increase year on year, owing to the increase in the number of works completions in the construction contracting business. However, Lion recorded an operating loss of ¥83 million, a drop from operating income of ¥143 million during the same period of the previous fiscal year, due to an increasingly competitive operating environment.

### (3) Financial Status

	FY 2006 1st half	FY 2005	Change
Total assets (millions of yen)	249,418	249,303	114
Net assets (millions of yen)	112,955	109,103	3,851
Shareholders' equity to total assets (%)	44.2	43.8	0.4 <sup>*2</sup>
Net assets per share <sup>*1</sup> (yen)	388.05	384.60	3.45

\*1 Minority interest was excluded from calculation of net assets per share

\*2 In percentage points

(Millions of yen)			
	FY 2006 1st half	FY 2005 1st half	Change
Cash flows from operating activities	(4,976)	(9,584)	4,608
Cash flows from investing activities	(1,135)	(1,908)	772
Cash flows from financing activities	6,843	6,064	779
Translation gain related to cash and cash equivalents	0	31	(31)
Increase (decrease) in cash and cash equivalents	731	(5,397)	6,128
Cash and cash equivalents at end of period	16,520	19,173	(2,652)

As of June 30, 2006, total assets were ¥249,418 million, an increase of ¥114 million from December 31, 2005. Net assets were ¥112,955 million, reflecting the gains on unrealized holding gain on other securities. The shareholders' equity to total assets was 44.2%.

#### <Consolidated Cash Flows>

Net cash used in operating activities totaled ¥4,976 million, compared with ¥9,584 million during the same period of the previous fiscal year. Decrease in trade notes and accounts payable offset income before income taxes of ¥5,136 million.

Net cash used in investing activities was ¥1,135 million, compared with ¥1,908 million during the same period of the previous fiscal year, owing mainly to purchases of property, plant and equipment and purchases of investment securities.

Net cash provided by financing activities was ¥6,843 million, compared with ¥6,064 million during the same period of the previous fiscal year, owing primarily to proceeds from commercial paper.

**<Changes in major indicators for financial status>**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 1st half
Shareholders' equity to total assets (%)	43.1	45.0	42.9	43.8	44.2
Shareholders' equity to total assets on a market value basis (%)	56.5	66.6	71.9	85.8	84.5
Debt redemption (years)	0.5	0.7	3.9	9.8	—
Interest coverage ratio	119.8	86.7	25.6	7.1	—

(Notes)

Shareholders' equity to total assets: Net assets / Total assets

(Total shareholders' equity / Total assets until FY 2005)

Shareholders' equity to total assets on a market value basis: Value of shares / Total assets

Debt redemption (years): Interest bearing liabilities / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest payment

\* All the indicators are based on consolidated financial data.

\* "Value of shares" is calculated on the basis of "closing stock price as of the end of the term" multiplied by "the number of outstanding stocks as of the end of the term" (after the deduction of treasury stocks).

\* "Cash flows from operating activities" are those in the consolidated cash flow data.

"Interest bearing liabilities" mean all liabilities that are bearing interests among the liabilities in the consolidated balance sheet.

For the amount of interest paid, figures in the consolidated cash flow data are used.

\* Debt redemption (years) and interest coverage ratio are not described for FY 2006 1st half, because cash flows from operating activities was a minus figure.

**(4) Appropriation of Earnings****<Dividends>**

The interim dividend for the first half of fiscal 2006 will be ¥5 per share, up ¥1 from the first half of fiscal 2005.

## 2. Outlook for Fiscal 2006

### (1) Forecasts

#### <Consolidated>

(Millions of yen)

	FY 2006 forecast	FY 2005	Increase/decrease	Change
Net sales	350,000	331,798	18,201	5.5%
Ordinary income	9,000	8,514	485	5.7%
Net income	5,000	5,473	(473)	(8.6%)

#### <Non-Consolidated>

(Millions of yen)

	FY 2006 forecast	FY 2005	Increase/decrease	Change
Net sales	275,000	270,894	4,105	1.5%
Ordinary income	7,000	6,453	546	8.5%
Net income	5,000	4,657	342	7.4%

In the second half of the fiscal year ending December 31, 2006, the Japanese economy is expected to continue a moderate recovery. In the home products market, challenging conditions are expected to persist with intensifying competition among manufacturers and rising material prices caused by higher crude oil prices.

Amid such an operating environment, Lion aims to nurture key brands in the Home Products business by streamlining investment and improving cost efficiency in marketing activities, and by introducing advanced high-value-added products. Overseas, we will aggressively develop operations in Thailand and South Korea. Buoyed by these initiatives, overall sales of the home products business are expected to expand year on year.

In the Pharmaceutical Products business, we estimate an increase in sales compared with the previous fiscal year as we release new products of our key and existing brands and boost investment in marketing activities.

In the Chemicals business, Lion aims to foster environmentally friendly products such as natural oils and fats and other high-value-added products. Nevertheless, sales are expected to remain flat compared with the previous fiscal year, due to the effects of Lion's activities to withdraw from unprofitable products.

In the Other business segment, we expect sales to increase on account of an increase in project completions in the construction contracting business.

As a net result of the above, Lion projects full-term consolidated net sales of ¥350 billion, an increase of 5.5% compared with the previous fiscal year.

Lion also projects ordinary income to expand 5.7% to ¥9.0 billion and net income of ¥5.0 billion.

Lion plans to declare annual dividends for fiscal 2006 of ¥ 10 per share (¥5 per share both for interim and year end dividends).

## **(2) Consolidated Cash Flows**

In cash flows from operating activities, Lion projects income before income taxes of approximately ¥8.0 billion. Lion estimates depreciation and amortization charges of about ¥10.0 billion.

In cash flows from investing activities, Lion plans capital expenditure of ¥11.5 billion.

The cash flows from financing activities are expected to decline by about ¥3.0 billion from the fiscal 2005 level because of the payment of dividend.

Based on these projections, Lion estimates cash and cash equivalents at the end of the year to total ¥19.0 billion.

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.

## **3. Business Risks**

The Lion Group's management performance and financial status may be adversely affected by various risks as business activities are pursued in the future. Of these risks, the following items in particular may have a material impact on the decisions of investors.

Forward-looking statements are based on decisions made by the Lion Group as of the date of release of this interim business report. Business risks are not limited to the items listed below.

### **(1) Product quality and value**

The Lion Group plans, develops, produces, and sells products under management based on international quality standards while strictly following related laws and regulations, such as the Pharmaceutical Affairs Law, to provide worry-free, safe, convenient, and environmentally conscious products to customers. In addition, we use customer opinions received through our Consumer Service Office to improve our products, packaging text and displays.

In the event of an unforeseen and serious problem with product quality, however, the affected product and all products made by the Lion Group may lose their perceived value. This may adversely affect the Lion Group's management performance and financial status.

## (2) Changes in raw material prices

The Lion Group's products use minerals and vegetable oils and fats as basic materials. Since these materials are easily affected by international market prices, we have measures in place to reduce costs and diversify the range of materials used. However, an increase in raw material prices may adversely affect the Lion Group's management performance and financial status.

## (3) Exchange rate fluctuations

The Lion Group translates into yen the financial statements of overseas subsidiaries when preparing consolidated financial statements. For items denominated in foreign currency, their yen values may be affected by prevailing foreign exchange rates when translated into yen. The Lion Group has taken steps to minimize the risk of an increase in raw material costs by hedging against exchange rate fluctuations. However, short-, medium-, and long-term changes in foreign exchange rates may adversely affect the Lion Group's management performance and financial status.

## (4) Major lawsuits

In a future lawsuit, if the Lion Group is successfully sued for significant damages, it may adversely affect the Lion Group's management performance and financial status.

## (5) Earthquakes and other natural disasters

In the product manufacturing process, the Lion Group has put in place safety measures against earthquakes and other natural disasters. In the event of a major disaster, however, our production equipment may be damaged or business activities may cease, adversely affecting the Lion Group's management performance and financial status.

### Consolidated Interim Balance Sheets

	Interim 2006 (Ended June 30, 2006)		Interim 2005 (Ended June 30, 2005)		Fiscal 2005 (Ended December 31, 2005)	
	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)	Millions of yen	Share of Total (%)
<b>Assets</b>						
Current assets	115,538	46.3	111,595	47.5	117,699	47.2
Cash and time deposits	16,589		19,455		15,943	
Trade notes and accounts receivable	64,857		60,155		68,282	
Short-term investments	-		-		500	
Inventories	27,783		27,269		27,399	
Deferred tax assets	3,745		2,654		3,038	
Other	4,290		3,823		4,258	
Allowance for doubtful accounts	(1,727)		(1,763)		(1,721)	
Fixed assets	133,879	53.7	123,097	52.5	131,604	52.8
Property, plant and equipment	67,854	27.2	68,874	29.4	68,570	27.5
Buildings and structures	21,643		22,079		22,143	
Machinery and equipment	21,343		21,916		22,545	
Land	19,538		20,023		19,726	
Construction in progress	2,347		2,176		1,297	
Other	2,981		2,678		2,857	
Intangible assets	9,912	4.0	10,100	4.3	10,481	4.2
Goodwill	1,090		1,218		1,154	
Trademarks, etc.	8,822		8,882		9,326	
Investments and other assets	56,112	22.5	44,122	18.8	52,552	21.1
Investment securities	37,315		26,131		35,277	
Long-term loans receivable	340		299		302	
Prepaid pension cost	6,748		1,367		3,727	
Deferred tax assets	10,384		15,353		12,250	
Other	1,549		1,242		1,229	
Allowance for doubtful accounts	(226)		(272)		(235)	
<b>Total assets</b>	<b>249,418</b>	<b>100.0</b>	<b>234,692</b>	<b>100.0</b>	<b>249,303</b>	<b>100.0</b>

	Interim 2006 (Ended June 30, 2006)		Interim 2005 (Ended June 30, 2005)		Fiscal 2005 (Ended December 31, 2005)	
	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)
<b>Liabilities</b>						
Current liabilities	99,756	40.0	93,255	39.7	101,402	40.7
Trade notes and accounts payable	42,450		43,012		53,995	
Commercial papers	7,694		7,692		-	
Short-term loans payable	8,784		7,532		8,088	
Other payables and accrued expenses	32,821		28,531		31,322	
Accrued income taxes	1,838		1,106		1,371	
Allowance for returns	785		510		788	
Allowance for sales promotion expenses	666		491		710	
Other	4,715		4,379		5,126	
Long-term liabilities	36,706	14.7	35,596	15.2	36,008	14.4
Long-term debt	6,225		6,280		6,284	
Accrued employee retirement benefits	25,047		24,208		24,868	
Accrued director retirement allowances	341		835		910	
Other	5,091		4,272		3,944	
Total liabilities	136,462	54.7	128,851	54.9	137,411	55.1
<b>Minority interest</b>						
Minority interest in consolidated subsidiaries	-	-	2,763	1.2	2,789	1.1
<b>Shareholders' equity</b>						
Common stock	-	-	34,433	14.7	34,433	13.8
Capital surplus	-	-	31,557	13.4	31,584	12.7
Retained earnings	-	-	50,150	21.4	51,834	20.8
Unrealized holding gain on other securities	-	-	4,947	2.1	7,654	3.1
Foreign currency translation adjustments	-	-	(947)	(0.4)	38	0.0
Treasury stock	-	-	(17,065)	(7.3)	(16,443)	(6.6)
Total shareholders' equity	-	-	103,077	43.9	109,103	43.8
Total liabilities, minority interest and shareholders' equity	-	-	234,692	100.0	249,303	100.0

<b>Net assets</b>						
Shareholders' equity	101,939	40.9	-	-	-	-
Common stock	34,433	13.8	-	-	-	-
Capital surplus	31,591	12.7	-	-	-	-
Retained earnings	52,124	20.9	-	-	-	-
Treasury stock	(16,210)	(6.5)	-	-	-	-
Valuation and translation adjustments	8,267	3.3	-	-	-	-
Unrealized holding gain on other securities	8,427	3.4	-	-	-	-
Foreign currency translation adjustments	(159)	(0.1)	-	-	-	-
Minority interest in consolidated subsidiaries	2,748	1.1	-	-	-	-
Total net assets	112,955	45.3	-	-	-	-
Total liabilities and net assets	249,418	100.0	-	-	-	-

### Consolidated Interim Statements of Income

	Interim 2006 (January to June 2006)		Interim 2005 (January to June 2005)		Fiscal 2005 (January to December 2005)	
	Millions of yen	% of net sales	Millions of yen	% of net sales	Millions of yen	% of net sales
Net sales	163,295	100.0	159,882	100.0	331,798	100.0
Cost of sales	81,979	50.2	77,874	48.7	163,153	49.2
Gross profit	81,315	49.8	82,007	51.3	168,644	50.8
Selling, general and administrative expenses	79,972	49.0	78,828	49.3	162,577	49.0
Operating income	1,343	0.8	3,179	2.0	6,066	1.8
Nonoperating income	1,596	1.0	1,565	1.0	3,088	1.0
Interest and dividend income	375		371		445	
Equity in earnings of non-consolidated subsidiaries and affiliates	814		798		1,768	
Other	405		395		873	
Nonoperating expenses	430	0.3	312	0.2	640	0.2
Interest expenses	153		129		255	
Other	277		183		384	
Ordinary income	2,508	1.5	4,432	2.8	8,514	2.6
Extraordinary income	5,941	3.7	405	0.3	1,009	0.3
Gain on disposal of property, plant and equipment	5,811		346		880	
Reversal of allowance for director retirement benefits	126		-		-	
Gain on sales of investment securities	0		5		5	
Reversal of allowance for doubtful accounts	-		38		85	
Other	2		14		37	
Extraordinary loss	3,313	2.0	260	0.2	786	0.3
Loss on disposal of property, plant and equipment	329		230		697	
Loss on shutdown of a plant	1,530		-		-	
Early retirement payments	947		-		-	
Impairment loss	197		-		-	
Loss on devaluation of investment securities	-		3		3	
Other	309		26		84	
Net income before income taxes	5,136	3.2	4,577	2.9	8,737	2.6
Income taxes	1,622	1.0	886	0.6	1,710	0.5
Adjustment of income taxes	1,763	1.1	962	0.6	1,606	0.4
Minority interest in earnings of consolidated subsidiaries	-	-	68	0.0	-	-
Minority interest in loss of consolidated subsidiaries	19	0.0	-	-	51	0.0
Net income	1,770	1.1	2,659	1.7	5,473	1.7

### Consolidated Interim Statements of Capital Surplus and Retained Earnings

<div style="border-bottom: 1px solid black; height: 1em; width: 100%;"></div>	Interim 2005 (January to June 2005)	Fiscal 2005 (January to December 2005)
	Millions of yen	Millions of yen
<b>Capital surplus</b>		
1. Capital surplus at beginning of period	31,549	31,549
2. Increase in capital surplus	7	34
Gain on disposal of treasury stock	7	34
3. Capital surplus at end of interim period	31,557	31,584
<b>Retained earnings</b>		
1. Retained earnings at beginning of period	48,992	48,992
2. Increase in retained earnings	2,790	5,603
Increase due to subsidiaries newly included in consolidation	33	33
Increase due to affiliates newly accounted for by the equity method	97	97
Net income	2,659	5,473
3. Decrease in retained earnings	1,632	2,761
Cash dividends	1,131	2,259
Bonuses to directors and corporate auditors [Of which, bonuses to corporate auditors]	55 [10]	55 [10]
Decrease due to subsidiaries included as consolidated companies	28	28
Decrease due to companies included as equity-method companies	417	417
Other decreases	-	0
4. Retained earnings at end of interim period	50,150	51,834

## Consolidated Interim Statement of Changes in Shareholders' Equity

Interim 2006 (January to June, 2006)

(Millions of yen)

	Shareholders' equity				
	Common Stock	Capital surplus	Retained Earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2005	34,433	31,584	51,834	(16,443)	101,409
Increase / decrease during the term under review					
Cash dividends			(1,417)		(1,417)
Bonuses to directors and corporate auditors			(73)		(73)
Interim net income			1,770		1,770
Repurchase of treasury stock				(99)	(99)
Gain on disposal of treasury stock		6		333	339
Decrease due to a subsidiary excluded from consolidation			10		10
Increase / decrease during the term under review except shareholders' equity					
Total increase / decrease during the term under review	-	6	289	233	529
Balance at June 30, 2006	34,433	31,591	52,124	(16,210)	101,939

	Valuation and translation adjustments			Minority interest in consolidated subsidiaries	Total net assets
	Unrealized holding gain on other securities	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance at December 31, 2005	7,654	38	7,693	2,789	111,892
Increase / decrease during the term under review					
Cash dividends					(1,417)
Bonuses to directors and corporate auditors					(73)
Interim net income					1,770
Repurchase of treasury stock					(99)
Gain on disposal of treasury stock					339
Decrease due to a subsidiary excluded from consolidation					10
Increase / decrease during the term under review except shareholders' equity	772	(198)	573	(40)	532
Total increase / decrease during the term under review	772	(198)	573	(40)	1,062
Balance at June 30, 2006	8,427	(159)	8,267	2,748	112,955

## Consolidated Interim Statements of Cash Flows

	Interim 2006 (January to June 2006)	Interim 2005 (January to June 2005)	Fiscal 2005 (January to December 2005)
	Millions of yen	Millions of yen	Millions of yen
<b>I. Cash flows from operating activities</b>			
Income before income taxes	5,136	4,577	8,737
Depreciation and amortization	4,715	4,568	9,754
(Decrease) increase in accrued retirement benefits	(3,421)	(2,118)	(3,760)
Interest and dividend income	(375)	(371)	(445)
Interest expense	153	129	255
Gain (loss) on disposal of property, plant and equipment	(5,482)	(116)	(183)
Impairment loss	197	-	-
Gain on sale of investment securities	(0)	(5)	(5)
Loss on devaluation of investment securities	-	3	3
Equity in earnings of affiliates	(814)	(798)	(1,768)
(Increase) decrease in trade notes and accounts receivable	3,599	(4,041)	(11,717)
Increase in inventories	(249)	(1,694)	(1,483)
Decrease in trade notes and accounts payable	(12,162)	(4,892)	6,345
Increase (decrease) in accrued expenses and other payables	2,742	(5,601)	(4,198)
Other, net	314	(11)	191
Subtotal	(5,648)	(10,372)	1,725
Interest and dividends received	1,857	1,773	1,970
Interest paid	(159)	(134)	(262)
Income taxes paid	(1,026)	(850)	(1,568)
Net cash provided by operating activities	(4,976)	(9,584)	1,865
<b>II. Cash flows from investing activities</b>			
Decrease in time deposits	85	2,499	2,627
Redemption of short-term investments	500	-	-
Purchases of property, plant and equipment	(5,305)	(4,908)	(8,943)
Proceeds from sale of property, plant and equipment	6,039	959	1,899
Purchases of intangible assets	(408)	(126)	(805)
Purchases of investment securities	(1,749)	(379)	(4,562)
Proceeds from sale of investment securities	3	6	506
Purchases of subsidiary shares	(2)	(0)	(0)
Additions to loans receivable	(105)	(32)	(153)
Proceeds from loans receivable	64	68	188
Other, net	(257)	3	(18)
Net cash used in investing activities	(1,135)	(1,908)	(9,262)
<b>III. Cash flows from financing activities</b>			
Increase in short-term loans payable	5,579	3,672	6,473
Repayment of short-term loans payable	(4,887)	(3,310)	(5,688)
Repayment of long-term loans payable	(64)	(58)	(78)
Increase in commercial paper payable	13,697	7,755	15,448
Repayment of commercial paper payable	(6,197)	(254)	(15,448)
Purchases of odd-lot shares	(62)	(32)	(177)
Proceeds from sale of treasury stock	302	127	920
Purchases of treasury stock	-	(605)	(605)

Cash dividends	(1,415)	(1,131)	(2,260)
Cash dividends to minority shareholders	(107)	(98)	(98)
Other	-	-	0
Net cash used in financing activities	6,843	6,064	(1,514)
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	0	31	130
<b>V. Net change in cash and cash equivalents</b>	731	(5,397)	(8,781)
<b>VI. Cash and cash equivalents at beginning of period</b>	15,788	24,480	24,480
<b>VII. Cash and cash equivalents of newly consolidated subsidiaries</b>	-	89	89
<b>VIII. Cash and cash equivalents at end of period</b>	16,520	19,173	15,788

## Notes to Consolidated Financial Statements

### 1. Scope of Consolidation

Lion Corporation has 28 subsidiaries, of which 22 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.

### 2. Application of Equity-Method Accounting

Equity-method accounting is applied to four out of 8 non-consolidated subsidiaries and to eight out of 19 affiliated companies.

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

### 3. Balance Sheet Date of Consolidated Subsidiaries

June 30 is the interim balance sheet date of 22 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.

### *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 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.

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 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 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
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 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.

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.

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

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

From the consolidated interim period of the 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 first half of the fiscal year under review was ¥110,206 million.

The following describes the changes in the presentation of Lion’s consolidated balance sheets in accordance with the revised regulations concerning consolidated financial statements:

The following describes the changes in the presentation of the Company’s consolidated balance sheets in accordance with the revised regulations concerning consolidated financial statements:

(a) From the interim period under review, the classification of “Shareholders’ equity” on previous balance sheets is changed to “Net assets,” which is comprised of “Shareholders’ equity,” “Valuation and translation adjustments” and “Minority interests in consolidated subsidiaries,” which was previously presented between Liabilities and Shareholders’ equity.

(b) “Common stock,” “Capital surplus,” “Retained earnings” and “Treasury stock,” which were previously presented as separate line items, are presented as components of Shareholders’ equity based on the new method of presentation.

(c) “Unrealized holding gain on other securities” and “Foreign currency translation adjustments,” which were previously presented as line items following Retained earnings, are presented as components of “Valuation and translation adjustments.”

## Notes to Consolidated Balance Sheets

	Interim 2006	Interim 2005	(Millions of yen) Fiscal 2005
1. Cumulative depreciation of property, plant and equipment	152,514	154,727	156,277
2. Assets pledged as collateral			
Land	318	314	323
Buildings and structures	1,531	1,185	1,417
Machinery and equipment	506	276	429
Total	2,356	1,776	2,170
Secured debt			
Short-term loans payable	318	192	324
Account payable	146	162	259
Total	465	355	583
3. Endorsed notes receivable	32	31	44
4. Guarantees of debt	3,670	3,336	3,406

## Notes to Consolidated Statements of Income

Breakdown of significant selling, general and administrative expenses:

	Interim 2006	Interim 2005	(Millions of yen) FY 2005
Sales incentive expenses	6,807	7,164	14,307
Sales promotion expenses	30,652	27,843	58,538
Freight and storage expenses	7,973	8,044	17,528
Advertising expenses	11,438	12,242	23,752
Salaries	7,523	7,520	14,898
R&D expenses	3,874	4,077	8,506

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

## Notes to Consolidated Interim 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 June 30, 2006
Common shares (shares)	313,515,346	-	-	313,515,346

## 2. Treasury stock

Class of shares	Number of shares held at December 31, 2005	Increase	Decrease	Number of shares held at June 30, 2006
Common shares (shares)	30,039,865	134,523	658,079	29,516,309

### Reasons for the Changes

- Increase: Purchase of odd lot shares of common stock 134,523 shares
- Decrease: Release of treasury stock to allow shareholders with less than a full lot to complete their holdings 50,079 shares; Release in response to execution of stock compensation rights 608,000 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

### b) Dividends with a record date that falls within the interim period under review 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 August 1, 2006	Common shares	Retained earnings	1,419	5.00	June 30, 2006	September 5, 2006

## 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 2006 (June 30, 2006)	Interim 2005 (June 30, 2005)	(Millions of yen) FY 2005 (December 31, 2005)
Cash and deposits	16,589	19,455	15,943
Marketable securities	-	-	500
Time deposits with maturities greater than three months	(69)	(282)	(154)
Debt securities with maturities greater than three months	-	-	(500)
<b>Total</b>	<b>16,520</b>	<b>19,173</b>	<b>15,788</b>

## Segment Information

### 1. Industry Segments

(Millions of yen)

	Interim 2006 (January 1 to June 30, 2006)						
	Home products	Pharmaceutical products	Chemicals	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	114,282	23,636	16,074	9,301	163,295	-	163,295
b) Intersegment sales	4	-	3,960	2,660	6,625	[6,625]	-
Total	114,287	23,636	20,034	11,961	169,920	[6,625]	163,295
Operating expenses	114,346	22,083	20,158	12,045	168,633	[6,681]	161,952
Operating income	(58)	1,553	(123)	(83)	1,286	56	1,343
Reference:							
Other income (net)	80	503	95	-	680		
Segment management income	21	2,056	(28)	(83)	1,966		

	Interim 2005 (January 1 to June 30, 2005)						
	Home products	Pharmaceutical products	Chemicals	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	112,191	25,103	17,110	5,476	159,882	-	159,882
b) Intersegment sales	-	-	-	-	-	[ - ]	-
Total	112,191	25,103	17,110	5,476	159,882	[ - ]	159,882
Operating expenses	107,975	23,840	16,323	5,333	153,471	3,231	156,703
Operating income	4,216	1,263	786	143	6,410	[3,231]	3,179
Reference:							
Other income (net)	73	544	91	-	710		
Segment management income	4,290	1,808	878	143	7,121		

	FY 2005 (January 1 to December 31, 2005)						
	Home products	Pharmaceutical products	Chemicals	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	237,241	50,315	33,898	10,343	331,798	-	331,798
b) Intersegment sales	-	-	-	-	-	[ - ]	-
Total	237,241	50,315	33,898	10,343	331,798	[ - ]	331,798
Operating expenses	228,806	46,695	32,877	10,441	318,821	6,910	325,731
Operating income	8,434	3,619	1,020	(97)	12,977	[6,910]	6,066
Reference:							
Other income (net)	147	1,150	169	-	1,467		
Segment management income	8,581	4,770	1,190	(97)	14,444		

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, 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 in FY2005 and Interim 2005 are expenses of the general affairs, accounting, and other management units of Lion Corporation.

< Change of operating expenses allocation method >

In order to more accurately disclose segment operating income and loss, from this interim period, the Company has changed its classification of net sales to "Sales to outside customers" and "Intersegment sales or transfers." At the same time, the Company has changed its historic method of disclosing expenses in administrative departments as unallocated operating expenses to an allocation against each business segment.

Segment information disclosed under the historic method is as follows.

(Millions of yen)

	Interim 2006 (Historic method) (January 1 to June 30, 2006)						
	Home products	Pharmaceutical products	Chemical products	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	114,282	23,636	16,074	9,301	163,295	-	163,295
b) Intersegment sales or transfers	-	-	-	-	-	[ - ]	-
Total	114,282	23,636	16,074	9,301	163,295	[ - ]	163,295
Operating expenses	111,221	21,342	15,973	9,339	157,876	4,076	161,952
Operating income	3,061	2,294	101	(37)	5,419	[4,076]	1,343

## 2. Geographical Segments

	Interim 2006 (January 1 to June 30, 2006)				
	Japan	Asia	Total	Corporate and elimina- tions	Consoli- dated total
1. Net sales					
a) Sales to outside customers	141,905	21,390	163,295	-	163,295
b) Intersegment sales	900	1,082	1,982	[1,982]	-
Total	142,805	22,472	165,277	[1,982]	163,295
Operating expenses	141,701	22,376	164,077	[2,125]	161,952
Operating income	1,104	95	1,200	143	1,343

	Interim 2005 (January 1 to June 30, 2005)				
	Japan	Asia	Total	Corporate and elimina- tions	Consoli- dated total
1. Net sales					
a) Sales to outside customers	141,811	18,070	159,882	-	159,882
b) Intersegment sales	824	760	1,584	[1,584]	-
Total	142,635	18,831	161,467	[1,584]	159,882
Operating expenses	139,752	18,656	158,408	[1,704]	156,703
Operating income	2,883	175	3,058	120	3,179

	FY 2005 (January 1 to December 31, 2005)				
	Japan	Asia	Total	Corporate and elimina- tions	Consoli- dated total
1. Net sales					
a) Sales to outside customers	293,660	38,137	331,798	-	331,798
b) Intersegment sales	1,559	1,498	3,058	[3,058]	-
Total	295,220	39,636	334,856	[3,058]	331,798
Operating expenses	289,500	39,363	328,863	[3,132]	325,731
Operating income	5,720	272	5,992	73	6,066

### Notes:

- Countries and regions have been grouped according to geographic proximity.
- The key countries and regions grouped as countries other than Japan are as listed below.  
Asia: China, South Korea, and Thailand

### 3. Foreign Sales

	Interim 2006 (January 1 to June 30, 2006)		
	Asia	Other regions	Total
Foreign sales (millions of yen)	22,971	1,973	24,944
Consolidated net sales (millions of yen)	-	-	163,295
Percent of foreign sales in consolidated net sales (%)	14.1	1.2	15.3

	Interim 2005 (January 1 to June 30, 2005)		
	Asia	Other regions	Total
Foreign sales (millions of yen)	18,862	1,722	20,584
Consolidated net sales (millions of yen)	-	-	159,882
Percent of foreign sales in consolidated net sales (%)	11.8	1.1	12.9

	FY 2005 (January 1 to December 31, 2005)		
	Asia	Other regions	Total
Foreign sales (millions of yen)	41,194	3,849	45,044
Consolidated net sales (millions of yen)	-	-	331,798
Percent of foreign sales in consolidated net sales (%)	12.4	1.2	13.6

Notes:

- Countries and regions have been grouped according to geographic proximity.
- 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
- 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.

## Notes to Lease Transactions

Finance leases excluding leases where ownership is transferred to the lessee:

(Millions of yen)

	Interim 2006 (January to June 2006)	Interim 2005 (January to June 2005)	FY 2005 (January to December 2005)
1. Equivalent acquisition cost, equivalent accumulated depreciation, and equivalent balance at end of period			
Equivalent acquisition cost			
Machinery and equipment	73	65	80
Other property, plant and equipment	1,671	1,687	1,623
Intangible assets	<u>247</u>	<u>183</u>	<u>196</u>
Total	1,991	1,937	1,900
Equivalent accumulated depreciation			
Machinery and equipment	20	24	31
Other property, plant and equipment	875	856	839
Intangible assets	<u>155</u>	<u>95</u>	<u>107</u>
Total	1,051	976	978
Equivalent balance at end of period			
Machinery and equipment	52	41	48
Other property, plant and equipment	795	830	783
Intangible assets	<u>91</u>	<u>88</u>	<u>89</u>
Total	939	961	921
2. Equivalent lease commitments at end of period			
Due within one year	383	362	368
Due after one year	<u>556</u>	<u>598</u>	<u>553</u>
Total	939	961	921
3. Lease payments (Equivalent depreciation)	205	262	472
4. Equivalent depreciation is calculated according to the straight-line method.			
5. The interest inclusive method is used above since equivalent lease commitments at end of period account for only a small proportion of the balance of property, plant and equipment at end of period.			

## Securities

### 1. Consolidated Interim 2006 (at June 30, 2006)

#### a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for interim period	Difference
Stocks	15,847	30,120	14,272
Total	15,847	30,120	14,272

#### b) Securities without market prices

(Millions of yen)

	Book value for interim period
Other marketable securities	
Unlisted stocks	1,375

### 2. Consolidated Interim 2005 (at June 30, 2005)

#### a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for interim period	Difference
Stocks	9,907	18,300	8,392
Total	9,907	18,300	8,392

#### b) Securities without market prices

(Millions of yen)

	Book value for interim period
1. Held-to-maturity bonds	
Unlisted yen-denominated foreign bonds	500
2. Other marketable securities	
Unlisted stocks	1,377

### 3. Consolidated Fiscal 2005 (at December 31, 2005)

#### a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for fiscal year	Difference
1. Stocks	14,098	27,088	12,990
Total	14,098	27,088	12,990

#### b) Securities without market prices

(Millions of yen)

	Book value for fiscal year
1. Held-to-maturity bonds	
Unlisted yen-denominated foreign bonds	500
2. Other marketable securities	
Unlisted stocks	1,378

### Derivatives Position, Market Value, and Valuation Gain or Loss

There is no derivatives position to disclose as of the end of interim 2006, interim 2005, and fiscal 2005.

## Production, Orders, and Sales

### 1. Production

	Interim 2006 (January to June 2006)	Interim 2005 (January to June 2005)	Change	FY 2005 (January to December 2005)
	Millions of yen	Millions of yen	%	Millions of yen
Home products	98,628	98,201	0.4	204,546
Pharmaceutical products	4,401	2,916	50.9	5,437
Chemicals	8,253	7,821	5.5	13,388
Other businesses	2,553	2,550	0.1	4,713
Total	113,837	111,489	2.1	228,085

Note: Yen amounts are calculated from producer prices and do not include the consumption tax.

### 2. Orders

Lion Corporation does not engage in production to order.

### 3. Sales

	Interim 2006 (January to June 2006)	Interim 2005 (January to June 2005)	Change	FY 2005 (January to December 2005)
	Millions of yen	Millions of yen	%	Millions of yen
Home products	114,282	112,191	1.9	237,241
Pharmaceutical products	23,636	25,103	(5.8)	50,315
Chemicals	16,074	17,110	(6.1)	33,898
Other businesses	9,301	5,476	69.8	10,343
Total	163,295	159,882	2.1	331,798

Note: Intercompany transactions between each segment were balanced out.

Figures above do not include the consumption tax.

## Summary of Non-consolidated Financial Statements for the Interim 2006

August 1, 2006

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, Executive Officer, Director of Finance Department

Telephone: +81-3-3621-6211

Board of Directors meeting on interim period: August 1, 2006

Start date for payment of interim dividend: September 5, 2006

Existence of odd-lot system: Yes (1,000 shares)

### 1. Non-consolidated Results for the Interim Period Ended June 30, 2006 (January 1, 2006 – June 30, 2006)

#### a) Non-consolidated Results

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Interim 2006	126,839	(2.6)	155	(88.6)	3,339	(24.4)
Interim 2005	130,228	0.6	1,365	8.0	4,418	0.7
FY 2005	270,894		2,907		6,453	

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

	Net income		EPS
	Millions of yen	%	Yen
Interim 2006	2,494	(29.9)	8.79
Interim 2005	3,556	35.8	12.61
Fiscal 2005	4,657		16.33

#### Notes:

1. Average number of outstanding shares during the period: 283,727,926 in interim 2006; 281,988,135 in interim 2005; and 282,420,189 in fiscal 2005.
2. Changes in accounting practices: None
3. Percent figures for net sales, operating income, ordinary income, and net income express percentage change over the year-ago period.

b) Non-consolidated Financial Position

	Total assets	Net Assets	Shareholders' equity to total assets	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2006	220,036	98,842	44.9	348.04
June 30, 2005	209,698	93,483	44.6	331.39
December 31, 2005	217,016	96,819	44.6	341.38

Notes:

1. Number of outstanding shares on balance sheet date: 283,999,037 for interim 2006; 282,093,105 for interim 2005; and 283,475,481 for FY 2005.
2. Shares of treasury stock on balance sheet date: 29,516,309 for interim 2006; 31,422,241 for interim 2005; and 30,039,865 for FY 2005.

**2. Forecast of Non-consolidated Results for the Year Ending December 31, 2006  
(January 1, 2006 – December 31, 2006)**

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Fiscal 2006	275,000	7,000	5,000

Reference: Projected earnings per share of ¥17.61 for fiscal 2006.

**3. Dividend**

Cash dividend	Cash divided per share / Yen				
	1st quarter	Interim	3rd quarter	Year-end	Annual
Fiscal 2005 actual	-	4.00	-	5.00	9.00
Interim 2006 actual	-	5.00	-	-	10.00
Fiscal 2006 plan	-	-	-	5.00	

Refer to pages 23 through 24 in the reference materials regarding the premises for the above forecasts and other related matters.