

Summary of Financial Statements for the Year Ended December 31, 2007

February 7, 2008

Company name: Lion Corporation

Listed stock exchanges: Tokyo Stock Exchange

Code: 4912

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

Representative: Sadayoshi Fujishige, Representative Director and President

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Annual meeting of shareholders: March 28, 2008

Start date for payment of year end dividend: March 5, 2008

Filing of financial report: March 31, 2008

1. Consolidated Results for the Year Ended December 31, 2007 (January 1, 2007 – December 31, 2007)

a) Consolidated Results

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal 2007	341,717	3.4	8,905	—	10,104	316.3	5,423	(2.1)
Fiscal 2006	330,380	(0.4)	343	(94.3)	2,427	(71.5)	5,540	1.2

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

	EPS	Diluted EPS	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Fiscal 2007	20.06	20.02	5.3	3.8	2.6
Fiscal 2006	19.60	19.52	5.3	1.0	0.1

Notes:

- Equity in earnings of non-consolidated subsidiaries and affiliates: ¥1,045 million in FY 2007 and ¥1,555 million in FY 2006.

b) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity to total assets	Net assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2007	279,147	107,540	37.1	382.80
December 31, 2006	246,327	105,133	41.3	376.76

Note: Shareholders' equity: ¥103,570 million in FY2007 and ¥101,778 million in FY 2006.

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
Fiscal 2007	16,030	(39,500)	29,844	33,219
Fiscal 2006	3,343	11,092	(3,610)	26,782

2. Dividend

Record Date	Cash dividend per share / Yen			Total dividend paid (annual)	Payout ratio (consolidated)	Dividend/ Net assets (consolidated)
	Interim	Year-end	Annual			
	Yen	Yen	Yen	Millions of yen	%	%
Fiscal 2006	5.00	5.00	10.00	2,770	51.0	2.6
Fiscal 2007	5.00	5.00	10.00	2,704	49.9	2.6
Fiscal 2008 plan	5.00	5.00	10.00		47.5	

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2008
(January 1, 2008 – December 31, 2008)

	Net sales		Operating income		Ordinary income		Net income		EPS
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim 2008	162,000	1.5	2,500	2.8	2,500	(33.2)	1,300	(30.2)	4.80
Fiscal 2008	345,000	1.0	10,000	12.3	10,500	3.9	5,700	5.1	21.07

Notes: Percent figures for net sales, operating income, ordinary income, and net income express percentage change over the year-ago period.

4. Others

a) Significant Change in Scope of Consolidation during Period: No

b) Change in Accounting Principals, Procedures, Presentation Methods, etc., concerning Preparation of Consolidated Financial Statements (To be stated as Changes in Significant Matters in the Presentation of Consolidated Financial Statements):

1. Changes accompany with reversion in accounting standards: No

2. Other changes: No

c) Number of Outstanding Shares (Common Stocks)

1. Number of outstanding shares on balance sheet date (including treasury stocks): 299,115,346 for FY 2007; and 299,115,346 for FY 2006.

2. Number of treasury stocks on balance sheet date: 28,556,290 for FY 2007; and 28,974,638 for FY 2006.

Note: Please see "Per-Share Information" on page 59 regarding the number of shares used in calculating interim and full-term consolidated net income per share.

Reference: Summary of Non-consolidated Financial Statements

1. Non-consolidated Results for the Year Ended December 31, 2007 (January 1, 2007 – December 31, 2007)

a) Non-consolidated Results

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2007	267,135	3.8	5,058	—	10,171	523.8	5,087	(13.3)
FY 2006	257,471	(5.0)	(2,108)	—	1,630	(74.7)	5,869	26.0

	EPS	Diluted EPS
	Yen	Yen
Fiscal 2007	18.81	18.77
Fiscal 2006	20.76	20.68

Notes: 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
December 31, 2007	244,366	90,874	37.2	335.60
December 31, 2006	212,806	89,421	42.0	331.02

Note: Shareholders' equity: ¥90,799 million in FY 2007, and ¥89,421 million in FY 2006.

2. Forecast of Non-consolidated Results for the Year Ending December 31, 2008 (January 1, 2008 – December 31, 2008)

	Net sales		Operating income		Ordinary income		Net income		EPS
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim 2008	126,000	1.0	500	(13.6)	1,900	(59.1)	1,500	(48.4)	5.54
Fiscal 2008	270,000	1.1	6,500	28.5	8,000	(21.3)	5,000	(1.7)	18.48

Notes: Percent figures for net sales, operating income, ordinary income, and net income express percentage change over the year-ago period.

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.

Refer to pages 5 through 15 regarding the above forecast.

I. Management Performance

1. Fiscal 2007 in Review

(1) Overview of Results of Operations

During the year ended December 31, 2007, the domestic economy was characterized by mixed operating conditions. In overall terms, Japan's business environment experienced ongoing recovery on the back of a moderate increase in private-sector capital expenditure and other factors. In the second half of the year, however, signs of uncertainty surrounding this economic turnaround began to emerge, impacted by stagnant personal consumption and weakness in corporate earnings growth.

However, the domestic toiletries industry, in which the Lion Group mainly conducts its business operations, continued to face a severe business environment owing to ongoing fierce sales competition and crude oil and vegetable oil prices hovering at high levels.

Within the aforementioned business environment, the Lion Group continued to implement its medium-term management plan, Value Innovation Plan Part II 09 (VIP II 09), with the aim of securing increased corporate value. In specific terms, we endeavored to lift our position in mainstay markets, realize fundamental improvements in our profit structure and reinforce our operating platform for future growth. On the domestic front, the Lion Group worked vigorously to nurture principal brands while augmenting its product lineup. At the same time, we launched distinctive new products in such major fields as laundry and dishwashing detergents. The Group experienced strong overseas sales of such products as laundry detergents, fabric softeners and toothpastes especially in Thailand. As a result, our performance outside Japan rose substantially year on year. In addition to a variety of profit-structure reforms implemented during the previous year, including the streamlining of wholesale inventories and the consolidation of cosmetic manufacturing facilities, we redoubled our efforts to reduce manufacturing and logistics costs in an effort to increase profit. Furthermore, we acquired trademark rights for such brands as the analgesic "Bufferin[®]," laying the groundwork for future expansion in the Health Care business, and established a subsidiary in Malaysia to serve as a new engine for ongoing growth through the manufacture and sale of MES (methyl ester sulfonate), a vegetable-derived surfactant made from palm oil.

Owing to these efforts, consolidated net sales increased 3.4% to ¥341,717 million compared with the previous fiscal year. On the earnings front, operating income increased 2,495.3% year on year to ¥8,905 million, and ordinary income rose 316.3% to ¥10,104 million. Lion recorded an extraordinary loss in connection with the voluntary recall of insecticides, and net income declined 2.1% year on year to ¥5,423 million.

<Consolidated>

(Millions of yen)

Net sales	FY 2007	FY 2006	Increase/ decrease	Change
Health Care Products	135,461	133,707	1,754	1.3%
Household Products	168,448	149,294	19,154	12.8%
Chemical Products	32,445	32,334	111	0.3%
Others	5,360	15,044	(9,683)	(64.4%)
Total	341,717	330,380	11,336	3.4%

	FY 2007	Ratio to net sales	FY 2006	Ratio to net sales	Increase/ decrease	Change
Operating income	8,905	2.6%	343	0.1%	8,562	2,495.3%
Ordinary income	10,104	2.9%	2,427	0.7%	7,677	316.3%
Net income	5,423	1.6%	5,540	1.7%	(116)	(2.1%)

<Non-consolidated>

(Millions of yen)

Net sales	FY 2007	FY 2006	Increase/ decrease	Change
Health Care Products	120,357	120,265	92	0.1%
Household Products	119,903	108,718	11,184	10.3%
Chemical Products	25,499	26,155	(655)	(2.5%)
International	1,374	2,332	(957)	(41.0%)
Total	267,135	257,471	9,663	3.8%

	FY 2007	Ratio to net sales	FY 2006	Ratio to net sales	Increase/ decrease	Change
Operating income	5,058	1.9%	(2,108)	—	7,166	—
Ordinary income	10,171	3.8%	1,630	0.6%	8,540	523.8%
Net income	5,087	1.9%	5,869	2.3%	(782)	(13.3%)

<Consolidated Geographical Segment>

(Millions of yen)

Net sales	FY 2007	FY 2006	Increase/ decrease	Change
Japan	286,759	284,907	1,852	0.7%
Asia	54,957	45,473	9,484	20.9%
Consolidated total	341,717	330,380	11,336	3.4%

Operating income	FY 2007	FY 2006	Increase/ decrease	Change
Japan	7,371	(584)	7,956	—
Asia	1,153	632	520	82.2%
Corporate and eliminations	380	295	85	29.0%
Consolidated total	8,905	343	8,562	2,495.3%

(2) Segment Information

In this fiscal year under review, Lion restructured its former Home Products and Pharmaceutical Products segments as an initiative to boost synergistic effects of relevant technologies, brand power and logistics, as well as to better ensure consistent implementation of business strategies.

Health Care Products:

Oral Care Products, Beauty Care Products, Pharmaceutical Products Divisions

Household Products:

Fabric Care Products, Living Care Products Divisions

The Chemical Products and Other Businesses segment were unchanged.

<Health Care Products>

(Millions of yen)

	FY 2007	Ratio to net sales	FY 2006	Ratio to net sales	Increase/decrease	Change
Net sales	135,461		133,707		1,754	1.3%
Operating income	5,414	4.0%	*—	—	—	—

* Operating income by segment for the fiscal 2006 is not provided in this document.

Please refer to page 12 for operating income by former segment.

The Health Care Products segment is divided into the Oral Care Products, Beauty Care Products and Pharmaceutical Products Divisions. Net sales in this business during the fiscal year under review totaled ¥135,461 million, an increase of 1.3% compared with the previous fiscal year, and operating income was ¥5,414 million.

<Net Sales of Principal divisions>

(Millions of yen)

	FY 2007	FY 2006	Increase/decrease	Change
Oral Care Products Division	54,087	52,167	1,920	3.7%
Beauty Care Products Division	35,000	33,558	1,442	4.3%
Pharmaceutical Products Division	46,373	47,981	(1,608)	(3.4%)

Oral Care Products Division

In toothpastes, Lion enjoyed steady overall sales growth. In addition to the launch of Dentor Clear MAX, containing cleaning granules that thoroughly cleanse right to the back of the teeth, as well as Clinica and Clinica Cavity Protection medicated toothpastes that break down and remove hidden plaque, sales of

the Dent Health Medicated Toothpaste series to prevent pyorrhea and gingivitis, were strong.

In toothbrushes, Lion reinforced its Dentor Systema brand range with a new toothbrush that features three rows of bristles. Sales were also steady for the Between brand of toothbrushes with serrated-cut bristles. Accounting for these factors, toothbrush sales exceeded the level recorded in the previous year.

Despite the launch of Clinica Dental Rinse—Long Time Pure Coat, a dental rinse that helps to prevent bad breath, mouthwash sales declined year on year. This was mainly attributed to market contraction.

Buoyed by the release of new products, including Systema Dental Paste α toothpaste and DENT. EX ImplantCare toothbrush, overall sales of dental products were steady during the year under review.

Overall overseas results in this division increased substantially compared with the previous year, owing to robust sales of Systema brand toothpastes and toothbrushes in Thailand, which rose substantially year on year and strong sales of Dentralla brand toothpastes and toothbrushes in South Korea.

As a result, sales of Oral Care Products Division increased 3.7% to ¥54,087 million.

Beauty Care Products Division

Lion experienced considerable year-on-year growth in the sales of shampoos and conditioners. In addition to the launch of the improved Soft-in-One Shampoo and Conditioner, with enhanced conditioning properties, Lion added a new texturizing-type product in this line.

In hair-nourishment treatments, Lion launched Mouhatsuryoku ZZ, which contains six ingredients including Okinawan Mozuku seaweed extract. This new product offers an improved effect to promote hair growth and prevent hair loss. Despite this initiative, year-on-year sales declined in this category, reflecting steady market contraction.

Celebrating its 10th anniversary since initial release, sales of Kireikirei Medicated Liquid Hand Soap, which incorporates a sterilizing agent, and Kireikirei Medicated Foaming Hand Soap, for use by children who have difficulty making lather with conventional soaps, were strong. As a result, sales of hand soaps substantially exceeded our performance in 2006.

In body soaps, Lion bolstered sales promotion activities, particularly for Shokubutsu-Monogatari (Plant Story) Herb Blend Body Wash, which contains natural herbs. Buffeted by intense competition, however, sales in this category declined year on year.

In antiperspirants and deodorants, Lion introduced a new product with enhanced deodorizing power in the Ban brand lineup. However, market competition continued to intensify, and accordingly, sales in this category were stagnant.

Overseas, sales of the Shokubutsu-Monogatari series of products were robust in Thailand. Coupled with the release of Kireikirei Medicated Foaming Hand Soap in Thailand, Lion recorded considerable sales growth overseas.

As a result, sales of Beauty Care Products Division increased 4.3% to ¥35,000 million.

Pharmaceutical Products Division

Amid firm sales of Lion's mainstay Bufferin A, Lion launched Bufferin Karyu (Granule), an easy-to-swallow, antipyretic analgesic granule that provides quick relief for headaches and fever without leaving a bitter aftertaste. As a result, overall sales in this category considerably exceeded results in the previous year.

In eyedrops, Lion released Smile 40 Mediclear, which contains an ingredient that helps tears perform their function in protecting the eyes. Recognizing that this function progressively declines with age, Smile 40 Mediclear provides added assistance and comfort. Despite this initiative, sales declined year on year impacted by intensifying competition.

During fiscal 2007, Lion launched Stoppa Day Balance, a medicine for intestinal disorders that improves the intestinal environment and activity to support regularity. As a result, overall sales of anti-diarrheic drugs increased considerably compared with the previous year.

Results in semi-adhesive cooling pads during fiscal 2007 were mixed. While sales growth of Hiepita—an emergency semi-adhesive pad for rapid cooling at the sudden onset of fever—stalled, results in Kyusoku Jikan—an intense cooling elastic pad designed specifically for the feet and calves—rose substantially year on year. Accounting for these factors, overall sales in this category were steady.

In health tonic drinks, overall sales declined compared with the previous year. Despite steady sales growth in New Guromont, this was insufficient to offset stagnant Guronsan sales.

As a result, sales of Pharmaceutical Products Division decreased 3.4% to ¥46,373 million.

Principal new products

Dentor Clear MAX / Toothpaste

Clinica Cavity Protection / Toothpaste

Dentor Systema Toothbrush – compact head type with three rows of bristles

Clinica Dental Rinse - Long Time Pure Coat / Mouthwash

Mouhatsuryoku ZZ / Hair-nourishment treatments

Soft-in-One Shampoo and Conditioner - texturizing-type

new Ban Deodorant Powder Spray / Antiperspirants and deodorants

Bufferin Karyu (Granule) / Analgesics

Smile 40 Mediclear / Eyedrops

Stoppa Day Balance / Medicine for intestinal disorders

<Household Products>

(Millions of yen)

	FY 2007	Ratio to net sales	FY 2006	Ratio to net sales	Increase/decrease	Change
Net sales	168,448		149,294		19,154	12.8%
Operating income	3,123	1.9%	*—	—	—	—

* Operating income by segment for the fiscal 2006 is not provided in this document.
Please refer to page 12 for operating income by former segment.

Lion's Household Products segment is divided into two divisions: Fabric Care and Living Care. Sales of Household Products increased 12.8% to ¥168,448 million. Operating income totaled ¥ 3,123 million.

<Net Sales of Principal divisions>

(Millions of yen)

	FY 2007	FY 2006	Increase/decrease	Change
Fabric Care Products Division	118,750	103,030	15,719	15.3%
Living Care Products Division	49,698	46,264	3,434	7.4%

Fabric Care Products Division

Recognized for their contributions to prevent global warming through the use of plant-based ingredients, Top laundry detergents were awarded the 16th Global Environmental Grand Prize. In the year under review, Top sales increased firmly year on year. Lion also launched Top Fuai-Kan (Fresh Touch and Color), a laundry detergent that reduces friction between garments and prevents fabric scuffing while

preserving original colors, along with Acron Fresh Herb Fragrance for use with stylish garments. At the same time, Lion strengthened promotional activities for its Blue Dia laundry detergent. As a result, sales in laundry detergents rose substantially higher than results recorded in the previous year.

In bleaches, results in the mainstay Temanashi Bright remained firm, with overall sales increasing on a year-on-year basis.

In fabric softeners, Lion released the improved Kaori to Deodorant no Soflan (Soflan with Fragrance and Deodorant), a product that provides superlative protection against odors on clothing and leaves a pleasant, long-lasting fragrance. Buoyed by its success, sales of fabric softeners jumped substantially above those recorded in 2006.

Overseas sales grew substantially year on year. This was attributable to the substantial improvement in Pao laundry detergent sales in Thailand and robust results in Beat laundry detergent in South Korea.

As a result, sales of Fabric Care Products Division increased 15.3% to ¥118,750 million.

Living Care Products Division

In dishwashing detergents, Lion released CHARMY Awa no Chikara (Power of Suds), which creates rich, long-lasting suds that enable dishwashing without the need to add more detergent to the sponge. Building on the wide market acclaim for this product, Lion launched CHARMY Awa no Chikara (Power of Suds) Power Foam and CHARMY Awa no Chikara (Power of Suds) with a fresh orange fragrance. Spurred by these initiatives, sales of dishwashing detergents grew substantially above the level of the previous year.

In household cleaners, Lion launched Look Concentrated Powerful Pipe-man, a thick, gel-type drain cleanser that breaks down grime in drain pipes in only half the time and with half the amount of conventional cleaners. The Company also released Look O₂ Cleaner— jointly developed with Henkel KgaA of Germany—that uses “Oxygen Power” to remove grime from cloth-covered sofas, carpets etc. that are difficult to clean. As a result, overall sales of household cleaners increased considerably year on year.

Overseas, robust sales of dishwashing detergents in Thailand and steady dishwashing detergent sales in South Korea substantially lifted overall results in this category year on year.

As a result, sales of Living Care Products Division increased 7.4% to ¥49,698 million.

Principal new products

Top Fuai-Kan (Fresh Touch and Color) / Laundry detergent

Acron - fresh herb fragrance / Laundry detergent for delicate fabric

CHARMY Awa no Chikara (Power of Suds) / Dishwashing detergent

CHARMY Awa no Chikara (Power of Suds) - fresh orange fragrance / Dishwashing detergent

CHARMY Awa no Chikara (Power of Suds) Power Foam / Dishwashing detergent

Look concentrated Powerful Pipe-man / Drain cleaner

Look O₂ Cleaner / Household cleaners

Net sales and operating income for the former business segment of Home Products and Pharmaceutical Products are provided below for reference.

<Home Products>

(Millions of yen)

	FY 2007	Ratio to net sales	FY 2006	Ratio to net sales	Increase/decrease	Change
Net sales	257,537		235,020		22,517	9.6%
Operating income	7,779	3.0%	(335)	—	8,115	—

* Home products segment involves Oral Care Products, Beauty Care Products, Fabric Care Products, and Living Care Products Divisions.

<Pharmaceutical Products>

(Millions of yen)

	FY 2007	Ratio to net sales	FY 2006	Ratio to net sales	Increase/decrease	Change
Net sales	46,373		47,981		(1,608)	(3.4%)
Operating income	1,048	2.3%	943	2.0%	105	11.1%

<Chemical Products>

(Millions of yen)

	FY 2007	Ratio to net sales	FY 2006	Ratio to net sales	Increase/decrease	Change
Net sales	32,445		32,334		111	0.3%
Operating income	(163)	—	(286)	—	123	—

Sales in the Chemical Products segment rose 0.3% year on year to ¥32,445 million. Operating loss stood at ¥163 million compared with the previous fiscal year's operating loss of ¥286 million.

In the Chemical Products Business, Lion confronted a harsh operating environment due to the

continuous upswing in raw material prices. This was attributed to the sharp rise in crude oil, vegetable oil and fat prices, which rose sharply. Under these conditions, Lion focused on nurturing products for the domestic market, and worked to lift profitability, primarily in products for overseas markets, which continue to face intense competition.

<Principal divisions>

In surfactants and fatty-acid nitrogen derivatives, sales stalled due to a cutback in export activity to China, which continued to face intense competition. This was more than offset by robust results in products for fabric softeners and other applications for the domestic market. As a result, overall sales rose considerably year on year.

Sales of fatty-acid methyl ester were firm. This reflects the high esteem in which this product is held by customers as a raw material to make alcohol, and for use as an oil in metalworking processes.

Lion's electro-conductive carbon is highly evaluated by the electronic devices and auto parts industries in Japan for its superior electro-conductive properties. This contributed to strong domestic sales in the year under review. Overseas, however, results were extremely poor compared with 2006, due partly to the cutback in low-profit products. As a result, overall sales of electro-conductive carbon were stagnant year on year.

<Others>

(Millions of yen)

	FY 2007	Ratio to net sales	FY 2006	Ratio to net sales	Increase/decrease	Change
Net sales	5,360		15,044		(9,683)	(64.4%)
Operating income	503	9.4%	28	0.2%	475	1,690.6%

In Other businesses, sales decreased 64.4% compared with the previous year to ¥5,360 million due to the transfer of the building maintenance and management business and the food products business. This downturn in results was also attributable to a decline in completed works projects in the construction contracting business. On the earnings front, operating income increased 1,690.6% year on year to ¥503 million on the back of Lion's efforts to improve profitability.

(3) Outlook for Fiscal 2008

<Consolidated>

(Millions of yen)

	FY 2008 forecast	FY 2007 actual	Increase/decrease	Change
Net sales	345,000	341,717	3,282	1.0%
Operating income	10,000	8,905	1,094	12.3%
Ordinary income	10,500	10,104	395	3.9%
Net income	5,700	5,423	276	5.1%

EPS (yen)	21.07	20.06	1.01	5.0%
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<Non-Consolidated>

(Millions of yen)

	FY 2008 forecast	FY 2007 actual	Increase/decrease	Change
Net sales	270,000	267,135	2,864	1.1%
Operating income	6,500	5,058	1,441	28.5%
Ordinary income	8,000	10,171	(2,171)	(21.3%)
Net income	5,000	5,087	(87)	(1.7%)

EPS (yen)	18.48	18.81	(0.33)	(1.8%)
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In the year ending December 31, 2008, the pace of Japan's economic recovery is expected to slow. This is attributable to a number of factors, including a forecast of stagnant results in corporate earnings. In the toiletries market, Lion's principal field of operations, conditions are anticipated to remain difficult owing to intense point-of-sale competition and the burden of persistently high material costs.

Under these circumstances, the Lion Group will focus on strengthening its core businesses by developing and introducing innovative new products. In this manner, Lion will strive toward increasing its corporate value.

On the domestic front, the Group will leverage its proprietary technologies to develop distinctive new products. At the same time, Lion will continue to foster mainstay brands, cultivate new markets and aggressively promote across-the-board cost-reduction measures in an effort to overcome an anticipated harsh business environment.

Overseas, the Group will focus on expanding common global brands as high-value-added products. In this manner, Lion will raise its position in each of the countries and regions in which it operates.

In its efforts to promote further business growth, Lion will steadfastly pursue external sales to customers outside the Lion Group of plant-based MES surfactants, while developing new businesses underpinned by the value of such brands as Bufferin[®], a trademark right acquired during 2007.

In Health Care Products, Lion estimates Group sales to exceed the level achieved in 2007. This forecast takes into account the release of high-performance products including a body wash and bath additive and efforts to further foster mainstay fields while cultivating new categories.

Similarly, sales of Household Products are forecast to increase year on year. In 2008, the Lion Group plans to launch new high-value-added products in our main categories including laundry detergents and fabric softeners that accurately reflect the needs of consumers.

Despite the additional importance placed on nurturing highly functional, environmentally friendly products in the Chemical Products Business, sales are expected to decline year on year as the Company reduces its sales of low-profit products.

Lion forecasts a sales decrease in Other businesses, compared with fiscal 2007.

As a result of the aforementioned, Lion expects consolidated net sales in fiscal 2008 to total ¥345,000 million, a 1.0% increase from fiscal 2007.

On the earnings front, Lion forecasts that operating income will rise 12.3% to ¥10,000 million, ordinary income will grow 3.9% to ¥10,500 million and net income will rise 5.1% to ¥5,700 million.

(Preconditions for the Estimated Figures in Outlook for Fiscal 2008)

Lion adopted the following foreign exchange rates in the calculation of the aforementioned estimated figures:

¥114 = US\$1.00

¥3.5 = 1.00 baht

2. Financial Status Analysis

(1) Status of Assets, Liabilities, Net Assets, and Cash Flows for Fiscal 2007

<Consolidated Financial Status >

	FY 2007	FY 2006	Change
Total assets (millions of yen)	279,147	246,327	32,819
Net assets (millions of yen)	107,540	105,133	2,406
Shareholders' equity to total assets (%)	37.1	41.3	(4.2p)
Net assets per share * (yen)	382.80	376.76	6.04

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

As of December 31, 2007, total assets were ¥279,147 million, an increase of ¥32,819 million from December 31, 2006. Net assets were ¥107,540 million, mainly reflecting the increase in retained earnings. The shareholders' equity to total assets was 37.1%.

(2) Status of Cash Flows

<Consolidated Cash Flows>

(Millions of yen)

	FY 2007	FY 2006	Change
Cash flows from operating activities	16,030	3,343	12,686
Cash flows from investing activities	(39,500)	11,092	(50,592)
Cash flows from financing activities	29,844	(3,610)	33,454
Translation gain related to cash and cash equivalents	62	168	(106)
Increase (decrease) in cash and cash equivalents	6,437	10,994	(4,557)
Cash and cash equivalents at end of period	33,219	26,782	6,437

Net cash provided by operating activities totaled ¥16,030 million compared with ¥3,343 in the previous fiscal year. The major component was income before income taxes, which amounted to ¥9,564 million.

Net cash used in investing activities was ¥39,500 million, a turnaround from net cash provided by investing activities of ¥11,092 million in fiscal 2006. This was mainly attributable to payments for the acquisition of trademark rights in connection with Bufferin® and other brands.

Net cash provided by financing activities was ¥29,844 million, rebounding from net cash used in financing activities of ¥3,610 million in fiscal 2006. The major cash inflow was derived from an increase in long-term debt.

(3) Forecast of Fiscal 2008 Consolidated Cash Flows

In cash flows from operating activities, Lion projects income before income taxes of approximately ¥9.0 billion. Lion estimates depreciation and amortization changes of about ¥13.0 billion.

As a factor that may have material effects on cash flows from investing activities, Lion plans to undertake capital expenditure totaling ¥16.0 billion during 2008, including investments for the construction of a factory to support external sales to customers outside the Lion Group of MES.

The cash flows from financing activities are expected to decrease by about ¥6.0 billion from the fiscal 2007 level because of the payment of dividend and repayment of loans payable.

Based on these projections, Lion estimates cash and cash equivalents at the end of fiscal 2008 to be approximately equal to those at the end of fiscal 2007.

(4) Changes in cash flow indicators

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Shareholders' equity to total assets (%)	45.0	42.9	43.8	41.3	37.1
Shareholders' equity to total assets on a market value basis (%)	66.6	71.9	85.8	66.1	51.8
Debt redemption (years)	0.7	3.9	9.8	7.5	3.6
Interest coverage ratio	86.7	25.6	7.1	12.2	36.4

(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.

3. Basic Policy on the Distribution of Earnings and Cash Dividend for Fiscal 2007

Lion considers its most important management issue to be the return of profits to shareholders on a permanent and stable basis. To this end, the Company strives to consistently lift consolidated earnings capacity in an effort to ensure the payment of continuous and stable cash dividends. Taking into consideration the appropriate level of internal reserves required to secure medium- and long-term growth, Lion also undertakes the acquisition of treasury stock. Working to reinforce the Company's growth potential and to develop a sustainable business foundation, Lion allocates internal reserves to research and development, capital investment in production facilities and the acquisition of external resources.

Taking into consideration the Company's cash dividend payment record, as well as its dividend payout ratio target, Lion's Board of Directors resolved to pay an interim dividend of ¥5 per share (payment date: September 5, 2007) and year-end dividend of ¥5 per share (payment date: March 5, 2008) for fiscal 2007.

4. 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 February 7, 2008. 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.

II. Corporate Group

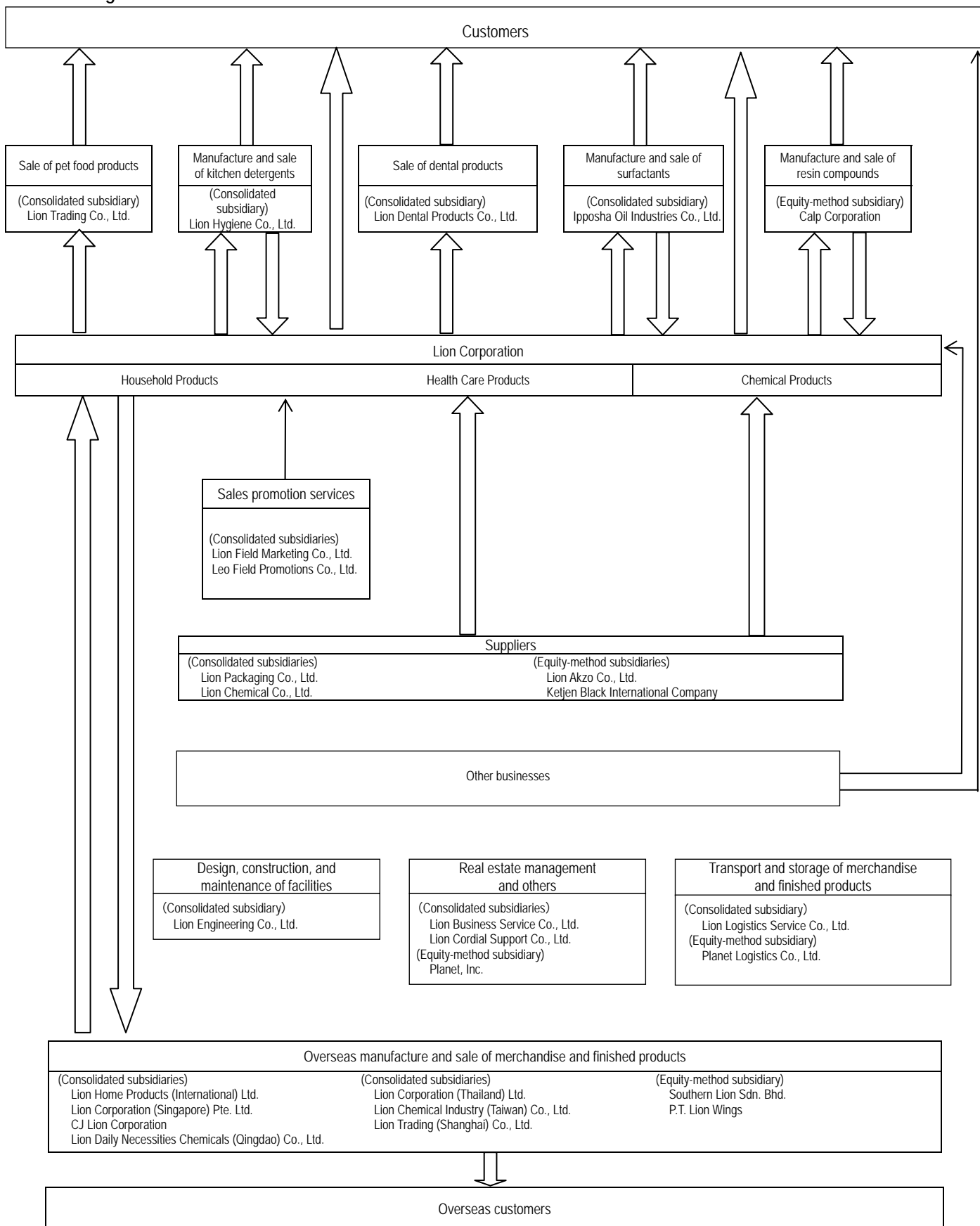
The Lion Group consists of Lion Corporation, 25 subsidiaries (including 21 consolidated subsidiaries and two non-consolidated equity-method subsidiaries), and 16 affiliates (including nine equity-method affiliates). Principal business activities consist of the manufacture and sale of health care products, household products, and chemical products. 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	
Health Care Products	Manufacture and sale of toothpastes, toothbrushes, hand soaps, analgesics, and others	Domestic affiliates	Lion Corporation Lion Chemical Co., Ltd. Lion Dental Products Co., Ltd. Lion Packaging Co., Ltd. Lion Field Marketing Co., Ltd. Leo Field Promotions Co., Ltd.
		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

Household Products	Manufacture and sale of laundry detergents, dishwashing detergents, fabric softeners household cleaners, and others	Domestic affiliates	Lion Corporation Lion Chemical 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 Advertising Ltd. CJ Lion Corporation Lion Chemical Industry (Taiwan) Co., Ltd. Southern Lion Sdn. Bhd. P.T. Lion Wings
Chemical Products	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
		Overseas affiliates	Lion Eco Chemicals Sdn. Bhd. CJ Lion Corporation Lion Chemical Industry (Taiwan) Co., Ltd.
Other businesses	Transport and storage of merchandise and finished products; design, construction, and maintenance of storage facilities; real estate management; management of value-added networks, etc.	Domestic affiliates	Lion Engineering Co., Ltd. Lion Business Service Co., Ltd. Lion Logistics Service Company, Ltd. Lion Cordial Support Co., Ltd. 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	Health care products Household products Chemical products	100.0	6	5	Loans	Purchase of raw materials and merchandises	Rental of part of office space and land
Lion Dental Products Co., Ltd.	Sumida-ku, Tokyo	10	Health care products	100.0	—	7	None	Sale of merchandises and finished products	Lease of office space
Lion Trading Co., Ltd.	Sumida-ku, Tokyo	240	Household products	100.0	3	5	Loans	Sale of merchandises and finished products	Lease of part of office space
Lion Hygiene Co., Ltd.	Sumida-ku, Tokyo	300	Household products	100.0	4	6	None	Sales and purchase of merchandises	Lease of part of office and warehouse space
Lion Packaging Co., Ltd.	Ichihara-shi, Chiba	180	Health care products Household products Chemical products	100.0	1	6	Loans	Purchase of materials and merchandises	Lease of part of land
Lion Business Service Co., Ltd.	Sumida-ku, Tokyo	490	Other businesses	100.0	2	4	None	Rental, dealing, and brokerage of real estate, and insuring	Rental of part of office space
Lion Field Marketing Co., Ltd.	Sumida-ku, Tokyo	50	Health care products Household products	100.0	1	5	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 merchandises and finished products	Lease of part of office space
Leo Field Promotions Co., Ltd.	Sumida-ku, Tokyo	50	Health care products Household products	100.0	1	5	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

Lion Corporation (Code 4912): Summary of Financial Statements
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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	Millions of yen 200	Household products Chemical products	75.9	3	4	Loans	Sale of merchandises and finished products and purchase of raw materials and merchandises	—
Lion Home Products (International) Ltd.	China (Hong Kong)	Thousands of HK\$ 12,000	Health care products Household products	100.0	—	4	None	Sale of merchandises and finished products	—
Lion Corporation (Singapore) Pte. Ltd.	Singapore	Thousands of S\$ 9,000	Health care products Household products	100.0	—	4	None	Sale of merchandises and finished products	—
Lion Eco Chemicals Sdn. Bhd.	Malaysia	Thousands of M\$ 90,000	Chemical products	100.0	—	5	None	—	—
Lion Trading (Shanghai) Co., Ltd.	China	Millions of yen 100	Health care products	100.0	—	2	None	Sale of merchandises and finished products and purchase of merchandises	—
Lion Daily Necessities Chemicals (Qingdao) Co., Ltd.	China	723	Health care products	85.7	—	6	None	Sale of merchandises and finished products and purchase of merchandises	—
CJ Lion Corporation	South Korea	Thousands of won 5,000,000	Health care products Household products Chemical products	81.0	—	4	None	Sale of merchandises and finished products and purchase of merchandises	—
Lion Chemical Industry (Taiwan) Co., Ltd.	Taiwan	Thousands of NT\$ 218,150	Health care products Household products Chemical products	53.8	2	6	None	Sale of merchandises and finished products and purchase of merchandises	—
Lion Corporation (Thailand) Ltd.	Thailand	Thousands of baht 300,000	Health care products Household products	51.0	2	5	None	Sale of merchandises and finished products and purchase of merchandises	—
Lion Advertising Ltd.	China (Hong Kong)	Thousands of HK\$ 100	Health care products Household products	*2 100.0 (100.0)	—	3	None	—	—

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	Household products Chemical products	% 50.0	2	3	None	Purchase of fatty acid nitrogen derivatives	Lease of part of office space
Ketjen Black International Company	Sumida-ku, Tokyo	50	Household products Chemical products	*3 — [66.6]	2	2	None	Purchase of antistatic agents and carbon	—
Calp Corporation	Chiyoda-ku, Tokyo	100	Health care products Household products Chemical products	50.0	3	2	None	Purchase of special synthetic resin compounds	—
Planet Logistics Co., Ltd.	Minato-ku, Tokyo	240	Other businesses	20.8	1	—	None	Transport and storage of merchandises and finished products	—
Planet, Inc.	Minato-ku, Tokyo	436	Other businesses	16.1	1	—	None	Utilization of VANS	—
Southern Lion Sdn. Bhd.	Malaysia	Thousands of M\$ 22,000	Health care products Household products	50.0	—	3	None	Sale of merchandises and finished products and purchase of merchandises	—
P.T. Lion Wings	Indonesia	Millions of rupiah 64,062	Health care products Household products	48.0	—	4	None	Sale of merchandises and finished products and purchase of merchandises	—

*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 two small-scale, non-consolidated equity-method companies and two small-scale equity-method affiliates.

III. 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 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 strengthen 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. Performance Targets

Through the thorough selection of and concentration of investment in management initiatives, and efforts to reform its business structure and reinforce its earnings structure, Lion is striving to increase corporate value with the goal of reaching consolidated ROE of 10% in fiscal 2009. Furthermore, Lion will acquire and develop new businesses and allocate resources to expand existing business domains for the purpose of ensuring future business opportunities.

3. Medium and Long-term Management Strategies

Guided by the medium-term management plan, Value Innovation Plan Part II 09 (VIP II 09), the Lion Group is endeavoring to increase its corporate value. To this end, Lion is establishing a business that is capable of withstanding global competition, strengthening growth potential by creating new businesses and implementing initiatives designed to enhance management and operational efficiency.

Lion will continue to implement the three reforms described below, striving to increase its corporate value through the creation of customer value through its pursuit of cleanliness, health, and beauty. Lion aims to achieve a No. 1 position in the new comfortable lifestyle support industry that integrated toiletries, over-the-counter (OTC) drugs, and functional foods industries as a company helping people to lead pleasant, comfortable lives.

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.

During the period under review, Lion established a subsidiary in Malaysia in June 2007 for the

purpose of commercializing MES (methyl ester sulfonate) surfactant derived from palm oil, and started preparing for production scheduled for December 2008. Lion will aggressively use capital expenditure to conduct sales of this environmentally friendly MES to detergent makers around the world.

Lion had entered technical service and trademark rights contracts with U.S.-based Bristol-Myers Squibb Company. During the period under review, the Company acquired the trademark for Bufferin[®] analgesics and other products in Japan and Asia-Oceania (excluding several countries and regions including China) from Bristol-Myers Squibb. Against this backdrop, Lion will develop its businesses by further utilizing the brand value of Bufferin[®] and other products to accelerate the growth of its Health Care business.

With these investments, Lion will further strengthen its business foundation to make itself No. 1 in the “new comfortable lifestyle support industry,” while strengthening its position as a leading company in environmental responsiveness.

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 this fiscal year under review, Lion continued its efforts to proactively address policies including those concerning the reduction of production and logistics costs. However, increased material costs from crude oil prices that hovered at high levels and spiraling prices for vegetable oil and fat significantly impacted performance results. Given this, Lion will work on structural reforms including revamping of production process with the aim enhancing the flexibility of production and reducing 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.

During the period under review, Lion reorganized its core domestic consumer goods business (Home Products and Pharmaceutical Products Divisions). Specifically, Lion transferred operations of the former Pharmaceutical Products segment into the new Health Care Products segment (Oral Care and Beauty Care) in order to enhance synergistic effects in technology, branding and logistics. After the reorganization, Lion restructured its consumer goods business into the three segments of Health Care Products, Household Products and the Gift and Channel-Specific Products Division.

Furthermore, Lion divided former Home Products Sales Headquarters into two business

domains, namely the Health Care and the Household Sales Department, to promote more consistent business strategies and to clarify each segments' responsibility and domain. Under the new business segment structure, each division (Health Care and Household Products Division) independently handles planning and sales functions.

4. Management Issues

Continued harsh operating conditions are forecast for the Lion Group. Against this backdrop, Lion aims to be a leading company in new comfortable lifestyle support industry and recognizes the following as pressing objectives of particular importance:

1. To strengthen our growth foundation
2. To lift our ability to combat rising costs brought on by the sharp upswing in raw material prices
3. To expand and deepen activities that will position us as a leading company in environmental responsiveness

In its efforts to strengthen its growth foundation, Lion will enhance the brand prowess of its core products. To this end, Lion will reinforce its product development and planning capabilities, establish a logistics structure and sales platform that are capable of responding appropriately to changes in the competitive environment and ensure that marketing investments are allocated effectively to priority areas. Furthermore, Lion will bolster the Bufferin[®] brand, acquired during the year under review, and pursue external sales of MES.

Lion is committed to strengthening its ability to combat rising costs brought on by the sharp upswing in raw material prices. To this end, the Company will combine efforts to introduce and nurture high-value-added products with measures that enhance Lion's cost efficiency. Buoyed by innovative reforms to its production processes, Lion will also reinforce manufacturing cost-reduction measures, specifically for its core products. Working to improve management efficiency by rationalizing administrative operations, the Company will bolster its commitment to profit structure reform.

Our third management objective, "To expand and deepen activities that will position Lion as a leading company in environmental responsiveness," calls for the reduction of greenhouse gas emissions, recycling and the 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. Adding to this initiative, the Lion Group also established its Three-Year Medium-Term Environmental Plan (the Environmental Plan), setting out the Group-wide specific goal of environmental management activities until 2009. Lion is diligently working toward the goals of its Environmental Plan through the proactive use of plant-derived raw materials, which do not lead to an increase in CO₂ emissions in the air. Our Group will continuously conduct various activities to preserve the environment, thereby contributing significantly to the realization of a sustainable, recycling-oriented society.

Despite our efforts to heighten consumers' awareness about the need to take special care to keep away from open flames or sparks when using Varsan Hyosatsu Jet Spray for Flying Bugs and Varsan Hyosatsu Jet Spray for Creeping Bugs, insecticide sprays released in March 2007, several cases of incidents involving combustion arose. Recognizing the gravity of this situation and the paramount need for customer safety, Lion undertook a voluntary recall of each product. The Lion Group would like to take this opportunity to apologize to its shareholders for any inconvenience and concern it may have caused. Looking ahead, Lion will redouble its efforts to develop finished products that are both safe and reliable and that instill confidence in customers and in the general market.

IV. Consolidated Financial Statements

1. Consolidated Balance Sheets

	Fiscal 2006 (Ended December 31, 2006)		Fiscal 2007 (Ended December 31, 2007)		Increase/ decrease
	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)	Millions of yen
Assets					
Current assets	123,008	49.9	127,019	45.5	4,010
Cash and time deposits	26,995		32,647		5,651
Trade notes and accounts receivable	64,138		61,786		(2,352)
Short-term investments	—		923		923
Inventories	26,387		27,837		1,450
Deferred tax assets	3,491		2,762		(729)
Other	3,867		2,057		(1,809)
Allowance for doubtful accounts	(1,870)		(995)		875
Fixed assets	123,318	50.1	152,127	54.5	28,809
Property, plant and equipment	65,606	26.7	64,345	23.1	(1,261)
Buildings and structures	21,410		20,812		(597)
Machinery and equipment	18,936		19,883		947
Land	18,824		18,823		(1)
Construction in progress	3,401		1,825		(1,576)
Other	3,033		3,000		(33)
Intangible assets	9,428	3.8	37,193	13.3	27,764
Goodwill	1,026		898		(128)
Trademarks, etc.	8,402		36,295		27,892
Investments and other assets	48,282	19.6	50,589	18.1	2,306
Investment securities	26,853		25,057		(1,795)
Long-term loans receivable	370		257		(113)
Prepaid pension cost	9,766		13,954		4,188
Deferred tax assets	10,272		10,093		(178)
Other	1,181		1,360		179
Allowance for doubtful accounts	(160)		(135)		25
Total assets	246,327	100.0	279,147	100.0	32,819

Lion Corporation (Code 4912): Summary of Financial Statements
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	Fiscal 2006 (Ended December 31, 2006)		Fiscal 2007 (Ended December 31, 2007)		Increase/ decrease
	Millions of yen	Share of total (%)	Millions of yen	Share of total (%)	Millions of yen
Liabilities					
Current liabilities	98,375	39.9	96,084	34.4	(2,290)
Trade notes and accounts payable	50,185		44,499		(5,685)
Short-term loans payable	7,612		5,463		(2,148)
Current portion of long-term debt	—		1,150		1,150
Other payables and accrued expenses	33,592		35,127		1,535
Accrued income taxes	2,121		1,509		(612)
Allowance for returns	940		1,191		251
Allowance for sales promotion expenses	215		278		62
Allowance for bonuses to directors and statutory auditors	50		132		81
Other	3,657		6,731		3,074
Long-term liabilities	42,818	17.4	75,522	27.1	32,703
Long-term debt	13,599		47,397		33,798
Accrued employee retirement benefits	23,687		22,893		(793)
Accrued director retirement allowances	526		464		(62)
Other	5,004		4,766		(238)
Total liabilities	141,193	57.3	171,607	61.5	30,413
Net assets					
Shareholders' equity	96,620	39.2	99,556	35.7	2,935
Common stock	34,433	14.0	34,433	12.3	—
Capital surplus	31,499	12.8	31,505	11.3	6
Retained earnings	46,600	18.9	49,344	17.7	2,743
Treasury stock	(15,913)	(6.5)	(15,727)	(5.6)	186
Valuation and translation adjustments	5,157	2.1	4,014	1.4	(1,143)
Unrealized holding gain on other securities	4,727	1.9	3,524	1.3	(1,202)
Deferred losses on hedges	(3)	(0.0)	(10)	(0.0)	(7)
Foreign currency translation adjustments	433	0.2	500	0.1	66
Stock Acquisition Rights	—	—	74	0.0	74
Minority interest in consolidated subsidiaries	3,354	1.4	3,894	1.4	540
Total net assets	105,133	42.7	107,540	38.5	2,406
Total liabilities and net assets	246,327	100.0	279,147	100.0	32,819

2. Consolidated Statements of Income

	Fiscal 2006 (January to December 2006)		FY 2007 (January to December 2007)		Increase/ decrease
	Millions of yen	% of net sales	Millions of yen	% of net sales	Millions of yen
Net sales	330,380	100.0	341,717	100.0	11,336
Cost of sales	165,570	50.1	159,200	46.6	(6,370)
Gross profit	164,810	49.9	182,517	53.4	17,706
Selling, general and administrative expenses	164,467	49.8	173,611	50.8	9,144
Operating income	343	0.1	8,905	2.6	8,562
Nonoperating income	2,983	0.9	2,492	0.7	(490)
Interest and dividend income	524		431		(93)
Equity in earnings of non-consolidated subsidiaries and affiliates	1,555		1,045		(510)
Other	903		1,016		112
Nonoperating expenses	899	0.3	1,293	0.4	394
Interest expenses	344		744		400
Other	555		548		(6)
Ordinary income	2,427	0.7	10,104	2.9	7,677
Extraordinary income	15,114	4.6	2,228	0.7	(12,886)
Gain on disposal of property, plant and equipment	5,887		1,082		(4,804)
Reversal of allowance for doubtful accounts	—		904		904
Gain on sales of subsidiary shares	706		231		(475)
Gain on sales of investment securities	8,387		8		(8,379)
Other	132		—		(132)
Extraordinary loss	4,521	1.4	2,768	0.8	(1,752)
Loss on disposal of property, plant and equipment	1,027		273		(754)
Voluntary product recall expenses	—		1,950		1,950
Loss on devaluation of investment securities	3		372		369
Impairment loss	481		74		(406)
Loss on sales of investment securities	—		65		65
Loss on shutdown of a plant	1,644		—		(1,644)
Early retirement payments	958		—		(958)
Other	406		32		(373)
Net income before income taxes	13,020	3.9	9,564	2.8	(3,456)
Income taxes	2,532	0.8	2,074	0.6	(457)
Adjustment of income taxes	4,660	1.4	1,960	0.6	(2,700)
Minority interest in earnings of consolidated subsidiaries	287	0.0	105	0.0	(181)
Net income	5,540	1.7	5,423	1.6	(116)

3. Consolidated Statements of Changes in Shareholders' Equity

Fiscal 2006 (January to December, 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					
Retirement of treasury stock		(97)	(7,861)	7,959	—
Cash dividends			(2,837)		(2,837)
Bonuses to directors and corporate auditors			(73)		(73)
Net income			5,540		5,540
Repurchase of treasury stock				(7,860)	(7,860)
Disposal of treasury stock		12	(0)	431	443
Change in scope of consolidation			(0)		(0)
Others			(0)		(0)
Increase / decrease during the term under review except shareholders' equity					
Total increase / decrease during the term under review	—	(85)	(5,234)	530	(4,788)
Balance at December 31, 2006	34,433	31,499	46,600	(15,913)	96,620

	Valuation and translation adjustments				Minority interest in consolidated subsidiaries	Total net assets
	Unrealized holding gain on other securities	Deferred gains / losses on hedges	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						
Retirement of treasury stock						—
Cash dividends						(2,837)
Bonuses to directors and corporate auditors						(73)
Net income						5,540
Repurchase of treasury stock						(7,860)
Disposal of treasury stock						443
Change in scope of consolidation						(0)
Others						(0)
Increase / decrease during the term under review except shareholders' equity	(2,927)	(3)	394	(2,535)	565	(1,970)
Total increase / decrease during the term under review	(2,927)	(3)	394	(2,535)	565	(6,758)
Balance at December 31, 2006	4,727	(3)	433	5,157	3,354	105,133

Fiscal 2007 (January to December, 2007)

(Millions of yen)

	Shareholders' equity				
	Common Stock	Capital surplus	Retained Earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2006	34,433	31,499	46,600	(15,913)	96,620
Increase / decrease during the term under review					
Cash dividends			(2,702)		(2,702)
Net income			5,423		5,423
Repurchase of treasury stock				(147)	(147)
Disposal of treasury stock		6		334	340
Change in scope of consolidation			22		22
Increase / decrease during the term under review except shareholders' equity					
Total increase / decrease during the term under review	—	6	2,743	186	2,935
Balance at December 31, 2007	34,433	31,505	49,344	(15,727)	96,556

	Valuation and translation adjustments				Stock Acquisition Rights	Minority interest in consolidated subsidiaries	Total net assets
	Unrealized holding gain on other securities	Deferred gains / losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments			
Balance at December 31, 2006	4,727	(3)	433	5,157	—	3,354	105,133
Increase / decrease during the term under review							
Cash dividends							(2,702)
Net income							5,423
Repurchase of treasury stock							(147)
Disposal of treasury stock							340
Change in scope of consolidation							22
Increase / decrease during the term under review except shareholders' equity	(1,202)	(7)	66	(1,143)	74	540	(529)
Total increase / decrease during the term under review	(1,202)	(7)	66	(1,143)	74	540	2,406
Balance at December 31, 2007	3,524	(10)	500	4,014	74	3,894	107,540

4. Consolidated Statements of Cash Flows

	FY 2006	FY 2007
	(January to December 2006)	(January to December 2007)
	Millions of yen	Millions of yen
I. Cash flows from operating activities		
Income before income taxes	13,020	9,564
Depreciation and amortization	9,634	10,590
Loss on impairment of fixed assets	481	74
Decrease in accrued retirement benefits	(7,636)	(5,067)
Interest and dividend income	(524)	(431)
Interest expense	344	744
Gain on disposal of property, plant and equipment	(4,860)	(809)
Loss (gain) on sale of investment securities	(8,387)	56
Loss on devaluation of investment securities	3	372
Equity in earnings of non-consolidated subsidiaries and affiliates	(1,555)	(1,045)
Decrease in trade notes and accounts receivable	4,768	2,731
(Increase) decrease in inventories	1,520	(1,322)
Decrease in trade notes and accounts payable	(5,183)	(5,428)
Increase in accrued expenses and other payables	1,387	1,890
(Decrease) increase in other current liabilities	(101)	3,384
Decrease (increase) in other current assets	(246)	1,904
Other, net	665	(702)
Subtotal	3,329	16,506
Interest and dividends received	1,962	2,634
Interest paid	(274)	(439)
Income taxes paid	(1,674)	(2,670)
Net cash provided by operating activities	3,343	16,030
II. Cash flows from investing activities		
Increase in time deposits	(57)	(144)
Redemption of short-term investments	500	—
Purchases of property, plant and equipment	(10,034)	(8,966)
Proceeds from sale of property, plant and equipment	7,738	1,695
Purchases of intangible assets	(570)	(30,638)
Purchases of investment securities	(2,412)	(2,127)
Proceeds from sale of investment securities	14,242	79
Additions to loans receivable	(170)	(74)
Proceeds from loans receivable	143	144
Other, net	1,713	530
Net cash (used in) provided by investing activities	11,092	(39,500)

III. Cash flows from financing activities		
Increase in short-term loans payable	6,460	9,127
Repayment of short-term loans payable	(7,046)	(11,233)
Increase in long-term loans payable	7,500	35,000
Repayment of long-term loans payable	(200)	(53)
Increase in commercial paper payable	26,054	—
Repayment of commercial paper payable	(26,019)	(233)
Purchases of odd-lot shares, net	(86)	(73)
Proceeds from sale of treasury stock	342	266
Purchases of treasury stock	(7,672)	—
Cash dividends	(2,835)	(2,694)
Cash dividends to minority shareholders	(107)	(259)
Net cash provided by (used in) financing activities	(3,610)	29,844
IV. Effect of exchange rate changes on cash and cash equivalents	168	62
V. Net change in cash and cash equivalents	10,994	6,437
VI. Cash and cash equivalents at beginning of period	15,788	26,782
VII. Cash and cash equivalents at end of period	26,782	33,219

Basis of Preparation of Consolidated Financial Statements

1. Scope of Consolidation

Lion Corporation has 25 subsidiaries, of which 21 are consolidated subsidiaries.

Principal companies: Lion Engineering Co., Ltd., Lion Logistics Service Company, Ltd., Lion Trading Co., Ltd., Lion Packaging Co., Ltd., Lion Chemical Co., Ltd., CJ Lion Corporation, and Lion Corporation (Thailand) Ltd.

Inclusion: Lion Eco Chemicals Sdn. Bhd. which was established in FY 2007 was included as consolidated subsidiary.

Exclusion: McCormick-Lion Limited was excluded from consolidation because its liquidation was completed.

2. Application of Equity-Method Accounting

Equity-method accounting is applied to two out of 4 non-consolidated subsidiaries and to nine out of 16 affiliated companies.

Principal companies: Lion Akzo Co., Ltd., Calp Corporation and Southern Lion Sdn. Bhd.

Inclusion: Pacific Soap Mfg. Sdn. Bhd. and Lion Service Company Limited which is a subsidiary company of Lion Corporation (Thailand) Ltd. were included as equity-method companies due to increased importance of these companies.

Exclusion: Kanagata (Thailand) Co., Ltd. which was a subsidiary company of Lion Corporation (Thailand) Ltd. was excluded from equity-method companies because whole subsidiary shares were transferred.

Bristol-Myers Lion Ltd. was excluded from equity-method companies because its liquidation was completed.

3. Balance Sheet Date of Consolidated Subsidiaries

December 31 is the balance sheet date of 21 consolidated subsidiaries (consolidated balance sheet date).

4. Accounting Policies

a) *Valuation of Assets*

1) Marketable securities

(a) Held-to-maturity debt securities

Valuation is by the amortized cost method (straight-line method).

(b) Other marketable securities

Securities with market value

Carried at market value prevailing on the balance sheet date (changes in valuation are recorded in full as a separate component of net assets, and sales cost is determined by the moving-average method).

Securities without market value

Stated primarily at cost based on the moving-average method.

2) Derivatives

Stated at market value.

3) Valuation of inventories

Merchandise and finished products are stated at cost determined primarily by the first-in, first-out method.

Raw materials, work-in-progress, and supplies are stated at cost determined primarily by the moving-average method.

b) *Depreciation*

1) Property, plant and equipment

Depreciation is primarily by the declining balance method, with some consolidated subsidiaries using the straight-line method.

2) Intangible assets

Amortization is by the straight-line method. Software for in-house use is amortized primarily by the straight-line method, assuming a useful life of five years.

c) Recognition of Allowances

1) Allowance for doubtful accounts

To provide for potential losses on loans, an allowance is made by the parent company and by domestic consolidated companies for general claims using the default rate for such claims, and an allowance is also made for doubtful claims in accordance with individually estimated uncollectible amounts. In the case of foreign consolidated companies, an allowance is made for the estimated uncollectible amounts of certain claims.

2) Allowance for returns

To provide for the return of merchandise and finished products after the balance sheet date, the estimated loss on returns is recorded.

3) Allowance for sales promotion expenses

The estimated payment of rebates and other sales promotion expenses related to consolidated sales are recorded.

4) Allowance for bonuses to internal directors

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

5) Allowance for retirement benefits

To provide for the payment of retirement benefits to employees, an allowance is made based on projected benefit obligations and fair value of pension plan assets at the end of the consolidated fiscal year.

Past benefit liabilities are amortized from the time they accrue by the straight-line method for a given number of years (five years) within employees' average remaining years of service.

Actuarial gain or loss is amortized from the consolidated fiscal year following the year in which the gain or loss is recognized by the straight-line method for employees' average remaining years of service.

6) Allowance for director retirement benefits

To provide for the payment of director retirement benefits, an allowance is made for the estimated amount accruing as of the balance sheet date in accordance with Lion's director retirement allowance regulations.

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

d) Foreign Currency Translation

All current and long-term monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at current rates prevailing on the consolidated balance sheet date, and the resulting translation gains or losses are taken into income. All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at current rates prevailing on the consolidated balance sheet date, and all income and expense accounts are translated at average rates for the fiscal year. The resulting translation adjustments are accumulated as minority interest in consolidated subsidiaries and valuation and translation adjustments under net assets.

e) Leases

Finance leases are accounted as operating leases excluding leases where ownership is transferred to the lessee.

f) Significant Matters in 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 swap	Interest rate

3) Hedging policy

Currency risk and interest-rate risk are hedged by the Finance Department of the parent company and by the management units of subsidiaries primarily in accordance with internal regulations.

g) Other Significant Matters in the Presentation of Consolidated Financial Statements

The tax-excluded method is used in consumption tax accounting.

5. Valuation of assets and liabilities of consolidated subsidiaries

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

6. Amortization of goodwill

Goodwill is amortized equally over the estimated number of years (10) with respect to items for which rational estimates can be made, and is amortized at the time at which they arise with respect to immaterial items.

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

For the purpose of consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, demand deposits, and short-term liquid investments that mature within three months from the purchase date and can be converted easily into cash with little risk of change in value.

Notes to Consolidated Financial Statements

[Notes to Consolidated Balance Sheets]

	(Millions of yen)	
	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>
1. Cumulative depreciation of property, plant and equipment	144,961	148,214
2. Assets pledged as collateral		
Cash and time deposits	—	688
Land	327	315
Buildings and structures	1,626	1,592
Machinery and equipment	549	632
Total	<u>2,503</u>	<u>3,228</u>
Secured debt		
Short-term loans payable	328	140
Account payable	272	335
Total	<u>600</u>	<u>476</u>
3. Endorsed notes receivable	43	—
4. Balance Outstanding of Export Bills	121	18
Negotiated		
5. Guarantees of debt	3,591	2,757
6. Treasury stock held at the fiscal year end	28,974 (Thousands of shares)	28,556 (Thousands of shares)
7. Notes with their maturity date as of the fiscal year-end are settled for accounting purposes as of their clearing date.		

[Notes to Consolidated Statements of Income]

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

	FY 2006	FY 2007
Sales incentive expenses	14,660	15,719
Sales promotion expenses	63,753	67,488
Freight and storage expenses	16,549	16,818
Advertising expenses	22,393	21,934
Salaries	14,729	14,603
R&D expenses	7,922	8,745

*No R&D expenses have been included in production expenses for FY 2007

[Notes to Consolidated Statement of Changes in Shareholders' Equity]

1. Outstanding Shares

Class of shares	Number of shares held at December 31, 2006	Increase	Decrease	Number of shares held at December 31, 2007
Common shares (shares)	299,115,346	—	—	299,115,346

2. Treasury stock

Class of shares	Number of shares held at December 31, 2006	Increase	Decrease	Number of shares held at December 31, 2007
Common shares (shares)	28,974,638	235,834	654,182	28,556,290

Reasons for the Changes

* Increase: Purchase of odd lot shares of common stock – 235,834 shares

* Decrease: Release of treasury stock to allow shareholders with less than a full lot to complete their holdings – 130,938 shares; Release in response to execution of stock compensation rights – 523,244 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
Board of Directors meeting held on February 9, 2007	Common shares	1,350	5.00	December 31, 2006	March 5, 2007
Board of Directors meeting held on July 31, 2007	Common shares	1,352	5.00	June 30, 2007	September 5, 2007

b) Dividends with a record date that falls within FY 2007 and an effective date in the following fiscal period

Resolution	Class of shares	Dividend Resource	Annual dividend paid (million Yen)	Dividend par share (Yen)	Record date	Effective date
Board of Directors meeting held on February 7, 2008	Common shares	Retained earnings	1,352	5.00	December 31, 2007	March 5, 2008

[Notes to Consolidated Statements of Cash Flows]

Balance of cash and cash equivalents at the end of the fiscal year and relationship with consolidated balance sheet:

	FY 2006 (December 31, 2006)	(Millions of yen) FY 2007 (December 31, 2007)
Cash and deposits	26,995	32,647
Marketable securities	—	923
Time deposits with maturities greater than three months	(212)	(350)
Total	<u>26,782</u>	<u>33,219</u>

Segment Information

1. Industry Segments

(Millions of yen)

	Fiscal 2006 (January 1 to December 31, 2006)						
	Home Products	Pharmaceutical Products	Chemical Products	Other Businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	235,020	47,981	32,334	15,044	330,380	—	330,380
b) Intersegment sales	10	—	8,019	6,590	14,620	[14,620]	—
Total	235,030	47,981	40,353	21,635	345,001	[14,620]	330,380
Operating expenses	235,366	47,038	40,640	21,606	344,652	[14,614]	330,037
Operating income	(335)	943	(286)	28	349	[5]	343
2. Assets, depreciation, impairment loss and capital expenditures							
Assets	126,765	38,631	41,846	4,164	211,408	34,918	246,327
Depreciation and amortization	7,291	1,263	797	123	9,475	158	9,634
Impairment loss	—	—	—	197	197	284	481
Capital expenditures	8,080	533	993	38	9,645	503	10,149

	Fiscal 2007 (January 1 to December 31, 2007)						
	Health Care Products	Household Products	Chemical Products	Other Businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	135,461	168,448	32,445	5,360	341,717	—	341,717
b) Intersegment sales	15	6	8,388	8,734	17,144	[17,144]	—
Total	135,476	168,455	40,834	14,094	358,861	[17,144]	341,717
Operating expenses	130,062	165,331	40,998	13,591	349,983	[17,171]	332,811
Operating income	5,414	3,123	(163)	503	8,878	26	8,905
2. Assets, depreciation, impairment loss and capital expenditures							
Assets	111,223	83,651	44,775	5,007	244,657	34,489	279,147
Depreciation and amortization	4,907	4,461	893	146	10,408	182	10,590
Impairment loss	7	66	—	—	74	—	74
Capital expenditures	32,994	4,523	1,404	76	38,998	284	39,282

Note:

Categorization of industry segments and principal products

Industry segments are categorized in accordance with the similarity of products and markets.

- Health Care Products: Toothpastes, toothbrushes, hand soaps, analgesics, eyedrop solutions, health tonic drinks, and insecticides
- Household Products: Laundry detergents, dishwashing detergents, fabric softeners, household cleaners, and bleaches
- Chemical Products: Surfactants and fatty acid nitrogen compounds
- Other Businesses: Plant construction, real estate management, and transportation and storage

< Changes in Business Segments >

During this fiscal year under review, Lion reorganized its business segments. Lion's previous business segments were Home Products, Pharmaceutical Products, Chemicals Products, and Other businesses; its new business segments are Health Care Products, Household Products, Chemical Products and Other businesses. The organization of Chemical Products and Other businesses has not been changed.

The rationale behind the reorganization is as follows. In the former Pharmaceutical Products segment, Lion primarily handled analgesics, eyedrop solutions, inflammation and pain-relieving first-aid products, ointments for the treatment of gingivitis and pyorrhea, denture semi-adhesive agents, Hiepita semi-adhesive cooling pads and Kyusoku Jikan semi-adhesive cooling pads for legs and feet. Lion also added new product categories including insecticides to its business portfolio at the end of 2004. All these Pharmaceutical Products excluding analgesics, eyedrop solutions and inflammation and pain-relieving first-aid products, which are functionally similar to Lion's Home Products, eventually grew into a significant component of Lion's entire business and profit structure. Lion also established the medical health care products category at the end of 2006 by integrating the Home Products and Pharmaceutical Products into the Home Products segment.

Recognizing the diminishing boundary between the former Home Products and Pharmaceutical Products segments, Lion positioned the three businesses of toiletries, over-the-counter (OTC) drugs and functional food products as its "new comfortable lifestyle support industry." Based on this concept, Lion created the new segments of Health Care Products and Household Products. The Health Care Products segment handles toiletry ingredients, personal hygiene kits and oral medicine that contribute to the improvement of consumers' physical health—more specifically, their oral, hair and skin conditions. The Household Products segment handles items that are used in the everyday living environment, including clothing, living space, fixtures and furniture. This new segmentation allows Lion to present its segmental management performance more accurately, reflecting actual conditions in each segment that comprise closely linked product categories. This structural reorganization also accompanies managerial and administrative reorganization.

Segment information disclosed under the historic method is as follows.

(Millions of yen)

	Fiscal 2007 (Historic method) (January 1 to December 31, 2007)						
	Home Products	Pharma- ceutical Products	Chem- ical Products	Other Businesses	Total	Corporate and eliminations	Consoli- dated total
1. Net sales							
a) Sales to outside customers	257,537	46,373	32,445	5,360	341,717	—	341,717
b) Intersegment sales or transfers	8	—	8,388	8,734	17,131	[17,131]	—
Total	257,545	46,373	40,834	14,094	358,848	[17,131]	341,717
Operating expenses	249,765	45,325	40,998	13,591	349,679	[16,868]	332,811
Operating income	7,779	1,048	(163)	503	9,168	[262]	8,905
2. Assets, depreciation, impairment loss and capital expenditures							
Assets	124,217	71,304	44,775	5,007	245,305	33,842	279,147
Depreciation and amortization	6,644	2,724	893	146	10,408	182	10,590
Impairment loss	74	—	—	—	74	—	74
Capital expenditures	6,720	30,797	1,404	76	38,998	284	39,282

2. Geographical Segments

(Millions of yen)

	Fiscal 2006 (January 1 to December 31, 2006)				
	Japan	Asia	Total	Corporate and elimina- tions	Consoli- dated total
1. Net sales					
a) Sales to outside customers	284,907	45,473	330,380	—	330,380
b) Intersegment sales	1,615	1,990	3,605	[3,605]	—
Total	286,522	47,463	333,986	[3,605]	330,380
Operating expenses	287,107	46,831	333,938	[3,900]	330,037
Operating income/loss	(584)	632	47	295	343
Assets	194,394	22,325	216,719	29,607	246,327

	FY 2007 (January 1 to December 31, 2007)				
	Japan	Asia	Total	Corporate and elimina- tions	Consoli- dated total
1. Net sales					
a) Sales to outside customers	286,759	54,957	341,717	—	341,717
b) Intersegment sales	921	1,523	2,444	[2,444]	—
Total	287,680	56,480	334,161	[2,444]	341,717
Operating expenses	280,309	55,327	335,636	[2,825]	332,811
Operating income	7,371	1,153	8,524	380	8,905
Assets	219,890	28,242	248,132	31,015	279,147

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

(Millions of yen)

	Fiscal 2006 (January 1 to December 31, 2006)		
	Asia	Other regions	Total
Foreign sales (millions of yen)	48,580	4,036	52,616
Consolidated net sales (millions of yen)	—	—	330,380
Percent of foreign sales in consolidated net sales (%)	14.7	1.2	15.9

	Fiscal 2007 (January 1 to December 31, 2007)		
	Asia	Other regions	Total
Foreign sales (millions of yen)	56,317	2,984	59,302
Consolidated net sales (millions of yen)	—	—	341,717
Percent of foreign sales in consolidated net sales (%)	16.5	0.9	17.4

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)

	FY 2006 (January to December 2006)	FY 2007 (January to December 2007)
1. Equivalent acquisition cost, equivalent accumulated depreciation, and equivalent balance at end of period		
Equivalent acquisition cost		
Machinery and equipment	90	113
Other property, plant and equipment	1,595	1,415
<u>Intangible assets</u>	<u>228</u>	<u>159</u>
Total	1,914	1,687
Equivalent accumulated depreciation		
Machinery and equipment	30	47
Other property, plant and equipment	921	756
<u>Intangible assets</u>	<u>161</u>	<u>111</u>
Total	1,113	916
Equivalent balance at end of period		
Machinery and equipment	59	65
Other property, plant and equipment	673	658
<u>Intangible assets</u>	<u>67</u>	<u>47</u>
Total	800	771
2. Equivalent lease commitments at end of period		
Due within one year	336	295
<u>Due after one year</u>	<u>464</u>	<u>476</u>
Total	800	771
3. Lease payments (Equivalent depreciation)	408	364
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.		

Related Party Transactions

Affiliated companies

Name	Location	Capitalization	Business	Voting shares held by Lion	Nature of business relationship		Nature of transaction	Transaction amount	Account	Year-end balance
					Shared positions, etc.	Operational relationship				
Lion Akzo Co., Ltd.	Yokkaichi-shi, Mie	Millions of yen 1,000	Production and sales of fatty acid nitrogen derivatives	50.0% direct	2 shared	Purchase of fatty acid nitrogen derivatives	Purchase of fatty acid nitrogen derivatives	Millions of yen 5,884	Accounts payable	Millions of yen 2,492

Notes: 1. Transaction terms and determination method for transaction terms

The terms of transactions amount is in principle determined through consultation between Lion Corporation and the affiliates based on market price, the affiliate's overall cost, and Lion's suggested price.

2. The transaction amount is net of consumption tax, but year-end balances are gross of consumption tax.

Tax Effect Accounting

1. Main reasons for the accrual of deferred tax assets and deferred tax liabilities

	(Millions of yen)
	FY 2007
	<u>(Dec. 31, 2007)</u>
Deferred tax assets	
Allowance for doubtful accounts in excess of the amount allowable	40
Taxable portion of sales return reserve	482
Taxable portion of sales promotion reserve	113
Retirement benefits reserve in excess of the amount allowable	11,025
Taxable portion of reserve for directors' retirement benefits	5
Excess of amortization of goodwill	1,039
Taxable portion of impairment loss	21
Accrued enterprise tax	138
Tax loss carryforwards	5,931
Unrealized profits of inventory assets and fixed assets	274
<u>Other</u>	<u>2,792</u>
Deferred tax assets subtotal	21,865
Deferred tax liabilities	
Special tax-purpose reserve	(1,941)
Taxable portion of gain of employee pension trust	(5,662)
Temporary difference from distribution of retained earnings of foreign affiliates	(449)
<u>Unrecognized holding gain on other securities</u>	<u>(2,300)</u>
Deferred tax liabilities total	(10,354)
Net deferred tax assets	<u>11,510</u>

(Note) "Others" under the current liabilities includes ¥10 million in deferred tax liabilities, and "others" under fixed liabilities includes ¥1,334 million in deferred tax liabilities.

2. Breakdown of the difference between statutory tax rates and the tax burden rates of corporate tax after applying tax effect accounting, etc.

The difference between the statutory tax rate and the tax burden rate of corporate tax after applying tax effect accounting is less than 5/100 of the statutory tax rate. Accordingly, this information has been omitted.

Securities

1. Consolidated fiscal 2006 (at December 31, 2006)

a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for fiscal 2006	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	9,556	17,723	8,166
Securities whose book value does not exceed their acquisition cost			
Stocks	1,283	1,166	(117)
Total	10,840	18,889	8,048

b) Other marketable securities sold during fiscal 2006

(Millions of yen)

Sale price	Total gain on sale	Total loss on sale
14,242	8,387	—

c) Securities without market prices

(Millions of yen)

	Book value for fiscal 2006
Other marketable securities	
Unlisted stocks	1,391

d) Redemption schedule for other marketable securities with maturities and for held-to-maturity bonds

(Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Held-to-maturity securities				
Local government bonds	—	—	2	—
Total	—	—	2	—

2. Consolidated fiscal 2007 (at December 31, 2007)

a) Other marketable securities with market prices

(Millions of yen)

	Acquisition cost	Book value for fiscal 2007	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	8,354	14,993	6,638
Securities whose book value does not exceed their acquisition cost			
Stocks	4,115	3,409	(706)
Total	12,470	18,402	5,932

b) Other marketable securities sold during fiscal 2007

(Millions of yen)

Sale price	Total gain on sale	Total loss on sale
79	8	65

c) Securities without market prices

(Millions of yen)

	Book value for fiscal 2007
Other marketable securities	
Unlisted stocks	1,404

d) Redemption schedule for other marketable securities with maturities and for held-to-maturity bonds

(Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Held-to-maturity securities				
Local government bonds	—	—	2	—
Commercial papers	923	—	—	—
Total	923	—	2	—

Derivatives

Derivatives to which hedge accounting is applied are excluded from the scope of disclosure.

Retirement Benefits

1. Outline of the retirement benefit plans adopted by the company

The Company and certain domestic consolidated subsidiaries have defined benefit pension plans: for example, corporate pension plans and lump-sum severance benefit plans. In certain cases, additional severance indemnities are paid when an employee retires.

Certain foreign consolidated subsidiaries have defined contribution plans.

The primary plans are the Lion Corporate Pension Fund and the tax-qualified retirement pension plan joined by four of the Company's domestic consolidated subsidiaries. Ten of the Group companies also have lump-sum severance indemnity plans.

In addition, the Company has a pension trust.

2. Items concerning retirement benefit obligation

(Millions of yen)

	FY 2006 (December 31, 2006)	FY 2007 (December 31, 2007)
A. Projected benefit obligation	(69,784)	(68,568)
B. Fair value of pension plan assets	68,508	61,583
C. Funded status (A + B)	(1,275)	(6,985)
D. Unrecognized actuarial difference	(9,080)	83
E. Unrecognized prior service cost	(3,565)	(2,037)
F. Net amount on consolidated balance sheet (C + D + E)	(13,921)	(8,939)
G. Prepaid pension expense	9,766	13,954
H. Accrued employees' retirement benefits (F - G)	(23,687)	(22,893)

FY 2006	FY 2007
Notes: Consolidated subsidiaries have adopted the simplified method for calculating their retirement benefit obligation.	Notes: Same as at left.

3. Items concerning retirement benefits costs

(Millions of yen)

	FY 2006 (January to December 2006)	FY 2007 (January to December 2007)
A. Service cost (See Notes 1)	2,229	2,210
B. Interest cost	1,705	1,663
C. Expected return on pension plan assets	(824)	(1,006)
D. Amortization of actuarial loss	(443)	(402)
E. Amortization of prior service cost	(1,528)	(1,528)
F. Extra payment for premium severance payments (See Notes 2)	994	—
G. Premium contribution for defined-contribution pension plan	62	76
H. Retirement benefits costs (A + B + C + D + E + F + G)	2,195	1,013

FY 2006	FY 2007
Notes: 1. Where the simplified method is adopted, the retirement benefit costs are recorded to "A. Service Costs."	Notes: 1. Same as at left.
2. Recorded as part of early retirement payments and other included under extraordinary loss.	—

4. Items concerning the basis for calculating retirement benefit obligation, etc.

	FY 2006 (January to December 2006)	FY 2007 (January to December 2007)
A. Method adopted to allocate expected retirement benefits	Method of allocating fixed amount throughout the period	Method of allocating fixed amount throughout the period
B. Discount rate	2.5%	2.5%
C. Expected rate of return on pension plan assets (See Note 1)	2.0%	2.0%
D. Recognition period of actuarial gain or loss (See Note 2)	15 years	15 years
E. Amortization period of prior service cost (See Note 3)	5 years	5 years

FY 2006	FY 2007
Notes: 1. Expected dividend yield is used for the pension trust.	Notes: 1. Same as at left.
2. Actuarial differences are expensed from the subsequent consolidated fiscal year using the straight-line method based on the employees' average remaining service period as at the time such differences arise.	2. Same as at left.
3. Prior service liabilities are expensed from the current consolidated fiscal year using the straight-line method based on a certain number of years not exceeding the employees' average remaining service period as at the time such liabilities arise.	3. Same as at left.

Stock Options

Consolidated fiscal 2007 (January 1, 2007 to December 31, 2007)

1. Amount Equivalent to Stock Options and Relevant Line Items

Selling, general and administrative expenses: ¥74 million

2. Details of Stock Options Offered during the Fiscal Year under Review

	Stock options (subscription rights) as part of a stock-linked compensation plan decided on March 29, 2007
Number of persons to which subscription rights shall be allotted	Directors (except external directors): 9 Executive officers: 10
Type and number of shares to be issued (Note 1)	149,619 shares of common stock
Date of subscription right offer allotment	April 16, 2007
Vesting conditions	(Note 2)
Conditions related to employment period	None
Exercise period for subscription rights	Lion's Board of Directors shall determine an exercise period that falls between April 16, 2007 and April 15, 2037.
Exercise Price (Yen)	1
Fair unit price as of the date granted (Yen) (Note 3)	654

Notes:

1. Stock options are converted into shares of common stock.
2. Lion's directors (excluding external directors) shall exercise their subscription rights within a 10-day period from the day following their leave from office after at least one year of service in the said position. This condition does not apply to directors in the event of death. Lion's executive officers shall exercise their subscription rights within a 10-day period from the next day following (1) their leave from office, or (2) their retirement date, whichever date comes later after at least one year of service in the said position. This condition does not apply to executive officers in the event of death.
3. The aforementioned amounts were calculated using the Black-Scholes model on April 16, 2007.

Matters Related to Business Combinations

None

Per Share Information

	FY 2006 (January 1 to December 31, 2006)	FY 2007 (January 1 to December 31, 2007)
Net assets per share	376.76 Yen	382.80 Yen
EPS	19.60 Yen	20.06 Yen
Diluted EPS	19.52 Yen	20.02 Yen

Note: Net income per share (EPS) and diluted net income per share (diluted EPS)

	FY 2006 (January 1 to December 31, 2006)	FY 2007 (January 1 to December 31, 2007)
EPS		
Net income (millions of Yen)	5,540	5,423
Amount not belong to common stockholders (millions of Yen)	—	—
Net Income concerning common stock (millions of Yen)	5,540	5,423
Average number of outstanding shares during the period (thousands of shares)	282,721	270,386
Diluted EPS		
Net income adjustment (millions of Yen)	—	—
Increase in number of common stocks (thousands of shares)	1,101	584
Of which, stock options (thousands of shares)	[1,101]	[584]
Summary of residual shares not included in diluted EPS due to lack of dilution effect.	Stock options resolved by the Ordinary Annual General Meeting of Shareholders held on March 30, 2006 (Subscription Rights) 950 thousands shares of common stocks	Same as at left

Significant Post Balance Sheet Date Events

There were no significant post balance sheet date events.

5. Others

Personnel Changes

1. Change of Representative

There is no change.

2. Change of Other Personnel

(1) Directors

- 1) Newly Appointed Directors (positions will be appointed at the Ordinary Annual General Meeting of Shareholders scheduled on March 28, 2008)

Name	Current Title and Position
Mitsuharu Kachi	Executive Officer, Senior Executive General Manager of International Division and Director of Oleochemical Project Department
Keikichi Sugiyama	Executive Officer Executive General Manager of Research Planning & Administration Department
Shuichi Ohta	Executive Officer Executive General Manager of Health Care Products Division
Itsuo Hama	Executive Officer Executive General Manager of Household Products Division

2) Promoted Directors (March 28, 2008)

Name	New Title	Current Title
Kazuo Obayashi	Representative Director and Senior Executive Director	Executive Director
Tetsuo Yamada	Representative Director and Senior Executive Director	Executive Director

3) Retiring Directors (March 28, 2008)

Name	Current Title	Current Position
Makoto Imai	Representative Director and Senior Executive Director	Assistant to President, Responsible for corporate staff and Representative Director and President of Lion Chemical Co., Ltd.
Kazuo Ohbu	Representative Director and Senior Executive Director	Assistant to President, and Responsible for Technical matters
Naokazu Kubo	Executive Director	Assistant to President, Responsible for

		sales, and Representative Director and President of Lion Logistic Service Company, Ltd.
Yasunobu Horiguchi	Executive Director	Assistant to President, Responsible for Chemicals Business, and Representative Director and President of Lion Engineering Co., Ltd.

New management structure after March 28, 2008 is as follows:

(1) Director

Name	Position
Sadayoshi Fujishige	Representative Director and President Chairman of the Board, CEO
Kazuo Obayashi	Representative Director and Senior Executive Director Responsible for Risk Management, International Division (including general overseas affairs), Purchasing Headquarters, Corporate Planning, Public Relations, Investor Relations, and Oleochemical Project
Tetsuo Yamada	Representative Director and Senior Executive Director Responsible for Corporate Ethics, Finance, Secretary, Personnel, General Affairs, System, CSR Promotion, Legal, Pharmaceutical Affairs, and Logistics Planning & Development
Haruo Iwasaki	Executive Director Responsible for Advertising, Behavioral Science Research, Distribution Policy, and Business Coordination
Teruhisa Satsuki	Executive Director Responsible for Research & Development Headquarters, Chemicals Division, Production Headquarters, and Intellectual Property, and Representative Director and President of Lion Akzo Co., Ltd. and Ketjen Black International Company
Mitsuharu Kachi	Executive Director Executive General Manager of International Division and Director of Oleochemical Project Department
Keikichi Sugiyama	Director Executive General Manager of Research & Development Headquarter

Shuichi Ohta	Director Executive General Manager of Health Care Products Division
Itsuo Hama	Director Executive General Manager of Household Products Division
Mitsuaki Shimaguchi	External Director Professor of Hosei University Graduate Schools
Hideo Yamada	External Director Attorney at Law

(2) Corporate Auditor

Name	Position
Takayasu Kasamatsu	Standing Corporate Auditor
Yoshihiro Shimoura	Standing Corporate Auditor
Kazumi Idogawa	External Corporate Auditor (Certified Public Accountant)
Masahiro Mikami	External Corporate Auditor (Certified Tax Accountant)

(3) Substitute Corporate Auditor

Name	Position
Junzou Doi	Substitute Corporate Auditor (Certified Public Accountant)

(4) Executive Officer

Name	Position
Eiji Natsukawa	Managing Executive Officer Executive General Manager of Gift and Channel-Specific Products Division
Takao Terui	Executive Officer, Senior Executive General Manager of Production Headquarters
Yuji Watari	Executive Officer Executive General Manager of Purchasing Headquarters
Kenjiro Kobayashi	Executive Officer Director of Oral Care Business Department, Health Care Products

	Division and Representative Director and President of Lion Dental Products Co., Ltd.
Shinjiro Iwahori	Executive Officer Director of Finance Department
Shozo Hanada	Executive Officer Director of Planning & Coordination Department , Health Care Products Division
Hikomichi Okuda	Executive Officer Assistant Executive General Manager of Household Products Division (Responsible for Sales Department)
Mamoru Komori	Executive Officer Assistant Executive General Manager of Health Care Products Division (Responsible for Sales Department), and Director of Sales Administration Department of Health Care Products Division
Kiyotaka Abe	Executive Officer Executive General Manager of Chemicals Division