

## Notes to Consolidated Interim 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., Lion Eco Chemicals Sdn. Bhd., CJ Lion Corporation, and Lion Corporation (Thailand) Ltd.

### 2. Application of Equity-Method Accounting

Equity-method accounting is applied to two out of 4 non-consolidated subsidiaries and to nine out of 15 affiliated companies.

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

### 3. Interim Balance Sheet Date of Consolidated Subsidiaries

June 30 is the interim balance sheet date of 21 consolidated subsidiaries (consolidated interim balance sheet date).

### 4. Accounting Policies

#### a) *Valuation of Assets*

##### 1) Securities

##### (a) Held-to-maturity debt securities

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

##### (b) Other securities

##### *Other securities (marketable)*

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).

##### *Other securities (non-marketable)*

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.

(Additional Information)

Pursuant to the revised Corporate Tax Law of Japan, Lion and its domestic consolidated subsidiaries have adopted the new depreciation method, as defined under the Corporate Tax Law, for property, plant and equipment acquired before April 1, 2007. Under this method, the difference between the amount equivalent to 5% of the acquisition costs for such an asset and the memorandum value is depreciated using the straight-line method over the five years following the consolidated fiscal year in which the asset has been depreciated to reach 5% of the acquisition costs using the method defined under the Corporate Tax Law prior to the reversion. The amount associated with such depreciation is included in depreciation and amortization. After the adoption of this depreciation method, for the interim period under review, cost of sales and selling, general and administrative expenses increased ¥293 million and ¥66 million, respectively, compared with those under the previous depreciation method. Accordingly, operating income, ordinary income and net interim income before income taxes each declined ¥360 million for the interim period under review.

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

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

5) Accrued employee 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) Accrued director retirement allowances

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
Interest rate swap	Interest rate

3) Hedging policy

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

*g) Other Significant Matters in the Presentation of Consolidated Interim 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 Interim 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 Interim Balance Sheets

	Interim 2007	Interim 2008	(Millions of yen) Fiscal 2007
1. Cumulative depreciation of property, plant and equipment	147,430	150,645	148,214
2. Assets pledged as collateral			
Cash and time deposits	—	114	688
Land	336	315	315
Buildings and structures	1,691	1,327	1,592
Machinery and equipment	570	502	632
Total	<u>2,598</u>	<u>2,259</u>	<u>3,228</u>
Secured debt			
Short-term loans payable	450	175	140
Account payable	128	264	335
Total	<u>578</u>	<u>439</u>	<u>476</u>
3. Endorsed notes receivable	43	—	—
4. Balance Outstanding of Export Bills Negotiated	5	51	18
5. Guarantees of debt	2,893	2,804	2,757

## Notes to Consolidated Interim Statements of Income

Breakdown of significant selling, general and administrative expenses:

	(Millions of yen)		
	Interim 2007	Interim 2008	FY 2007
Sales incentive expenses	6,644	7,777	15,719
Sales promotion expenses	31,364	32,163	67,488
Freight and storage expenses	7,817	8,021	16,818
Advertising expenses	11,044	10,679	21,934
Salaries	7,371	7,077	14,603
R&D expenses	4,231	4,023	8,745

\*No R&D expenses have been included in production expenses for interim 2008.

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

### 1. Outstanding Shares

Class of shares	Number of shares held at December 31, 2007	Increase	Decrease	Number of shares held at June 30, 2008
Common shares (shares)	299,115,346	—	—	299,115,346

### 2. Treasury stock

Class of shares	Number of shares held at December 31, 2007	Increase	Decrease	Number of shares held at June 30, 2008
Common shares (shares)	28,556,290	66,787	336,719	28,286,358

#### Reasons for the Changes

- Increase: Purchase of odd lot shares of common stock—66,787 shares
- Decrease: Release of treasury stock to allow shareholders with less than a full lot to complete their holdings—70,335 shares; Release in response to execution of stock compensation rights—266,384 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 7, 2008	Common shares	1,352	5.00	December 31, 2007	March 5, 2008

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

Resolution	Class of shares	Dividend Resource	Annual dividend paid (million Yen)	Dividend par share (Yen)	Record date	Effective date
Board of Directors meeting held on August 4, 2008	Common shares	Retained earnings	1,354	5.00	June 30, 2008	September 5, 2008

**Notes to Consolidated Interim 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 2007 (June 30, 2007)	Interim 2008 (June 30, 2008)	(Millions of yen) FY 2007 (December 31, 2007)
Cash and time deposits	24,813	22,114	32,647
Short-term investments	1,019	173	923
Time deposits with maturities greater than three months	(200)	(225)	(350)
<b>Total</b>	<b><u>25,633</u></b>	<b><u>22,062</u></b>	<b><u>33,219</u></b>