

Notes to Consolidated Financial Statements

1. Scope of Consolidation

Lion Corporation has 25 subsidiaries, of which 20 are consolidated subsidiaries.

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

Exclusion: 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 5 non-consolidated subsidiaries and to ten out of 17 affiliated companies.

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

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.

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.

3. Balance Sheet Date of Consolidated Subsidiaries

June 30 is the interim balance sheet date of 20 consolidated subsidiaries (consolidated balance sheet date).

4. Accounting Policies

a) *Valuation of Assets*

1) Marketable securities

(a) Held-to-maturity debt securities

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

(b) Other marketable securities

Securities with market value

Carried at market value prevailing on the interim balance sheet date (changes in valuation are recorded in full as a separate component of 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 Lion 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 interim balance sheet date, the estimated loss on returns is recorded.

3) Allowance for sales promotion expenses

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

4) Allowance for bonuses to directors and statutory auditors

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

5) Allowance for retirement benefits

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

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

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

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 interim balance sheet date in accordance with Lion's director retirement allowance regulations.

In accordance with the adoption of stock options under a stock-based compensation plan at the parent

company, no additional allowances have been made after March 30, 2006.

d) Foreign Currency Translation

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

e) Leases

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

f) Hedge Accounting

1) Hedge accounting

Deferred hedge accounting is used. Translation at the contract rate is applied in accounting for forward currency contracts when appropriate conditions are met. Hedges meeting conditions for the special treatment of interest-rate swaps are accounted for separately.

2) Hedging instruments and hedged items

Hedging instruments	Hedged items
Forward currency contracts	Transactions to be denominated in a foreign currency

3) Hedging policy

Currency risk and interest-rate risk are hedged by the accounting unit of Lion and by the management units of subsidiaries primarily in accordance with internal regulations.

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

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

5. Amortization of goodwill

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

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

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

Notes to Consolidated Balance Sheets

	Interim 2006	Interim 2007	(Millions of yen) Fiscal 2006
1. Cumulative depreciation of property, plant and equipment	152,514	147,430	144,961
2. Assets pledged as collateral			
Land	318	336	327
Buildings and structures	1,531	1,691	1,626
Machinery and equipment	506	570	549
Total	2,356	2,598	2,503
Secured debt			
Short-term loans payable	318	450	328
Account payable	146	128	272
Total	465	578	600
3. Endorsed notes receivable	32	43	43
4. Balance Outstanding of Export Bills	—	5	121
Negotiated			
5. Guarantees of debt	3,670	2,893	3,591
6. Notes with their maturity date as of the interim balance sheet date 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)

	Interim 2006	Interim 2007	FY 2006
Sales incentive expenses	6,807	6,644	14,660
Sales promotion expenses	30,652	31,364	63,753
Freight and storage expenses	7,973	7,817	16,549
Advertising expenses	11,438	11,044	22,393
Salaries	7,523	7,371	14,729
R&D expenses	3,874	4,231	7,922

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

Notes to Consolidated Interim 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 June 30, 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 June 30, 2007
Common shares (shares)	28,974,638	124,936	398,680	28,700,894

Reasons for the Changes

- Increase: Purchase of odd lot shares of common stock—124,936 shares
- Decrease: Release of treasury stock to allow shareholders with less than a full lot to complete their holdings—12,436 shares; Release in response to execution of stock compensation rights—386,244 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

b) Dividends with a record date that falls within the interim period under review and an effective date in the following fiscal period

Resolution	Class of shares	Dividend Resource	Annual dividend paid (million Yen)	Dividend par share (Yen)	Record date	Effective date
Board of Directors meeting held on July 31, 2007	Common shares	Retained earnings	1,352	5.00	June 30, 2007	September 5, 2007

Notes to Consolidated Statements of Cash Flows

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

	Interim 2006 (June 30, 2006)	Interim 2007 (June 30, 2007)	(Millions of yen) FY 2006 (December 31, 2006)
Cash and deposits	16,589	24,813	26,995
Marketable securities	–	1,019	–
Time deposits with maturities greater than three months	(69)	(200)	(212)
Total	16,520	25,633	26,782