



Report and Financial Statements

Under Japan GAAP (Generally Accepted Accounting Principles in Japan)

For the year ended December 31, 2004

Report and Financial Statements under Japan GAAP

For the year ended December 31, 2004

Report of Independent Auditors

1. The consolidated financial statements of Xinhua Finance Limited (the "Company") for the year ended December 31, 2004, were prepared in accordance with "Rules Governing Term, Form and Preparation of Consolidated Financial Statements" (Finance Ministerial Order the 28th, 1976, which is hereinafter referred to as "Consolidated Financial Statements Rule").
2. The financial statements of the Company for the year ended December 31, 2004, were prepared in accordance with "Rules Governing Term, Form and Preparation of Financial Statements" (Finance Ministerial Order the 59th, 1963, which is hereinafter referred to as "Financial Statements Rule").
3. The fourth clause of Article 127 of the Financial Statements Rule is applied to the financial information of the Company for the year ended December 31, 2004.
4. The consolidated financial statements of the Company for the year ended December 31, 2004 and the financial statements of the Company for the year ended December 31, 2004 are stated in U.S. dollars. The amounts in Japanese yen are calculated by the foreign currency exchange rate (mean of the buying and selling rates) in the Tokyo Foreign Exchange Market as of December 30, 2004, which is calculated as US\$1 = 104.21 Japanese yen, in accordance with Article 130 of the Financial Statements Rules. U.S. dollar amounts are presented in thousands (rounded), and Japanese yen amounts are stated in thousands (rounded). Please note that the Japanese yen amounts are stated only for convenience only. The amounts in U.S. dollar may not have been or may not be exchanged to Japanese yen amounts calculated by the abovementioned exchange rate.
5. On March 4, 2004, all of the shareholders of Xinhua Financial Network Limited ("XFN") exchanged their shares in XFN for equivalent shares in the Company with the result that the Company became the 100% parent company of XFN. The profit and loss of the Group were accounted for as if the business combination had been effective from the beginning of the period.
6. Pursuant to Article 193-2 of the Securities and Exchange Law, Deloitte Touche Tohmatsu has performed an audit on the consolidated financial statements of the Company for the year ended December 31, 2004 and the financial statements of the Company for the year ended December 31, 2004.



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Consolidated Balance Sheet

Consolidated fiscal year – current year
(As of December 31, 2004)

Item	Note※	Amount				(%)
		US\$'000	JAP¥'000	US\$'000	JAP¥'000	
ASSETS						
I	Current assets					
	Cash and bank balances			40,449	4,215,164	
	Trade receivable			10,033	1,045,587	
	Other receivable			698	72,718	
	Deferred tax assets			299	31,130	
	Other current assets			5,158	537,531	
	Total current assets			56,637	5,902,130	28.0
II	Non-current assets					
	1. Property, plant and equipment					
	Buildings and structures	530	55,181			
	Less: accumulated depreciation	(244)	(25,435)	285	29,746	
	Equipments	4,777	497,788			
	Less: accumulated depreciation	(1,335)	(139,100)	3,442	358,688	
	Total property, plant and equipment			3,727	388,433	1.8
	2. Intangible assets					
	Goodwill			10,616	1,106,270	
	Goodwill on consolidation	8		116,544	12,145,084	
	Trade mark, brand name and distribution rights	3		4,064	423,464	
	Total intangible assets			131,224	13,674,818	65.0
	3. Investments and other assets					
	Securities assets			10,151	1,057,798	
	Investment in securities	4		68	7,075	
	Investment in progress	2		121	12,604	
	Total investments and other assets			10,339	1,077,477	5.2
	Total non-current assets			145,291	15,140,728	72.0
	Total assets			201,927	21,042,858	100.0

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Consolidated Balance Sheet (continued)

Consolidated fiscal year – current year
(As of December 31, 2004)

Item	Note※	Amount		(%)
		US\$'000	JAP¥'000	
LIABILITIES				
I	Current liabilities			
	Trade payable	3,014	314,067	
	Short-term loans	122	12,679	
	Bank borrowing – due within one year	40	4,158	
	Taxation payable	398	41,498	
	Other payable	25,842	2,692,959	5
	Accrued expenses	2,592	270,129	
	Deferred revenue	15,748	1,641,138	
	Promissory note (non-operating)	350	36,474	4, 6
	Lease obligations	37	3,901	4
	Total current liabilities	48,143	5,017,004	23.8
II	Non-current liabilities			
	Bank borrowing – due after one year	48	4,990	
	Long-term lease obligations	26	2,682	4
	Long-term other payable	3,494	364,099	
	Long-term promissory note (non-operating)	1,250	130,263	4, 6
	Deferred tax liabilities	44	4,606	
	Total non-current liabilities	4,862	506,640	2.4
	Total liabilities	53,005	5,523,643	26.2
MINORITY INTERESTS				
	Minority interest	(180)	(18,732)	-0.1
CAPITAL AND RESERVES				
	Share capital	522	54,394	0.3
	Share premium	181,543	18,918,646	90.0
	Retained earnings	(32,670)	(3,404,559)	-16.2
	Unrealized loss on available-for-sale securities	(151)	(15,711)	-0.1
	Translation adjustment	(142)	(14,822)	-0.1
	Total shareholders' equity	149,102	15,537,948	73.9
	Total liabilities, minority interests and shareholders' equity	201,927	21,042,858	100.0



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Consolidated Income Statement

Item	Note※	Consolidated fiscal year – current year (From January 1, 2004 to December 31, 2004)				Amount	(%)
		Amount		Amount			
		US\$'000	JAP¥'000	US\$'000	JAP¥'000		
I	Turnover			59,689	6,220,187	100.0	
II	Cost of sales			29,283	3,051,625	49.1	
	Gross profit			30,406	3,168,563	50.9	
III	Selling, general and administrative expenses						
	Directors' emoluments	839	87,480				
	Salary	11,344	1,182,066				
	Marketing and promotion expense	2,111	219,945				
	Depreciation	1,091	113,678				
	Amortization	3,630	378,249				
	Amortization of goodwill	3,643	379,686				
	Other	11,882	1,238,274	34,540	3,599,378	57.9	
	Operating loss			4,134	430,815	-7.0	
IV	Non-operating income						
	Interest income	186	19,411				
	Gain on foreign exchange	120	12,490				
	Other	4	415	310	32,316	0.5	
V	Non-operating expenses						
	Interest expense	498	51,898				
	Share issuance related expenses	2,757	287,323				
	Listing related expenses	2,021	210,592	5,276	549,813	8.7	
	Ordinary loss			9,100	948,311	-15.2	
VI	Extraordinary gains						
	Gain on disposal of fixed assets	0	0				
	Gain on relief of debt	4	464	4	464	0.0	
VII	Extraordinary losses						
	Loss on disposal of fixed assets	2	177	2	177	0.0	
	Loss before tax, minority interest and distribution of profits (allocation of losses) from joint alliance			9,097	948,024	-15.2	
VIII	Distribution of profits (allocation of losses) from joint alliance (negative: allocation)			(243)	(25,273)	-0.4	
	Loss before tax and minority interest			9,340	973,297	-15.6	
	Income taxes (current)	10	996				
	Reversal of over-accrued tax for the past year	(212)	(22,069)				
	Income taxes (deferred)	47	4,927	(155)	(16,146)	0.2	
	Minority interests			121	12,560	-0.2	
	Net loss for the year			9,305	969,712	-15.6	



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Consolidated Surplus Statement

Consolidated fiscal year – current year
(From January 1, 2004 to December 31, 2004)

Item	Note※	Amount			
		US\$'000	JAP¥'000	US\$'000	JAP¥'000
SHARE PREMIUM					
I	Share premium – January 1, 2004			51,174	5,332,883
II	Increases of share premium				
	Stock issuance	85,202	8,878,945		
	Share premium increased upon share exchange	46,168	4,811,120		
	Suspense account of share exchange	2,604	271,311	133,973	13,961,376
III	Decrease of share premium				
	Suspense account of share exchange	3,604	375,612	3,604	375,612
IV	Share premium – December 31, 2004			181,543	18,918,646

RETAINED EARNINGS

I	Retained earnings – January 1, 2004			(23,365)	(2,434,848)
II	Decreases of retained earnings				
	Net loss for the year	9,305	969,712	9,305	969,712
III	Retained earnings – December 31, 2004			(32,670)	(3,404,559)



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Consolidated Cashflow Statement

Consolidated fiscal year – current year
(From January 1, 2004 to December 31, 2004)

Item	Amount	
	US\$'000	JAP¥'000
I Operating activities		
Loss before tax and minority interest	(9,340)	(973,297)
Depreciation	1,091	113,678
Amortization	3,630	378,249
Amortization of goodwill	3,643	379,686
Interest income	(186)	(19,411)
Interest expense	498	51,898
Share issuance related expenses	2,757	287,323
Listing related expenses	2,021	210,592
Foreign exchange gain (loss) (negative: gain)	(189)	(19,647)
Loss on disposal of fixed assets	2	176
Gain on relief of debts	(4)	(464)
Distribution of profits (allocation of losses) from joint alliance (negative: allocation)	243	25,273
Assets received for services	(6,051)	(630,616)
Increase (decrease) in accounts receivable (negative: increase)	(6,800)	(708,615)
Increase (decrease) in accounts payable (negative: decrease)	2,168	225,903
Increase (decrease) in other current assets (negative: increase)	3,998	416,671
Increase (decrease) in other current liabilities (negative: decrease)	1,027	107,046
Subtotal	(1,493)	(155,554)
Taxes paid	(422)	(43,980)
Net cash from (used in) operating activities (negative: used in)	(1,915)	(199,535)



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Consolidated Cashflow Statement (continued)

Consolidated fiscal year – current year
(From January 1, 2004 to December 31, 2004)

Item	Note※	Amount	
		US\$'000	JAP¥'000
II			
Investing activities			
Interests and dividends received		186	19,411
Deposit for security		(360)	(37,516)
Purchase of property, plant and equipment		(1,353)	(141,000)
Sale of property, plant and equipment		4	368
Investment in unlisted securities		(68)	(7,075)
Payment for asset purchase	3	(3,725)	(388,201)
Refund received from deposits paid for acquisition		1,694	176,533
Payment to acquire shares of subsidiary		(65)	(6,774)
Payment to acquire shares of subsidiary resulting a change in scope of consolidation	2	(49,222)	(5,129,430)
Other		(1,686)	(175,695)
Net cash used in investing activities		(54,595)	(5,689,378)
III			
Financing activities			
Interest paid		(498)	(51,898)
Increase (decrease) in short-term loans – net (negative: decrease)		(997)	(103,934)
Repayments of long-term loans		(48)	(4,994)
Proceeds from issuance of shares		79,986	8,335,290
Repayments of lease obligation		(55)	(5,707)
Net cash from (used in) financing activities (negative: used in)		78,387	8,168,757
IV			
Foreign currency translation adjustments on cash and cash equivalents		69	7,214
V			
Net increase in cash and cash equivalents		21,947	2,287,058
VI			
Cash and cash equivalents, beginning of the year		18,142	1,890,590
VII			
Cash and cash equivalents, end of the year	1	40,089	4,177,648



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Basis of Presenting Consolidated Financial Statements

1. SCOPE OF CONSOLIDATION

a. The number of consolidated subsidiaries: 22

The names of consolidated subsidiaries are as follows:

Xinhua Financial Network Ltd.	Market News International, Inc.
Market News Service (International) Inc.	China Financial News Ltd.
Fortune China Public Relations Ltd.	FTSE/Xinhua Index Ltd.
Xinhua Financial Network Inc.	Xinhua Financial Network (Korea) Ltd.
China Finance Limited <i>(formerly known as China Financial Network Ltd.)</i>	AFX Asia Pte Ltd.
Xinhua Financial Network (Beijing) Ltd.	Xinhua Finance Japan Ltd. <i>(formerly known as Xinhua Netchina Ltd.)</i>
Xinhua Investment Group Hong Kong Ltd.	Shanghai NetChina Ltd.
Xinhua Financial Network (Shanghai) Ltd.	Mergent, Inc.
Mergent Japan K.K.	Stone & McCarthy Research Associates, Inc.
SMRA International, Inc.	G-7 Group, Inc.
Xinhua Mergent Holdings Limited	Ford Investor Services, Inc.

b. Names of unconsolidated subsidiaries and relative information:

Intelligence Asia Pty Ltd.	LJS Global Information Services, Inc.
Mergent Pricing & Evaluation Services, Inc.	Mergent (UK) Ltd.

Reason of status to be unconsolidated

All of the unconsolidated subsidiaries do not have significant influence on the Group's consolidated financial statements due to its small magnitude taking into account the total assets, revenue, net income and retained earnings as well as the aggregated amounts of all unconsolidated subsidiaries.



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2. ADOPTION OF EQUITY METHOD

- a. There is no group company accounted by the equity method.
- b. Unconsolidated subsidiaries not accounted by the equity method:

Intelligence Asia Pty Ltd.	LJS Global Information Services, Inc.
Mergent Pricing & Evaluation Services, Inc.	Mergent (UK) Ltd.

Reason of status not to be accounted by the equity method

The adoption of equity method for all of the subsidiaries would not have any significant influence on the Group's consolidated financial statements due to its small magnitude taking into account the net income and retained earnings as well as the aggregated amounts of all unconsolidated subsidiaries.

3. RECONCILIATION OF CLOSING DATE FOR CONSOLIDATION

There is no consolidated subsidiary whose closing date is different from that of the Company.

4. METHOD OF BUSINESS COMBINATION

All of the shareholders of XFN exchanged their shares in XFN for equivalent shares in XFL with the result that XFL became the 100% parent company of XFN.

In terms of the business combination, accounting treatment in accordance with pooling of interest method is applied based on "Guidance for business combination for formation of an ultimate parent company through share exchange or share transfer" (Research Report #6 announced by Accounting Standard Committee in Japanese Institute of Certified Public Accountants).

5. VALUATION FOR ASSETS AND LIABILITIES OF CONSOLIDATED SUBSIDIARIES

The assets and liabilities of the consolidated subsidiaries for not only the Company's interest but also minority interests are evaluated at fair value.

6. AMORTIZATION OF GOODWILL ON CONSOLIDATION

Goodwill on consolidation is amortized by straight-line method over 20 years.

7. APPROPRIATIONS OF RETAINED EARNINGS

Appropriations of retained earnings of the Company are reflected in the consolidated statements of retained earnings of the following year upon shareholder's approval.

8. CASH AND CASH EQUIVALENTS IN CONSOLIDATED CASHFLOW STATEMENT

Cash equivalents are short-term investments that are readily convertible into cash and are not exposed to significant risk of changes in value. Cash equivalents mature or become due within three months of the date of investment.

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Significant Accounting Policies

1. VALUATION BASIS AND METHOD FOR ASSETS

Securities

Available-for sale securities

a. With fair value

Fair value method based on the fair value information, such as market information, at the balance sheet date is applied. (Unrealized gains or losses are accounted for as equity items, and acquisition costs are based on moving-average method.)

b. With no fair value

Cost method based on moving-average method is applied.

2. DEPRECIATION OR AMORTIZATION METHOD

a. Property, plant and equipment

Depreciation of property, plant and equipment of the Company and its consolidated non-Japanese subsidiaries is computed substantially by the straight-line method, while the declining-balance method is applied to the property, plant and equipment of consolidated Japanese subsidiaries.

Estimated useful lives are as follows:

Buildings and structures: 3 to 7 years

Equipments: 1 to 10 years

b. Intangible assets

Intangible assets are amortized by the straight-line method.

Estimated useful lives are as follows:

Trade mark, brand name and distribution rights: 3 to 11 years

Goodwill: 4 to 5 years

3. ALLOWANCE, RESERVE AND PROVISION

Allowance for doubtful accounts

For the Company and its non-Japanese subsidiaries, the allowance has been determined by reference to past default experience. For Japanese subsidiaries, the allowance for doubtful accounts is stated in amounts considered to be appropriate based on the past credit loss experience and an evaluation of respective potential losses in the receivables outstanding.

4. CONVERSION OF SIGNIFICANT ITEMS IN FOREIGN CURRENCIES

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into U.S. Dollars at the exchange rates at the balance sheet date, while all revenue and expense accounts are translated into U.S. Dollars at the average rate of the period. The foreign exchange gains and losses from translation are recognized in the income statement.

All assets and liabilities of foreign subsidiaries are translated into U.S. Dollars at the exchange rates at the balance sheet date, while all revenue and expense accounts are translated into U.S. Dollars at the average rate applicable for the period. Differences arising from such translation are shown as "Translation adjustments" in a separate component of shareholders' equity.

5. LEASES

For finance leases deemed NOT to transfer ownership of the leased property to the lessee, leased properties are capitalized.



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6. OTHER SIGNIFICANT ITEMS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a. Accounting policy of the consumption tax

Tax-excluding method is applied.

b. Conversion of dollars into yen

In accordance with the Article 130 of the Financial Statements rules, the amounts in Japanese yen are calculated by the foreign currency exchange rate (middle rate), being US\$1.00 = 104.21, from the Tokyo Foreign Exchange Market as of December 30, 2004. The Japanese yen amounts are stated only for the purpose of convenience. Therefore it is not assured that the amounts in U.S. dollars could be exchanged to Japanese yen amounts calculated by the abovementioned exchange rate.



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Footnotes/Note to Consolidated Balance Sheet

- ※ 1 The reason for the negative balance of "minority interests" is that the Company accounts for the subsidiary's deficit on "minority interests" based on a contract with FTSE, a co-investor of FTSE/Xinhua Index Limited which is a subsidiary of the Company in Hong Kong, whereby the Company and FTSE are jointly liable for the deficit of the subsidiary.
- ※ 2 The amount represents a deposit paid for the acquisition of existing equity shares of a credit rating agency in the People's Republic of China (the "PRC").
- ※ 3 The brand name and distribution rights are combined together in one set of contracts and are therefore accounted for in a single account. Another intangible asset that relates to a separate brand name license right and a trademark is included in this account as well.
- ※ 4 Assets collateralized and corresponding liabilities:

	Consolidated fiscal year – current year	
	(As of December 31, 2004)	
	US\$'000	JAP¥'000
Assets collateralized		
Bank deposit	389	40,542
Trade receivables	924	96,318
Other current assets	928	96,690
Equipments	78	8,103
Investment in securities	68	7,075
Correspondent obligation		
Promissory note (non-operating)		
Short-term	350	36,474
Long-term	1,250	130,263
Lease obligation (including obligations for operating lease)		
Short-term	745	77,636
Long-term	2,176	226,761

- ※ 5 This other payables include part of the consideration for the acquisition of shares of Mergent, Inc. and Stone & McCarthy Research Associates, Inc. The consideration for the acquisition of shares of Stone & McCarthy Research Associates, Inc. could fluctuate since the final payment is based on future operating results of the respective company.
- ※ 6 This promissory note was issued as part of the consideration for the acquisition of shares of Ford Investor Services Inc., which became a consolidated subsidiary of the Company during the period. The consideration for the acquisition of shares could fluctuate since the final payment is based on future operating results and future payments made for additional obligations due under the terminated Ford executive bonus plan.

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※ 7 Assets are presented after deduction of allowance for doubtful accounts.

	Consolidated fiscal year – current year (As of December 31, 2004)	
	US\$'000	JAP¥'000
Amounts deducted from current assets	834	86,890

※ 8 The consideration for the acquisition of shares of Market News International, Inc., G-7 Group, Inc. and Stone & McCarthy Research Associates, Inc. could fluctuate since the final payments are based on future operating results of the respective companies. The consideration for the acquisition of shares of Ford Investor Services Inc. could fluctuate since the final payment is based on future operating results and future payments made for additional obligations due under the terminated Ford executive bonus plan.

9 Xinhua Mergent Holdings Limited and Market News International, Inc. have a line of credit agreements with banks. The amount of the line of credit and the balance outstanding under the agreements at December 31, 2004 are as follows:

	Consolidated fiscal year – current year (As of December 31, 2004)	
	US\$'000	JAP¥'000
Total amount of the line of credit	24,500	2,631,055
Outstanding balance	–	–
Remaining amount of the line of credit	24,500	2,631,055

※ 1-8 footnotes correspond with ※ 1-8 as denoted in the Consolidated Balance Sheet.



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Footnotes to Consolidated Income Statement

※ 1 Expenses directly relating to share issuance are presented as "share issuance related expenses", which includes "share issuance cost".

※ 2 Components of Loss on disposal of fixed assets are as follows:

	Consolidated fiscal year – current year (From January 1, 2004 to December 31, 2004)	
	US\$'000	JAP¥'000
Equipments	2	177

Footnotes to Consolidated Surplus Statement

※ 1 The Company acquired full ownership of Stone & McCarthy Research Associates, Inc. through a cash and share exchange. However, the Company's shares to be transferred have not been issued, whereas acquisition costs have been included in share premium.

※ 2 This represents the transfer of the suspense account of share exchange into share capital and share premium due to the issuance of shares previously unissued at the time of share exchange with Xinhua Investment Group Hong Kong Ltd. and Xinhua Finance Japan Limited (formerly known as Xinhua Netchina Ltd.).



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Footnotes/Note to Consolidated Cashflow Statement

※ 1 Reconciliation between ending balances of cash and cash equivalents in consolidated cashflow statement and balance in consolidated balance sheet:

	Consolidated fiscal year – current year (From January 1, 2004 to December 31, 2004)	
	US\$'000	JAP¥'000
Cash and bank balances	40,449	4,215,164
Deposit pledged as collateral	(360)	(37,516)
Cash and cash equivalents	40,089	4,177,648

※ 2 Major component of subsidiaries' assets and liabilities newly consolidated through acquisition of its shares

Major components of subsidiaries' assets and liabilities newly consolidated (MNI, G7, SMRA, Mergent, Ford and 7 other subsidiaries) through acquisition of shares, cost of acquisition and net cash outflow are summarized as follows:

	Consolidated fiscal year – current year (From January 1, 2004 to December 31, 2004)	
	US\$'000	JAP¥'000
Current assets	12,257	1,277,265
Non-current assets	16,475	1,716,871
Current liabilities	(23,372)	(2,435,574)
Goodwill on consolidation	115,730	12,060,242
Acquisition cost of newly acquired subsidiaries	121,090	12,618,804
Price of share issued on share exchange	(44,978)	(4,687,178)
Accounts payable	(21,388)	(2,228,815)
Cash and cash equivalents of acquired subsidiaries	(5,502)	(573,381)
Net cash outflow due to subsidiary acquisition	49,222	5,129,430

※ 3 Major components of assets and liabilities increased through asset purchase

Major components of assets and liabilities increased through asset purchase from Capco Reference Data Services and net cash outflow are summarized as follows:

	Consolidated fiscal year – current year (From January 1, 2004 to December 31, 2004)	
	US\$'000	JAP¥'000
Current assets	11	1,179
Non-current assets	583	60,725
Current liabilities	(329)	(34,237)
Goodwill	3,460	360,534
Net cash outflow due to asset purchase	3,725	388,201

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4 Major non-cash transactions

- a. Share capital and share premium increased through share swap by US\$120 thousand (JPY12,480 thousand) and US\$46,168 thousand (JPY4,811,120 thousand), respectively.
- b. The Group entered into finance leases in respect of property, plant and equipment with total capital value at the inception of the leases of US\$17 thousand (JPY1,771 thousand) during the year.
- c. In order to satisfy a debt on behalf of a certain company, XFL issued its ordinary shares without receiving the corresponding capital contribution. This transaction was recognized as a loan to this company and the share capital and the share premium of XFL increased upon this issuance by US\$1 thousand (JPY119 thousand) and US\$652 thousand (JPY67,964 thousand), respectively.
- d. The amount of notes payable additionally issued as consideration for conditional acquisition costs on the acquisition of a subsidiary is US\$18,788 thousand (JPY1,957,869 thousand).
- e. The Group received securities assets of US\$6,052 thousand (JPY630,679) thousand for services performed.

※ 1-3 notes correspond with ※ 1-3 as denoted in the Consolidated Cashflow Statement.



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Other Notes to Consolidated Financial Statements

1. LEASE TRANSACTION

	Consolidated fiscal year – current year (From January 1, 2004 to December 31, 2004)	
	US\$'000	JAP¥'000
Operating leases:		
Unearned lease expenses		
Within one year	2,954	307,836
After one year	5,219	543,872
Total	8,173	851,708

2. SECURITIES

- a. Available-for-sale securities with fair value (as of December 31, 2004)

Category	Acquisition cost		Amounts on the consolidated balance sheet		Difference	
	US\$'000	JAP¥'000	US\$'000	JAP¥'000	US\$'000	JAP¥'000
Book value is more than acquisition cost:						
1) Securities	–	–	–	–	–	–
2) Bonds	–	–	–	–	–	–
3) Other	4,329	451,074	6,968	726,116	2,639	275,042
Subtotal	4,329	451,074	6,968	726,116	2,639	275,042
Book value is less than acquisition cost:						
1) Securities	–	–	–	–	–	–
2) Bonds	–	–	–	–	–	–
3) Other	5,973	622,435	3,183	331,682	(2,790)	(290,753)
Subtotal	5,973	622,435	3,183	331,682	(2,790)	(290,753)
TOTAL	10,301	1,073,509	10,151	1,057,798	(151)	(15,711)

(Note 1) Other investments are the Securities assets on the Consolidated Balance Sheet.

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- b. Securities not stated at fair value

Category	Amounts on the consolidated balance sheet	
	US\$'000	JAP¥'000
Other investments		
1) Investment in securities	68	7,075
Total	68	7,075

(Note 1) Other investments are the Investment in Securities on the Consolidated Balance Sheet.

3. DERIVATIVE TRANSACTIONS

The Group does not enter into any derivative contracts.

4. EMPLOYEES' RETIREMENT BENEFITS

a. Retirement benefit scheme

Subsidiaries located in Hong Kong, PRC and U.S.A. apply defined-contribution retirement benefit plan.

b. Projected benefit obligation (as of December 31, 2004)

Not applicable.

c. Service cost and relative expenses

Not applicable.

d. Basis of calculation to determine projected benefit obligation

Not applicable.



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5. TAXATION

- a. Major components of deferred tax assets and liabilities

Consolidated fiscal year – current year
(From January 1, 2004 to December 31, 2004)

	US\$'000	JAP¥'000
Deferred tax assets		
Unutilized tax losses	21,421	2,232,282
Subscription revenue received in advance	215	22,405
Allowance for doubtful debts	46	4,815
Other	186	19,374
Subtotal	21,868	2,278,876
Valuation reserve	(21,447)	(2,235,032)
Total deferred tax assets	421	43,844

Deferred tax liabilities

	US\$'000	JAP¥'000
Allowance for doubtful debts	(97)	(10,108)
Depreciation and amortization	(44)	(4,606)
Other	(25)	(2,605)
Total deferred tax liabilities	(166)	(17,320)
Net of deferred tax assets and deferred tax liabilities	255	26,524

Net of deferred tax assets and deferred tax liabilities appear on the balance sheet as follows:

	US\$'000	JAP¥'000
Deferred tax assets – current	299	31,130
Deferred tax assets – non-current	–	–
Deferred tax liabilities – current	–	–
Deferred tax liabilities – non-current	(44)	(4,606)



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b. Reconciliation between the normal statutory tax rates and the actual effective tax rates

	Consolidated fiscal year – current year (From January 1, 2004 to December 31, 2004)
Tax at the applicable income tax rate	17.5%
Reconciliation	
Tax effect of expenses not deductible for tax purposes	-24.0%
Tax effect of income not taxable for tax purposes	2.4%
Tax effect of unrecognized tax losses	-10.1%
Tax effect of utilization of tax losses not previously recognized	9.4%
Effect of different tax rates of subsidiaries operating in other jurisdictions	6.6%
Other	-0.2%
Tax effect and effective tax rate for the year	1.7%



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6. SEGMENT INFORMATION

a. Business Segment

The Group is engaged solely in the financial information business, which includes distribution of market indices, financial news, credit ratings, investor relations services and other relevant services. Thus, information on business segmentation is omitted.

b. Regional Segmental Information

Consolidated fiscal year – current year
(From January 1, 2004 to December 31, 2004)

	Japan		Asia		North America		Other location		Total		Eliminated or unallocated		Consolidated	
	US\$'000	JAPY'000	US\$'000	JAPY'000	US\$'000	JAPY'000	US\$'000	JAPY'000	US\$'000	JAPY'000	US\$'000	JAPY'000	US\$'000	JAPY'000
Sales and operating income/loss														
(1) Outside customer	3,672	382,610	19,105	1,990,887	36,172	3,769,475	741	77,215	59,689	6,220,187	-	-	59,689	6,220,187
(2) Inter segment or transfer	-	-	324	33,753	-	-	-	-	324	33,753	(324)	(33,753)	-	-
Total	3,672	382,610	19,428	2,024,640	36,172	3,769,475	741	77,215	60,013	6,253,941	(324)	(33,753)	59,689	6,220,187
Operating expenses	3,674	382,873	20,895	2,177,467	37,254	3,882,218	2,000	208,445	63,823	6,651,002	-	-	63,823	6,651,002
Operating income (loss)	(3)	(263)	(1,467)	(152,827)	(1,082)	(112,742)	(1,259)	(131,229)	(3,810)	(397,062)	(324)	(33,753)	(4,134)	(430,815)
Assets	2,740	285,559	55,763	5,811,023	143,389	14,942,609	35	3,668	201,927	21,042,858	-	-	201,927	21,042,858

- (Note) 1 Location segments are based on geographical closeness.
 2 Main countries or locations which do not belong to Japan:
 (1) Asia Hong Kong, China, Singapore and so on.
 (2) North America U.S.A.
 (3) Other location U.K.

c. Overseas sales

Consolidated fiscal year – current year
(From January 1, 2004 to December 31, 2004)

	Asia		North America		Europe		Other		Total	
	US\$'000	JAPY'000	US\$'000	JAPY'000	US\$'000	JAPY'000	US\$'000	JAPY'000	US\$'000	JAPY'000
Overseas Sale	11,994	1,249,848	33,021	3,441,085	9,448	984,592	151	15,762	54,614	5,691,287
Consolidated Sale	-	-	-	-	-	-	-	-	59,689	6,220,187
Ratio of overseas sale which accounts for consolidated sale (%)	20.1%	20.1%	55.3%	55.3%	15.8%	15.8%	0.3%	0.3%	91.5%	91.5%

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For the year ended December 31, 2004

- (Note) 1 Location segments are based on geographical closeness.
 2 Main countries or locations which do not belong to Japan:
 Asia Hong Kong, China, Singapore and so on
 North America U.S.A. and Canada
 Europe U.K., Germany and France and so on
 Other Australia, South America and so on
 3 Overseas sales are sales of the Company and consolidated subsidiaries in undomesticated countries or locations.

d. Related party transactions

The Company does not have any related party transactions.

7. PER SHARE INFORMATION

Consolidated fiscal year – current year (From January 1, 2004 to December 31, 2004)

Item	US\$	JAP¥
Net assets per share	719.66	74,996.24
Suspense account of share exchange included in retained earnings is excluded from the process of calculation of net asset per share.		
Net loss per share	103.94	10,831.09
For diluted net profits per share, even if the Company has shares with dilutive effect, the Company is in a loss position, thus, such information is not stated.		
The Company's outstanding shares were reversely split on August 24, 2004 on one for two thousand basis.		

(Note) Basis of calculation for the net profit (loss) per share:

Consolidated fiscal year – current year (From January 1, 2004 to December 31, 2004)

Item	US\$'000	JAP¥'000	Number of shares
Net loss on the income statement	9,305	969,712	
Net loss NOT attributed to ordinary shares	–	–	
Net loss attributed to ordinary shares	9,305	969,712	
Average number of ordinary shares during the period			89,530.42

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8. SUBSEQUENT EVENTS

On February 9, 2005, the Compensation Committee of the Board of Directors approved that the Company would issue stock options based upon the compensation strategy designed to align the interests of employees and shareholders. The summary of this issuance is as follows:

a. Class and number of shares issued pursuant to the stock option

Ordinary shares, the maximum number to be issued is 4,665 and the minimum is 2,253.

b. Issue price of the stock option

No consideration.

c. Strike price

Based upon the average closing price of shares for the 90 days ending December 31, 2004.

d. Exercisable period

Exercisable over three years to encourage long term commitment, one third being granted at each year end of 2005, 2006 and 2007, and expired ten years from the date of grant.

e. Conditions of the grant

Half of the shares in each option grant will be awarded based on the achievement of financial targets and overall company objectives, while the remaining options will be awarded based upon the managing personnel's position with the Company.

f. Allottees of the options

Managing personnel of the Group.



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For the year ended December 31, 2004

Consolidated Supporting Schedules

SCHEDULE OF LOANS AND OBLIGATIONS

Category	Balance at the beginning of the year		Balance at the end of the year		Average interest rate	Repayment date
	US\$'000	JAP¥'000	US\$'000	JAP¥'000	%	
Short-term bank loans	-	-	122	12,679	8.13	-
Current portion of long-term bank loans	-	-	40	4,158	4.80	-
Long-term bank loans (excluding current portion)	-	-	48	4,990	4.80	From 2005 to 2007
Other interest-bearing obligation						
Obligation under finance lease - due within one year	-	-	37	3,901	18.00	-
Obligation under finance lease - due after one year	-	-	26	2,682	18.00	From 2005 to 2007
Total	-	-	273	28,411	-	-

(Note) 1 "Average interest rate" is the weighted average interest rate based on the balance at the end of the fiscal year.

2 Schedule of repayment of long-term bank loans (excluding current portion) for each of the next five years is as follows:

Category	Due in the second year		Due in the third year		Due in the fourth year		Due in the fifth year	
	US\$'000	JAP¥'000	US\$'000	JAP¥'000	US\$'000	JAP¥'000	US\$'000	JAP¥'000
Long-term bank loans (excluding current portion)	32	3,327	16	1,663	-	-	-	-
Other interest-bearing obligation (obligation under finance lease)	24	2,526	2	156	-	-	-	-

Report and Financial Statements under Japan GAAP

For the year ended December 31, 2004

Balance Sheet

Item	Note※	Fiscal year – current year (As of December 31, 2004)		Amount (%)
		US\$'000	JAP¥'000	
ASSETS				
I	Current assets			
	Loan receivables from related companies	3,000	312,630	
	Other receivables	27,318	2,846,838	
	Total current assets	30,318	3,159,468	17.6
II	Non-current assets			
	Investments and other assets			
	Investment in subsidiaries	140,990	14,692,602	
	Loan receivables from related companies	750	78,158	
	Total investments and other assets	141,740	14,770,759	82.4
	Total non-current asset	141,740	14,770,759	82.4
	Total assets	172,059	17,930,228	100.0
LIABILITIES				
I	Current liabilities			
	Other payable	342	35,612	
	Accrued expenses	64	6,669	
	Other payable to shareholders	19,788	2,062,079	
	Total current liabilities	20,193	2,104,361	11.7
	Total liabilities	20,193	2,104,361	11.7
CAPITAL AND RESERVES				
I	Share capital	522	54,394	0.3
II	Capital surplus			
	Share premium	155,025	16,155,128	
	Other capital surplus			
	Suspense account of share exchange	2,604	271,311	
	Total capital surplus	157,628	16,426,439	91.6
III	Retained losses			
	Accumulated loss carried forward	6,285	654,965	
	Total retained losses	(6,285)	(654,965)	-3.6
	Total shareholders' equity	151,865	15,825,867	88.3
	Total liabilities and shareholders' equity	172,059	17,930,228	100.0

Report and Financial Statements under Japan GAAP

For the year ended December 31, 2004

Income statement

Fiscal year – current year
(From January 5, 2004 to December 31, 2004)

Item	Note※	Amount				(%)
		US\$'000	JAP¥'000	US\$'000	JAP¥'000	
I	Turnover			5,355	558,021	100.0
II	Cost of sales					
	Group service expenses	5,279	550,119	5,279	550,119	98.6
Gross profit				76	7,902	1.4
III	Selling, general and administrative expenses					
	Directors' emoluments	547	56,971			
	Salary	163	17,002			
	Commissions, fees and charges	552	57,509			
	Other	30	3,086	1,291	134,568	24.1
Operating loss				1,215	126,666	-22.7
IV	Non-operating income					
	Interest income	71	7,443	71	7,443	1.3
V	Non-operating expenses					
	Interest expenses	363	37,828			
	Share issuance related expenses	2,757	287,323			
	Listing related expenses	2,021	210,592	5,141	535,743	96.0
Ordinary loss				6,285	654,965	-117.4
Loss before income tax				6,285	654,965	-117.4
Income taxes (current)		–	–	–	–	–
Income taxes (deferred)		–	–	–	–	–
Net loss for the year				6,285	654,965	-117.4
Loss brought forward from the prior year				–	–	–
Undisposed loss at the year end				6,285	654,965	-117.4



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Disposition of loss statement

Item	Fiscal year – current year (Approval date of the shareholders' meeting May 27, 2005)	
	Amount	
	US\$'000	JAP¥'000
I Undisposed loss at the year end	6,285	654,965
II Disposition of loss	–	–
III Loss carry forward	6,285	654,965



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Significant Accounting Policy

Fiscal year – current year (From January 5, 2004 to December 31, 2004)

1 VALUATION BASIS AND METHOD FOR ASSETS

Securities

Subsidiaries' securities

Cost method based on moving-average method is applied

2 ALLOWANCE, RESERVE AND PROVISION

Allowance for doubtful accounts

The allowance has been determined by reference to past default experience.

3 OTHER SIGNIFICANT ITEMS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

Conversion of dollars into yen

In accordance with the Article 130 of the Financial Statements rules, the amounts in Japanese yen are calculated by the foreign currency exchange rate (middle rate), being US\$1.00 = 104.21, from the Tokyo Foreign Exchange Market as of December 30, 2004. The Japanese yen amounts are stated only for the purpose of convenience. Therefore it is not assured that the amounts in U.S. dollars could be exchanged to Japanese yen amounts calculated by the abovementioned exchange rate.



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Footnotes to Balance Sheet

- ※1 This other payable represents a part of the consideration for the acquisition of shares of Mergent, Inc. and Stone & McCarthy Research Associates, Inc., which became subsidiaries of the Company during the period. The consideration for the acquisition of shares of Stone & McCarthy Research Associates, Inc. could fluctuate since the final payment is based on future operating results of the respective company.
- ※2 The consideration for the acquisition of shares of Market News International, Inc., G-7 Group, Inc. and Stone & McCarthy Research Associates, Inc., could fluctuate since determination is based on the respective future operating results of the companies.
- ※3 The Company acquired shares of Stone & McCarthy Research Associates, Inc. through a share exchange contract with the result that it became the Company's wholly-owned subsidiary. However, the Company's shares to be transferred have not been issued, whereas acquisition costs have been included in share premium.
- ※4 Balances on related companies
Receivables from and payables to related companies other than the accounts specifically stated are as follows:

Fiscal year – current year
(As of December 31, 2004)

Item	Amount	
	US\$'000	JAP¥'000
Current assets		
Other receivables	27,318	2,846,838
Current liabilities		
Other payable	277	28,838

- ※5 Authorized number of shares: Ordinary shares 2,500,000 shares
Number of issued shares: Ordinary shares 203,565 shares



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For the year ended December 31, 2004

Footnotes to Income Statement

※1 Transactions with related companies are as follows:

Item	Fiscal year – current year (From January 5, 2004 to December 31, 2004)	
	Amount	
	US\$'000	JAP¥'000
Turnover	5,355	558,021
Cost of sales	5,279	550,119
Interest income	71	7,443

※2 Expenses directly relating to share issuance are presented as “share issuance related expenses”, which includes “share issuance cost”.



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For the year ended December 31, 2004

Other Notes to Financial Statements

Fiscal year – current year (From January 5, 2004 to December 31, 2004)

Lease transaction

The Company has no lease transactions, thus, none applicable.

Securities

For the period, the subsidiaries' securities held by the Company have no market value.

Taxation

1. Major components of deferred tax assets and liabilities

Fiscal year – current year
(From January 5, 2004 to
December 31, 2004)

Amount

	US\$'000	JAP¥'000
Deferred tax assets		
Unutilized tax losses	1,341	139,746
Valuation reserve	(1,341)	(139,746)
Total	–	–

2. Reconciliation between the normal statutory tax rates and the actual effective tax rates

	(%)
Tax at the applicable income tax rate	17.5

Reconciliation

Tax effect of expenses not deductible for tax purposes	-13.8
Tax effect of income not taxable for tax purposes	-3.7
Tax effect and effective tax rate for the year	-

Report and Financial Statements under Japan GAAP

For the year ended December 31, 2004

Per share information

Fiscal year – current year
(From January 5, 2004 to December 31, 2004)

Item	US\$	JAP¥
Net assets per share	733.24	76,410.62
Suspense account of share exchange included in retained earnings is excluded from the process of calculation of net asset per share.		
Net loss per share	70.20	7,315.56
For diluted net profits per share, even if the Company has shares with dilutive effect, the Company is in a loss position, thus, such information is not stated.		
The Company's outstanding shares were reversely split on August 24, 2004 on one for two thousand basis.		

(Note) Basis of calculation for the net profit (loss) per share

Fiscal year – current year
(From January 5, 2004 to December 31, 2004)

Item	US\$'000	JAP¥'000	Number of shares
Net loss on the income statement	6,285	654,965	
Net loss NOT attributed to ordinary shares	–	–	
Net loss attributed to ordinary shares	6,285	654,965	
Average number of ordinary shares during the period			89,530.42



Report and Financial Statements under Japan GAAP

For the year ended December 31, 2004

Significant subsequent events

On February 9, 2005, the Compensation Committee of the Board of Directors approved that the Company would issue stock options based upon the compensation strategy designed to align the interests of employees and shareholders. The summary of this issuance is as follows:

- a. Class and number of shares issued pursuant to the stock option
Ordinary shares, the maximum number to be issued is 4,665 and the minimum is 2,253.
- b. Issue price of the stock option
No consideration.
- c. Strike price
Based upon the average closing price of shares for the 90 days ending December 31, 2004.
- d. Exercisable period
Exercisable over three years to encourage long term commitment, one third being granted at each year end of 2005, 2006 and 2007, and expired ten years from the date of grant.
- e. Conditions of the grant
Half of the shares in each option grant will be awarded based on the achievement of financial targets and overall company objectives, while the remaining options will be awarded based upon the managing personnel's position with the Company.
- f. Allottees of the options
Managing personnel of the Group.



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Supporting schedules

Fiscal year – current year (From January 5, 2004 to December 31, 2004)

Schedule of capital

Category	Balance at the beginning of the year		Increase		Decrease		Balance at the end of the year	
	US\$'000	JAP¥'000	US\$'000	JAP¥'000	US\$'000	JAP¥'000	US\$'000	JAP¥'000
Share capital	0	0	522	54,394	–	–	522	54,394
Share capital - Outstanding shares								
Ordinary Shares (no. of shares)		1 share		203,709,117.68 shares		203,505,553.322 shares		203,565,358 shares
Ordinary Shares	0	0	522	54,394	–	–	522	54,394
Preferred Shares (no. of shares)		–		158,943,360 shares		158,943,360 shares		–
Preferred Shares	–	–	204	21,235	204	21,235	–	–
Total (no. of shares)		1 share		362,652,477.68 shares		362,448,913.322 shares		203,565,358 shares
Total	0	0	726	75,629	204	21,235	522	54,394
Share premium and other capital surplus								
Share premium								
Paid-in surplus	–	–	155,025	16,155,128	–	–	155,025	16,155,128
Other capital surplus								
Suspense account of share exchange	–	–	6,208	646,924	3,604	375,612	2,604	271,311
Total	–	–	161,233	16,802,052	3,604	375,612	157,629	16,462,439

- (Note) 1. Because of the reverse stock split made on August 24, 2004, on one for two thousand basis, both the number of outstanding ordinary shares and the number of outstanding preferred shares were decreased.
2. Because of the automatic share conversion of preferred shares into ordinary shares made on October 28, 2004, the number of outstanding ordinary shares was increased and the number of outstanding preferred shares was decreased.
3. The increase in share capital and share premium is due to the share swap with Xinhua Financial Network, share issuance upon the acquisition of subsidiaries, the transfer of the suspense account of share exchange to share capital and share premium, share issuance upon the debt satisfaction on behalf of a Company, the allocation of new shares to third parties, public offering and ESOP plan.
4. The increase in other capital surplus is due to the suspense account of share exchange which was recognized when the Company's shares to be transferred were not issued. The decrease in other capital surplus is due to the transfer of the suspense account of share exchange to share capital and share premium when the Company's shares were issued.



Schedule of Major Assets and Liabilities under Japan GAAP

For the year ended December 31, 2004

1. OTHER RECEIVABLES

Payer name	Amount	
	US\$'000	JAP¥'000
Xinhua Financial Network	27,318	2,846,827
Other	0	12
Total	27,318	2,846,838

2. INVESTMENT IN SUBSIDIARIES

Subsidiary name	Amount	
	US\$'000	JAP¥'000
Mergent Inc.	76,664	7,989,169
Xinhua Financial Network Limited	23,843	2,484,632
Market News International, Inc.	16,152	1,683,201
G-7 Group, Inc.	15,226	1,586,710
Stone & McCarthy Research Associates, Inc.	9,106	948,889
Xinhua Mergent Holdings Limited	0	0
Total	140,990	14,692,602

3. OTHER PAYABLE TO SHAREHOLDERS

Payee name	Amount	
	US\$'000	JAP¥'000
ARK II CLO 2001-1, Limited	8,051	838,961
Patriarch Partners II, LLC	6,387	665,588
Patriarch Partners III, LLC	1,530	159,422
Jonathan Worrall	1,410	146,949
Robert Andrialis	705	73,475
Other	1,706	177,686
Total	19,788	2,062,079

