Financial Information

Consolidated Financial Statements and Notes

Contents

Consolidated Balance Sheets

Lion Corporation and Consolidated Subsidiaries
December 31, 2015 and 2014

ASSETS	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars [Note 1 (b)] 2015
Current assets:			
Cash and time deposits [Notes 4, 11 and 14]	**¥ 18,584**	¥ 18,008	**$ 154,084**
Short-term investments [Notes 4 and 14]	**45,919**	24,448	**380,728**
Trade notes and accounts receivable [Note 4]	**58,655**	59,007	**486,324**
Inventories [Note 6]	**37,554**	39,365	**311,375**
Deferred income taxes [Note 8]	**3,555**	3,150	**29,476**
Prepaid expenses and other current assets	**2,659**	2,245	**22,051**
Allowance for doubtful accounts [Note 4]	**(98)**	(51)	**(816)**
Total current assets	**166,830**	146,175	**1,383,223**
Property, plant and equipment, at cost:			
Buildings and structures [Note 11]	**76,604**	76,172	**635,139**
Machinery and equipment [Note 11]	**157,184**	160,507	**1,303,244**
Land [Note 11]	**24,317**	24,344	**201,617**
Lease assets	**508**	340	**4,218**
Construction in progress	**1,244**	3,075	**10,320**
Total	**259,858**	264,439	**2,154,538**
Accumulated depreciation	**(184,798)**	(185,164)	**(1,532,197)**
Property, plant and equipment, net	**75,060**	79,275	**622,341**
Intangible assets:			
Trademarks	**4,428**	7,197	**36,718**
Other	**1,492**	1,909	**12,376**
Total intangible assets	**5,921**	9,106	**49,094**
Investments and other assets:			
Investment securities [Notes 4 and 5]	**17,262**	28,964	**143,124**
Investments in non-consolidated subsidiaries and affiliates	**3,854**	5,474	**31,959**
Long-term loans receivable	**30**	23	**250**
Net defined benefit assets [Note 9]	**9,235**	11,042	**76,577**
Deferred income taxes [Note 8]	**2,947**	2,016	**24,438**
Other	**1,507**	1,305	**12,499**
Allowance for doubtful accounts	**(215)**	(31)	**(1,789)**
Investments and other assets, net	**34,622**	48,794	**287,058**
Total assets	**¥282,434**	¥283,352	**$2,341,715**

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars [Note 1 (b)] 2015
Current liabilities:			
Trade notes and accounts payable [Note 4]	**¥ 49,620**	¥ 46,590	**$ 411,413**
Short-term loans payable [Notes 4 and 7]	**9,772**	12,602	**81,023**
Current portion of long-term debt [Note 7]	**312**	178	**2,591**
Accrued expenses and other payables	**47,521**	45,123	**394,013**
Accrued income taxes	**4,614**	3,336	**38,261**
Accrued bonuses for employees	**2,992**	2,631	**24,808**
Other	**6,413**	5,074	**53,179**
Total current liabilities	**121,247**	115,537	**1,005,288**
Long-term liabilities:			
Bonds with subscription rights to shares	**2,426**	14,430	**20,120**
Long-term debt [Notes 4 and 7]	**2,297**	2,563	**19,052**
Accrued retirement benefits for directors [Note 9]	**414**	448	**3,438**
Net defined benefit liability [Note 9]	**8,751**	18,526	**72,557**
Other [Note 8]	**4,565**	4,412	**37,851**
Total long-term liabilities	**18,455**	40,380	**153,018**
Total liabilities	**139,703**	155,918	**1,158,306**
Contingent liabilities [Note 12]			
Net assets:			
Shareholders' equity [Note 10]**:**			
Common stock:			
Authorized: 1,185,600,000 shares at December 31, 2015 and 2014			
Issued and outstanding: 299,115,346 shares at December 31, 2015 and 2014	**34,433**	34,433	**285,496**
Capital surplus	**34,029**	31,499	**282,145**
Retained earnings	**69,414**	66,095	**575,528**
Treasury stock, at cost	**(6,800)**	(16,827)	**(56,381)**
Total shareholders' equity	**131,077**	115,201	**1,086,788**
Accumulated other comprehensive income (loss):			
Unrealized holding gain (loss) on other securities	**5,983**	7,912	**49,610**
Deferred gain (loss) on derivative financial instruments under hedge accounting	**(0)**	(0)	**(3)**
Translation adjustments	**1,748**	3,339	**14,500**
Remeasurements of defined benefit plans	**(4,356)**	(5,816)	**(36,117)**
Total accumulated other comprehensive income (loss)	**3,375**	5,434	**27,990**
Stock acquisition rights	**403**	910	**3,347**
Minority interests	**7,873**	5,888	**65,283**
Total net assets	**142,730**	127,434	**1,183,409**
Total liabilities and net assets	**¥282,434**	¥283,352	**$2,341,715**

Consolidated Statements of Income

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2015	2014	**2015**
Net sales	**¥378,659**	¥367,396	**$3,139,536**
Cost of sales	**162,435**	160,677	**1,346,784**
Gross profit	**216,223**	206,718	**1,792,752**
Selling, general and administrative expenses [Note 13]	**199,848**	194,312	**1,656,985**
Operating income	**16,374**	12,406	**135,767**
Other income:			
Interest and dividend income	**824**	770	**6,836**
Equity in earnings of non-consolidated subsidiary and affiliates	**752**	843	**6,241**
Gain on sales of investment securities	**210**	—	**1,749**
Gain on contribution of securities to retirement benefits trust	**6,736**	—	**55,856**
Gain on selling or disposal of fixed assets	**629**	123	**5,222**
Other	**1,223**	1,696	**10,146**
Total other income	**10,378**	3,434	**86,050**
Other expenses:			
Interest expense	**429**	621	**3,564**
Interest on bonds	**119**	85	**990**
Loss on devaluation of investment securities	**15**	72	**128**
Loss on disposal of fixed assets	**1,897**	799	**15,729**
Impairment loss	**4,479**	833	**37,144**
Other	**423**	340	**3,514**
Total other expenses	**7,365**	2,754	**61,070**
Income before income taxes and minority interests	**19,387**	13,085	**160,747**
Income taxes:			
Current	**5,896**	4,495	**48,888**
Deferred	**1,485**	653	**12,320**
	7,382	5,149	**61,208**
Income before minority interests	**12,005**	7,936	**99,539**
Minority interests	**(1,324)**	(567)	**(10,985)**
Net income	**¥ 10,680**	¥ 7,368	**$ 88,553**

	Yen		U.S. dollars [Note 1 (b)]
Amounts per share:			
Net income: Basic	**¥ 39.35**	¥ 27.47	**$0.33**
: Diluted	**36.84**	26.16	**0.31**
Cash dividends applicable to the year	**10.00**	10.00	**0.08**
Net assets	**469.05**	449.94	**3.89**
Weighted-average number of shares of common stock outstanding during the year (in thousands)	**271,398**	268,191	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2015	2014	**2015**
Income before minority interests	**¥12,005**	¥ 7,936	**$99,539**
Other comprehensive income (loss)			
Unrealized holding gain (loss) on other securities	**(1,953)**	959	**(16,198)**
Deferred gain (loss) on derivative financial instruments under hedge accounting	**(0)**	(24)	**(3)**
Translation adjustments	**(1,500)**	2,841	**(12,439)**
Remeasurements of defined benefit plans	**1,460**	—	**12,111**
Share of other comprehensive income (loss) of associates accounted for using equity method	**(532)**	287	**(4,415)**
Total other comprehensive income (loss)	**(2,525)**	4,064	**(20,943)**
Comprehensive income	**9,479**	12,001	**78,596**
(Comprehensive income attributable to)			
Comprehensive income attributable to shareholders' equity	**8,622**	10,759	**71,484**
Comprehensive income attributable to minority interests	**857**	1,241	**7,112**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

		Millions of yen											
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares issued and outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain (loss) on other securities	Deferred gain (loss) on derivative financial instruments under hedge accounting	Translation adjustments	Remeasure-ments of defined benefit plans	Stock acquisition rights	Minority interests	Total net assets
Balance at January 1, 2015		¥34,433	¥31,499	¥66,095	¥(16,827)	¥115,201	¥7,912	¥ (0)	¥3,339	¥(5,816)	¥910	¥5,888	¥127,434
Cumulative effects of changes in accounting standard	299,115,346			(4,680)		(4,680)							(4,680)
Restated balance		**¥34,433**	**¥31,499**	**¥61,415**	**¥(16,827)**	**¥110,520**	**¥7,912**	**¥ (0)**	**¥3,339**	**¥(5,816)**	**¥910**	**¥5,888**	**¥122,754**
Net income	—	—	—	**10,680**	—	**10,680**	—	—	—	—	—	—	**10,680**
Cash dividends	—	—	—	**(2,681)**	—	**(2,681)**	—	—	—	—	—	—	**(2,681)**
Treasury stock acquired [Note 10 (a)]	—	—	—	—	**(141)**	**(141)**	—	—	—	—	—	—	**(141)**
Treasury stock disposed of [Note 10 (a), (b)]	—	—	**2,529**	—	**10,169**	**12,699**	—	—	—	—	—	—	**12,699**
Items other than changes in shareholders' equity, net	—	—	—	—	—	—	**(1,928)**	**(0)**	**(1,590)**	**1,460**	**(506)**	**1,985**	**(579)**
Balance at December 31, 2015	**299,115,346**	**¥34,433**	**¥34,029**	**¥69,414**	**¥ (6,800)**	**¥131,077**	**¥5,983**	**¥ (0)**	**¥1,748**	**¥(4,356)**	**¥403**	**¥7,873**	**¥142,730**
Balance at January 1, 2014	299,115,346	¥34,433	¥31,499	¥61,410	¥(16,755)	¥110,588	¥6,921	¥24	¥ 914	¥ —	¥193	¥5,590	¥124,232
Net income	—	—	—	7,368	—	7,368	—	—	—	—	—	—	7,368
Cash dividends	—	—	—	(2,682)	—	(2,682)	—	—	—	—	—	—	(2,682)
Treasury stock acquired [Note 10 (a)]	—	—	—	—	(82)	(82)	—	—	—	—	—	—	(82)
Treasury stock disposed of [Note 10 (a), (b)]	—	—	(0)	(1)	10	8	—	—	—	—	—	—	8
Items other than changes in shareholders' equity, net	—	—	—	—	—	—	990	(24)	2,424	(5,816)	716	298	(1,411)
Balance at December 31, 2014	299,115,346	¥34,433	¥31,499	¥66,095	¥(16,827)	¥115,201	¥7,912	¥ (0)	¥3,339	¥(5,816)	¥910	¥5,888	¥127,434

		Thousands of U.S. dollars [Note 1 (b)]											
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares issued and outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain (loss) on other securities	Deferred gain (loss) on derivative financial instruments under hedge accounting	Translation adjustments	Remeasure-ments of defined benefit plans	Stock acquisition rights	Minority interests	Total net assets
Balance at January 1, 2015		$285,496	$261,170	$548,011	$(139,524)	$ 955,155	$65,601	$(0)	$27,687	$(48,228)	$7,546	$48,823	$1,056,583
Cumulative effects of changes in accounting standard	299,115,346			(38,807)		(38,807)							(38,807)
Restated balance		**$285,496**	**$261,170**	**$509,205**	**$(139,524)**	**$ 916,348**	**$65,601**	**$(0)**	**$27,687**	**$(48,228)**	**$7,546**	**$48,823**	**$1,017,777**
Net income	—	—	—	**88,553**	—	**88,553**	—	—	—	—	—	—	**88,553**
Cash dividends	—	—	—	**(22,230)**	—	**(22,230)**	—	—	—	—	—	—	**(22,230)**
Treasury stock acquired [Note 10 (a)]	—	—	—	—	**(1,174)**	**(1,174)**	—	—	—	—	—	—	**(1,174)**
Treasury stock disposed of [Note 10 (a), (b)]	—	—	**20,974**	—	**84,317**	**105,291**	—	—	—	—	—	—	**105,291**
Items other than changes in shareholders' equity, net	—	—	—	—	—	—	**(15,991)**	**(3)**	**(13,187)**	**12,111**	**(4,199)**	**16,460**	**(4,808)**
Balance at December 31, 2015	**299,115,346**	**$285,496**	**$282,145**	**$575,528**	**$ (56,381)**	**$1,086,788**	**$49,610**	**$(3)**	**$14,500**	**$(36,117)**	**$3,347**	**$65,283**	**$1,183,409**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Lion Corporation and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars [Note 1 (b)]
	2015	2014	**2015**
Cash flows from operating activities:			
Income before income taxes and minority interests			
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:	**¥19,387**	¥13,085	**$160,747**
Depreciation and amortization	**11,166**	10,301	**92,585**
Loss on impairment of fixed assets	**4,479**	833	**37,144**
Increase (decrease) in accrued bonuses for employees	**339**	349	**2,812**
Increase (decrease) in net defined benefit assets and liability	**(4,826)**	(4,789)	**(40,020)**
Gain on securities contribution to employees' retirement benefits trust	**(6,736)**	—	**(55,856)**
Interest and dividend income	**(824)**	(770)	**(6,836)**
Interest expense	**429**	621	**3,564**
Interest on bonds	**119**	85	**990**
Loss (gain) on disposal of property, plant and equipment	**1,267**	676	**10,507**
Loss (gain) on sales of investment securities	**(210)**	(0)	**(1,749)**
Loss on devaluation of investment securities	**15**	72	**128**
Equity in earnings of non-consolidated subsidiaries and affiliates	**(752)**	(843)	**(6,241)**
Gain on bargain purchase	**—**	(97)	**—**
Loss (gain) on step acquisitions	**178**	(477)	**1,479**
Decrease (increase) in trade notes and accounts receivable	**2,302**	37	**19,092**
Decrease (increase) in inventories	**2,078**	(2,494)	**17,230**
Increase (decrease) in trade notes and accounts payable	**2,131**	(5,239)	**17,673**
Increase (decrease) in accrued expenses and other payables	**2,111**	3,525	**17,510**
Other, net	**6,867**	550	**56,937**
Subtotal	**39,523**	15,425	**327,699**
Interest and dividends received	**1,073**	1,386	**8,897**
Interest paid	**(436)**	(775)	**(3,623)**
Income taxes paid	**(4,620)**	(4,297)	**(38,308)**
Net cash provided by operating activities	**35,539**	11,738	**294,665**
Cash flows from investing activities:			
Decrease (increase) in time deposits	**1,052**	(2,133)	**8,724**
Purchases of property, plant and equipment	**(9,334)**	(13,124)	**(77,393)**
Proceeds from sales of property, plant and equipment	**787**	141	**6,532**
Purchases of intangible assets	**(160)**	(118)	**(1,333)**
Purchases of investment securities	**(144)**	(505)	**(1,198)**
Proceeds from sales of investment securities	**553**	34	**4,588**
Proceeds from redemption of investment securities	**—**	500	**—**
Increase in loans receivable	**(9)**	(5)	**(78)**
Collection of loans receivable	**—**	0	**—**
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	**351**	—	**2,912**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**—**	(1,418)	**—**
Purchase of shares of subsidiaries	**—**	(386)	**—**
Other, net	**(69)**	177	**(577)**
Net cash used in investing activities	**(6,974)**	(16,838)	**(57,823)**
Cash flows from financing activities:			
Increase in short-term loans payable	**6,273**	21,232	**52,018**
Repayment of short-term loans payable	**(7,702)**	(19,160)	**(63,861)**
Increase in long-term debt	**—**	2,177	**—**
Repayment of long-term debt	**(116)**	(22,466)	**(967)**
Proceeds from issuance of bonds	**—**	14,983	**—**
Purchases of treasury stock	**(141)**	(82)	**(1,174)**
Proceeds from disposal of treasury stock	**0**	3	**7**
Cash dividends	**(2,660)**	(2,688)	**(22,058)**
Cash dividends to minority shareholders	**(634)**	(459)	**(5,258)**
Other, net	**(81)**	(59)	**(679)**
Net cash used in financing activities	**(5,062)**	(6,520)	**(41,973)**
Effect of exchange rate changes on cash and cash equivalents	**(374)**	829	**(3,104)**
Net increase (decrease) in cash and cash equivalents	**23,128**	(10,791)	**191,765**
Cash and cash equivalents at beginning of the year	**38,150**	48,941	**316,309**
Cash and cash equivalents at end of the year [Note 14]	**¥61,278**	¥38,150	**$508,074**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Lion Corporation and Consolidated Subsidiaries, December 31, 2015

Note 1 Basis of Presenting Consolidated Financial Statements

(a) The accompanying consolidated financial statements of Lion Corporation (the "Company") and its consolidated subsidiaries (collectively, the "Companies") have been compiled from the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Act of Japan. The consolidated financial statements have been prepared from the accounts maintained by the Company in accordance with the provisions set forth in the Companies Act of Japan.

The accompanying consolidated financial statements of the Companies are prepared on the basis of generally accepted accounting principles in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

(b) The Company and its domestic consolidated subsidiaries maintain their accounting records in Japanese yen, and its foreign consolidated subsidiaries maintain their accounting records in the currencies of their respective countries of domicile. The U.S. dollar amounts included in the accompanying consolidated financial statements, solely for the convenience of the reader, represent the arithmetic results of translating yen amounts into U.S. dollar amounts at ¥120.61= U.S.$1.00, the approximate rate of exchange in effect on December 31, 2015. This translation into U.S. dollars should not be construed as a representation that the yen amounts have been or could be converted into U.S. dollars at the above or any other rate.

(c) As permitted under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

Note 2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries controlled directly or indirectly by the Company in accordance with the accounting standard for consolidation. Affiliated companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements accounted for by the equity method.

The consolidated subsidiaries for the year ended December 31, 2015 were as follows:

Lion Chemical Co., Ltd./Lion Business Service Co., Ltd./
Lion Hygiene Co., Ltd./Lion Trading Co., Ltd./
Lion Packaging Co., Ltd./Lion Engineering Co., Ltd./Lion Field Marketing Co., Ltd./
Lion Logistics Service Company, Ltd./Lion Cordial Support Co., Ltd./
Issua Co., Ltd./Lion Dental Products Co., Ltd./Lion Specialty Chemicals Co., Ltd./
Lion Eco Chemicals Sdn. Bhd./Lion Corporation (Singapore) Pte. Ltd./
Lion Corporation (Hong Kong) Ltd./Lion Advertising Ltd./
Lion Daily Necessities Chemicals (Qingdao) Co., Ltd./PT. IPPOSHA INDONESIA/
CJ Lion Corporation/Lion Chemical Industry (Taiwan) Co., Ltd./
Lion Home Products (Taiwan) Co., Ltd./Lion Corporation (Thailand) Ltd./
PEERLESS LION CORPORATION/Lion Service Co., Ltd./Eastern Silicate Co., Ltd./
Southern Lion Sdn. Bhd.

There was one non-consolidated subsidiary at December 31, 2015 and 2014. The aggregate total assets, retained earnings, net sales and net income were not significant.

Ipposha Oil Industries Co., Ltd. and Lion Specialty Chemicals Co., Ltd. merged via an absorption-type merger with Ipposha Oil Industries Co., Ltd. as the surviving company and Lion Specialty Chemicals Co., Ltd. as the absorbed company during the year ended December 31, 2015. The name of the company after the combination was changed to Lion Specialty Chemicals Co., Ltd.

Lion Daily Necessities Chemicals (Qingdao) Co., Ltd. completed an absorption-type merger of Lion (China) Home Products & Technology Co., Ltd. during the year ended December 31, 2015.

Lion Home Products (Taiwan) Co., Ltd., and Southern Lion Sdn. Bhd. were both newly included in the scope of consolidation from the fiscal year ended December 31, 2015.

The equity method had been applied, in accounting for the investments in one non-consolidated subsidiary for the years ended December 31, 2015 and 2014, and four affiliates for the year ended December 31, 2015 and five affiliates for the year ended December 31, 2014, respectively.

Investments in non-consolidated subsidiaries and affiliates, other than those accounted for by the equity method, are stated principally at cost determined by the moving-average method.

Differences between investment cost and equity in net assets acquired are being amortized over a period of 5 years or charged to income when the amount is not significant.

(b) Foreign Currency Translation

All current and long-term monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at the balance sheet date. Foreign exchange gain/loss on translation is recognized in the accompanying consolidated statements of income to the extent that the underlying assets and liabilities are not hedged by forward foreign exchange contracts.

The financial statements of the foreign consolidated subsidiaries and affiliates are translated into Japanese yen at the rates of exchange in effect at the balance sheet date for all assets and liabilities, at the average rates for income and expense accounts, and at historical rates for the components of net assets excluding minority interests. Differences arising from translation are presented as “Translation adjustments” and “Minority interests” in the accompanying consolidated balance sheets.

(c) Derivatives and Hedge Accounting

The Company and its consolidated subsidiaries utilize derivative financial instruments to hedge their exposure to fluctuation in interest rates and foreign exchange rates.

Derivative financial instruments and foreign currency transactions are accounted for as follows:

(i) All derivatives are recognized as either assets or liabilities and measured at fair value, and gain/loss on the derivative transactions is recognized in the accompanying consolidated statements of income;

(ii) Because of the high correlation of their effectiveness, gain/loss on derivatives positions which qualify as hedges is deferred until the maturity of each underlying hedged transaction;

(iii) The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differences paid or received under the swap agreements are recognized and included in interest expense or income; and

(iv) The foreign currency swaps which qualify for hedge accounting and meet specific hedge accounting criteria are stated at the contracted rate.

(d) Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers deposits with banks and short-term investments with original maturities of three months or less to be cash equivalents.

(e) Securities

Securities are classified into one of the following categories based on management’s intent in holding them:

(i) Held-to-maturity debt securities are stated at amortized cost.

(ii) (a) Other securities (marketable) are stated at fair value, with any unrealized holding gain or loss, net of the applicable taxes, presented as a separate component of net assets.

(b) Other securities (non-marketable) are stated at cost by the moving-average method.

Debt securities due within one year are presented as current and all other securities are presented as non-current in the accompanying consolidated balance sheets.

(f) Inventories
Inventories are stated mainly at cost determined by the first-in, first-out method for merchandise and finished products, and by the moving-average method for other inventories. When the net selling value falls below the cost at the end of the fiscal period, inventories are carried at the net selling value on the balance sheet, regarded as decreased profitability of assets.

(g) Property, Plant and Equipment and Depreciation
Property, plant and equipment except for lease assets is stated at cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the respective assets.

(h) Intangible Assets
Trademarks, patent rights and certain capitalized software are amortized by the straight-line method over their respective estimated useful lives.

(i) Lease Assets
Lease assets are depreciated by the straight-line method over the lease period without residual value.

(j) Research and Development Expenses
Research and development expenses are charged to income as incurred.

(k) Income Taxes
The Companies have adopted tax-effect accounting which requires the recognition of income taxes by the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the reported amounts in the financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates which will be in effect when the differences are expected to reverse.

(l) Accrued Bonuses for Employees
The Company and its consolidated subsidiaries provide accrued bonuses for employees based on the estimated amounts.

(m) Accrued Retirement Benefits
In calculating accrued retirement benefits, the estimated retirement benefits were attributed to periods on a benefit formula basis up to the end of the current year.

Prior service cost is being amortized as incurred by the straight-line method over periods (5 years), which are shorter than the average remaining years of service of the employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees.

The Company and certain of its consolidated subsidiaries also provide for retirement allowances to directors based on their internal regulations at an estimate of the amount which would be required to be paid if all directors retired at the balance sheet date. However, the Company has not provided additional allowances to directors after March 30, 2006 due to the adoption of share-based stock options plans.

(n) Stock Options
The Company has adopted the accounting standard for share-based payment and recognizes compensation expense for stock options based on the fair value at the date of grant and in the period during which the services or goods expected to be acquired and consumed should be expensed. In the accompanying consolidated balance sheets, the stock options are presented as “Stock acquisition rights” as a separate component of net assets until they are exercised or expire.

(o) Amounts per Share

Basic net income per share is computed by dividing net income available for distribution to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the year (exclusive of the dilutive effect of the exercise of any stock options).

Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options for the years ended December 31, 2015 and 2014.

In determining the hypothetical shares repurchased, the average price per share during the year is used.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

Net assets per share are computed by dividing net assets excluding minority interests and stock acquisition rights by the number of shares of outstanding common stock at December 31, 2015 and 2014.

(p) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

Note 3 Accounting Changes and Additional Information

(Accounting Standard for Retirement Benefits)

The Company and its domestic subsidiaries adopted Section 35 of “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26 of May 17, 2012) and the main clause of Section 67 of “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 of March 26, 2015) effective from January 1, 2015. As a result, the methods for calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed to use a single weighted-average discount rate reflecting the expected timing and amount of benefit payments.

The cumulative effect of changing the method for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at January 1, 2015, in accordance with the transitional treatment provided in Paragraph 37 of the Accounting Standard for Retirement Benefits.

As a result, assets for retirement benefits decreased by ¥4,106 million (U.S.$34,048 thousand), liability for retirement benefits increased by ¥3,161 million (U.S.$26,211 thousand), and consolidated retained earnings decreased by ¥4,680 million (U.S.$38,807 thousand) at January 1, 2015 for the year ended December 31, 2015.

Note 4 Financial Instruments

1. Status of Financial Instruments

(a) Policy on Financial Instruments

The Companies use short-term deposits, investments in securities and others for fund management. The Companies mainly use bank loans and commercial papers and others to procure funds for working capital and capital investments. The Companies primarily use derivatives to hedge the risks of fluctuation in foreign exchange rates related to receivables and payables and interest rates of loans, but do not engage in speculative transactions.

(b) Nature and Extent of Risks and Risk Management Related to Financial Instruments

Trade notes and accounts receivable are operating receivables subject to the credit risks of customers. In order to reduce such risks, the Companies go through the examination and authorization process before the inception of business with new customers. Guarantee deposits and collateral are obtained, if necessary. In addition, the Companies monitor and ensure proper control on the outstanding balances and due date by each customer.

Investments in securities are mainly composed of the equity securities of the companies that have business relationships with the Lion Group. They are subject to the risks of fluctuation in market prices. In order to reduce such risks, the Companies regularly monitor market prices and financial conditions. Trade notes and accounts payable are operating liabilities due within one year.

The Companies mainly use short-term loans and long-term loans to raise funds for business transactions.

The portion of the loans with floating rates is subject to the risks of fluctuation in interest rates. In order to hedge such risks and fix the amount of interest expense, the Companies use interest rate swaps. The portion of the loans in foreign currencies is subject to the risks of fluctuation in exchange rates. In order to hedge such risks, currency swaps are used.

In accordance with internal administrative rules, the Companies' use of derivatives is limited to the range of actual amounts considered necessary.

(c) Supplemental Information on Fair Values of Financial Instruments

The fair values of financial instruments are based on market prices. If a market price is not available, then a rational valuation is used instead.

Such price evaluation includes variable factors, and the results may differ if different assumptions are used in the valuation.

2. Fair Value of Financial Instruments

The carrying amounts, fair values and any difference at December 31, 2015 and 2014 were as follows.

Financial instruments whose fair values are extremely difficult to determine were not included in the table below.

	Millions of yen		
	2015		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	**¥ 18,584**	**¥ 18,584**	**¥ —**
2. Trade notes and accounts receivable	**58,655**		
Allowance for doubtful accounts	**(98)**		
Subtotal	**58,557**	**58,557**	**—**
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	**62,592**	**62,592**	**—**
Investments in non-consolidated subsidiaries and affiliates	**503**	**1,572**	**1,069**
Subtotal	**63,096**	**64,165**	**1,069**
Total assets	**140,237**	**141,307**	**1,069**
Liabilities:			
4. Trade notes and accounts payable	**49,620**	**49,620**	**—**
5. Short-term loans payable	**9,772**	**9,772**	**—**
6. Current portion of long-term loans payable	**226**	**226**	**—**
7. Accrued expenses and other payables	**47,521**	**47,521**	**—**
8. Accrued income taxes	**4,614**	**4,614**	**—**
9. Long-term loans payable	**2,082**	**2,132**	**50**
10. Bonds with subscription rights to shares	**2,426**	**2,471**	**45**
Total liabilities	**116,264**	**116,359**	**95**
11. Derivative transactions	**¥ (0)**	**¥ (0)**	**¥ —**

	Millions of yen		
	2014		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	¥ 18,008	¥ 18,008	¥ —
2. Trade notes and accounts receivable	59,007		
Allowance for doubtful accounts	(51)		
Subtotal	58,956	58,956	—
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	52,608	52,608	—
Investments in non-consolidated subsidiaries and affiliates	446	1,258	811
Subtotal	53,055	53,866	811
Total assets	130,019	130,831	811
Liabilities:			
4. Trade notes and accounts payable	46,590	46,590	—
5. Short-term loans payable	12,602	12,602	—
6. Current portion of long-term loans payable	116	116	—
7. Accrued expenses and other payables	45,123	45,123	—
8. Long-term loans payable	2,448	2,553	104
9. Bonds with subscription rights to shares	14,430	14,773	342
Total liabilities	121,311	121,759	447
10. Derivative transactions	¥ (142)	¥ (142)	¥ —

	Thousands of U.S. dollars		
	2015		
	Carrying amount	Fair value	Difference
Assets:			
1. Cash and time deposits	**$ 154,084**	**$ 154,084**	**$ —**
2. Trade notes and accounts receivable	**486,324**		
Allowance for doubtful accounts	**(816)**		
Subtotal	**485,508**	**485,508**	**—**
3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates			
Other securities	**518,970**	**518,970**	**—**
Investments in non-consolidated subsidiaries and affiliates	**4,171**	**13,042**	**8,871**
Subtotal	**523,141**	**532,012**	**8,871**
Total assets	**1,162,734**	**1,171,604**	**8,871**
Liabilities:			
4. Trade notes and accounts payable	**411,413**	**411,413**	**—**
5. Short-term loans payable	**81,023**	**81,023**	**—**
6. Current portion of long-term loans payable	**1,876**	**1,876**	**—**
7. Accrued expenses and other payables	**394,013**	**394,013**	**—**
8. Accrued income taxes	**38,261**	**38,261**	**—**
9. Long-term loans payable	**17,263**	**17,679**	**416**
10. Bonds with subscription rights to shares	**20,120**	**20,495**	**375**
Total liabilities	**963,969**	**964,760**	**791**
11. Derivative transactions	**$ (0)**	**$ (0)**	**$ —**

Measurement of fair values of financial assets and liabilities.

Assets:

1. Cash and time deposits, 2. Trade notes and accounts receivable

All of these are settled within a short term, and their fair value and carrying value are nearly equal. Thus, the carrying value is listed as fair value in the table above.

3. Short-term investments, investment securities and investments in non-consolidated subsidiaries and affiliates

Fair values of marketable securities are based on market prices at stock exchanges.

Fair values of bonds are based on market prices at stock exchanges or quoted prices of financial institutions.

Commercial papers and negotiable deposits are settled within a short term, and the fair value and carrying value are nearly equal.

Thus, the carrying value is listed as the fair value in the table above.

Liabilities:

4. Trade notes and accounts payable, 5. Short-term loans payable, 6. Current portion of long-term loans payable, 7. Accrued expenses and other payables, and 8. Accrued income taxes

All of these are settled within a short term, and their fair value and carrying value are nearly equal. Thus, carrying value is listed as fair value in the table above.

9. Long-term loans payable

Fair values of long-term loans payable with fixed rates are measured based on the expected total amount of the principal and interest discounted using the assumed rate to be applied for similar new loans payable.

For some long-term loans payable with floating rates or denominated in foreign currencies, interest rate swaps or currency swaps, which meet specific matching criteria or specific hedge accounting criteria, are used.

The fair values of such long-term loans payable that have been hedged by these swaps are measured based on each of the expected total amount of the principal and interest discounted using the reasonably assumed rate to be applied for similar new loans payable.

10. Bonds with subscription rights to shares

Fair value of bonds with subscription rights to shares is determined by discounting the principal by the remaining period and credit risk rate.

11. Derivative transactions

Fair values of derivative transactions are based on quoted prices from financial institutions.

Some derivative transactions that meet specific matching criteria for interest rate swaps or specific hedge accounting criteria for currency swaps are handled together with the related long-term loans payable. A description about the fair values of such derivative transactions is included in “9. Long-term loans payable” above.

The carrying amounts of financial instruments whose fair values are extremely difficult to determine at December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Investments in non-consolidated subsidiaries and affiliates	**¥3,351**	¥5,027	**$27,788**
Non-marketable equity securities	**588**	804	**4,882**

At December 31, 2015 and 2014, the redemption schedule for financial instruments was as follows:

	Millions of yen		
	2015		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	**¥ 18,584**	**¥—**	**¥—**
Trade notes and accounts receivable	**58,655**	**—**	**—**
Short-term investments and investment securities			
Negotiable deposits	**45,919**	**—**	**—**
Total	**¥123,159**	**¥—**	**¥—**

	Millions of yen		
	2014		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	¥ 18,008	¥—	¥—
Trade notes and accounts receivable	59,007	—	—
Short-term investments and investment securities			
Negotiable deposits	24,448	—	—
Total	¥101,464	¥—	¥—

	Thousands of U.S. dollars		
	2015		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash and time deposits	**$ 154,084**	**$—**	**$—**
Trade notes and accounts receivable	**486,324**	**—**	**—**
Short-term investments and investment securities			
Negotiable deposits	**380,728**	**—**	**—**
Total	**$1,021,136**	**$—**	**$—**

Note 5 Investment Securities

The acquisition cost and related fair value of other securities at December 31, 2015 and 2014 were as follows:

	Millions of yen			
	2015			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	**¥8,284**	**¥16,673**	**¥8,628**	**¥240**
Total	**¥8,284**	**¥16,673**	**¥8,628**	**¥240**

	Millions of yen			
	2014			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	¥16,300	¥28,159	¥12,142	¥283
Total	¥16,300	¥28,159	¥12,142	¥283

	Thousands of U.S. dollars			
	2015			
	Acquisition cost	Fair value	Unrealized gains	Unrealized losses
Other securities:				
Marketable equity securities	**$68,688**	**$138,242**	**$71,544**	**$1,991**
Total	**$68,688**	**$138,242**	**$71,544**	**$1,991**

Note 6 Inventories

Inventories at December 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Merchandise and finished products	**¥24,233**	¥25,270	**$200,928**
Work in process	**3,169**	4,605	**26,280**
Raw materials and supplies	**10,151**	9,489	**84,168**
Total	**¥37,554**	¥39,365	**$311,375**

Note 7 Short-Term Loans Payable and Long-Term Debt

Short-term loans payable represents notes principally issued to banks with the maturity of 365 days from the issuance date at average interest rates of 2.72% and 2.57% at December 31, 2015 and 2014, respectively.

Long-term debt at December 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Long-term loans payable	**¥2,308**	¥2,564	**$19,140**
Less: Current portion from banks at average interest rates of 2.14% and 2.30% at December 31, 2015 and 2014, respectively	**(226)**	(116)	**(1,876)**
Long-term loans payable less current portion from banks at average interest rates of 3.58% and 3.05% at December 31, 2015 and 2014, respectively	**2,082**	2,448	**17,263**
Lease obligation	**302**	176	**2,504**
Less: Current portion of lease obligations	**(86)**	(61)	**(715)**
Long-term debt less current portion of lease obligations	**215**	115	**1,789**
Total long-term debt	**¥2,297**	¥2,563	**$19,052**

At December 31, 2015, the redemption schedule for long-term loans payable was as follows:

	Millions of yen	Thousands of U.S. dollars
2016	¥ 226	$ 1,876
2017	277	2,302
2018	277	2,302
2019	277	2,302
2020 and thereafter	1,249	10,358

Note 8
Deferred Income Taxes

The significant components of deferred tax assets and liabilities at December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 23**	¥ 43	**$ 192**
Assets and liability for retirement benefits	**9,844**	8,504	**81,627**
Loss on impairment of fixed assets	**3,078**	2,396	**25,526**
Accrued enterprise taxes	**384**	351	**3,189**
Unrealized intercompany profit	**553**	512	**4,587**
Other	**5,291**	5,221	**43,871**
Less valuation allowance	**(3,805)**	(3,198)	**(31,552)**
Total deferred tax assets	**15,370**	13,831	**127,439**
Deferred tax liabilities:			
Special tax-purpose reserve	**(1,212)**	(1,385)	**(10,057)**
Gain on contribution of securities to pension trust	**(5,174)**	(3,304)	**(42,902)**
Unrealized holding gain on other securities	**(2,369)**	(3,783)	**(19,643)**
Other	**(1,157)**	(1,049)	**(9,595)**
Total deferred tax liabilities	**(9,913)**	(9,522)	**(82,197)**
Net deferred tax assets	**¥ 5,456**	¥ 4,309	**$ 45,242**

Deferred tax liabilities included in long-term liabilities were ¥1,031 million (U.S.$8,552 thousand) and ¥858 million at December 31, 2015 and 2014, respectively.

A reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2015 was as follows:

	2015	2014
Statutory tax rate:	**35.6%**	—%
Permanent differences, net	**0.1**	—
Equity in earnings of non-consolidated subsidiaries	**(1.4)**	—
Effect of tax rate reduction	**2.1**	—
Loss on impairment of investment securities and other unscheduled items	**(0.2)**	—
Loss on step acquisitions	**0.3**	—
Other	**1.6**	—
Effective tax rate	**38.1%**	—%

A reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2014 has not been disclosed because the difference was less than 5% of the statutory tax rate.

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and "Act for Partial Amendment of the Council Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015. With this revision, the Company's corporate tax rates will be reduced starting from the fiscal year beginning on January 1, 2016. In conjunction with this, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from the previous rate of 35.6% to 33.1% for temporary differences expected to be reversed in the fiscal year beginning on January 1, 2016, and to 32.3% for temporary differences expected to be reversed in the fiscal year beginning on January 1, 2017 and thereafter.

As a result of this tax rate change, deferred tax assets (net of deferred tax liabilities) decreased by ¥755 million (U.S.$6,262 thousand), deferred income tax increased by ¥431 million (U.S.$3,581 thousand), unrealized holding gain on other securities increased by ¥276 million (U.S.$2,296 thousand), and remeasurements of defined benefit plans increased by ¥218 million (U.S.$1,814 thousand) as of and for the year ended December 31, 2015.

Note 9
Retirement Benefit Plans

Retirement benefit plans at December 31, 2015 and 2014 were as follows:

1. Summary of Retirement Benefit Plans

The Company and certain of its consolidated subsidiaries adopted funded or unfunded defined benefit plans and contribution plans, in order to allocate for employee retirement benefits. The Company and certain of its consolidated subsidiaries may pay additional retirement allowances when employees retire.

The main fund is the Company's "Lion Pension Fund". The Company and 13 consolidated subsidiaries have the lump-sum severance indemnity plans.

In addition, the Company has retirement benefit trusts.

Some consolidated subsidiaries calculate the liability for retirement benefits and retirement benefit expense by using the simplified method.

2. Defined Benefit Plans

(1) Retirement Benefit Obligation

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Retirement benefit obligation at beginning of period	**¥65,535**	¥62,356	**$543,367**
Cumulative effects of changes in accounting policies	**7,267**	—	**60,259**
Retirement benefit obligation carrying amount	**72,803**	62,356	**603,626**
Service cost	**2,077**	1,717	**17,227**
Interest cost	**405**	1,177	**3,364**
Actuarial gain	**(526)**	4,604	**(4,363)**
Retirement benefit paid	**(3,867)**	(4,320)	**(32,069)**
Retirement benefit obligation at end of the year	**¥70,892**	¥65,535	**$587,786**

Including a system which applied the simplified method.

(2) Plan Assets

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Plan assets' carrying amount	**¥58,050**	¥50,927	**$481,311**
Expected return on plan assets	**1,031**	954	**8,556**
Actuarial loss	**827**	2,332	**6,864**
Contributions by the Company	**15,255**	6,629	**126,487**
Retirement benefits paid	**(3,788)**	(2,793)	**(31,414)**
Plan assets at end of the year	**¥71,377**	¥58,050	**$591,805**

Including a system which applied the simplified method.

(3) Retirement Benefit Obligation, Plan Assets and Liability and Assets for Retirement Benefits

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Funded retirement benefit obligation	**¥68,654**	¥63,324	**$569,225**
Plan assets	**(71,377)**	(58,050)	**(591,805)**
	(2,723)	5,273	**(22,580)**
Unfunded retirement benefit obligation	**2,238**	2,210	**18,561**
Net liability and assets for retirement benefits in the balance sheet	**(484)**	7,484	**(4,019)**
Liability for retirement benefits	**8,751**	18,526	**72,557**
Assets for retirement benefits	**(9,235)**	(11,042)	**(76,577)**
Net liability and assets for retirement benefits in the balance sheet	**¥ (484)**	¥ 7,484	**$ (4,019)**

Including a system which applied the simplified method.

(4) Components of Retirement Benefit Expense

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Service cost	**¥2,077**	¥1,717	**$17,227**
Interest cost	**405**	1,177	**3,364**
Expected return on plan assets	**(1,031)**	(954)	**(8,556)**
Amortization of actuarial loss	**1,245**	1,316	**10,324**
Amortization of prior service cost	**(1)**	16	**(10)**
Retirement benefit expense	**¥2,695**	¥3,272	**$22,349**

Including a system which applied the simplified method.

(5) Remeasurement of Defined Benefit Plans Included in Other Comprehensive Income (Loss)

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Prior service cost	**¥ (1)**	¥—	**$ (10)**
Actuarial loss	**2,599**	—	**21,551**
Total	**¥2,598**	¥—	**$21,541**

(6) Remeasurements of Defined Benefit Plans Included in Accumulated Other Comprehensive Income (Loss)

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Unrecognized prior service cost	**¥ (2)**	¥ (3)	**$ (21)**
Unrecognized actuarial loss	**6,436**	9,036	**53,369**
Total	**¥6,434**	¥9,032	**$53,349**

(7) Plan Assets
(a) Components of plan assets

	2015	2014
Bonds	**38%**	55%
Stocks	**43**	32
Other	**19**	13
Total	**100%**	100%

The total plan assets at the end of the year include a 35% and 18% retirement benefit trust that were set for the defined benefit plan and the lump-sum severance idemnity plan for the years ended December 31, 2015 and 2014, respectively.

(b) Method for estimation of expected rates of return on plan assets
In determining the long-term expected rates of return on plan assets, the Company and its consolidated subsidiaries consider the current and projected asset allocations, as well as current and future long-term rates of return for the various categories of plan assets.

(8) Actuarial Assumptions

	2015	2014
Discount rates	**0.6%**	1.2%
Expected rates of return on plan assets	**2.0%**	2.0%

3. Defined Contribution Plan
The contribution to the defined contribution plan of the Company and consolidated subsidiaries were ¥181 million (U.S.$1,505 thousand) and ¥168 million for the years ended December 31, 2015 and 2014, respectively.

Note 10
Net Assets

(a) Treasury Stock
In order to meet the requests of shareholders who own odd lot shares of common stock, the Company repurchased 140 thousand shares of common stock during the year ended December 31, 2015 at an aggregate cost of ¥141 million (U.S.$1,174 thousand) and 138 thousand shares of common stock during the year ended December 31, 2014 at an aggregate cost of ¥82 million.

In addition, at the request of shareholders who own odd lot shares of common stock, the Company sold 1 thousand shares of its common stock during the year ended December 31, 2015 and 5 thousand shares of its common stock during the year ended December 31, 2014.

Moreover, at the request of bondholders to exercise bonds with subscription rights to shares of common stock, the Company converted the bonds into 18,601 thousand shares of its common stock during the year ended December 31, 2015.

(b) Stock Option Plans
Directors and certain eligible employees of the Company were granted stock options as a retirement benefit for the purchase of an aggregate of 651 thousand shares of its common stock as of December 31, 2015 and 612 thousand shares of its common stock as of December 31, 2014. The stock options may be exercised within 10 days after each director and certain eligible employees retire.

As a result of the exercise of these stock options, the Company sold 69 thousand shares of its common stock during the year ended December 31, 2015, and 13 thousand shares of its common stock during the year ended December 31, 2014.

(c) Legal Reserve

The Companies Act of Japan, which superseded most of the provisions of the former Commercial Code of Japan, went into effect on May 1, 2006. The Companies Act of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the earned reserve) be transferred to the capital reserve and the earned reserve, respectively, until the legal reserve equals 25% of the capital stock account.

The Company's Board of Directors is supposed to determine distributions of dividends on the basis of the Company's Articles of Incorporation.

The Company's Board of Directors approved a resolution at a meeting held on February 10, 2016 for the payment of cash dividends of ¥5.00 (U.S.$0.04) per share, aggregating to ¥1,433 million (U.S.$11,883 thousand), which has not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2015.

Note 11 Pledged Assets

The assets pledged as collateral for short-term loans payable and trade notes and accounts payable at December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cash and time deposits	**¥ 49**	¥ 55	**$ 408**
Land	**—**	32	**—**
Buildings and structures	**1,491**	1,590	**12,369**
Machinery and equipment	**613**	600	**5,088**
Total	**¥2,154**	¥2,278	**$17,864**

Note 12 Contingent Liabilities

Contingent liabilities at December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
As guarantors of indebtedness of certain affiliate and employees	**¥3,018**	¥3,016	**$25,030**
Total	**¥3,018**	¥3,016	**$25,030**

Note 13 Research and Development Expenses

Research and development expenses, all of which have been included in selling, general and administrative expenses, amounted to ¥9,808 million (U.S.$81,326 thousand) and ¥9,439 million for the years ended December 31, 2015 and 2014, respectively.

Note 14 Consolidated Statements of Cash Flows

1. A reconciliation between the balance of cash and time deposits reflected in the accompanying consolidated balance sheets and that of cash and cash equivalents in the accompanying consolidated statements of cash flows at December 31, 2015 and 2014 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cash and time deposits	**¥18,584**	¥18,008	**$154,084**
Short-term investments	**45,919**	24,448	**380,728**
Time deposits with maturities greater than three months and other	**(3,224)**	(4,306)	**(26,738)**
Cash and cash equivalents at end of the year	**¥61,278**	¥38,150	**$508,074**

2. Breakdown of assets and liabilities of Southern Lion Sdn. Bhd., which was newly included in the scope of consolidation due to acquisition of shares, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2015	**2015**
Current assets	**¥4,488**	**$37,213**
Non-current assets	**2,571**	**21,322**
Current liabilities	**(3,352)**	**(27,794)**
Long-term liabilities	**(184)**	**(1,528)**
Minority interests	**(1,761)**	**(14,606)**
Total	**1,761**	**14,606**
Equity in (earnings) losses	**(1,940)**	**(16,086)**
Loss (gain) on step acquisitions	**178**	**1,479**
Cash and cash equivalents	**(351)**	**(2,912)**
Income of investments in subsidiaries resulting in change in scope of consolidation	**¥ (351)**	**$ (2,912)**

3. Significant non-cash transaction

At the request of bondholders to exercise bonds with subscription rights to shares of common stock, bonds with subscription rights to shares decreased by ¥12,123 million (U.S.$100,514 thousand), stock acquisition rights decreased by ¥546 million (U.S.$4,529 thousand), treasury stock decreased by ¥10,131 million (U.S.$83,999 thousand), and capital surplus increased by ¥2,538 million (U.S.$21,044 thousand) for the fiscal year ended December 31, 2015.

Note 15
Segment Information

1. Overview of Reportable Segments

The Company's reportable segments are components for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine the allocation of resources and assess segment performance.

The Company classifies business divisions by product category. Each division undertakes business activities in line with the comprehensive strategy planned for each category. The Company's subsidiaries in Japan are engaged in business activities based on the characteristics of their respective products and services.

The Company's subsidiaries located overseas are independent management units and they are engaged in business activities based on the characteristics of their respective regions.

Therefore, the Company and its consolidated subsidiaries are made up of the following three reportable segments distinguished by products, services and regions:

Consumer Products Business, Industrial Products Business and Overseas Business

The Company's reportable segments:

(a) Consumer Products Business

Manufacture and sale of commodities, OTC drugs and functional food products in Japan

Main products: toothpaste, toothbrushes, hand soaps, analgesics, eyedrop solutions, health tonic drinks, insecticides, laundry detergents, dishwashing detergents, fabric softeners, household cleaners, bleaches and pet supplies

(b) Industrial Products Business

Manufacture and sale of chemical raw materials, industrial products and other items in Japan and overseas

Main products: activators, electro-conductive carbon and industrial cleaners

(c) Overseas Business

Manufacture and sale of commodities by the Company's subsidiaries located overseas

(d) Other Business

The Company's subsidiaries located in Japan conducting operations to support the reportable segments

Main products and services: construction contractor business, real estate management, transportation and storage and temporary staffing services

2. Methods of Calculating Net Sales, Income (Loss), Assets, Liabilities and Other Items for Reportable Segments

Reportable segment income is stated on an operating income basis.

The prices of inter-segment transactions and transfers are principally determined by price negotiations based on market prices, total supplier costs and Company notification of preferred prices.

3. Information on Net Sales, Income (Loss), Assets, Liabilities and Other Items for Reportable Segments

Segment information for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen						
	2015						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	**¥247,978**	**¥30,805**	**¥ 93,903**	**¥ 5,972**	**¥378,659**	**¥ —**	**¥378,659**
Intersegment sales*1	**25,508**	**25,298**	**8,174**	**23,194**	**82,176**	**(82,176)**	**—**
Total	**273,486**	**56,104**	**102,077**	**29,166**	**460,835**	**(82,176)**	**378,659**
Segment income	**10,108**	**1,612**	**2,983**	**956**	**15,660**	**714**	**16,374**
Segment assets	**105,018**	**42,913**	**68,005**	**21,218**	**237,156**	**45,277**	**282,434**
Other							
Depreciation and amortization	**7,334**	**1,178**	**2,097**	**151**	**10,762**	**404**	**11,166**
Investment in equity method affiliates	**1,319**	**—**	**88**	**2,388**	**3,796**	**51**	**3,847**
Increase in property, plant and equipment and intangible assets	**5,037**	**1,337**	**1,994**	**128**	**8,497**	**303**	**8,801**

Notes: *1. Internal transactions are included within the reportable segments.
*2. (1) Adjustments to segment income totaling ¥714 million were composed mainly of eliminations of internal transactions.
(2) Adjustments to segment assets included eliminations of internal transactions of ¥(75,249) million and Company assets not allocated to reportable segments of ¥120,527 million.
Company assets are composed mainly of financial assets (including cash and deposits, short-term investment securities and investment securities) and administration assets, both of which are not attributable to reportable segments.
(3) Depreciation and amortization adjustments are composed of Company assets not allocated to reportable segments and eliminations of internal transactions.
*3. Segment income is adjusted based on operating income in the consolidated income statements.

	Millions of yen						
	2014						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	¥249,313	¥31,455	¥81,774	¥ 4,853	¥367,396	¥ —	¥367,396
Intersegment sales*1	25,114	28,338	4,427	23,829	81,709	(81,709)	—
Total	274,427	59,793	86,202	28,682	449,106	(81,709)	367,396
Segment income	8,516	1,759	1,147	597	12,021	384	12,406
Segment assets	110,061	47,282	65,812	21,326	244,482	38,869	283,352
Other							
Depreciation and amortization	7,222	986	1,578	144	9,932	368	10,301
Investment in equity method affiliates	3,215	—	139	2,188	5,544	(77)	5,466
Increase in property, plant and equipment and intangible assets	4,765	1,203	6,786	153	12,908	646	13,555

Notes: *1. Internal transactions are included within the reportable segments.
*2. (1) Adjustments to segment income totaling ¥384 million were composed mainly of eliminations of internal transactions.
(2) Adjustments to segment assets included eliminations of internal transactions of ¥(79,790) million and Company assets not allocated to reportable segments of ¥118,660 million.
Company assets are composed mainly of financial assets (including cash and deposits, short-term investment securities and investment securities) and administration assets, both of which are not attributable to reportable segments.
(3) Depreciation and amortization adjustments are composed of Company assets not allocated to reportable segments and eliminations of internal transactions.
*3. Segment income is adjusted based on operating income in the consolidated income statements.

	Thousands of U.S. dollars						
	2015						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments*2	Consolidated total*3
Net sales							
Sales to external customers	**$2,056,032**	**$255,418**	**$778,570**	**$ 49,516**	**$3,139,536**	**$ —**	**$3,139,536**
Intersegment sales*1	**211,498**	**209,758**	**67,775**	**192,309**	**681,339**	**(681,339)**	**—**
Total	**2,267,530**	**465,176**	**846,345**	**241,825**	**3,820,876**	**(681,339)**	**3,139,536**
Segment income	**83,812**	**13,366**	**24,737**	**7,930**	**129,844**	**5,923**	**135,767**
Segment assets	**870,731**	**355,802**	**563,848**	**175,927**	**1,966,309**	**375,406**	**2,341,715**
Other							
Depreciation and amortization	**60,812**	**9,775**	**17,388**	**1,257**	**89,232**	**3,353**	**92,585**
Investment in equity method affiliates	**10,939**	**—**	**736**	**19,803**	**31,478**	**426**	**31,904**
Increase in property, plant and equipment and intangible assets	**41,764**	**11,089**	**16,540**	**1,065**	**70,458**	**2,514**	**72,972**

Notes: *1. Internal transactions are included within the reportable segments.
*2. (1) Adjustments to segment income totaling U.S.$5,923 thousand were composed mainly of eliminations of internal transactions.
(2) Adjustments to segment assets included eliminations of internal transactions of U.S.$(623,908) thousand and Company assets not allocated to reportable segments of U.S.$999,314 thousand.
Company assets are composed mainly of financial assets (including cash and deposits, short-term investment securities and investment securities) and administration assets, both of which are not attributable to reportable segments.
(3) Depreciation and amortization adjustments are composed of Company assets not allocated to reportable segments and eliminations of internal transactions.
*3. Segment income is adjusted based on operating income in the consolidated income statements.

Related Information

As of and for the years ended December 31, 2015 and 2014

Geographic Information

(1) Sales

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Japan	**¥281,517**	¥282,707	**$2,334,116**
Asia	**95,617**	82,610	**792,782**
Thailand	**49,674**	43,610	**411,863**
Other	**1,524**	2,079	**12,639**
Consolidated	**¥378,659**	¥367,396	**$3,139,536**

Note 1: Sales to external customers, classified by country or geographic region based on customer location.

(2) Tangible assets

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Japan	**¥51,964**	¥52,113	**$430,850**
Asia	**23,095**	27,161	**191,491**
Thailand	**7,936**	8,607	**65,805**
Consolidated	**¥75,060**	¥79,275	**$622,341**

Information on Impairment Loss on Fixed Assets by Reportable Segment

Years ended December 31, 2015 and 2014

	Millions of yen						
	2015						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	**¥467**	**¥28**	**¥3,860**	**¥—**	**¥4,356**	**¥123**	**¥4,479**

	Millions of yen						
	2014						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	¥88	¥379	¥12	¥100	¥580	¥253	¥833

	Thousands of U.S. dollars						
	2015						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Impairment loss	**$3,879**	**$238**	**$32,007**	**$—**	**$36,124**	**$1,020**	**$37,144**

Information on Amortization of Goodwill and Remaining Balance by Reportable Segment

As of and for the years ended December 31, 2015 and 2014

	Millions of yen						
	2015						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Amortization for the year	**¥—**	**¥ 81**	**¥—**	**¥—**	**¥ 81**	**¥—**	**¥ 81**
Balance at the end of year	**—**	**263**	**—**	**—**	**263**	**—**	**263**

	Millions of yen						
	2014						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Amortization for the year	¥—	¥ 60	¥128	¥—	¥189	¥—	¥189
Balance at the end of year	—	345	—	—	345	—	345

	Thousands of U.S. dollars						
	2015						
	Reportable segments						
	Consumer Products Business	Industrial Products Business	Overseas Business	Other Business	Total	Adjustments	Consolidated total
Amortization for the year	**$—**	**$ 673**	**$—**	**$—**	**$ 673**	**$—**	**$ 673**
Balance at the end of year	**—**	**2,188**	**—**	**—**	**2,188**	**—**	**2,188**

Note 16
Business Combinations

a) Transaction under Common Control

The Company transferred the Company's chemical business to the Company's consolidated subsidiary, Ipposha Oil Industries Co., Ltd., via a corporate split and merged the Company's consolidated subsidiary, Lion Specialty Chemicals Co., Ltd., with Ipposha Oil Industries Co., Ltd. via an absorption-type merger, as of July 1, 2015.

1. Overview of the Transaction

(1) Summary of the Absorption-Type Split (Simplified Split)

(a) Name and Description of the Business Involved

Name of the Business: The Company's industrial products business

Description of the Business: R&D and sales of the Company's chemical products

(b) Date of Business Combination

July 1, 2015

(c) Legal Form of Business Combination

A simplified absorption-type split, with the Company as the split company, and Ipposha Oil Industries Co., Ltd. as the successor company of the split-off portion.

(d) Name of the Company after the Business Combination

Lion Specialty Chemicals Co., Ltd. (Trade name was changed from "Ipposha Oil Industries Co., Ltd." as of July 1, 2015.)

(2) Summary of the Absorption-Type Merger

(a) Names of the Companies Involved in the Merger and Description of Business

Name of the Surviving Company: Ipposha Oil Industries Co., Ltd.

Description of the Business: Production and sales of industrial chemicals, household chemicals, and food additives

Name of the Absorbed Company: Lion Specialty Chemicals Co., Ltd.

Description of the Business: Acquisition, production, and sales of industrial chemicals

(b) Date of Business Combination

July 1, 2015

(c) Legal Form of Business Combination

An absorption-type merger, with Ipposha Oil Industries Co., Ltd. as the surviving company, and Lion Specialty Chemicals Co., Ltd. as the absorbed company.

(d) Name of the Company after the Business Combination

Lion Specialty Chemicals Co., Ltd. (Trade name was changed from "Ipposha Oil Industries Co., Ltd." as of July 1, 2015.)

2. Purpose of the Transaction

By undertaking the internal Group reorganization of the chemical business operations at the Company, Ipposha Oil Industries Co., Ltd., and Lion Specialty Chemicals Co., Ltd., the Company aims to enhance functionality and concentrate management resources by unifying operations, thereby achieving greater efficiency.

3. Overview of the Accounting Treatment

The merger was conducted as a transaction under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ Statement No. 21 issued on December 26, 2008), and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 issued on December 26, 2008).

b) Business Combination by Acquisition

At the Board of Directors’ meeting held on September 30, 2015, the Company resolved to consolidate Southern Lion Sdn. Bhd., an equity-method affiliate, from the end of the third quarter of fiscal 2015, making it a consolidated subsidiary.

1. Outline of the Acquisition

(a) Name and Business of Acquired Company

Name of Acquired Company: Southern Lion Sdn. Bhd.

Description of the Business: Manufacture and sale of laundry detergents, body washes, etc.; and sale of toothpastes and toothbrushes

(b) Reason for Business Combination

To accelerate the decision making of the Lion Group in Malaysia.

(c) Date of Business Combination

September 30, 2015

(d) Legal Form of Business Combination

Subsidiary acquisition based on the control approach.

(e) Name of Acquired Company after Business Combination

There is no change.

(f) Voting Rights Ratio

Voting rights ratio before the date of business combination: 50%

Voting rights ratio additionally gained on the date of business combination: —

Voting rights ratio after the acquisition: 50%

(g) Basis of Determining the Acquirer

Southern Lion Sdn. Bhd. became a consolidated subsidiary based on the control approach, in accordance with a partial revision of its joint venture agreement.

2. Impact on Consolidated Business Performance

Operating results from October 1, 2015 to December 31, 2015 were consolidated in the current year. Operating results until September 30, 2015 were consolidated as equity in net income of affiliates.

3. Cost of the Acquisition

	Millions of yen	Thousands of U.S. dollars
Purchase consideration	**¥1,761**	**$14,606**
Acquisition cost	**¥1,761**	**$14,606**

4. Difference Between the Acquisition Cost of the Acquired Company and the Total Amount of Each Acquisition Transaction

Loss on step acquisitions: ¥178 million (U.S.$1,479 thousand)

5. Breakdown of Assets Acquired and Liabilities Assumed on the Date of Business Combination

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥4,488**	**$37,213**
Non-current assets	**2,571**	**21,322**
Total assets	**¥7,059**	**$58,535**
Current liabilities	**¥3,352**	**$27,794**
Long-term liabilities	**184**	**1,528**
Total liabilities	**¥3,536**	**$29,323**

6. Estimated Impact on the Consolidated Results for Fiscal 2015 Assuming the Business Combination Had Been Completed as of the Beginning of Fiscal 2015

The amount of the impact on the accompanying consolidated financial statements is negligible. This amount is unaudited.

Note 17 Subsequent Event

(a) Dividend Declaration

On February 10, 2016, the following distribution of retained earnings was approved at a meeting of the Company's Board of Directors:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥5.00 (U.S.$0.04) per share)	**¥1,433**	**$11,883**

Independent Auditor's Report

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Building a better working world

Independent Auditor's Report

The Board of Directors
Lion Corporation

We have audited the accompanying consolidated financial statements of Lion Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lion Corporation and its consolidated subsidiaries as at December 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1(b).

Ernst & Young ShinNihon LLC

March 29, 2016

A member firm of Ernst & Young Global Limited