

November 15, 2004

Dear Sirs,

(Consolidated) Business Results for the period ending September 30, 2004

Name of the Company Xinhua Finance Limited
Representative Chief Executive Officer
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1. Business Results

Business Results for nine months year-to-date ending September 30, 2004 provided below (nine months year-to-date ending September 30, 2003 not available for reference, six months ended June 30, 2004 provided for reference).

Financial statements in accordance with Japan GAAP and International Financial Reporting Standards (IFRS) have been prepared for our investors in Japan and elsewhere in accordance with the Company's past practice. Significant differences between Japanese GAAP and IFRS as applied to us include those relating to non-recurrent listing related expenses, share issuance costs and amortization of goodwill. Please refer to section "2 Outline of Business Results Difference in net results under IFRS and Japan GAAP" below for detailed explanation. These items reduce our net results substantially under Japan GAAP.

Business Results under Japan GAAP

(Units: USD thousand (Yen thousand))

	Sep, 2003 (Year to date)	Sep, 2004 (Year to date)	Variance (%)	Jun, 2004 (1st Half)
Sales	--	38,681	--	17,885
	--	(4,143,869)		(1,916,071)
Operating Loss	--	2,312	--	1,172
	--	(247,728)		(125,572)
Ordinary Loss	--	6,283	--	3,917
	--	(673,132)		(419,627)
Net Loss	--	7,046	--	4,296
	--	(754,804)		(460,181)
EBITDA	--	2,204	--	197
	--	(236,175)		(21,133)
Total Assets	--	168,439	--	177,438
	--	(18,044,853)		(19,008,930)
Shareholders' Equity	--	118,203	--	120,312
	--	(12,663,137)		(12,889,077)

(Note)

1. The amounts in Japanese yen are calculated by the foreign currency exchange rate (middle rate), being US\$1.00= ¥ 107.13, from the Tokyo Foreign Exchange Market as of December 30, 2003.

2. The Company's consolidated financial statements for the nine months year-to-date ending September 30, 2004 are reviewed by Tohmatsu & Co. with the procedures performed by an independent auditor in accordance with "Rule for quarterly disclosure" in "Disclosure of Corporate Information after Listing" required by Tokyo Stock Exchange.
3. We define EBITDA in relation to our Japanese GAAP financial statements as operating income or loss plus depreciation, amortization and amortization of goodwill.

Business Results under IFRS

	Sep, 2003 (Year to date)	Sep, 2004 (Year to date)	Variance (%)	Jun, 2004 (1st Half)
Sales	--	38,681	--	17,885
	--	(4,143,896)		(1,916,071)
EBITDA	--	2,314	--	255
	--	(247,899)		(27,318)
Net	--	1,958	--	1,354
Loss	--	(209,761)		(145,054)

(Note)

1. The amounts in Japanese yen are calculated by the foreign currency exchange rate (middle rate), being US\$1.00=¥107.13, from the Tokyo Foreign Exchange Market as of December 30, 2003.
2. We define EBITDA in relation to our Japanese GAAP financial statements as operating income or loss plus depreciation, amortization and amortization of goodwill.

2. Outline of Business Results (from January 1, 2004 to September 30, 2004)

Turnover

Turnover was US\$38,681 thousand (¥4,143,869 thousand) for the nine months ended September 30, 2004, compared to US\$17,885 thousand (¥1,916,071 thousand) for the six months ended June 30, 2004. Turnover in nine months 2004 is more than double the turnover from six months 2004 due to:

- New revenue streams contributed during the 3rd quarter from acquired subsidiaries – including - SMRA and G7 .
- Additional business developments in 3rd quarter – increasing demand for China focused financial information, product line extensions with existing clients and cross-selling.
- Full quarter contribution from existing subsidiary that joined the group during 2nd quarter

Cost of sales

Cost of sales was US\$18,658 thousand (¥1,998,779 thousand) for the nine months ended September 30, 2004, compared to US\$8,511 thousand (¥911,811 thousand) for the six months ended June 30, 2004. Higher cost of sales is mainly due to the inclusion of cost of sales for newly acquired subsidiaries, including SMRA and G7, and full quarter contribution from existing subsidiary that joined the group during 2nd quarter. Cost of sales represented 48% of turnover for the nine months ended September 30, 2004 and six months ended June 30, 2004.

Gross Margin

Margin of 52% for the nine months ended September 30, 2004 and six months ended June 30, 2004.

Selling, general and administrative expenses

Selling, general and administrative expenses were US\$22,336 thousand (¥2,392,819 thousand) for the nine months ended September 30, 2004, compared to US\$10,546 thousand (¥1,129,832 thousand) for the six months ended June 30, 2004. Higher selling, general and administrative expenses in 2004 are mainly due to:

- Enlarged operations and global distribution network related to new subsidiaries mentioned above
- Auditing and other fees related to becoming a public company and group expansion
- Full quarter contribution from existing subsidiary that joined the group during 2nd quarter
- Higher amortization of purchase goodwill (a consolidation adjustment which is a non-cash expense)
- Higher amortization of amortization expense for intangibles (a non-cash expense)

Operating loss

As a result of the above, operating loss was US\$2,312 thousand (¥247,728 thousand) for the nine months ended September 30, 2004.

Ordinary loss

Ordinary loss was US\$6,283 thousand (¥673,132 thousand) for the nine months ended September 30, 2004. The change from operating loss to ordinary loss was mainly due to US\$3,704 thousand (¥396,880 thousand) of share issuance related expenses and non-recurrent listing related expenses incurred by the Company during the period.

Net loss for the period

As a result of the above, net loss for the nine months ended September 30, 2004 was US\$7,046 thousand (¥754,804 thousand).

EBITDA

EBITDA was US\$2,204 thousand (¥236,175 thousand) for the nine months ended September 30, 2004 and US\$197 thousand (¥21,133 thousand) for the six months ended June 30, 2004. EBITDA is calculated by taking operating earnings or loss and adding back the following items in selling, general and administrative expenses: (1) depreciation; (2) amortization; and (3) amortization of goodwill. EBITDA as % of turnover improved to 5.7% for the nine months ended September 30, 2004 from 1.1% for the six months ended June 30, 2004.

Difference in net results under IFRS and Japan GAAP Net results under IFRS for the nine months ended September 30, 2004 were better than under Japan GAAP. This material difference of US\$5,088 thousand (¥545,043 thousand) is due to different treatment of the following items:

- Non-recurrent listing related expenses
- Share issuance expenses
- Goodwill amortization (a consolidation adjustment which is a non-cash expense)

Please refer to “3 Financial Projection” for an explanation of the treatment of these items.

Cashflow Analysis

Operating activities

Net cash used in operating activities amounted to US\$2,481 thousand (¥265,832 thousand) for the nine months ended September 30, 2004. This was due to an increase in working capital needs from the rapid expansion of our business.

Investing activities

Net cash used in investing activities amounted to US\$41,772 thousand (¥4,475,004 thousand) for the nine months ended September 30, 2004. Net cash used in investing activities was mainly composed of capital expenditures and cash used for strategic acquisitions. Total capital expenditures were US\$835 thousand (¥89,427 thousand) for the nine months ended September 30, 2004. US\$36,500 thousand (¥3,910,199 thousand) cash was applied to payment terms for strategic acquisitions such as Mergent, MNI, SMRA and G7. This amount is in addition to non-cash consideration in promissory notes and stock.

Financing Activities

Cashflow from financing activities amounted to US\$49,665 thousand (¥5,320,598 thousand) for the nine months ended September 30, 2004. Our primary sources of liquidity in the first nine months of 2004 have continued to be proceeds from our placements of shares to strategic and financial investors worldwide. In the first nine months of 2004, from private placements of shares, we raised approximately US\$49,285 thousand (¥5,279,904 thousand) in net proceeds after expenses.

Cash and Cash Equivalents

Ending cash balance was US\$23,559 thousand (¥2,523,897 thousand) as at September 30, 2004 and US\$43,159 thousand (¥4,623,649 thousand) as at June 30, 2004, representing a decrease of US\$19,600 thousand (¥2,099,752 thousand) arising mainly from the activities described in “Operating Activities”, “Investing Activities” and “Financing Activities”, above.

3. Financial Projection (from January 1, 2004 to December 31, 2004)

Given our performance for the nine months, we have revised upward our projections to better reflect our expected business performance. Our projections, have been prepared in accordance with Japan GAAP and IFRS to meet the needs of our Japanese and international investors.

There are significant differences between Japan GAAP and IFRS as applied to us, including those relating to amortization of goodwill, listing related expenses, and share issuance expenses. These differences result in a material deviation between the net results projected under Japan GAAP and the net results projected under IFRS.

- *Goodwill on Consolidation*

- Japan GAAP requires consolidated goodwill to be amortized within 20 years. The goodwill on consolidation of the Company has been and projected to be amortized by the straight-line method over a period of 20 years. Under IAS 36, our goodwill on consolidation in connection with subsidiaries acquired on or after March 31, 2004 is not amortized but is assessed for impairment at least annually.

- *Share Issuance Related Expenses*

- Our share issuance costs under Japan GAAP are charged to income when incurred. Under IFRS, external costs directly attributable to the issue of new shares are shown as a deduction, net of tax, in equity from the proceeds.

- *Non-recurrent Listing Related Expenses*

- Under IFRS, non-recurrent listing related expenses are capitalized as a deduction, net of tax, rather than charged to income as under Japan GAAP.

EBITDA is presented in the projections because we believe it is an important measure of our financial performance. Due to the nature of our industry and extent of our acquisition activities, a large portion of our assets consists of purchased goodwill (or goodwill on consolidation). Purchased goodwill represents the excess of the aggregate purchase price over the fair value of the net assets of the business acquired and is required to be amortized under Japan GAAP. Since amortization expense is a non-cash expense, we view EBITDA as an important measure of our cash flow and overall financial performance.

The financial outlook for fiscal year ending December 2004 has been revised upward as follows:

Consolidated financial highlights based on Japan GAAP

(Unit: thousand of Yen except for Net Loss per Share, which is in Yen)

Fiscal Year Item	Year Ending December 2004 (revised projections)		Year Ending December 2004 (previous projections)		9 months ended September 2004 (actual)	Year Ended December 2003 (consolidated actual performance of XFN*1)	
	(projection)	Composition Ratio (%)	(projection)	Variance with current projections (%)			Composition Ratio (%)
Sales Amount	6,259,000	100.0	6,072,000	3.1	4,143,869	1,729,909	100.0
EBITDA*2	418,000	6.7	370,996	12.7	236,175	△99,725	△5.8
Ordinary Loss	858,000	△13.7	904,344	△5.1	673,132	467,808	△27.0
Net Loss	1,034,000	△16.5	1,116,864	△7.4	754,804	466,375	△27.0
Net Loss per Share*3	Yen 5,137.24		Yen 5,548.93		[Yen 12,265.98]	Yen 11,716.72	

For reference only (Unit: USD million except for Net Loss per Share, which is in USD)

Fiscal Year Item	Year Ending December 2004 (revised projections)		Year Ending December 2004 (previous projections)		9 months ended September 2004 (actual)	Year Ended December 2003 (consolidated actual performance of XFN*1)	
	(projection)	Composition Ratio (%)	(projection)	Variance with current projections (%)			Composition Ratio (%)
Sales Amount	56.9	100.0	55.2	3.1	38.7	16.1	100
EBITDA*2	3.8	6.7	3.4	12.7	2.2	△0.9	△5.8
Ordinary Loss	7.8	△13.7	8.2	△5.1	6.3	4.4	△27.0
Net Loss	9.4	△16.5	10.2	△7.4	7.0	4.4	△27.0
Net Loss per Share*3	USD 46.70		USD 50.44		[USD 114.50]	USD 109.37	

XFN and the Company have not paid any dividends since incorporation, and no dividends are expected to be paid in FY2004.

*1 Xinhua Financial Network Limited (“XFN”), the operating company of and predecessor to the Company, was incorporated and registered in Hong Kong on November 17, 1999. XFN was founded to become the comprehensive and definitive source of market indices, ratings, financial news and analysis necessary for making investment decisions in China's financial markets.

The Company was incorporated in January 2004 under the Companies Law in Cayman to be the holding company of XFN. Through a share exchange transaction completed in March 2004, all of the shares of XFN were transferred to the Company and in return the Company issued to

the shareholders of XFN an equivalent number of the Company's shares. As a result, the Company became the sole shareholder of XFN and the previous shareholders of XFN became the shareholders of the Company.

*2 EBITDA is defined as operating income or loss plus depreciation, amortization and amortization of goodwill.

*3 In August 2004, the Company announced a reverse share split. As such the above net loss per share for fiscal year ended 2003 and for the nine months ended September 2004 were retroactively adjusted assuming such reverse share split was made at the beginning of the year for the respective periods. In addition, preferred shares previously issued by the Company were automatically converted into ordinary shares on October 28, 2004 at the initial public offering ("IPO") of the Company's shares and such conversion is also retroactively applied from the beginning of the year for the respective periods above. The net loss per share for the year ended December 2004 is calculated by using 201,275.358 shares, the number of shares issued at the timing of the IPO, which includes 20,000 shares issued for the IPO.

*4 Revenue for FY2004 is projected to be 6,259 million Yen. Projected growth in 2004 is mainly driven by:

- Additional business developments in 2004 generated from demand for China focused financial information, product line extensions with existing clients, and introducing and bringing new products from acquired subsidiaries and strategic partners into the China market.
- New revenue streams from acquired subsidiaries in 2004 with significant impact in the second half of this year due to financial consolidation of subsidiaries purchased in June and July 2004.

As a result of projected higher revenue streams, EBITDA for FY2004 is projected to be 418 million Yen. The change from EBITDA of 418 million Yen to Ordinary Loss of 858 million Yen is mainly due to:

- non-cash depreciation and amortization expense that arises mainly from strategic acquisitions that add depth and breath to our existing product lines; and
- share issuance costs in relation to fund raising activities including the Tokyo listing.

The change from Ordinary Loss of 858 million Yen to Net Loss of 1,034 million Yen is mainly due to taxes and minority interests.

*5 As related to consolidated financial highlights in USD provided for reference only, conversion rate from USD to Yen is 1:110 whereas conversion rate for historical results is 1:107.13.

<Reference>

Consolidated financial highlights based on IFRS

(Unit: thousand of Yen)

Fiscal Year Item	Year Ending December 2004 (revised projections)		Year Ending December 2004 (previous projections)		9 months ended September 2004 (actual)	Year Ended December 2003 (consolidated actual performance of XFN*1)	
	(projection)	Composition Ratio (%)	(projection)	Variance with current projections (%)			Composition Ratio (%)
Sales Amount	6,259,000	100.0	6,072,000	3.1	4,143,869	1,614,449	100.0
EBITDA*2	418,000	6.7	370,996	12.7	247,899	△94,060	△5.8
Net Loss	352,000	5.6	393,910	△10.6	209,761	168,837	△10.5

For reference only (Unit: USD million)

Fiscal Year Item	Year Ending December 2004 (revised projections)		Year Ending December 2004 (previous projections)		9 months ended September 2004 (actual)	Year Ended December 2003 (consolidated actual performance of XFN*1)	
	(projection)	Composition Ratio (%)	(projection)	Variance with current projections (%)			Composition Ratio (%)
Sales Amount	56.9	100.0	55.2	3.1	38.7	15.1	100
EBITDA*2	3.8	6.7	3.4	12.7	2.3	△0.9	△5.8
Net Loss	3.2	5.6	3.6	△10.6	2.0	1.6	△10.5

*1 EBITDA is defined as operating income or loss plus depreciation, amortization and amortization of goodwill.

*2 As related to financial projections, conversion rate from USD to Yen is 1:110 whereas conversion rate for historical results is 1:107.13.

*3 Net loss under IFRS for FY2004 is projected to be 352 million Yen compared to net loss under Japan GAAP of 1,034 million Yen. The difference between net loss under Japan GAAP and net loss under IFRS is mainly due to non-cash depreciation and amortization expense and share issuance costs.

4. Third Quarter Balance Sheets & Income Statements and Notes

1 【THIRD QUARTER CONSOLIDATED FINANCIAL INFORMATION】

(1) 【Third Quarter Consolidated Financial Statements】

Third Quarter Consolidated Balance Sheet

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

Item	Note	Third quarter-current year (As of September 30, 2004)		
		Amount	(%)	
(Assets)				
I Current assets				
Cash and bank balances	※4	23,919 (2,562,464)	22.3	
Trade Receivable	※ 4	9,505 (1,018,231)		
Other receivable		686 (73,461)		
Deferred tax assets		287 (30,770)		
Other (current assets)	※ 4	3,162 (338,727)		
Total current assets		37,559 (4,023,653)		
II Non-current assets				
1 Property, plant and equipment				
Buildings and structures		526 (56,367)		2.1
Less: accumulated depreciation		△ 223 (△ 23,859)		
Equipments	※ 4	4,371 (468,221)		
Less: accumulated depreciation	※ 4	△ 1,129 (△ 120,958)		
Total property, plant and equipment		3,545 (379,771)		
2 Intangible assets				
Goodwill		12,181 (1,304,993)	68.7	
Goodwill on consolidation	※5	100,019 (10,715,044)		
Trade mark, brand name and distribution rights	※3	3,557 (381,033)		
Total intangible assets		115,757 (12,401,070)		
3 Investments and other assets				
Securities assets				
Investment in securities	※ 4	9,561 (1,024,372)	6.9	
Investment in progress	※2	25 (2,667)		
Deferred tax assets		1,858 (199,093)		
		133 (14,227)		
Total investments and other assets		11,578 (1,240,359)		
Total non-current assets		130,880 (14,021,200)	77.7	
Total assets		168,439 (18,044,853)	100.0	

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

		Third quarter -current year (As of September 30, 2004)	
Item	Note	Amount	(%)
(Liabilities)			
I Current liabilities			
Trade payable		3,274 (350,693)	
Short-term loans		134 (14,321)	
Bank borrowing - due within one year		29 (3,110)	
Taxation payable		1,168 (125,076)	
Other payable	※5	8,605 (921,820)	
Accrued expenses		3,340 (357,791)	
Deferred revenue		15,360 (1,645,524)	
Promissory note (non-operating)	※4、6	13,728 (1,470,673)	
Lease obligations	※4	42 (4,536)	
Total current liabilities		45,679 (4,893,544)	27.1
II Non-current liabilities			
Bank borrowing - due after one year		51 (5,442)	
Long-term lease obligations	※4	36 (3,825)	
Long-term other payable		3,192 (341,924)	
Long-term promissory note (non-operating)	※4、6	1,250 (133,913)	
Deferred tax liability		58 (6,235)	
Other		170 (18,187)	
Total non-current liabilities		4,756 (509,526)	2.8
Total liabilities		50,435 (5,403,069)	29.9
(Minority interests)			
Minority Interest	※1	△ 199 (△ 21,354)	△ 0.1
(Capital and reserves)			
Share capital		465 (49,795)	
Share Premium		148,209 (15,877,659)	
Retained earnings		△ 30,410 (△ 3,257,877)	
Translation adjustment		△ 60 (△ 6,440)	
Total shareholders' equity		118,203 (12,663,137)	70.2
Total liabilities, minority interests and shareholders' equity		168,439 (18,044,853)	100.0

Third Quarter consolidated income statement

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

Item	Note	Third quarter -current year (From January 1, 2004 to September 30, 2004)		
		Amount	(%)	
I Turnover			38,681	100.0
II Cost of sales			(4,143,869)	
			18,658	48.2
			(1,998,779)	
Gross profit			20,023	51.8
			(2,145,090)	
III Selling, general and administrative expenses				
Directors' emoluments		855		
		(91,557)		
Salary		6,919		
		(741,236)		
Marketing and promotion expense		1,555		
		(166,615)		
Depreciation		715		
		(76,621)		
Amortization		1,965		
		(210,555)		
Amortization of goodwill		1,836		
		(196,727)		
Other		8,490	22,336	57.8
		(909,507)	(2,392,819)	
Operating loss			2,312	△ 6.0
			(247,728)	
IV Non-operating income				
Interest income		11		
		(1,215)		
Gain on foreign exchange		45		
		(4,867)		
Consumption tax refund		12		
		(1,329)		
Franchise commission income		12		
		(1,296)		
Other		1	82	0.3
		(93)	(8,799)	
V Non-operating expenses				
Interest expense		348		
		(37,323)		
Share issuance related expenses	※1	2,740		
		(293,585)		
Listing related expenses		964	4,053	10.5
		(103,295)	(434,203)	
Ordinary loss			6,283	△ 16.2
			(673,132)	

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

Item	Note	Third quarter -current year (From January 1, 2004 to September 30, 2004)		Amount	(%)
VI Extraordinary gains					
Gain on relief of debt		4 (477)	4 (477)		0.0
VII Extraordinary losses					
Loss on disposal of fixed assets	※2	2 (179)	2 (179)		0.0
Loss before tax, minority interest and distribution of profits (allocation of losses) from joint alliance			6,281 (672,835)		△ 16.2
VIII Distribution of profits (allocation of losses) from joint alliance			△ 150 (△ 16,018)		△ 0.3
Loss before tax and minority interest			6,430 (688,853)		△ 16.6
Income taxes (current)		615 (65,848)			
Income taxes (deferred)		△100 (△ 10,713)	515 (55,135)		1.3
Minority interests			101 (10,815)		△ 0.4
Net loss for the period			7,046 (754,804)		△ 18.2

Third Quarter consolidated surplus statement

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

		Third quarter -current year (From January 1, 2004 to September 30, 2004)	
Item	Note	Amount	
(Share premium)			
I Share premium – January 1, 2004			51,174 (5,482,312)
II Increases of share premium			
1. Stock issuance		51,868 (5,556,642)	
2. Share premium increased upon share exchange	※2	46,168 (4,945,929)	
3. Suspense account of share exchange	※1	2,604 (278,913)	100,639 (10,781,484)
III Decrease of share premium			
1. Suspense account of share exchange	※2	3,604 (386,137)	3,604 (386,137)
IV Share premium - September 30, 2004			148,209 (15,877,659)
(Retained earnings)			
I Retained earnings - January 1, 2004			△ 23,365 (△ 2,503,073)
II Decreases of retained earnings			
1. Net loss for the period		7,046 (754,804)	7,046 (754,804)
III Retained losses - September 30, 2004			△30,410 (△ 3,257,877)

Third Quarter consolidated Cashflow Statement

(Unit: Thousands of US dollars (Thousands of Japanese Yen))

		Third quarter -current year (From January 1, 2004 to September 30, 2004)
Item	Note	Amount
I Operating activities		
Loss before tax and minority interest		△6,430 (△ 688,853)
Depreciation		715 (76,621)
Amortization		1,965 (210,555)
Amortization of goodwill		1,836 (196,727)
Interest income		△11 (△1,215)
Interest expense		348 (37,323)
Share issuance related expenses		2,740 (293,585)
Listing related expenses		964 (103,295)
Foreign exchange gain(loss) (△ : gain)		△51 (△5,437)
Loss on disposal of fixed assets		2 (179)
Gain on relief of debts		△4 (△477)
Distribution of profits (allocation of losses) from joint alliance		150 (16,018)
Assets received for services		△5,337 (△571,737)
Increase (decrease) in accounts receivable (△ : increase)		△6,271 (△671,817)
Increase (decrease) in accounts payable(△ : decrease)		△2,428 (△260,059)
Increase (decrease) in other current assets (△ : increase)		2,412 (258,440)
Increase (decrease) in other current liabilities(△ : decrease)		7,173 (768,488)
Subtotal		△2,225 (△238,363)
Taxes paid		△256 (△27,469)
Net cash from (used in) operating activities		△2,481 (△265,832)

(Unit: Thousands of US dollars (Thousands of Japanese Yen))

		Third quarter -current year (From January 1, 2004 to September 30, 2004)
Item	Note	Amount
II Investing activities		
Interests and dividends received		11 (1,215)
Deposit for security		Δ 360 (Δ 38,567)
Purchase of property, plant and equipment		Δ 835 (Δ 89,427)
Sale of property, plant and equipment		33 (3,522)
Payment for assets transfer		Δ4,012 (Δ 429,849)
Payment for investment in progress		Δ44 (Δ 4,735)
Payment to acquire shares of subsidiary		Δ65 (Δ 6,963)
Payment to acquire shares of subsidiary resulting a change in scope of consolidation		Δ36,500 (Δ 3,910,199)
Net cash used in investing activities		Δ41,772 (Δ 4,475,004)
III Financing activities		
Interest paid		Δ 348 (Δ 37,323)
Increase (decrease) in short-term loans –net (Δ : decrease)		Δ 700 (Δ 75,009)
Long-term loans raised		1,468 (157,301)
Proceeds from issuance of shares		49,285 (5,279,904)
Repayments of lease obligation		Δ40 (Δ 4,274)
Net cash from (used in) financing activities		49,665 (5,320,598)
IV Foreign currency translation adjustments on cash and cash equivalents		5 (570)
V Net increase in cash and cash equivalents		5,417 (580,332)
VI Cash and cash equivalents, beginning of year		18,142 (1,943,565)
VII Cash and cash equivalents, end of the period	※ 1	23,559 (2,523,897)

Basis of presenting Third quarter consolidated financial statements

Item	Third quarter -current year (From January 1, 2004 to September 30, 2004)
1 Scope of consolidation	<p>(1) The number of consolidated subsidiary: 22 The name of consolidated subsidiaries are followings: 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 Financial Network Ltd. (Taiwan) AFX Asia Pte Ltd. Xinhua Financial Network (Beijing) Ltd. Xinhua Finance Japan Ltd.(formerly known as Xinhua Netchina Ltd.) 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.</p> <p>(2) Name 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) Because 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.</p>
2 Adoption of equity method	<p>(1) There is no group company accounted by the equity method. (2) 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) Because 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.</p>
3 Reconciliation of closing date for consolidation	There is no consolidated subsidiary whose closing date is different from that of the Company.

Item	Third quarter -current year (From January 1, 2004 to September 30, 2004)
4 Method of business combination	<p>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.</p> <p>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)</p>
5 Significant accounting policies	
(1) Valuation basis and method for assets	<p>Securities</p> <p>Available-for sale securities -With no fair value Cost method based on moving-average method is applied</p>
(2) Depreciation or amortization method	<p>(a) Property, plant and equipment</p> <p>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.</p> <p>Estimated useful lives are the followings: Buildings and structures: 3 to 7 years Equipments: 1 to 10 years</p>
(3) Allowance, reserve and provision	<p>(b) Intangible assets</p> <p>Intangible assets are amortized by the straight-line method. Estimated useful lives are as follows: Trade mark, brand name and distribution rights: 5 to 11 years Goodwill : 4 to 5 years</p> <p>Allowance for Doubtful Accounts</p> <p>For the Company and its non-Japanese subsidiaries, the allowance has been determined by reference to past default experience. For the 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.</p>
(4) Conversion of significant items in foreign currencies	<p>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 account are translated into U.S. Dollars at average rate of the period. The foreign exchange gains and losses from translation are recognized in the income statement.</p> <p>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 account are translated into U.S. Dollars at average rate applicable for the period. Differences arising from such translation are shown as "Translation adjustments" in a separate component of shareholders' equity.</p>
(5) Leases	<p>For finance leases deemed NOT to transfer ownership of the leased property to the lessee, leased property are capitalized.</p>
(6) Other significant items for the preparation of the consolidated financial statements	<p>Accounting policy of the consumption tax Tax-excluding method is applied.</p>
6 Cash and cash equivalents in consolidated cashflow statement	<p>Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents are what mature or become due within three months of the date of acquisition.</p>

Footnote information

(Third Quarter Consolidated Balance sheet)

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

Third quarter -current year (As of September 30, 2004)	
※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, whereas the Company and FTSE are jointly liable for the deficit of the subsidiary.	
※2 The amount represents deposit paid for acquisition of an 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 are included in this account as well.	
※4 Assets collateralized and corresponding liabilities	
Assets collateralized	
Bank deposit	423
	(45,364)
Trade receivables	511
	(54,734)
Other (current assets)	751
	(80,496)
Equipments	93
	(9,946)
Investment in securities	25
	(2,667)
Correspondent obligation	
Promissory note (non-operating)	
Short-term	900
	(96,417)
Long-term	1,250
	(133,913)
Lease obligation (including obligations for operating lease)	
Short-term	760
	(81,383)
Long-term	2,395
	(256,568)
※5 The consideration for acquisition of shares of Stone & McCarthy Research Associates, Inc. can fluctuate since determination is based on the operating results of the respective company in the future.	
※6 This promissory note was issued as part of the consideration mainly for acquisition of shares of Mergent, Inc. and Ford Investor Services Inc., which became consolidated subsidiaries of the Company during the period.	
7 Assets are presented after deduction of allowance for doubtful accounts.	
Amounts deducted from current assets	683
	(73,245)

(Third Quarter Consolidated income statement)

Third quarter -current year (From January 1, 2004 to September 30, 2004)	
※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:	
Buildings and structures	0
(19)	
Equipments	
2	
(160)	

(Third Quarter Consolidated Surplus statement)

Third quarter -current year (From January 1, 2004 to September 30, 2004)	
※1 The Company acquired shares of Stone & McCarthy Research Associates, Inc. through a share exchange contract with the result that it became the Company's subsidiary. However, the Company's shares to be transferred have not been issued, accordingly, acquisition costs of subsidiaries are included in share premium.	
※2 This represents transfer of suspense account of share exchange into share capital and share premium due to 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.).	

(Third Quarter Consolidated Cashflow Statement)

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

Third quarter -current year (From January 1, 2004 to September 30, 2004)	
1 Reconciliation between ending balances of cash and cash equivalents in consolidated cashflow statement and balance in consolidated balance sheet	
Cash and bank balances	23,919
	(2,562,464)
Deposit pledged as collateral	△360
	(△38,567)
Cash and cash equivalents	23,559
	(2,523,897)

(Lease transaction)

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

Third quarter -current year (From January 1, 2004 to September 30, 2004)	
Operating leases;	
Unearned lease expenses	
Within one year	2,965
	(317,647)
After one year	5,822
	<u>(623,728)</u>
Total	8,787
	(941,375)

(Securities)

1 Securities not stated at fair value

Thousands of U.S. Dollars (Thousands of Japanese Yen)

Category	Third quarter -current year (As of September 30, 2004)
	Amounts on the consolidated balance sheet
Other investments	
(1)Options and warrants	9,561
	(1,024,372)
Total	9,561
	(1,024,372)

(Note1) Other investments are the Securities assets on the Consolidated Balance Sheet.

(Note2) The Securities assets are stated at appraised value determined by a qualified appraiser at the time of transaction.

(Derivative transactions)

Third quarter -current year (From January 1, 2004 to September 30, 2004)

The Group does not enter into any derivative contracts.

(Segment information)

【Business Segment】

The Group is engaged solely in financial information business which includes distribution of financial indices, financial news, credit rating, and investor relation services, public relations services for investors and relevant services. Thus, information of business segmentation is omitted.

【Regional Segmental Information】

Third quarter -current year (From January 1, 2004 to September 30, 2004)

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

	Japan	Asia	North America	Other location	Total	Eliminated or unallocated	Consolidated
Sales and operating income/loss							
Sales							
(1) Outside customer	2,064 (221,124)	14,564 (1,560,294)	21,492 (2,302,470)	560 (59,982)	38,681 (4,143,869)	- (-)	38,681 (4,143,869)
(2) Inter segment or transfer	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
Total	2,064 (221,124)	14,564 (1,560,294)	21,492 (2,302,470)	560 (59,982)	38,681 (4,143,869)	- (-)	38,681 (4,143,869)
Operating expenses	2,131 (228,247)	16,096 (1,724,373)	21,018 (2,251,684)	2,071 (221,830)	41,316 (4,426,134)	△ 322 (△34,536)	40,993 (4,391,598)
Operating income (loss)	△ 66 (△7,123)	△ 1,532 (△164,079)	474 (50,786)	△ 1,511 (△161,848)	△ 2,635 (△282,265)	322 (34,536)	△ 2,312 (△247,728)

Note

- 1 Location segments are based on the 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 area U.K.

【Overseas sales】

Third quarter -current year (From January 1, 2004 to September 30, 2004)

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

	Asia	North America	Europe	Other	Total
I Overseas Sale	7,696 (824,492)	21,288 (2,280,586)	6,627 (709,984)	63 (6,696)	35,674 (3,821,759)
II Consolidated Sale	- (-)	- (-)	- (-)	- (-)	38,681 (4,143,869)
III Ratio of overseas sale which accounts for consolidated sale (%)	19.9%	55.0%	17.1%	0.2%	92.2%

Note

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

(Per share information)

(Unit: U.S. Dollars (Japanese Yen))

Item	Third quarter -current year (From January 1, 2004 to September 30, 2004)
Net assets per share	784.49 (84,042.26) 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	114.50 (12,265.98) For diluted net profits per share, even if the Company has shares with dilution effect, the Company is in a loss position, and the average share price of the Company cannot be identified since the Company is not a listed company, thus, such information is not stated.

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

(Unit: Thousands of U.S. Dollars (Thousands of Japanese Yen))

Item	Third quarter -current year (From January 1, 2004 to September 30, 2004)
Net loss on the income statement	7,046 (754,804)
Net loss NOT attributed to ordinary shares	— (—)
Net loss attributed to ordinary shares	7,046 (754,804)
Average number of ordinary shares during the period	61,536.37

(Subsequent events)

Third quarter –current year (From January 1, 2004 to September 30, 2004)	
1	Public offering
<p>The Company was listed on the MOTHERS of Tokyo Stock Exchange on October 28, 2004. Pursuant to the unanimous written resolution of the Board of Directors passed on September 16, 2004, the Company issued new shares through the public offering (book-building formula), the payment date of which is October 28, 2004. Terms of share issuance are summarized in the following table;</p>	
(1)	Issued shares: 20,000 ordinary shares
(2)	Issue price: ¥175,000
(3)	Underwriting price: ¥162,750
(4)	Aggregated amount to be credited to Share Capital: \$51 thousand
(5)	Aggregated amount to be paid: ¥3,255,000 thousand
(6)	Use of proceeds:
<p>Out of the above aggregated amount of net proceeds, approximately ¥1,749,000 thousands will be used to make payments in connection with the acquisition of shares of Mergent, SMRA and Ford as well as assets of Iverson, and the remainder will be used for capital expenditures, general working capital and future acquisition purposes.</p>	
<p>The Company will invest the proceeds in safe and secure financial products until they are used for said purposes.</p>	
<p>As a result of this transaction, the amount of Share Capital became \$516 thousands (¥55,289 thousands) and the number of issued shares became 201, 275.358.</p>	

Third quarter –current year
(From January 1, 2004 to September 30, 2004)

2 New Share Issuance by the Third-party Allotment in relation to the Secondary Offering through Over-allotment

The Company resolved to issue new shares by the Third-party Allotment in relation to the secondary offering through Over-allotment (Secondary Offering of 4,297 ordinary shares, which Nomura Securities Co., Ltd. borrowed from a shareholder of the Company), which was approved by the unanimous written resolution of the Board of Directors on September 16, 2004. However, Nomura Securities Co., Ltd. may conduct Syndicate-covering Transaction, in which case shares to be issued by the Third-party Allotment will not be, in whole or in part, subscribed so that the number of shares to be issued through the Third-party Allotment may decrease due to forfeiture, and the entire issue may be aborted.

Terms of share issuance are summarized in the following table;

- | | |
|---|-----------------------------|
| (1)Shares to be issued: | 4,297 ordinary shares |
| (2)Allotment price: | ¥175,000 |
| (3)Issue price: | ¥162,750 |
| (4)Aggregated amount to be credited to Share Capital: | \$11 thousand |
| (5)Allottee: | Nomura Securities Co., Ltd. |

(6)Use of proceeds:

The above amount of net proceeds will be used for capital expenditures, general working capital and future acquisition purposes.

The Company will invest the proceeds in safe and secure financial products until they are used for said purposes.

Third quarter –current year
(From January 1, 2004 to September 30, 2004)

3 Preferred share conversion upon listing

Preferred shares shall automatically be converted into ordinary shares at listing. If the conversion have been exercised at the beginning of the period, “Per share information” would be as follows:

Net assets per share 914.83 (98,055.27)

Net loss per share 59.24 (6,346.12)

For diluted net profits per share, even if the Company has shares with dilution effect, the Company is in a loss position, thus, such information is not stated.