

**Summary of Consolidated Financial Statements
for the Third Quarter Ended September 30, 2006**

October 31, 2006

Company name: Lion Corporation

Code: 4912

URL: <http://www.lion.co.jp/>

Listed stock exchanges: Tokyo Stock Exchange and Osaka Securities Exchange

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1. Matters Concerning the Preparation of the Consolidated Financial Statements for the Third Quarter Ended September 30, 2006

- (a) Adoption of simplified accounting method: Yes.
Simplified accounting is used partially with respect to the standards for the accounting of reserves.
- (b) Changes in accounting method from the most recent fiscal year: Yes.
A change in the method for allocating operating expenses to business segments has been adopted.
- (c) Changes in the scope of consolidation or of the application of the equity method: Yes.
Consolidated subsidiaries: 2 excluded

**2. Consolidated Results for the Third Quarter Ended September 30, 2006
(January 1, 2006 – September 30, 2006)**

a) Consolidated Results

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended September 2006	234,548	(0.4)	(4,222)	–	(2,542)	–
Nine months ended September 2005	235,451	7.1	740	(79.3)	2,407	(53.0)
(Reference) FY 2005	331,798		6,066		8,514	

	Net income		EPS	Diluted EPS
	Millions of yen	%	yen	yen
Nine months ended September 2006	(960)	–	(3.38)	–
Nine months ended September 2005	1,314	(40.4)	4.66	4.65
(Reference) FY 2005	5,473	–	19.10	19.05

Notes:

- Figures in this and subsequent tables are rounded down to the nearest million.
- The percent figures under net sales, operating income, ordinary income and net income represent the percentage change from the same quarter of the previous year.

Overview of Consolidated Results of Operations

Management Performance

Japan's economy continued its upward momentum in the third quarter of the current fiscal year, with stronger corporate earnings supporting increased capital expenditures in the private sector and mitigating signs of a slowdown in consumer spending growth during the second half of the nine-month period ended September 30, 2006. However, Japan's household consumer products industry, the core business for Lion and its Group companies, faced a severe business environment characterized by continued declines in retail prices and increases in raw materials costs caused by high crude oil prices.

Under such circumstances, the Lion Group implemented a number of initiatives aimed at further expanding business growth and improving profitability. Lion worked to nurture its major brands by actively introducing new products and conducting sales promotions, strengthened overseas businesses, and pioneered new categories with strong future growth potential. Amidst changes in distribution structures, Lion also endeavored to decrease the level of its wholesale inventory with the aim of ensuring cost efficiency.

As a result of these initiatives, Lion recorded consolidated net sales of ¥234,548 million, a year-on-year decrease of 0.4%. In addition to total cost-reduction measures centered on reducing manufacturing costs, Lion also strove to hold down other expenses. However, earnings were impacted by the decline in net sales, aggressive investment to nurture brands and rising materials costs. As a result, Lion recorded an operating loss of ¥4,222 million, compared with operating income of ¥740 million a year earlier, an ordinary loss of ¥2,542 million compared with ordinary income of ¥2,407 million a year earlier, and a net loss of ¥960 million compared with net income of ¥1,314 million a year earlier.

Segment Information

From this period under review, expenses in administrative departments, which were previously recorded as unallocated operating expenses, are allocated to each segment. Please refer to page 13 for detail.

<Home Products>

In the Oral Care Products Division, Lion positioned Clinica as a comprehensive oral care brand and focused on nurturing the brand by expanding the Clinica lineup of products. Lion introduced Dentor Systema EX, toothpaste for periodontal disease prevention that also provides total care against bad breath and cavities. Year-on-year toothpaste sales remained flat, however, owing primarily to intense market competition. In toothbrushes, Lion unveiled the Clinica Power Front, a new brush to

thoroughly scrub back teeth that can easily develop cavities. Vigorous competition impacted results, and toothbrush sales declined slightly. Clinica Dental Rinse - Quick Care was released in February 2006 to high market acceptance, and year-on-year mouthwash sales rose significantly.

Lion is aiming to shift to high profit businesses in the Beauty Care Products Division. In addition to efforts to nurture focus brands Kireikirei and Ban, Lion also introduced new high-value-added products to the Free & Free Damage Aid line of hair-styling products. Liquid hand soap sales remained steady following the release of a new and improved version of Kireikirei Medicated Liquid Hand Soap in March, while sales of shampoo, body soap and other products were down year on year as a result of stiff competition.

In the Household Products Division, Lion concentrated efforts on introducing and cultivating new high-value-added products, including a new Top laundry detergent made from botanical materials with exceptional detergency, as well as the Look Kirei no Mist series of new concept household cleaners for preventing grime and unpleasant odors and preserving cleanliness. Year-on-year sales of household cleaners increased significantly, but sales of laundry detergents, fabric softeners, dishwashing detergents and other products decreased in comparison with the previous year owing to fierce competition.

Overseas, sales of Pao laundry detergent and Essence fabric softener remained strong in Thailand, while Lion worked to nurture the new Dentralla line of toothpastes and toothbrushes in South Korea.

As a result of the factors above, net sales in the Home Products Segment amounted to ¥164,292 million, a decrease of 1.4% compared with the same period of the previous fiscal year. A combination of aggressive investment in major brands and increased material costs led to an operating loss of ¥4,509 million, compared to operating income of ¥2,866 million a year earlier.

<Pharmaceutical Products>

In Pharmaceutical Products, Lion sought to spur further growth of core brands including Bufferin, Smile and Varsan by investing boldly in advertising campaigns and by introducing and nurturing new products. In addition, Lion ventured into the functional food products business. Year-on-year sales of eye drops increased considerably, supported by strong sales of core product Smile 40EX. Lion made steady progress in its efforts to cultivate its Gussumin and Kyupurun brands in its new push into the health and beauty drinks business. Sales of insecticides were sluggish due to the impact of irregular weather patterns, which led to a reduction in the overall insecticide market, while sales of analgesics and health tonic drinks declined slightly owing to the impact of market constriction.

As a result, net sales in the Pharmaceutical Products Segment declined 2.0% year on year to ¥35,298 million. Lion's efforts to reduce manufacturing costs were offset by aggressive investment

to nurture business in new categories, and operating income decreased 70.7% year on year to ¥567 million.

<Chemical Products>

In the Chemical Products Division, sales of surfactants grew steadily, while sales of fatty-acid methyl ester slowed due to lower overseas demand, and carotene sales declined slightly owing to inventory adjustments by customers.

As a result, sales in the Chemical Products Division declined 5.5% year on year to ¥23,811 million. Lion's Chemical Products Division recorded an operating loss of ¥276 million, compared with operating income of ¥876 million a year earlier, owing primarily to increases in materials costs.

<Others>

The construction contracting business recorded a strong increase in sales as a result of a rise in the amount of completed construction. However, sales in the food products business decreased in spite of investment to introduce and nurture new products.

As a result, net sales in the Others Segment increased 47.8% year on year to ¥11,145 million, and the segment recorded an operating loss of ¥58 million, compared to operating income of ¥197 million a year earlier.

b) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity to total assets	Net assets per share
	Millions of yen	Millions of yen	%	yen
September 30, 2006	252,519	110,786	42.7	379.24
September 30, 2005	229,888	102,018	44.4	360.71
(Reference) December 31, 2005	249,303	109,103	43.8	384.60

c) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Nine months ended September 2006	67	(1,086)	5,215	20,038
Nine months ended September 2005	(6,950)	(4,617)	6,382	19,455
(Reference) FY 2005	1,865	(9,262)	(1,514)	15,788

Financial Status

Total assets at the end of the fiscal period stood at ¥252,519 million, an increase of ¥3,216 million compared with the previous fiscal year-end owing to a rise in investments and other assets. Net assets totaled ¥110,786 million, an increase of ¥1,682 million compared with the previous fiscal year-end due to an increase in unrealized holding gains on other securities. As a result, the ratio of shareholders' equity to total assets was 42.7%.

<Consolidated Cash Flows>

Cash flows from operating activities amounted to ¥67 million, owing primarily to net income before income taxes of ¥663 million. In addition, the decrease in trade notes and accounts receivable was offset by a reduction in trade notes and accounts payable, and an increase in inventories.

Cash flows from investing activities decreased by ¥1,086 million. While Lion recorded revenues from the sale of property, plant and equipment, these were offset by purchases of property, plant and equipment, and investment securities.

Cash flows from financing activities resulted in an overall increase of ¥5,215 million. The principal outflow was for cash dividends, while the major inflow was generated by proceeds from the issuance of commercial paper.

As a result, cash and cash equivalents as of September 30, 2006 totaled ¥20,038 million, up ¥4,249 million compared with the previous fiscal year-end.

3. 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
Full term	330,000	2,500	500

(Reference) Full year EPS forecast (full term): ¥1.76

Qualitative Information Concerning the Forecast of Consolidated Financial Results

Forecasts announced on August 1, 2006 for the fiscal year ending December 31, 2006 have been changed as indicated above, in line with the announcement in today's press release.

Note: The forecasts and projected operating results contained in this report are based on information available at the time of preparation, and thus involve inherent risks and uncertainties. Accordingly, readers are cautioned that actual results may differ materially from those projected as a result of a variety of factors.