

# **ANNUAL SECURITIES REPORT**

**Xinhua Finance Limited**

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Applicable Clause: First clause of Article 24, Financial Instruments and Exchange Law

To: The Director of Kanto Local Finance Bureau

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(From January 1, 2009 to December 31, 2009)

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Chief Executive Officer

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## TABLE OF CONTENTS

<b>PART I. CORPORATE INFORMATION .....</b>	<b>2</b>
I. OUTLINE OF LEGAL AND OTHER SYSTEMS IN THE HOME COUNTRY.....	2
1. Outline of Corporate System, etc. ....	2
2. Foreign Exchange Control System.....	12
3. Tax Treatment .....	12
4. Legal Opinion .....	13
II. OUTLINE OF THE GROUP .....	14
1. Trends in Key Financial Data.....	14
2. Brief History .....	17
3. Nature of Business .....	22
4. Related Companies (as of December 31, 2009).....	27
5. Employees.....	30
III. CONDITION OF BUSINESS OF THE GROUP .....	32
1. Summary of Results of Operations, etc. ....	32
2. Condition of Production, Order Acceptance and Sales .....	33
3. Issues To Be Resolved .....	33
4. Risks Related to Business etc. ....	34
5. Material Contracts Relating to Business .....	41
6. Research and Development.....	42
7. Analysis of Financial Condition, Operating Results and Cash Flow .....	42
IV. CONDITION OF FACILITIES.....	47
1. Outline of Investment in Facilities, etc. ....	47
2. Condition of Major Facilities (As of December 31, 2009).....	47
3. Plans for Installation, Removal, etc. of Facilities.....	48
V. CONDITION OF THE REPORTING COMPANY.....	49
1. Condition of Shares, etc. (As of December 31, 2009).....	49
2. Dividend Policy.....	53
3. Trend in Share Prices .....	53
4. Director and Officers.....	53
5. Condition of Corporate Governance, etc.....	56
VI. FINANCIAL CONDITION .....	59
1. Financial Information.....	60

2.	Schedule of major assets, liabilities, profits and losses .....	115
3.	Other .....	115
VII.	TREND IN FOREIGN EXCHANGE RATES.....	116
VIII.	SUMMARY OF SHARE HANDLING, ETC. IN JAPAN .....	117
1.	Summary of Share Handling, etc. in Japan .....	117
2.	Exercise of Rights of Beneficial Shareholders in Japan, etc. ....	118
IX.	REFERENCE INFORMATION .....	120
1.	Parent Company .....	120
2.	Other Reference Information .....	120
<b>PART II.</b>	<b>INFORMATION ON THE GUARANTOR, ETC. ....</b>	<b>122</b>
I.	INFORMATION ON THE GUARANTOR .....	122
II.	INFORMATION ON THE COMPANIES OTHER THAN THE GUARANTOR .....	122
III.	INFORMATION ON INDEX, ETC.....	122

Notes:

1. As used in this document, and unless otherwise described or the context otherwise requires, references are as follows:

- **“Beneficial Shareholders”** refers to the beneficial holders of shares of the Company.
- **“Beijing Century Media Culture”** refers to Beijing Century Media Culture Co., Ltd..
- **“BOABC”** refers to Beijing Orient Agribusiness Consultants Co., Ltd..
- **“CEIS”** refers to China Economic Information Services, the communications branch of XNA.
- **“China”** or **“PRC”** refers to the People’s Republic of China.
- **“Company”**, **“Issuer”** or **“XFL”** refers to Xinhua Finance Limited.
- **“Companies Law”** refers to the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.
- **“CSRC”** refers to the Chinese Securities Regulatory Commission.
- **“EconWorld”** refers to EconWorld Media Ltd..
- **“Exchange”** refers to The Tokyo Stock Exchange, Inc..
- **“FIEL”** refers to the Financial Instruments and Exchange Law of Japan, as amended.
- **“FTSE”** refers to FTSE Group, a joint venture between the Financial Times and the London Stock Exchange.
- **“Fortune China”** refers to Fortune China Public Relations Limited.
- **“FXI”** refers to FTSE/Xinhua Index Limited.
- **“G7 Group”** refers to The G-7 Group, Inc..
- **“GLC”** refers to Glass, Lewis & Co., LLC.
- **“Hong Kong”** refers to the Hong Kong Special Administrative Region.
- **“HK\$”** refers to the Hong Kong Dollar, the lawful currency of the Hong Kong Special Administrative Region
- **“IFRS”** refers to International Financial Reporting Standards issued by the International Financial Reporting Standards Committee.
- **“Japanese GAAP”** refers to the accounting principles generally accepted in Japan.
- **“JASDEC”** refers to Japan Securities Depository Center, Inc..
- **“JP¥”** or **“¥”** refers to Japanese Yen, the lawful currency of Japan.
- **“KLFB”** refers to the Kanto Local Finance Bureau.
- **“Mergent”** refers to Mergent, Inc..
- **“MNI”** refers to Market News International, Inc..
- **“RMB”** refers to Renminbi, the lawful currency of the PRC.
- **“SFE”** refers to Shanghai Far East Credit Rating Co. Ltd.
- **“Shanghai Pobo Data and Information”** refers to Shanghai Pobo Data and Information Network Consulting Co., Ltd..

- “**SMRA**” refers to Stone & McCarthy Research Associates, Inc..
  - “**Taylor Rafferty**” refers to Taylor Rafferty Associates, Inc..
  - “**US\$**”, “**U.S. dollar**” or “**USD**” refers to the United States dollars, the lawful currency of United States of America.
  - “**Washington Analysis**” refers to Washington Analysis LLC or Washington Analysis Corporation, as the case may be.
  - “**We**” or the “**Group**” refers to the Company and its consolidated subsidiaries.
  - “**XFI**” refers to the Xinhua FTSE Index.
  - “**XFN**” refers to Xinhua Financial Network Limited.
  - “**XNA**” refers to Xinhua News Agency, the official news agency of China.
  - “**XSEL**” refers to Xinhua Sports & Entertainment Limited (formerly known as Xinhua Finance Media Limited).
2. For convenience, conversion of U.S. dollars from our financial statements into Japanese yen is calculated by the foreign currency exchange rate (middle rate at US\$ 1.00 = JP¥ 92.10) from the quotations by the Bank of Tokyo-Mitsubishi UFJ, Ltd. for buying and selling spot US\$ by telegraphic transfer against yen as of December 30, 2009, in accordance with Article 132 of the Financial Statements Rules. Unless otherwise indicated, U.S. dollar amounts are presented in thousands (rounded), and Japanese yen amounts are stated in millions (rounded). Please note that these 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. Conversion of U.S. dollars from our financial statements into Hong Kong dollars is calculated using the foreign currency exchange rate of US \$1.00 = HK \$7.80.
3. Where figures in tables in this document have been rounded, the totals may not necessarily agree to the sum of the figures.



## **PART I. CORPORATE INFORMATION**

### **I. OUTLINE OF LEGAL AND OTHER SYSTEMS IN THE HOME COUNTRY**

#### **1. Outline of Corporate System, etc.**

##### **(1) Corporate System of the Country and State in which the Issuer is Incorporated**

###### **Cayman Islands Company Law**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

###### **Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

###### **Share capital**

The authorized share capital of the Company is denominated in Hong Kong dollars. In general, the shares of a Cayman Islands company may be constituted with or without par value, and may be issued in registered or bearer form. In the case of the Company, the Memorandum of Association provides for shares to be issued in registered form. The shares of the Company have a par value of HK\$20.00.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its Memorandum and Articles of Association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that a company limited by shares or a company limited by guarantee and having a share capital, if so authorized by its Articles of Association, may by a resolution of members alter the conditions of its Memorandum to:

- (a) increase its share capital by creating new shares of such amount as it thinks fit;
- (b) consolidate and divide all or any of its share capital (except shares without nominal or par value) into shares of larger amount than its existing shares;
- (c) convert all or any of its paid-up shares (except shares without nominal or par value) into stock, and reconvert that stock into paid-up shares of any denomination;

- (d) subdivide its shares (except shares without nominal or par value) or any of them, into shares of an amount smaller than that fixed by the Memorandum of Association so however that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
- (e) cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled or, in the case of shares without nominal or par value, diminish the number of shares into which its capital is divided.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its Articles of Association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

#### **Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

#### **Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its Articles of Association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its Articles of Association, purchase its own shares, including any redeemable shares. However, if the Articles of Association do not authorize the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's Memorandum or Articles of Association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its Memorandum of Association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

#### **Transfer of shares**

There are no provisions in the Companies Law with respect to the transfer of shares of a company and the requirements for a transfer will therefore be governed by the Memorandum and Articles of Association of the

company. The Companies Law however provides that any transfer of the share or other interest of a deceased member of a company made by his personal representative will, notwithstanding that such personal representative may not himself be a member, be of the same validity as if he had been a member at the time of the execution of the instrument of transfer.

### **General meetings**

The regulations for convening, conducting and voting at general meetings of a company will be determined in accordance with the company's Memorandum and Articles of Association. Where the Memorandum and Articles of Association are silent as to how a meeting may be convened, three shareholders shall be entitled to summon a general meeting of shareholders. Where the Memorandum and Articles of Association are silent as to the length of notice for convening a meeting, a meeting may be held on five days' notice served on each shareholder. Where there is no provision in the Memorandum or Articles of Association for voting at a general meeting, every shareholder shall have one vote.

### **Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provision relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's Memorandum and Articles of Association, the payment of dividends and distributions out of the share premium account (see "Share Capital" above for further details).

### **Protection of minorities**

Under Cayman Islands law, shareholders are entitled to have the affairs of the company conducted in accordance with general law and in particular with the company's Memorandum and Articles of Association.

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's Memorandum and Articles of Association.

### **Management**

In general, the business of a company will be carried on in accordance with its Memorandum and Articles of Association. The Articles of Association of the Company provide that the business of the Company shall be managed and conducted by the board of the Company who may exercise all the powers of the Company which are not by law or the Articles of Association required to be exercised by the Company in general meeting, subject nevertheless to any provisions of law and the articles and any regulations prescribed by the Company in general meeting.

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **Accounting requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

#### **Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

#### **Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its Articles of Association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

#### **Winding up**

A company may be wound up by either an order of the court or by a special resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its Memorandum expires, or the event occurs on the occurrence of which the Memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or anyone or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for a company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of a company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

#### **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

### **Mergers and consolidations**

A mechanism for mergers and consolidations, which does not require sanction by the Courts, was introduced in 2009. The directors of each constituent company must approve a written plan of merger or consolidation, which must be authorized by (a) a shareholder resolution by majority in number representing 75% in value of the shareholders voting together as one class; and (b) if the shares to be issued to each shareholder in the consolidated or surviving company are to have the same rights and economic value as the shares held in the constituent company, a special resolution of the shareholders voting together as one class. The consent of each holder of a fixed or floating security interest of a constituent company is required unless the Court waives the requirement for consent. A dissenting shareholder of a Cayman constituent company is entitled to payment of the fair value of his shares upon dissenting to the merger or consolidation.

### **Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offerer may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offerer and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

### **Indemnification**

Cayman Islands law does not limit the extent to which a company's Articles of Association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## **(2) Corporate System as Provided for in the Memorandum of Association and Articles of Association of the Issuer**

The Company was incorporated in the Cayman Islands on January 5, 2004 as an exempted company with limited liability under the Companies Law. As an exempted company, its operations must be conducted primarily outside the Cayman Islands.

### ***Memorandum and Articles of Association***

#### **Meetings**

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. Notice of every general meeting shall be given to all our members other than those who under the provisions of our Articles of Association or the terms of issue of the ordinary shares they hold, are not entitled to receive such notices from us, and also to our auditors for the time being.

No business other than the appointment of a chairman shall be transacted at any general meeting unless a quorum is present at the commencement of business.

Two of our members present in person or by proxy holding shares shall be a quorum provided that shares representing not less than one-third of the total voting rights of all members having the right to vote at the meeting shall be a quorum where a special resolution is to be considered.

A corporation being a member shall be deemed for the purpose of our Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting or at any relevant general meeting of any class of our members. Such duly authorized representative shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were our individual member.

The quorum for a separate general meeting of the holders of a separate class of our shares is described in "Modification of Rights" below.

#### **Special resolution - supermajority required**

Pursuant to our Articles of Association, a special resolution must be passed by a majority of not less than two-thirds of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if it is so agreed by all the members having a right to attend and vote at such meeting, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given. A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution is defined in our Articles to mean a resolution passed by a simple majority of the votes of such members as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with our Articles.

#### **Voting rights attaching to the ordinary shares**

Subject to any special rights or restrictions as to voting for the time being attached to any ordinary shares, at any general meeting every member who is present in person or by proxy (or, in the case of a member being a corporation, by its duly authorized representative) shall have one vote, and on a poll every member present in person or by proxy (or, in the case of a member being a corporation, by its duly appointed representative) shall have one vote for each share which such member is the holder.

No member shall be entitled to vote or be recognized in a quorum in respect of any share unless such member is registered as our shareholder at the applicable record date for that meeting and all calls or installments due by such member to us have been paid.

If a recognized clearing house (or its nominee(s)) is our member it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting or at any meeting of any class of members provided that, if more than one person is so authorized, the authorization shall specify the number and class of ordinary shares in respect of which each such person is so authorized. A person authorized pursuant to this provision is deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of our ordinary shares held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

There are no restrictions imposed by Cayman law or our Articles on the rights of our members to hold or vote their shares by reason of where they reside. Our Articles, however, provide that we are not obliged, when making or granting any allotment of, offer of, option over or disposal of shares or issuing shares in satisfaction wholly or in part of a dividend declared, to make or make available, any such allotment, offer, option or shares to our members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in our opinion, be unlawful or impracticable.

#### **Protection of minorities**

The Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of our ordinary shares in issue, appoint an inspector to examine into our affairs and to report thereon in a manner as the Grand Court shall direct.

Any shareholder may petition the Grand Court of the Cayman Islands which may make a winding up order, if the court is of the opinion that it is just and equitable that we should be wound up.

Claims against us by our members must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as members as established by our Memorandum and Articles of Association.

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against, or derivative actions in our name to challenge (a) an act which is ultra vires or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of us, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

### **Pre-emption rights**

There are no pre-emption rights applicable to the issue of new ordinary shares under either Cayman Islands law or our Memorandum and Articles of Association.

### **Liquidation rights**

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of ordinary shares (i) if we are wound up and the assets available for distribution among our members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst those members in proportion to the amount paid up at the commencement of the winding up on the ordinary shares held by them, respectively and (ii) if we are wound up and the assets available for distribution among the members as such shall be insufficient to repay the whole of the paid-up capital, these assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up at the commencement of the winding up on the ordinary shares held by them, respectively.

If we are wound up, the liquidator may with the sanction of a special resolution and any other sanction required by the Companies Law, divide among our members in specie or kind the whole or any part of our assets (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any assets, shares or other securities upon which there is a liability.

### **Modification of rights**

Except with respect to share capital (as described below) and the location of the registered office, alterations to our Memorandum and Articles of Association may only be made by special resolution.

Subject to the Companies Law, all or any of the special rights attached to shares of any class (unless otherwise provided for by the terms of issue of the shares of that class) may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of our Articles of Association relating to general meetings shall apply *mutatis mutandis* to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting other than an adjourned meeting shall be a person or persons together holding (or represented by proxy) on the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, every holder of shares of the class shall be entitled on a poll to one vote for every such share held by such holder and that any holder of shares of that class present in person or by proxy may demand a poll. At an adjourned meeting of such holders, two holders present in person or by proxy (whatever the number of ordinary shares held by them) shall be a quorum.

The special rights conferred upon the holders of any class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further ordinary shares ranking *pari passu* therewith.

### **Alteration of capital**

We may from time to time by ordinary resolution:

- (a) increase our capital by such sum, to be divided into such class of shares of such amounts, as the resolution shall prescribe;
- (b) consolidate and divide all or any of our share capital into such class of shares of larger amount than our existing shares of such class;
- (c) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law;
- (d) sub-divide our shares or any of them into shares of smaller amount than is fixed by our Memorandum and Articles of Association, subject nevertheless to the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the share resulting from such subdivision, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as we have power to attach to unissued or new shares; and
- (e) divide shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares, attach to the shares respectively as preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination in general meeting may be determined by the directors.

We may, by special resolution, subject to any confirmation or consent required by the Companies Law, reduce our share capital or any capital redemption reserve in any manner authorized by law.

#### **Transfer of shares**

Subject to such of the restrictions of our Articles of Association as may be applicable, any of our members may transfer all or any of his or her shares by an instrument of transfer in the usual or common form or in or such other form prescribed by a stock exchange on which our shares are listed or in any other form which the directors may approve.

Our directors may decline to register any transfer of any share unless:

- (a) the instrument of transfer is lodged with us accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; and
- (e) a fee of such maximum sum as stock exchange on which our shares are listed may determine to be payable (or such lesser sum as the directors may from time to time require) is paid to us in respect thereof.

If the directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as the directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our directors may determine.

#### **Share repurchase**

We are empowered by the Companies Law and our Articles of Association to purchase our own shares subject to certain restrictions. Our directors may only exercise this power on our behalf, subject to the Companies

Law, our Memorandum and Articles of Association and to any applicable requirements imposed from time to time by the Exchange or by other recognized stock exchange.

### **Dividends**

Subject to the Companies Law, in a general meeting we may declare dividends in any currency but no dividends shall exceed the amount recommended by our directors. Dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our directors determine is no longer needed. With the sanction of a special resolution, dividends may also be declared out of the share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to or the terms of issue of any share otherwise provides (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on that share; and (ii) all dividends shall be apportioned and paid *pro rata* according to the amounts paid upon the shares during any portion or portions of the period in respect of which the dividend is paid.

Our directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to us on account of calls, installments or otherwise.

No dividend or other monies payable by us on or in respect of any share shall bear interest against us. In respect of any dividend proposed to be paid or declared on our share capital, our directors may resolve and direct that: (i) such dividend be satisfied wholly or in part in the form of an allotment of ordinary shares credited as fully paid up, provided that our members entitled thereto will be entitled to elect to receive such dividend (or part thereof if our directors so determine) in cash in lieu of such allotment; or (ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the directors may think fit. The directors may also, with the sanction of our members in general meeting, resolve in respect of any particular dividend that, notwithstanding the foregoing, it may be satisfied wholly in the form of an allotment of ordinary shares credited as fully paid up without offering any right of members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by check or warrant sent by mail addressed to the holder at his registered address, or addressed to such person and at such addresses as the holder may direct. Every such check or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such ordinary shares, and shall be sent at his or their risk and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to us.

Any dividend unclaimed after a period of six years from the date of declaration of such dividend may be forfeited by our board and, if so forfeited, shall revert to us.

Whenever our directors or the members in general meeting have resolved that a dividend be paid or declared, the directors may further resolve that such dividend be satisfied by direct payment or satisfaction wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe for our securities or securities of any other company, and where any difficulty arises with regard to such distribution, the directors may settle it as they think expedient, and in particular may issue fractional certificates or authorize any person to sell and transfer any fractions or may ignore fractions altogether, and may fix the value for distribution purposes of any such specific assets and may determine that cash payments shall be made to any of our members upon the footing of the value so fixed in order to adjust the rights of the parties and may vest any such specific assets in trustees as may seem expedient to the directors.

### **Untraceable shareholders**

We are entitled to sell any share of a member who is untraceable, provided that:

- (a) all checks or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

- (b) we have not during that time or before the expiry of the three-month period referred to paragraph (d) below received any indication of the whereabouts or existence of the member or person entitled to such shares by death, bankruptcy or operation of law;
- (c) during the 12-year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and
- (d) upon expiry of the 12-year period, we have caused an advertisement to be published in newspapers in the manner stipulated by our Articles of Association, giving notice of its intention to sell these ordinary shares, and a period of three months has elapsed since such advertisement and the Exchange has been notified of such intention.

The net proceeds of any such sale shall belong to us and when we receive these net proceeds we shall become indebted to the former member for an amount equal to such net proceeds.

### **Board of Directors**

#### (a) General

We are managed by a board, which must consist of not less than two members. Our board currently consists of five members. The Articles of Association of the Company provide that at each annual general meeting of shareholders, one-third of the directors (other than a director who is the Chairman or the Chief Executive Officer (“CEO”)) for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that retiring directors are immediately eligible for re-election. This re-election mechanism ensures that shareholders are involved in the decision-making process of the Company. Any director who is the Chairman or the CEO is subject to this same requirement every five years.

Meetings of the board may be convened at any time deemed necessary by any member of the board. Advance notice of a meeting is not required if all the directors are present or represented at the meeting concerned and consent to the holding of such meeting.

A meeting of the board shall be competent to make lawful and binding decisions if a majority of the members of the board are present or represented. At any meeting of the directors, each director, be it by his presence or by his alternate, is entitled to one vote.

Questions arising at a meeting of the board are required to be decided by simple majority votes of the members of the board present or represented at the meeting. In the case of a tie vote, the chairman of the meeting shall have a second or deciding vote. Our board may also pass resolutions without a meeting by unanimous written consent.

Under Cayman Islands laws, our directors have a duty of loyalty and must act honestly and in good faith and in our best interests. Our directors also have a duty to exercise the care, diligence, and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duties to us, our directors must ensure compliance with the Memorandum and Articles of Association and the class rights vested thereunder in the holders of the ordinary shares. A shareholder may in certain circumstances have rights to damages if a duty owed by the directors is breached.

#### (b) Borrowing powers

Our directors may exercise all the powers to raise or borrow money, to mortgage or charge all or any part of our undertaking, property and assets (present and future) and uncalled capital and, subject to the Companies Law, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of ours or of any third party. The borrowing powers, in common with the Articles of Association in general, can be varied with the sanction of a special resolution of the Company.

Any transaction involving any exchange of all of our shares for shares in another company resulting in our Company becoming a subsidiary of such company or the transfer of the whole or a substantial part of our business will require a special resolution of our shareholders.

#### (c) Compensation

The ordinary remuneration of the directors is determined by our board. Such sum (unless otherwise directed by the resolution by which it is voted) shall be divided amongst the directors in such proportions and in such manner as our board may agree or, failing agreement, equally, except that any director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The directors shall also be entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of our shares or of our debentures or otherwise in connection with the discharge of their duties as directors. Any director who, by request, goes or resides abroad for our purpose or who performs services which in the opinion of the board go beyond the ordinary duties of a director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a director.

The board may establish or concur or join with other companies (being our subsidiary companies or companies with which it is associated in business) in establishing and making contributions out of our monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any director or ex-director who may hold or have held any executive office or any office of profit with us or any of our subsidiaries) and ex-employees of ours and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits in addition to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(d) Conflicts of Interests

A director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, unless his ability to vote is approved by a resolution of our board (or a duly authorized committee thereof) at a meeting at which the director does not form part of the quorum or vote.

## **2. Foreign Exchange Control System**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

## **3. Tax Treatment**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from February 10, 2004.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands.

#### **4. Legal Opinion**

A legal opinion has been provided by Conyers Dill & Pearman, Cayman, acting as legal advisers to the Company in the Cayman Islands, substantially to the effect that:

- (a) The Company has been duly incorporated and is validly existing as an exempted company with limited liability under the laws of the Cayman Islands; and
- (b) All statements in this document to the extent they relate to the laws of the Cayman Islands are true and accurate.

The above opinion is limited to the laws of the Cayman Islands.

## II. OUTLINE OF THE GROUP

### 1. Trends in Key Financial Data

#### (1) Consolidated key financial data

Term		The 2nd fiscal year	The 3rd fiscal year	The 4 <sup>th</sup> fiscal year	The 5th fiscal year	The 6th fiscal year
Fiscal year		2005	2006	2007	2008	2009
Turnover	US\$'000	110,010	174,963	257,676	279,351	32,717
	JP¥'m	(10,132)	(16,114)	(23,732)	(25,728)	(3,013)
Ordinary income / loss (△)	US\$'000	523	63	△14,830	△54,789	△85,360
	JP¥'m	(48)	(6)	(△1,366)	(△5,046)	(△7,862)
Net income / loss (△)	US\$'000	△2,814	10,760	23,497	△268,322	△113,454
	JP¥'m	(△ 259)	(991)	(2,164)	(△24,712)	(△10,449)
Net assets	US\$'000	279,442	382,758	572,472	119,592	1,742
	JP¥'m	(25,737)	(35,252)	(52,725)	(11,014)	(160)
Total assets	US\$'000	368,817	765,941	967,099	216,113	39,434
	JP¥'m	(33,968)	(70,543)	(89,070)	(19,904)	(3,632)
Net assets per share	US\$	305.65	326.93	348.24	75.15	△0.05
	JP¥	(28,150.37)	(30,110.25)	(32,072.90)	(6,921.32)	(△4.61)
Net income / loss (△) per share	US\$	△4.25	12.23	23.33	△212.89	△75.56
	JP¥	(△ 391.43)	(1,126.38)	(2,148.69)	(△ 19,606.87)	(△6,958.75)
Diluted EPS	US\$	-	11.57	23.24	-	-
	JP¥	(-)	(1,065.60)	(2,140.40)	(-)	(-)
Capital adequacy ratio	(%)	75.8	39.8	37.2	51.7	△0.2
Return on equity ratio	(%)	△1.3	3.7	7.1	△113.8	△203.3
Price-to-earning ratio (PER)	(times)	-	46.5	9.1	-	-
Cashflow from operating activities	US\$'000	△7,154	△12,970	24,040	57,491	△4,834
	JP¥'m	(△ 659)	(△ 1,195)	(2,214)	(5,295)	(△445)
Cashflow from investing activities	US\$'000	△55,431	△95,754	△157,773	△82,347	9,984
	JP¥'m	(△ 5,105)	(△ 8,819)	(△ 14,531)	(△7,584)	(920)
Cashflow from financing activities	US\$'000	103,255	125,122	164,322	△27,302	△47,308
	JP¥'m	(9,510)	(11,524)	(15,134)	(△2,514)	(△4,357)
Cash and cash equivalents, end of the year	US\$'000	80,669	97,279	125,373	57,624	5,428
	JP¥'m	(7,430)	(8,959)	(11,547)	(5,307)	(500)
Number of employees		906	1,581	2,423	465	303
EBITDA	US\$'000	18,787	24,672	28,672	△160	△2,846
	JP¥'m	(1,730)	(2,272)	(2,641)	(△15)	(△262)

#### Notes :

- Consumption tax is not included in turnover.
- Regarding information on diluted earnings per share in 2005, 2008 and 2009, even if XFL has shares with dilution effect, XFL is in a loss position. Thus such information is not stated.
- Price-to-earnings ratio (PER) in 2005, 2008 and 2009 is not stated since XFL is in a loss position.
- Regarding net assets per share in 2005, the suspense account of share exchange included in share premium is excluded from the calculation.
- The consolidated financial statements of the Group are stated in U.S. dollars. In accordance with Article 132 of the Financial Statements rules, the amounts in Japanese yen are calculated by the foreign currency exchange rate (middle rate), being US\$1.00=JP¥92.10, from the quotations by the Bank of Tokyo-Mitsubishi UFJ, Ltd. for buying and selling spot US\$ by telegraphic transfer against yen as of December 30, 2009. U.S. dollar amounts are presented in thousands (rounded), and Japanese yen amounts are stated in millions (rounded). Please note that these 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 above-mentioned exchange rate.

6. We define EBITDA in relation to our Japanese GAAP financial statements as operating income or loss plus depreciation and amortization of goodwill. EBITDA is presented because we believe that it is an important measure of our financial performance. Please refer to “III. CONDITION OF BUSINESS OF THE GROUP, 7. Analysis of Financial Condition, Operating Results and Cashflow.” EBITDA is not a Japanese GAAP measurement and should not be considered in isolation or as a substitute for income or cash flow statement data prepared in accordance with applicable generally accepted accounting principles. It should be understood that items excluded in calculating EBITDA, such as depreciation and amortization of goodwill, are significant components in understanding and assessing the Company’s performance.
7. The disclosure documents of the Group included in this document have been prepared in accordance with Disclosure Rules for Financial Statements and in conformity with Japanese GAAP. Additionally, financial statements in accordance with International Financial Reporting Standards (“IFRS”) have been prepared for global investors in accordance with the Company’s past practice. Significant differences between Japanese GAAP and IFRS as applied to us include those relating to share issuance costs, listing related costs, amortization of goodwill and share based payments. For more information, please refer to “III. CONDITION OF BUSINESS OF THE GROUP, 7. Analysis of Financial Condition, Operating Results and Cashflow, Summary of Certain Significant Differences Between Japanese GAAP and IFRS Applied to Us”.
8. On September 22, 2005 XFL’s shares were split on 3 for 1 basis.
9. Regarding information on net assets, the Company adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Statement No.5, announced by Accounting Standard Board of Japan) and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance sheet” (Guidance No. 8, announced by Accounting Standard Board of Japan) effective from the 3<sup>rd</sup> fiscal year.

## (2) Key financial data of the Company

Term		The 2nd fiscal year	The 3rd fiscal year	The 4th fiscal year	The 5th fiscal year	The 6th fiscal year
Fiscal year		2005	2006	2007	2008	2009
Turnover	US\$'000	8,186	9,371	4,288	2,872	982
	JP¥m	(754)	(863)	(395)	(264)	(90)
Ordinary loss	US\$'000	4,238	6,019	14,603	22,467	16,485
	JP¥m	(390)	(554)	(1,345)	(2,069)	(1,518)
Net loss	US\$'000	4,238	6,019	81,075	204,178	22,499
	JP¥m	(390)	(554)	(7,467)	(18,805)	(2,072)
Share Capital	US\$'000	2,091	2,389	2,649	3,810	3,882
	JP¥m	(193)	(220)	(244)	(351)	(358)
Number of shares outstanding	(shares)	815,477	931,638	1,033,054	1,486,052	1,513,944
Net assets	US\$'000	280,619	288,053	241,045	54,379	34,011
	JP¥m	(25,845)	(26,530)	(22,200)	(5,008)	(3,132)
Total assets	US\$'000	299,204	464,206	467,731	288,956	274,409
	JP¥m	(27,557)	(42,753)	(43,078)	(26,613)	(25,273)
Net assets per share	US\$	306.80	309.17	230.55	35.38	21.37
	JP¥	(28,256.28)	(28,474.56)	(21,233.66)	(3,258.50)	(1,968.18)
Dividend per share	US\$	-	-	-	-	-
	JP¥	(-)	(-)	(-)	(-)	(-)
(Interim Dividend per share out of the above dividend)	US\$	-	-	-	-	-
	JP¥	(-)	(-)	(-)	(-)	(-)
Net loss per share	US\$	6.40	6.84	80.51	162.00	14.98
	JP¥	(589.44)	(629.96)	(7,414.97)	(14,919.75)	(1,379.98)
Diluted EPS	US\$	-	-	-	-	-
	JP¥	(-)	(-)	(-)	(-)	(-)
Capital adequacy ratio	(%)	93.8	62.0	50.9	18.2	11.8
Return on equity ratio	(%)	△2.0	△2.1	△30.8	△140.4	△53.0
Price-to-earning ratio (PER)	(times)	-	-	-	-	-
Portion of earnings to dividend	(%)	-	-	-	-	-
Number of employees		5	5	5	3	2
EBITDA	US\$'000	82	△2,802	△11,696	△12,954	△13,227
	JP¥m	(8)	(△ 258)	(△ 1,077)	(△ 1,193)	(△ 1,218)

### Notes :

- Consumption tax is not included in turnover.
- Regarding information on diluted earnings per share, even if XFL has shares with dilution effect, XFL is in a loss position. Thus such information is not stated.
- Price-to-earnings ratio (PER) is not stated since XFL is in a loss position.
- Regarding net assets per share in 2005, the suspense account of share exchange included in share premium is excluded from the calculation.
- The financial statements of the Company are stated in U.S. dollars. In accordance with Article 132 of the Financial Statements rules, the amounts in Japanese yen are calculated by the foreign currency exchange rate (middle rate), being US\$1.00= JP¥92.10, from the quotations by the Bank of Tokyo-Mitsubishi UFJ, Ltd. for buying and selling spot US\$ by telegraphic transfer against yen as of December 30, 2009. U.S. dollar amounts are presented in thousands (rounded), and Japanese yen amounts are stated in millions (rounded). Please note that these 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 above-mentioned exchange rate.

6. We define EBITDA in relation to our Japanese GAAP financial statements as operating income or loss plus depreciation and amortization of goodwill. EBITDA is presented because we believe that it is an important measure of our financial performance. Please refer to “III. CONDITION OF BUSINESS OF THE GROUP, 7. Analysis of Financial Condition, Operating Results and Cashflow.” EBITDA is not a Japanese GAAP measurement and should not be considered in isolation or as a substitute for income or cash flow statement data prepared in accordance with applicable generally accepted accounting principles. It should be understood that items excluded in calculating EBITDA, such as depreciation and amortization of goodwill, are significant components in understanding and assessing the Company’s performance.
7. The disclosure documents of the Group included in this document have been prepared in accordance with Disclosure Rules for Financial Statements and in conformity with Japanese GAAP. Additionally, financial statements in accordance with International Financial Reporting Standards (“IFRS”) have been prepared for global investors in accordance with the Company’s past practice. Significant differences between Japanese GAAP and IFRS as applied to us include those relating to share issuance costs, listing related costs, amortization of goodwill and share based payments. For more information, please refer to “III. CONDITION OF BUSINESS OF THE GROUP, 7. Analysis of Financial Condition, Operating Results and Cashflow, Summary of Certain Significant Differences Between Japanese GAAP and IFRS Applied to Us”.
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## 2. Brief History

XFN, the predecessor of 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 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.

In 2004, the Company made the following material acquisitions to expand our product lines and business areas:

- MNI, a U.S./Europe based news agency dedicated to the global fixed income and foreign exchange markets.
- Mergent, successor to the original Moody’s Investors Service division, the origins of which date back to 1900, which provides global business and financial information on publicly traded equity and debt.
- SMRA, which provides global fixed income and economic research and statistical analysis.
- G7 Group, which provides economic and policy analysis on currency and interest rate movements, monetary and fiscal policy and international and U.S. domestic legislation.

In 2005, the Company made the following additional acquisitions to enhance our product lines and extend our distribution network:

- EconWorld (60% of its outstanding shares), a Hong Kong based book-publishing company and its subsidiary, called Money Journal, a PRC financial magazine distributed in China, Hong Kong and Taiwan.
- Taylor Rafferty is one of the leading independent investor relations and financial communications advisors.
- Washington Analysis, which is a premier economic and political advisory firm.
- Beijing Century Media Culture, a Beijing-based production company involved in TV program production and distribution, TV post-production and animation production.
- Shanghai Pobo Data and Information (60% of its equity), a Shanghai-based real-time financial information provider that distributes its information system products via Internet and satellite.
- SFE. (50% of its equity), a Shanghai-based leading local ratings provider.

In 2006, the Company made the following major strategic acquisitions to further expand our product offerings and widen our distribution network:

- Ming Shing International Ltd. (since renamed “Xinhua Finance Advertising Limited”), which is the holding company of our China advertising business;

- Beijing Alpha Financial Engineering Limited, a company engaged in the development of financial engineering and risk management systems in China;
- Beijing Jing Guan Xin Cheng Advertising Company Ltd, an advertising company;
- Shanghai Hyperlink Market Research Co., Ltd, a market research company;
- Praeada Solutions, Inc., a company which develops enterprise software for automated data extraction. After the acquisition, Praeada Solutions, Inc. was renamed as Mergent Data Technology, Inc;
- GLC, (19.9% of its equity) a leading provider of investment research and global proxy advisory and voting services.

During 2007, the Company made the following major acquisitions and disposals:

- In January 2007, we acquired the remaining 80.1% equity interest in GLC. Later in October 2007, we divested this company, as part of our strategic decision to exit the proxy advisory and voting services business. This decision was based on the belief that a proxy research business would best thrive under independent ownership outside of the public markets.
- In January 2007, our subsidiary Mergent acquired Kinetic Information System Services Limited which is a leading provider of software and systems for real time index calculation services.
- In March 2007, our subsidiary Xinhua Sports & Entertainment Limited (“XSEL”, NASDAQ:XSEL) (formerly known as Xinhua Finance Media Limited) was listed on the Nasdaq Global Market and raised net proceeds of approximately US\$200 million (JP¥18,420 million) for its own expansion. After its listing, it acquired several businesses to expand its product offerings. XSEL acquired Singshine (Holdings) Hong Kong Limited, a company which is involved in radio programming and below-the-line advertising, Beijing Mobile Interactive Co., Ltd, a mobile service provider, Convey Advertising Company Limited, an outdoor advertising operator and JCBN Company Limited, an advertising group.
- In May 2007, the Company realigned news business strategy on the Greater China market and sold certain non-China news operations of Xinhua Finance News to Thomson Financial.
- In December 2007, our subsidiary Mergent established a partnership with Moody’s Evaluations to provide comprehensive offering of fixed income data and evaluated pricing services. As a part of the same transaction, Moody’s acquired the assets of Mergent’s Pricing and Evaluation Service.

During 2008 the Company engaged a financial advisor to conduct a review of its strategic positioning. The purpose of the review was to evaluate opportunities for the Company to unlock shareholder value with the goal of focusing resources on its core competency on providing valuable information on China’s financial information sector. The Company continues to be committed to streamlining its operations and focusing on growing its core businesses in China.

With those objectives in mind, in July 2008, the Company sold Mergent and Kinetic. In November 2008, the Company sold Xinhua PR Newswire and certain assets of G7 Group. In December 2008, the Company sold Washington Analysis, and certain assets of Taylor Rafferty and closed down its Asia news business.

It was determined that these businesses no longer fit in with the Company’s overall strategic focus on China’s markets, and the divestiture of these businesses provided the best value to the Company.

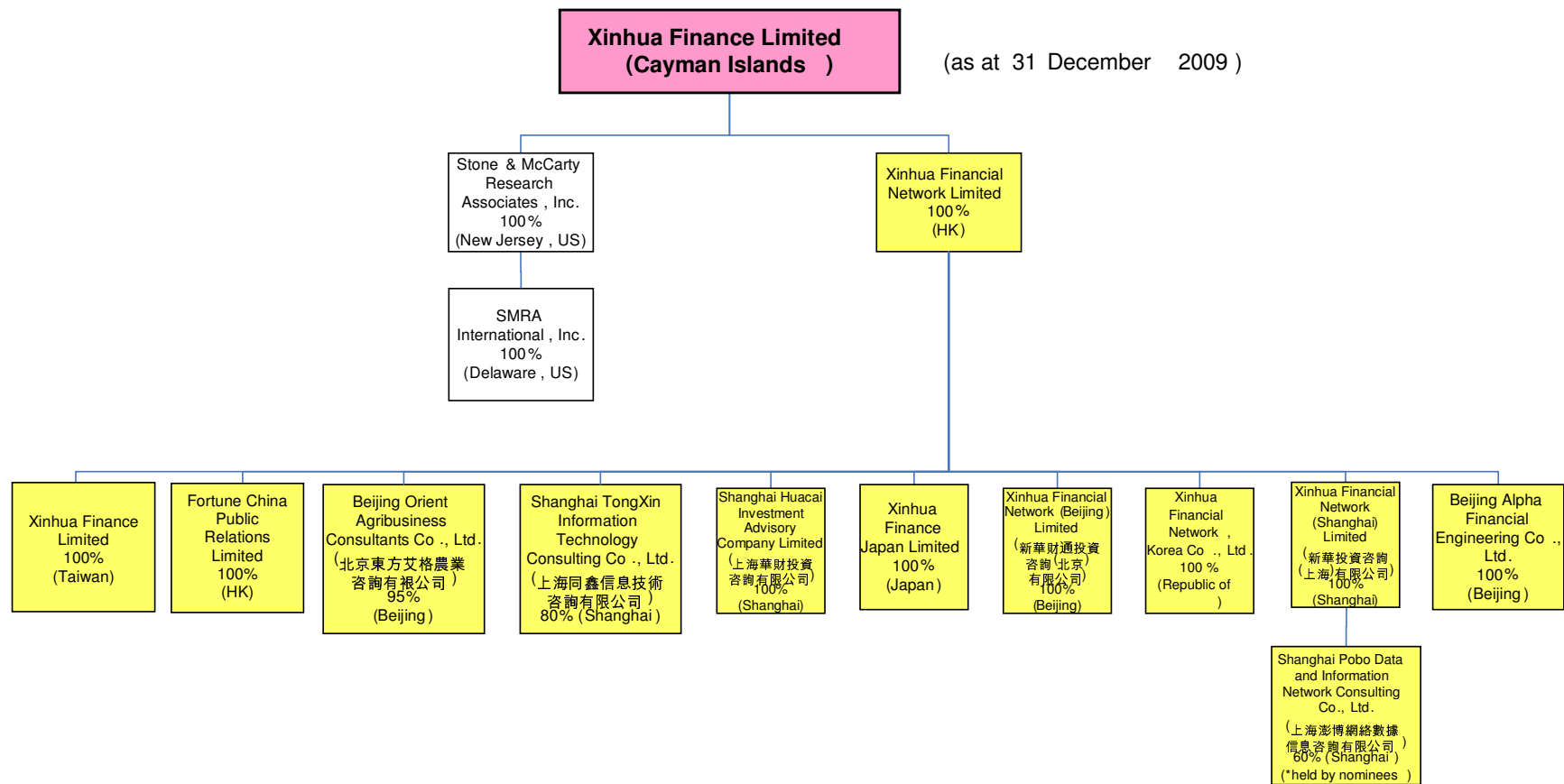
Approximately US\$49 million (JP¥4,513million) of the proceeds from the sale of Mergent and Kinetic were used to redeem the Company’s 10% Senior Guaranteed Notes due 2011 (the “Notes”) in September 2008.

On December 31, 2008, the Company converted its ownership interest in XSEL from Class B common shares (“Class B Shares”) to class A common shares (“Class A Shares”), thus relinquishing its super voting rights in XSEL. The Class B Shares previously held by the Company were common shares, and had ten votes per share, compared with one vote per share for Class A Shares, and gave the Company control of approximately 82% of the voting rights in XSEL. Other than the enhanced voting rights of the Class B Shares, the rights of the two classes of shares are identical. The dual class common share structure was created to allow the Company to retain control over XSEL after its IPO. After conversion of the Class B Shares, the Company held and was entitled to vote approximately 32% of the outstanding Class A Shares as of December 31, 2008 and there were no more Class B Shares outstanding.

In December 2009, the Company deconsolidated FTSE/Xinhua Index Limited (“FXI”). FXI is 50% owned by the Company and 50% by FTSE. Previously, due to the fact that the Managing Director of FXI was appointed by the Company, FXI was considered as a consolidated subsidiary because the Company controlled the management of FXI, however, as a result of the resignation of the Managing Director of FXI and no appointment of a replacement, FXI was classified as an equity method affiliate of XFL as from 1 December 2009.

Due to changes in PRC regulations, the Company has sold its equity interests in SFE in January 2009 and the whole Credit Ratings team was dissolved in December 2009. In January 2009, the Company had completed the sale of MNI as part of the Company's continued effort to focus resources on our core businesses in China. In 2009, the Company had redeemed US\$ 42 million (JP¥3,873 million) principal amount of its 10% Senior Guaranteed Note due 2011.

Our current corporate structure (other than immaterial subsidiaries) as of December 31, 2009 is shown below:



## Group Milestones

Major milestones for the Group are highlighted in the table below:

Date	Milestones
Dec 2009	Deconsolidates FXI (Market Indices)
Sep 2009	Repays US\$0.2million (JP¥18million) 10% Senior Guaranteed Notes due 2011
Apr 2009	Repays US\$3 million (JP¥268 million) 10% Senior Guaranteed Notes due 2011
Mar 2009	Repays US\$39 million (JP¥3,589 million) of the US\$100 million 10% Senior Guaranteed Notes due 2011
Jan 2009	Sells MNI to Deutsche Borse AG. (Financial News & Analysis)
Jan 2009	Sells the equity interests in SFE (Ratings)
Dec 2008	Converts its Class B Shares in XSEL to Class A Shares and thereby relinquishes its super voting control rights in XSEL (Distribution)
Dec 2008	Sells Washington Analysis to GLC (Financial News & Analysis)
Sep 2008	Repays US\$49 million (JP¥4,513 million) of the US\$100 million 10% Senior Guaranteed Notes due 2011
July 2008	Sells Mergent and Kinetic to Carousel Capital Partners III LP, a private equity fund, to divest out of non core assets and to focus on the China market, the Company's core competency (Market Indices)
June 2008	Holders of US\$100 million 10% Senior Guaranteed Notes due 2011 consent to amendments to the Indenture
Oct 2007	Sells GLC, to the Ontario Teachers Pension Plan (Ratings)
Mar 2007	Subsidiary XSEL goes listed on the NASDAQ Global Market under the symbol "XSEL" (formerly "XFML"), raising net proceeds of approximately US\$200 million (JP¥18,420 million). (Distribution)
Jan 2007	Completes acquisition of the remaining 80.1% equity interest in GLC, the world's leading independent provider of global proxy research and voting recommendations. (Ratings)
Nov 2006	Issues US\$ 100 million (JP¥9,210 million) 10% Senior Guaranteed Notes due 2011
Aug 2006	Acquires 19.9% of GLC, a leading provider of investment research and global proxy advisory and voting services. (Ratings)
Dec 2005	Raises funds by way of third party allotment, with Nissin Co., Ltd. (currently NIS Group Co., Ltd.) becoming one of our major shareholders.
Jul 2005	Acquires leading institutional research firm, Washington Analysis (Financial News & Analysis)
Jul 2005	Establishes a sponsored Level 1 American Depositary Receipt (ADR) facility trading under the symbol XHFNY (CUSIP number: 98417G105)
Jun 2005	Acquires Taylor Rafferty, a leading global investor relations firm, to strengthen the Company's investor relations service line (Investor Relations)
Oct 2004	Lists on the Mothers Board of the Tokyo Stock Exchange (TSE 9399)
Jun 2004	Completes acquisitions of Mergent, G7 Group and SMRA (Ratings, Financial News & Analysis)
Mar 2004	Completes acquisition of MNI (Financial News & Analysis)
Mar 2004	Reorganization to make XFL the holding company for the Group through share swap
Jan 2004	XFL is incorporated
Dec 2000	Establishes Xinhua FTSE Index joint alliance. (Market Indices)
Nov 1999	XFN is incorporated in Hong Kong.

### 3. Nature of Business

#### (1) Overview

We are a provider of financial information products focused on China's financial markets. We are an integrated provider of market indices and solution services. As a company providing these services to China's financial markets, we have established the information infrastructure for making investment decisions in China. Investors can make more well-informed investment decisions on China's financial markets through our services.

We offer the following two principal services:

- Market Indices  
We provide equity indices and bond indices measuring the performance of China's stock and bond markets. We follow the China *markets* with more than 100 equity indices covering domestic and international China-related stocks, 35 bond indices, 4 style indices (equity indices customized to track more specific investment criteria) and 23 fund indices. These indices are all developed according to methodology generally used in international markets.
- Solutions.  
We provide comprehensive market data and research to institutions, funds, government units and individuals. We are currently expanding our efforts into Financial Research, Value Added Services, Risk Analysis and Terminal Services.

Due to changes in PRC regulations, the Company has sold its equity interests in SFE in January 2009 and the whole Credit Ratings team was dissolved in December 2009.

Our office locations include Hong Kong, Beijing, Shanghai, Shenzhen, Taipei, Tokyo, Seoul, Singapore, London, New York and Princeton. As at December 31, 2009 we had 303 employees worldwide.

#### (2) History

Prior to March 2004, we operated through XFN and its subsidiaries. XFN was founded in anticipation of the growing need for transparent and reliable financial information and data flow into and out of China. We have grown rapidly since our inception. In our initial stage of development from 1999 to 2003 our growth strategy was based largely upon strategic partnerships with domestic and international market leaders in our business areas. Since then, we have pursued an aggressive acquisition strategy based on acquiring domestic and international market leaders in their respective fields. These acquisitions allow us to:

- Bring proven expertise into China for the development of similar products;
- Provide international information and data for China investors to evaluate international markets;
- Add depth and breadth to existing service lines;
- Expand our international selling networks; and
- Keep 100% of revenue rather than sharing revenue in a partnership arrangement.

In 2004, we acquired MNI, a US/Europe based news agency dedicated to the global fixed income and foreign exchange markets; Mergent, successor to the original Moody's Investors Service division, the origins of which date back to 1900, which provides global business and financial information on publicly traded equity and debt; SMRA, which provides global fixed income and economic research and statistical analysis; and G7 Group, which provides economic and policy analysis on currency and interest rate movements, monetary and fiscal policy and international and U.S. legislation.

In May 2005, we acquired EconWorld, a Hong Kong based media company, publishing a range of Chinese language publications and a magazine on China's financial markets. In June 2005, we acquired Taylor Rafferty, a global investor relations and cross-border financial communications advisory firm. In July 2005, we acquired Washington Analysis, an economic and political advisory firm based in Washington D.C. In September 2005, we acquired Beijing Century Media Culture, a Beijing-based television consulting company, as well as Shanghai Pobo Data and Information, a Shanghai-based real-time financial information provider that distributes its information system products via Internet and satellite. In November 2005, we purchased, through nominees, a 50% equity stake in SFE. Due to PRC foreign ownership restrictions, our equity interests in Beijing Century Media Culture, Shanghai Far East Credit Rating Co. and Shanghai Pobo Data and Information are held through

PRC nominees, who hold the equity on our behalf. We have entered into a series of contractual arrangements with these nominee shareholders. As a result of these contractual arrangements, we are considered the primary beneficiary of the nominee's interests in these companies and accordingly, we consolidate the results of operations of these companies in our financial statements.

In January 2006 we completed the acquisition of Ming Shing International Limited, since renamed "Xinhua Finance Advertising Limited", which is the holding company of our China advertising business. In July 2006 we purchased Beijing Alpha Financial Engineering Limited, a company engaged in the development of financial engineering and risk management systems in China. In July 2006 our subsidiary Mergent, purchased Praeдея Solutions Inc., a company which develops enterprise software for automated data extraction. After the acquisition, Praeдея Solutions Inc., was renamed Mergent Data Technology Inc. Also in August 2006, we purchased 19.9% of GLC, a leading provider of investment research and global proxy advisory and voting services. In September 2006, we completed the acquisitions of the advertising company Beijing Jin Guan Xin Cheng Advertising Company Ltd. and the market research company Shanghai Hyperlink Market Research Co., Ltd.

In January 2007, our subsidiary Mergent, acquired Kinetic Information System Services Limited which is a leading provider of software and systems for real time index calculation services. In the same month we completed the acquisition of GLC by purchasing the remaining 80.1% equity interest. Later in October 2007 we sold our interests in this company as part of our strategic decision to exit the proxy advisory and voting services business. This decision was based on the belief that a proxy research business would best thrive under independent ownership outside of the public markets. On March 9, 2007, our subsidiary, XSEL was listed on the Nasdaq Global Market and raised net proceeds of approximately US\$200 million (JP ¥18,420 million) for its own expansion. After its listing, XSEL acquired several companies to enhance its product offerings. These acquisitions include Singshine (Holdings) Hong Kong Limited, a company which is involved in radio programming and below-the-line advertising, Beijing Mobile Interactive Co., Ltd, a mobile service provider, Convey Advertising Company, an outdoor advertising operator and JCBN Company Limited, an advertising group.

In May 2007, the Company realigned its news business strategy on the Greater China market and sold certain non-China news operations of Xinhua Finance News to Thomson Financial. In December 2007, our subsidiary Mergent established a partnership with Moody's Evaluations to provide comprehensive offering pricing service covering both equity and debt. As a part of the same transaction, Moody's acquired the assets of Mergent's Pricing and Evaluation Service.

During 2008 the Company engaged a financial advisor to conduct a review of its strategic positioning. The purpose of the review was to evaluate opportunities for the Company to unlock shareholder value with the goal of focusing resources on its core competency on providing valuable information on China's financial information sector.

With those objectives in mind, in July 2008, the Company sold Mergent and Kinetic. In November 2008, the Company sold Xinhua PR Newswire and certain assets of G7 Group. In December 2008, the Company sold Washington Analysis, and certain assets of Taylor Rafferty and closed down its Asia news business.

It was determined that these businesses no longer fit in with the Company's overall strategic focus on China's markets, and the sale of these businesses provided the best value to the Company.

On December 31, 2008, the Company converted its ownership interest in XSEL from Class B Shares to Class A Shares, thus relinquishing its super voting rights in XSEL.

In 2009, the Company had taken a conservative approach to focus on its existing business while looking for opportunities to set forth in new business directions. Due to changes in PRC regulations, the Company has sold its equity interests in SFE in January 2009 and the whole Credit Ratings team was dissolved in December 2009. In January 2009, the Company had completed the sale of MNI as part of the Company's continued effort to focus resources on our core businesses in China.

### (3) Our Strengths

We believe that we have the following key strengths:

- Strategic focus on China's markets.  
Because of China's rapid economic growth, investors lack financial information developed according to methodologies generally used in international markets. We have maintained our focus on providing

financial information relevant to investors interested in participating in China's fast-growing financial markets. Our focus on China's markets and our local capabilities differentiate our *services* offerings, allowing us to provide actionable information and data on China as it continues to play a pivotal role in the global economy.

- *Position in China's financial information market.*  
Our unique service portfolio offers an investment infrastructure that was previously unavailable to Chinese and global investors.
- *Comprehensive range of product and service offerings.*  
We have developed a unique mix of services, comprising integral components that have become the investment infrastructure for China's financial markets. Our range of *services* (market indices and solution services) helps the business professional and international investors understand and analyze China's markets. We provide transparency to end-users who value reliability and accuracy by basing our services on proven technologies and methodologies generally used in international markets.
- *Strong management team with international expertise.*  
Our international senior management team is focused on *formulating* innovative business initiatives, capturing attractive business opportunities, and drawing on expertise in diverse areas. Our management team includes some of the most experienced managers in the financial information industry in China. We believe that our management team will be able to develop and execute our business strategy effectively, while responding to changes in our business environment.

#### **(4) Our Opportunity**

##### **(i) Current Market Position**

With our combined strategy and focus on the fast growing China markets we have created products and service platforms that allow us to:

- Provide information and data products developed according to methodologies generally used in international markets for China's financial markets;
- Localize international information products to meet the needs of Chinese investors interested in the international markets; and
- Enable Chinese companies to reach out to satisfy the demands of an international investor base.

##### **(ii) Growth Strategy**

In 2010 while the Company continues its repositioning, it will leverage its presence in the fast growing China market. In light of the improving global financial markets and the rising influence of China, we expect to see more business opportunities locally. With its core competencies as a foundation, the Company seeks to expand into the areas of Fund Management, Private Equity and Financial Advisory to diversify its service line and its portfolio, and increase shareholder value. At the same time, through Special Purpose Funds, we also look to capture investment opportunities in the areas of high demand with great potential such as Education and Environmental Protection related opportunities in China.

#### **(5) Our Services**

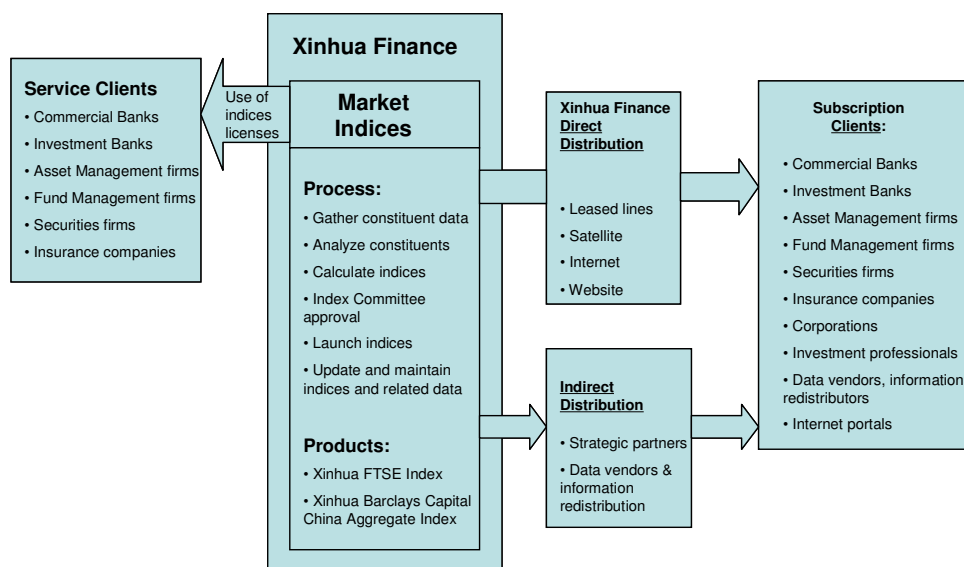
##### **(i) Market Indices**

###### **Outline**

We produce equity, bond and style indices (equity indices customized to track more specific investment criteria) based mainly on the China markets. Xinhua FTSE Index ("XFI"), the brand name for indices provided by our Xinhua FTSE Index joint alliance with FTSE, provides a series of equity indices to measure China's stock markets, based on methodologies generally used in international markets. We provide a unique series that covers China stocks in both domestic and global markets using international methodologies of index calculation. Our Xinhua Barclays Capital China Aggregate Index, formerly known as Lehman China Bond Index, provides a comprehensive series of China bond indices across exchanges and inter-bank markets. These China indices are used as performance benchmarks and as a basis for other applications such as the trading of derivatives, index tracking funds and exchange traded funds.

Our clients include investment professionals, commercial and investment banks, fund and asset management firms, securities companies, insurance companies, corporations, data vendors, information redistributors and Internet portals. Our indices data is marketed and licensed to these customers for applications such as performance benchmarks, derivative trading instruments, futures products, over-the-counter products (products that are not traded on an exchange), and index tracking products. We also sell our constituent data to individual end-users such as derivatives professionals, fund managers and professional investors.

The following shows the business flowchart for our market indices:



Notes:

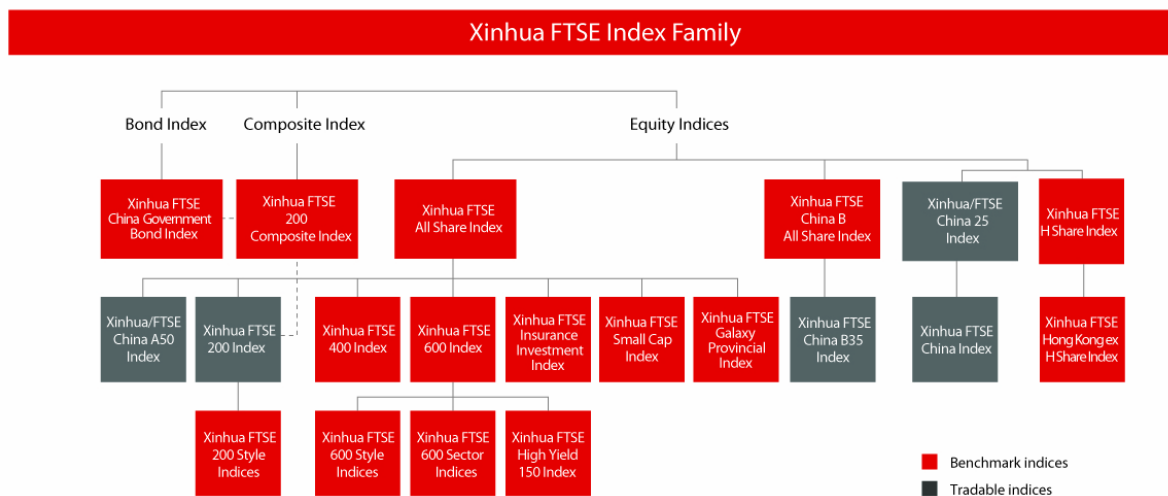
- 1 Our China indices (XFI and Xinhua Barclays Capital China Aggregate Index) target a China-focused customer base consisting of domestic and overseas entities.
- 2 Our indices data is marketed and licensed to customers for applications such as performance benchmarks, derivative trading instruments, futures products, over-the-counter (OTC) products, and index tracking products. Our real-time index values are marketed to global redistributors and international data vendors for distribution. Also, we sell our constituent data to investment professionals such as derivatives professionals and fund managers.
- 3 Our fee structure includes single use, basket, or annual license fees charged for derivative and OTC index-linked products. Either fixed annual fees or fees based on net asset value of the fund are charged to fund managers for data to create index-linked mutual funds, while fixed license fees per trade are charged to index futures contracts. Fixed annual fees are charged to redistributors, data end-users, and benchmark index values subscribers.
- 4 Our product specialists work with customers to create new products linked to our indices and to understand the different kinds of indices products of interest to our customers.
- 5 XFI is currently outsourcing its calculation to FTSE.

**Xinhua FTSE Indices**

We established our XFI joint alliance in December 2000 to provide real-time indices for measuring China’s equity markets. XFI leverages FTSE’s proven track record of over forty years in developing equity market indices. First introduced in April 2001, our XFI equities indices offer unique coverage of China equities, combining domestic A and B shares with China stocks listed overseas, such as H shares and red chips on the Hong Kong Stock Exchange. XFI’s A Share Series, B Share Series and the International Series provide diverse tradable and benchmark indices based upon market capitalization, broad-based benchmarks (reflecting the movement of the entire market) and various sector and regional indices. Tradable indices typically track a basket of companies, which represents a certain segment of the market. Fund managers and other users can create products based on these indices because the number of companies to track is more manageable. Tradable indices may be used as a basis for index tracking products, derivative trading instruments, and over-the-counter (OTC) products. Benchmark indices typically cover a more comprehensive number of companies than tradable indices to better represent the total market. Benchmark indices are typically used as a standard against which the performance of investment funds can be measured. XFI’s index range also includes bond and composite indices in order to provide investors with an across-the-board view of China’s

capital markets. Total assets tracking XFI indices in China's domestic market alone are approximately US\$89 billion (JP¥8 trillion) as of March 31, 2010.

The XFI family currently consists of the following primary market indices:



All of our XFI indices have been designed using internationally proven index methodology to ensure transparency and consistency. We employ free-float measurement, a methodology pioneered by FTSE and utilized by international fund managers. Also, an independent Index Committee manages the XFI indices based upon transparent rules. This Index Committee comprises a group of approximately 15 domestic and international fund managers, exchange regulators, market practitioners and independent index providers who act as a control for fair inclusion or removal of index constituents.

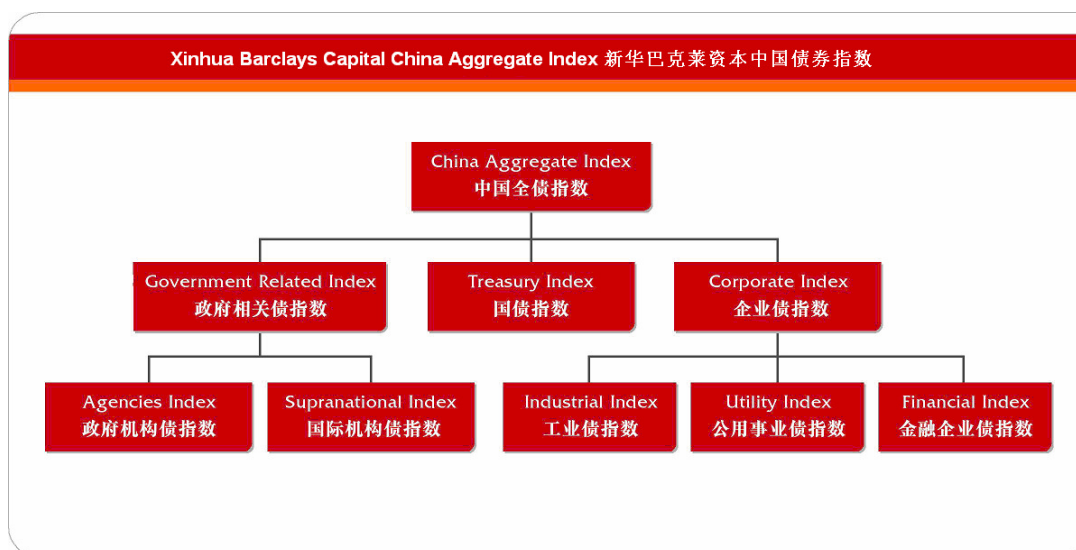
XFI indices are classified using the FTSE Global Classification System, a global classification system for market indices used worldwide. Reliable classification allows customers to create specialized products based on our indices, such as by industry sector or market capitalization. XFI indices are used as performance benchmarks by mutual funds, including tracking funds that have been approved by the CSRC.

As of December 1, 2009, the Company deconsolidated FXI. FXI is 50% owned by the Company and 50% by FTSE. Previously, due to the fact that the Managing Director of FXI was appointed by the Company, FXI was considered as a consolidated subsidiary because the Company controlled the management of FXI, however, as a result of the resignation of the Managing Director of FXI and no appointment of a replacement, FXI was classified as an equity method affiliate of XFL as from 1 December 2009.

### **Xinhua Barclays Capital China Aggregate Index**

Xinhua Barclays Capital China Aggregate Index (formerly known as Lehman China Bond Index, which was renamed after Barclay PLC acquired the core businesses of Lehman Brothers in September 2008) unites Barclays Capital's international expertise with the Company's exhaustive China databases and accurate pricing sources. The Index is a co-branded component of Barclays Capital's Global Family of Indices, which provides comprehensive performance and risk measurements for all major bond markets around the world.

As illustrated in the following chart, the China Aggregate Index series tracks China corporate and government bonds across exchanges and inter-bank markets and includes government bonds (treasury bonds and bonds issued by government agencies) and corporate bonds. Corporate bonds are further categorized by sector, including industrial, utility and financial sectors. All securities must be fixed-rate instruments denominated in RMB with at least one year to maturity.



### Competition

Competition for our market indices products is principally based on qualitative factors such as transparency, independence, how representative the index is of the market, and how easy it is for a fund manager to replicate the index in its portfolio. Our primary competitors in the China market for indices consist of local and international providers of market indices.

### (ii) Solutions

#### Outline

Our Solutions business line provides comprehensive market data and research to institutions, funds, government units and individuals. We provide real time content to 115 top commodity brokers in China with approximately 80,000 terminals. Our financial terminals business provides another key medium for our financial information. We are currently focused on commodities and futures data and intend to expand into other key asset classes such as equities, fixed income and foreign exchange.

As well, through our Solutions business line we are expanding our efforts into Financial Research, Value Added Services and Risk Analysis and Reporting. Our subsidiary, Beijing Orient Agribusiness Consultants Co., Ltd, provides in-depth analysis on government policies, production, industrial chains and other industries impacted by Agriculture. With our Value Added Services we provide cash commodities pricing information via SMS and mobile applications to approximately 35,000 customers. Our Risk analysis and reporting division helps financial institutions to generate investment risk analysis reports for mainly stock markets and fund managers.

#### Competition

Competition in Solutions business line is limited in some areas and highly competitive in others. For our Terminal Services division, our competition is limited at this time. However as we expect the Chinese Index futures market to expand, we also expect our competition to expand. As for our Financial Research division, BOABC has no direct competitors in the market. There are a few small providers of specific agricultural research but this is limited to just a few products and they are unable at this time to compete effectively with BOABC. Though we have a leading position in the market, the Value Added Services industry is very competitive at this time. Our Risk Analysis and Reporting division was the first to provide such a services to the market though recently there have been other such vendors entering the market as well. Competition for our business entity data service exists but since most clients use a combination of data feed service providers, it is regarded more as complementary rather than directly competitive.

## 4. Related Companies (as of December 31, 2009)

### (1) Parent Company

The Company has no parent company.

## (2) Consolidated Subsidiaries

The following table sets forth certain information on the Company's principal direct or indirect consolidated subsidiaries as of December 31, 2009.

Company Name	Registered Address	Principal Activities*	% Voting Rights Held	Total Share Capital	Relationship with the Company
Beijing Alpha Financial Engineering Co., Ltd.	Pinggu District Beijing, PRC	Software technology development	100% (100%)	RMB2,500,000.00	--
Beijing Orient Agribusiness Consultants Co., Ltd.	Chaoyang District, Beijing, PRC	Agriculture information provider	95% (95%)	RMB2,200,000.00	--
Xinhua Finance Limited (Taiwan) (formerly known as China Finance Limited)*	Tun Hwa North Road, Taipei, Taiwan	Provision of financial information products	100% (100%)	NTD1,000,000.00	The Company provides management, marketing, financial, legal, administrative and other services to it
Fortune China Public Relations Limited *	Sheung Wan, Hong Kong	Provision of investor and public relations service	100% (100%)	HK\$1,000,000.00	1 common director; it is a guarantor of the Company's US\$100 million senior guaranteed notes; the Company provides management, marketing, financial, legal, administrative and other services to it
Shanghai Huacai Investment Advisory Company Limited #	Changning District Shanghai, PRC	Business Consultancy	100% (100%)	US\$7,500,000.00	-
Shanghai Pobo Data and Information Network Consulting Co., Ltd.	Pudong District, Shanghai, PRC	Software development and sale	60% (60%)	RMB1,000,000.00	--
Shanghai TongXin Information Technology Consulting Co., Ltd.	Yangpu District, Shanghai, PRC	Provision of computer software and hardware services and information consulting	80% (80%)	RMB500,000.00	-
SMRA International, Inc. *	Skillman, New Jersey, USA	Provision of analytic reports	100% (100%)	US\$1.00	1 common director
Stone & McCarthy Research	Princeton, New Jersey, USA	Provision of analytic	100%	US\$181.82	1 common director; it is a guarantor of

\*Please note that this document is a translation of the document prepared in the Japanese language and filed with the Kanto Local Finance Bureau

Associates, Inc. *		reports			the Company's US\$100 million senior guaranteed notes; the Company provides management, marketing, financial, legal, administrative and other services to it
Xinhua Finance Japan Limited # *	Minato-ku, Tokyo, Japan	Provision of financial information products	100% (100%)	JP¥119,000,000.00	1 common director; the Company provides management, marketing, financial, legal, administrative and other services to it
Xinhua Financial Network Limited#	Sheung Wan, Hong Kong	Provision of financial information products	100%	HK\$1,469,914.05	2 common directors; it is a guarantor of the Company's US\$100 million senior guaranteed notes; the Company provides management, marketing, financial, legal, administrative and other services to it
Xinhua Financial Network (Beijing) Limited# *	Chaoyang District, Beijing, PRC	Provision of financial information products	100% (100%)	US\$2,550,000.00	1 common director; the Company provides management, marketing, financial, legal, administrative and other services to it
Xinhua Financial Network Korea Company Limited#	Jung-Gu, Seoul, Korea	Provision of financial information products	100% (100%)	KRW2,306,260,000.00	The Company provides management, marketing, financial, legal, administrative and other services to it
Xinhua Financial Network (Shanghai) Limited# *	Pu Dong District, Shanghai, PRC	Provision of financial information products	100% (100%)	US\$350,000.00	The Company provides management, marketing, financial, legal, administrative and other services to it

Notes:

- 1 The Company has 10 other subsidiaries in addition to those listed above that have been omitted due to lack of materiality.
- 2 Numbers in brackets indicate percentage of voting rights held indirectly by the Company.
- 3 Equity interests in Shanghai Pobo Data and Information Network Consulting Co. Ltd are held through nominees.
- 4 Subsidiaries marked # are specified subsidiaries.
- 5 There is no subsidiary that filed Securities Registration Statement or Annual Securities Report.

- 6 Subsidiaries marked \* have liabilities in excess of assets. The amount of excess liabilities as of December 31, 2009 are as follows.

Company Name	US\$' thousands	JP¥' millions
Fortune China Public Relations Limited	△659	△61
Xinhua Financial Network (Shanghai) Limited	△7,476	△689
Xinhua Financial Network (Beijing) Limited	△5,052	△465
Xinhua Finance Limited (Taiwan)	△302	△28
SMRA International, Inc	△2,015	△186
Stone & McCarthy Research Associates, Inc.	△173	△16
Xinhua Finance Japan Limited	△1,248	△115

- 7 FXI and its wholly owned subsidiary Xinhua FTSE (Beijing) Consulting Limited became equity method affiliates of the Company as at December 1, 2009 due to resignation of the managing director of FXI designated by the Company.

### (3) Condition of Equity Method Affiliates

Company Name	Registered Address	Principal Activities	% Voting Rights Held	Total Share Capital	Relationship with Company
FTSE/Xinhua Index Limited	Sheung Wan, Hong Kong	Provision of index related products and services	50%	HK\$10,000.00	1 common director
Xinhua Sports & Entertainment Limited	Grand Cayman, Cayman Islands	Investment holding	28.4%	US\$ 140,115.887	1 common director; the Company has advanced an inter-company loan to it

Notes:

- Numbers in brackets indicate percentage of voting rights held indirectly by the Company.
- There is no affiliate that filed Securities Registration Statement or Annual Securities Report.
- XSEL has liabilities in excess of assets. The amount of excess liabilities is USD 59,280 million (JP¥ 5,460 million) as of December 31, 2009. The amount of excess liabilities of Xinhua Sports & Entertainment Limited are subject to change since the audit has not completed. However, its impact to the consolidated financial statements of the Group is considered to be minor.

### (4) Other Condition of Affiliates

Not applicable.

## 5. Employees

### (1) The Group:

As of December 31, 2009, the Group employed 303 persons. The number of employees by geographical region is shown in the table below:

	Headcount
CHINA	260
EUROPE	4
REST OF ASIA	21
USA	18

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<b>TOTAL</b>	<b>303</b>
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Note: The decrease of the headcount during this fiscal year was due mainly to the disposals of non core assets such as SFE and MNI, closing of Rating Division and staff turnover.

**(2) The Company:**

As of December 31, 2009, the Company employed 2 persons.

Number of Employees	2
Average Age	45.9
Average Service Years	7.65
Average Salary (per person)	US\$325,000 (JP¥30 million) per year

**(3) Labor Union etc.**

There are no union agreements or collective bargaining agreements with employees of the Group, and there are no material disputes, complaints, investigations and proceedings on matters relating to employment.

### III. CONDITION OF BUSINESS OF THE GROUP

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes included in this report. Unless otherwise indicated, our financial statements and discussion and analysis provided below have been prepared in accordance with Japanese GAAP. This discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth under "Risks related to Business etc."

#### 1. Summary of Results of Operations, etc.

Please refer to "7. Analysis of Financial Condition, Operating Results and Cashflow."

##### (1) Turnover by Geography

Certain information regarding the geographic breakdown of our turnover, determined on the basis of the geographical proximity, is set forth below.

	2009		
	(US\$ thousands)	(JP ¥ millions)	% of total
Asia	27,342	2,518	83.6
North America	4,966	457	15.2
Japan	383	35	1.2
Others	26	2	0.0
Total	32,717	3,013	100.0%

	2008		
	(US\$ thousands)	(JP ¥ millions)	% of total
Asia	220,151	20,276	78.8
North America	58,693	5,406	21.0
Japan	468	43	0.2
Others	39	4	0.0
Total	279,351	25,728	100.0%

##### (2) Cashflow Analysis for Fiscal Year ended December 31, 2009

###### Operating activities

Net cash used in operating activities amounted to US\$4,834 thousand (JP¥445 million) for the year ended December 31, 2009 was mainly due to decrease in accounts receivable of US\$1,784 thousand (JP¥ 164 million), decrease in accounts payable of US\$905 thousand (JP¥ 83 million), decrease in other current assets of US\$3,885 thousand (JP¥ 358 million) and decrease in other current liabilities of US\$8,847 thousand (JP¥ 815 million).

###### Investing activities

Net cash obtained in investing activities amounted to US\$9,984 thousand (JP¥920 million) for the year ended December 31, 2009 was mainly due to proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation of US\$7,740 thousand (JP¥713 million) and interest and dividend income of US\$1,154 thousand (JP¥106 million).

###### Financing Activities

Cash flow used in financing activities amounted to US\$47,308 thousand (JP¥4,357 million) for the year ended December 31, 2009 which mainly consisted of bond redemption of US\$42,054 thousand (JP ¥ 3,873 million) and interest expense payment of US\$2,950 thousand (JP¥272 million) and cash dividends paid to minority shareholders of US\$2,500 thousand (JP¥230 million).

###### Cash and cash equivalents at end of year

As a result of the above activities and decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation of US\$9,679 thousand (JP¥891 million), the net cash and cash equivalents was US\$5,428 thousand (JP¥500 million) as at December 31, 2009. The ending cash and bank balance was US\$23,688 thousand (JP¥2,182 million) as at December 31, 2009, as shown on the balance sheet. After taking into account of deducting deposits pledged as collateral of US\$18,222 thousand (¥1,678 million), and deducting bank overdraft of US\$38 thousand (¥3 million), the net cash and cash equivalents was US\$5,428 thousand (¥500 million).

## 2. Condition of Production, Order Acceptance and Sales

### (1) Condition of Production and Order Acceptance:

As we are a services company, this is not applicable.

### (2) Condition of Sales:

Please refer to “7. Analysis of Financial Condition, Operating Results and Cashflow.”

## 3. Issues To Be Resolved

We continue to take steps to resolve the following issues relating to our business:

### (1) Going Concern

Primarily due to the equity loss of affiliates as a result of XSEL incurred huge amount of loss, and the worldwide economic downturn after the subprime financial crisis hit the profitability of the Group's existing business, there is a substantial doubt about the Group's ability to continue as a going concern.

#### Mitigating factors:

- Seek to raise funds.  
The Group is seeking to raise funds by selling certain assets and provide the proceeds for the redemption of the bond and making investments in the new ventures to diversify the business portfolio. There will be no additional loss expected with regards to the equity loss of XSEL since all the amount invested in XSEL has been recognized as a loss by the end of this consolidated fiscal year.
- Cut overall corporate costs.  
The Group will further cut overall corporate costs to improve profitability of the existing business and cut finance cost by the redemption of bond for the future sustainable growth.
- Diversify portfolio.  
The Company will make investments in new ventures to diversify its business portfolio.

### (2) Growing competition.

As China's financial industry continues to be deregulated, more players are likely to participate in the China markets and the competition is expected to intensify.

#### Mitigating factors:

- Continue to launch services that bring new standards in the China market.  
In order to maintain and increase our competitive edge, we will continue to bring new standards (such as standards of index calculation methodology, disclosure, and corporate governance) for China's financial markets by adding depth and breadth to our service lines and applying proven technologies and methodologies for the China market.
- Continue to pursue strategic partnerships to expand and broaden our service offerings and acquire proven expertise.

We intend to continue pursuing strategic partnerships that provide us with additional products to bring into China, and gain additional revenue streams from new service lines.

### (3) A strong and stable management team.

We require a strong and stable management team for our operations due to the rapidly developing business environment in China and our growth strategy in China.

#### **Mitigating factors:**

- Retain and attract a solid management team with international experience.  
Our international senior management team includes experienced managers with extensive experience in building businesses in China, Asia and overseas. It is a high priority within the Company to continue to employ skilled and proficient managers.
- Align interests of our management team and shareholders through a share compensation program  
Under this program, our management team has equity ownership, incentivizing them to perform for the long-term success of the Company.
- Sign executive contracts with key managers to protect the Company.  
Existing key managers and managers from acquired companies are required to sign employment contracts with non-compete, non-disclosure and confidentiality provisions. We will continue to sign such contracts with key managers in the future.

### (4) Liabilities in excess of assets

Liabilities in excess of assets was US\$83 thousand (JP¥8 million) as at December 31, 2009 according to the Securities Listing Regulations of The Tokyo Stock Exchange (“the TSE regulations”). This is primarily due to the huge loss sharing of XSEL and the worldwide economic downturn after the subprime financial crisis that hit the profitability of the Group’s existing business.

#### **Mitigating factors:**

- Reduce liabilities and associated finance cost.  
The Group is seeking to raise funds by selling certain assets and provide the proceeds for the redemption of the bond and its associated financing cost.
- Improve profitability.  
The Group will further streamline current operation and reduce overall corporate costs to improve profitability of the existing business. In addition, the Group will apply the proceeds from assets divestments towards investment in new ventures to diversify business portfolio. The Group will take advantage of its presence in the fast growing Chinese market, especially in light of the improving conditions in the global financial markets, and leverage its unique core competencies in China to capture local opportunities.
- No additional loss sharing from XSEL expected.  
There will be no additional loss expected with regards to the equity loss of XSEL since all the amount invested in XSEL has been recognized as a loss by the end of this consolidated fiscal year.

## 4. Risks Related to Business etc.

### (1) Risks Related to the Business

Among the followings, items related to future events are what we identified as of December 31, 2009.

#### **We may not be profitable in the future.**

We cannot assure you that we can avoid net losses or achieve profitability in the future. We have accounted for a significant amount of goodwill from acquisitions which we amortize over a period not exceeding 20 years in accordance with Japanese GAAP. In addition, share issuance and related costs incurred in connection with our initial public offering and private placements of our shares made after December 31, 2003 are accounted for as an

expense under Japanese GAAP. Furthermore, any additional acquisitions giving rise to increased goodwill or any decrease or delay in generating additional sales volume and revenue or unsuccessful integration of acquired companies could result in substantial operating and net losses in future periods.

**If we are unable to maintain and properly manage existing partnerships and joint ventures, our business may suffer.**

Some of our products, knowledge and brand names depend on our strategic partnerships and joint ventures. If relationships with such partners, the operations of such partners or the operations of such joint ventures suffer serious setbacks, our ability to offer key products and to keep and attract clients may be adversely affected. We cannot assure you that our joint venture partners will always be committed to our business.

**Future acquisitions may have an adverse effect on our ability to manage our business.**

Selective acquisitions form part of our strategy to further expand our business. Future acquisitions and the subsequent integration of new companies into ours would require significant attention from our management. The diversion of our management's attention and any difficulties encountered in any integration process could have an adverse effect on our ability to manage our business. Future acquisitions would expose us to potential risks, including risks associated with the assimilation of new operations, technologies and personnel, unforeseen or hidden liabilities, the diversion of resources from our existing businesses and technologies, the inability to generate sufficient revenue to offset the costs and expenses of acquisitions, and potential loss of, or harm to, relationships with employees, customers and suppliers as a result of integration of new businesses.

**We may not be able to achieve the benefits we expect from future acquisitions.**

Strategic acquisitions are a key part of our overall growth strategy. Historically we have made acquisitions that were critical in providing us with product suites, customer base, market access, and our talent pool. The integration of such acquired companies requires a great deal of management attention, dedicated staff efforts and skillful leadership. A successful integration process is key to realize the benefits of an acquisition. Although we have established an integration committee to oversee the integration process, if we encounter difficulty integrating our future acquisitions, our business will be adversely affected. In addition, we cannot assure you that the revenue and cost synergies that we expect to achieve from our acquisitions will materialize. There is no assurance that the acquisitions will result in the expected growth or development and the Company may have significant loss caused in relation to the acquisitions due to the risk factors described above or others.

**We rely on our competitors to provide redistribution for certain of our products and services.**

We rely on a number of on-line third party networks to redistribute certain of our products and services to end users. Many of the owners and operators of those third party networks also compete with us in one or more of our principal business areas. If one or more of those firms refuses to continue to redistribute those products and services in the future, or makes the terms of doing so more onerous, we may not be able to distribute our services effectively, which could harm our business.

**We rely on services from third parties to carry out our business and to deliver our products and services to customers, and if there is any interruption or deterioration in the quality of these products services, our customers may not continue using our products.**

We rely on certain third-party computer systems to deliver our products and services. If our third party providers fail to perform their required services in a timely manner to our clients, our products and services will not be delivered to the requirements of our clients and our reputation and brand will be damaged. Furthermore, if our arrangements with any of these third parties are terminated, we may not find an alternate source of support on a timely basis or on terms as advantageous to us.

**If we fail to maintain and further develop our ability to provide and innovate products and services, we may not be able to maintain our growth in revenue.**

The financial services and media industry is highly dynamic and a company like ours needs to provide timely and relevant content and analysis to serve a highly demanding customer base that relies on products and services like ours to make investment decisions. If we fail to maintain such ability or fail to continue to innovate and keep up with the changing needs of our customers, we may suffer a decline in our revenue and profitability.

**If we do not compete successfully against new and existing competitors, we may lose our market share, and our profitability may be adversely affected.**

We compete primarily with other global financial information and analysis providers. Although we believe that we have a stronger market position and better expertise in the China market, many of our competitors have a longer operating history, larger product suites, greater capital resources and broader international recognition. Given the recent growth in the China market, we expect most of these companies to increase their focus in this region and that competition in our business areas is likely to intensify. We cannot assure you that we will be able to successfully compete against new or existing competitors.

**We may not be able to prevent others from using our intellectual property, which may harm our business and expose us to litigation.**

We regard our content, domain names, trade names, trademarks and similar intellectual property as critical to our success. We try to protect our intellectual property rights by relying on trademark protection, copyright and confidentiality laws and contracts. The trademark and confidentiality protection in China may not be as effective as in other countries, such as Japan, the United States or elsewhere. Policing unauthorized use of proprietary technology and information is difficult and expensive.

The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology and information. Any misappropriation could have a negative effect on our business and operating results. Furthermore, we may need to resort to litigation to enforce our intellectual property rights. Litigation relating to our intellectual property might result in substantial costs and diversion of resources and management attention.

**Our business depends substantially on the continuing efforts of our key executives, and our business may be severely disrupted if we lose their services.**

Our future success heavily depends upon the continued services of our key executives. We rely on their expertise in business operations, finance and financial information and the media industry and on their relationships with our shareholders, strategic partners, and regulators. If one or more of our key executives are unable or unwilling to continue in their present positions, we may not be able to easily replace them or at all. Therefore, our business may be severely disrupted, our financial conditions and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit and train personnel.

In addition, if any of these key executives joins a competitor or forms a competing company, we may lose clients and strategic partners. Each of our executive officers has entered into an employment agreement with us which contains confidentiality and non-competition provisions. If any disputes arise between our executive officers and us, we cannot assure you that these agreements would be enforced effectively.

**If we are unable to attract, train and retain key individuals and highly skilled employees, our business may be adversely affected.**

We expect to need to hire additional employees to provide more in-depth analysis, information technology and engineering personnel to maintain and expand our delivery platform, marketing personnel to sell our products, and administrative staff to support our operations. If we are unable to identify, attract, hire, train and retain sufficient employees in these areas or retain our existing employees due to our failure to provide them with adequate incentives or otherwise users of our products and services may have negative experiences and turn to our competitors, which could adversely affect our business and results of operations.

**Our business could suffer if we do not successfully manage current growth and potential future growth.**

Our business has grown very quickly in its few years of operation. We have rapidly expanded our operations and workforce. Our growth to date has placed significant demands on our management, systems and resources. In addition to training and managing our workforce, we will need to continue to improve and develop our financial and managerial controls and our reporting systems and procedures. We cannot assure you that we will be able to efficiently or effectively manage the growth of our operations, and any failure to do so may limit our growth and hamper our business strategy.

**We may need additional capital and we may not be able to obtain it.**

We believe that our current cash and cash equivalents, cash flow from operations and the proceeds from capital raising activities and sale of certain assets or businesses are and will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional assets, equity or debt securities or obtain additional credit facilities. The sale of additional equity securities could result in

additional dilution to our shareholders. The incurrence of additional debt would result in increased debt service obligations and the operating and financing covenants of the debt could restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

**We may be subject to litigation for information provided in our products and services, which may be time-consuming and costly to defend.**

Our products and services contain information such as quotes of securities prices on companies. It is possible that if any information contains errors or false or misleading information, third parties could take action against us for losses incurred in connection with the use of such information. Any claims, with or without merit, could be time-consuming and costly to defend, result in litigation and divert management's attention and resources.

**The values of certain of our assets may be impaired to amounts less than we have accounted for in our financial statements.**

Certain of our assets such as goodwill, intangibles and securities assets on our financial statements are subject to periodic impairment and valuation tests. Should they be determined to be worth less than their carrying value during such tests, their value would be written down and our financial results could be adversely affected.

**Restrictions or limitations on the ability of our subsidiaries to pay dividends to us would reduce the funds available to pay dividends to our shareholders.**

We are a holding company with no significant assets other than our equity interests in our wholly-owned operating companies and affiliated entities. As a result, we rely on payments of dividends and consulting and other fees from our subsidiaries to make dividend payments to our shareholders. If our subsidiaries were to incur debt in the future, the agreements governing the debt may contain provisions restricting their ability to make dividend or other payments to us. Regulatory requirements in the jurisdiction of incorporation of our subsidiaries may also restrict or limit their ability to make payments to us. For a discussion of the regulatory requirements governing our subsidiaries in China, please see "Risks Related to Doing Business in China—Payments from China are subject to restrictions and controls."

**We have not declared or paid dividends before and we are not likely to declare or pay dividends in the near future.**

Currently, in order to maintain and increase the Company's leadership in its business sector and maximize the value of the Company, the Company considers funding the expansion of its business through reinvestment of profits to be paramount to the distribution of dividends and accordingly is not likely to declare or pay dividends in the near future.

**Our business and operating results may be adversely affected by the conditions of the global financial markets.**

We derive our revenues primarily from the provision of financial information and other related services, and our customer base primarily comprises financial institutions and other global market participants. Our customers' demand for our products and services is affected by the conditions of the global economy and in particular the global financial markets. Unfavourable financial or economic conditions that either reduce investor demand for securities or reduce issuers' willingness or ability to issue securities could reduce the level of activity in the global financial markets, the business performance of our clients and the demand for our products and services. Due to the recent unfavourable conditions of the global financial markets, our business and operating results in 2009 were adversely affected.

**We are exposed to increased risk from multinational operations.**

We maintain offices in the US, Asia and Europe and derive the majority of our revenue from sources in Asia. Operations in different countries expose us to a number of legal, economic and regulatory risks, such as changes in legal and regulatory requirements which affect either our operations or our customers' use of our products and services, restrictions on the movement of currencies, export and import restrictions and political and economic instability. Any of these factors could have a material adverse effect on our business and operations.

**Hardware and software failures, delays in the operation of our computer and communications systems or the failure to implement system enhancements may harm our business.**

Our success depends on the efficient and uninterrupted operation of our computer and communications systems. A failure of our network or data gathering procedures could impede the processing of data, delivery of databases and services, client orders and day-to-day management of our business and could result in corruption and loss of data. Any failure by our computer environment to provide our required data communications capacity could result in interruptions to our service. Significant delays in the planned delivery of system enhancements and improvements, or inadequate performance of the systems once they are completed, could damage our reputation and harm our business.

**Restrictions imposed on the Company by the 10% Senior Guaranteed Notes may adversely affect our business operations.**

In November 2006, we issued US\$ 100,000 thousand (JP¥9,210 million) 10% Senior Guaranteed Notes due 2011. In September 2008, we redeemed US\$ 48,739 thousand (JP¥ 4,489 million) of the Notes leaving US\$ 51,261 thousand (JP¥4,721 million) of the Notes outstanding as at December 31, 2008. In 2009, we redeemed US\$ 42,054 thousand (JP¥3,873 million) of the Notes outstanding leaving US\$9,207 thousand (JP¥848 million) of the Notes outstanding as at December 31, 2009. The Notes are governed by the Indenture, which includes a number of significant restrictive covenants that could limit our ability to plan for or to react to market conditions or meet our capital needs. These covenants restrict among other things, our ability, to: incur additional debt; make restricted payments, pay dividends or distributions on our capital stock, repurchase our capital stock, pay existing indebtedness, make or repay intercompany loans or advances or sell or transfer property or assets; issue or sell capital stock; guarantee indebtedness, enter into transactions with affiliates, create liens on assets to secure debt; enter into sale and leaseback transactions; sell assets; make investments; merge or consolidate with another company; and engage in a different business activity. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance with the covenants.

**We may be unable to comply with the restrictions and covenants under the Notes, the Indenture and other financing agreements, which could lead to a default under the terms of the Notes, the Indenture or those agreements resulting in an acceleration of our debt repayment**

If we are unable to comply with the restrictions and covenants in the Notes, the Indenture or our current or future financing and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. If these events occur, there is no assurance that our assets and cash flow would be sufficient to repay in full all indebtedness, or that alternative financing could be found. Even if alternative financing could be obtained, there is no assurance that it would be on terms that are favourable or acceptable to us.

**(2) Risks Related to Doing Business in China**

We are an international company with offices around the world. We have focused a significant part of our business in China and, as such, are subject to certain risks which are particular to China. The more significant of these risks are described below.

**Restrictions on the development and growth of Chinese financial markets may hamper our growth.**

A sizeable part of our business is conducted in China. China has liberalized its laws on foreign and domestic investments including promulgating regulations permitting qualified foreign institutional investors to invest in Chinese listed companies. We expect that demand for our products would generally increase as the markets are liberalized. Restrictions imposed on the Chinese markets which have the effect of restricting its growth and development may have an adverse effect on the continued growth of our business in China.

As we operate in highly regulated industries, being financial markets and media, we are subject to changes in government policies and regulations. While China has deregulated these industries in the past few years, this trend may change and we may be operating in a more restricted environment. This may also have a negative impact on our business in China.

More generally, if the business environment in China deteriorates from the perspective of domestic or international investors, our business in China may also be adversely affected. Such deterioration may be caused by numerous factors including natural disasters, terrorism, domestic and international political issues, market downturns, or changes in government policies.

**Uncertainties exist with respect to Chinese laws and regulations and their interpretation and administration.**

Chinese laws relating to foreign investments, media and financial markets are relatively new compared with those in more mature markets. New laws and regulations continue to be promulgated. We believe our current ownership structure, the ownership structure of our wholly-owned subsidiaries and our affiliated Chinese entities, the contractual arrangements among us, our wholly owned subsidiaries, our affiliated Chinese entities and their shareholders, our business operations and the approvals and licenses to carry them out are in compliance with all existing Chinese laws, rules and regulations. However, there are substantial uncertainties regarding the interpretation, application and administration of current Chinese laws and regulations and the impact of any new laws and regulations is unknown. Accordingly, we cannot assure you that Chinese government authorities will not ultimately take a view contrary to our belief.

**Payments from China are subject to restrictions and controls.**

We are a holding company incorporated in the Cayman Islands with operations in China. Dividends and other payments from our subsidiaries and other entities in China needs to be remitted outside of China to fund operations and expenses outside China as well as dividend payments to our shareholders. Current Chinese regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, our subsidiaries in China are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends. Failure to receive the full amount of dividends from our subsidiaries in China and affiliated Chinese entities may adversely affect the financial condition of our overall operations and our ability to pay dividends to our shareholders.

The remittance of funds out of China as well as the exchange rate of the RMB to other currencies are highly regulated. Changes to the exchange rate regime as well as the regulations affecting the remittance of funds out of China may have an adverse impact on our ability to fund our expenses outside of China or to issue dividends to our shareholders. Furthermore, any change in the exchange rates between the RMB and other currencies may also have an impact on the amount of proceeds in other currencies we receive from China and, ultimately, the value of your investment. The value of your investment in our shares will also be affected by the foreign exchange rate between the Japanese yen and other currencies.

**We have limited business insurance coverage in China.**

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. As a result, we do not have any business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

**Third party facts and statistics included in this document may be inaccurate.**

Third party facts and statistics in this document, including those relating to the Chinese financial services and media industry and economy, are derived from various government and institute research publications and news articles. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us. Due to possibly flawed or ineffective collection methods used by third parties, the statistics in this document may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon.

**(3) Risks Related to the Shares**

**You may face difficulties in protecting your interests under the legal systems, and your ability to protect your rights through the Japanese courts may be limited, because we are incorporated under Cayman Islands law.**

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law and the Cayman Islands law. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in Japan. In particular, Cayman Islands law provides significantly less protection to investors than Japanese law. Therefore, under the legal systems, our public shareholders may have more difficulties in protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in Japan, the United States or elsewhere. In addition, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action before Japanese courts.

**Your ability to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, will be limited because we are incorporated in the Cayman Islands, because we conduct a portion of our operations in China and because the majority of our directors and officers reside outside of Japan.**

We are incorporated in the Cayman Islands, and we conduct a portion of our operations in China through our wholly-owned subsidiaries and affiliates in China. Most of our directors and officers reside outside of Japan and substantially all of the assets of those persons are located outside of Japan. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the event that you believe that your rights have been infringed under the FIEL or otherwise. Even if you are successful in bringing an action of this kind, the laws of the relevant jurisdiction may render you unable to enforce a judgment against our assets or the assets of our directors and officers. For more information, please refer to the relevant laws of the Cayman Islands and China.

**Future issuances of our shares at below-market prices may adversely affect the market price of our shares.**

Neither the laws of the Cayman Islands nor our articles of incorporation require shareholders' approval for issues of new shares at below-market prices. The market price of our shares may be adversely affected due to dilution if our management decides to issue large number of shares at below-market prices for the purpose of corporate acquisition or other business purposes.

**We and our shareholders may not be able to obtain compensation for damages caused by the acts done, concurred in or omitted in or about the execution of the duties of directors, officers, auditors, etc.**

In accordance with our Memorandum and Articles of Association, our directors, officers, auditors, etc. are indemnified and secured harmless out of our assets and profits against all actions, costs, damages, etc. sustained or incurred by reason of any act done, concurred in or omitted in or from the execution of their duty, or supposed duty, unless such actions, costs, damages, etc. are a result of any fraud, gross negligence or criminal offence under Cayman Islands law by such persons. Further, also in accordance with our Memorandum and Articles of Association, our shareholders may not claim or take action against our directors on account of any action taken by such director or the failure of such director to take any action in the performance of his duties unless such claim or action is made or taken in respect of any fraud, gross negligence or criminal offence under Cayman Islands law by such persons. As a result, we and our shareholders may not be able to obtain adequate compensation for damages caused by the acts done, concurred in or omitted in or from the execution of the duties of directors, officers, auditors, etc.

**The timing of the filing of Company's financial results announcements, annual securities reports and quarterly reports depends on, among other things, the financial results announcements of its equity method affiliate.**

According to the TSE Regulations, the Company is required to make annual and quarterly financial results announcements (the "Financial Results Announcements") upon the settlement of the financial results of the Company. However, since the Company needs to account for the results of its subsidiaries and equity method affiliates, it cannot make the Financial Results Announcements before financial results announcements by its subsidiaries or equity method affiliates, hence there is a possibility that the Company may not be able to disclose the Financial Results Announcements, in a timely manner due to any unexpected delay in the results announcement of any of the Company's subsidiaries or equity method affiliates.

Furthermore, under the FIEL, the Company is required to file Quarterly Reports within 45 days after the end of each quarter, and Annual Securities Reports within 6 months from the end of each business year with the KLFB. Since Annual Securities Reports and Quarterly Reports (collectively the "Statutory Reports") need to reflect the financial result of the Company's equity method affiliates, there is a possibility the Company may not be able to meet the said deadline due to any unexpected delay of the announcement of the financial results of its subsidiaries or equity method affiliates. If the Company fails to meet the said deadlines of the Statutory Reports, the Company may be subject to the administrative and criminal sanction imposed by the relevant authorities. In addition, in the case that the Company (a) fails to meet the said deadline of the Statutory Reports or (b) make disclosure that it is unlikely that it can meet the said deadline of the Statutory Reports, the Tokyo Stock Exchange may designate the Company's shares as securities under supervision, and as of this date, the shares of the Company are designated as "securities under supervision (under confirmation)". Moreover, if the Company cannot file the Statutory Reports within one month from the said deadline (or within three months in the event that such delay is due to reasons not attributable to the Company such as acts of providence), the Company's shares will be delisted from the Tokyo Stock Exchange.

**The Company's shares will be delisted from the Tokyo Stock Exchange in case where it continues having liabilities in excess of assets.**

According to the TSE Regulations, a listed company's shares will be delisted from the Tokyo Stock Exchange in case where such company has "liabilities in excess of assets" (defined under the TSE Regulations) as of the end of a business year and the liabilities in excess of assets does not cease within a year. Though the total net assets of the Company are not negative in its financial statement, it has liabilities in excess of assets as of December 31, 2009 from the perspective of the TSE Regulations in the amount of negative US\$ 83 thousand (JP¥ 8 million) and therefore it is decided that the Company's shares will be delisted from the Tokyo Stock Exchange if such status will not cease as of December 31, 2010.

**(4) Material Issues relating to the Assumption of Continuity of the Business of the Company**

The Group incurred operating loss of US\$ 44,838 thousand (JP¥ 4,130 million) and net loss of US\$ 268,322 thousand (JP¥ 24,712 million) for the consolidated fiscal year ended December 31, 2008, and operating loss of US\$ 4,173 thousand (JP¥ 384 million) and net loss of US\$ 113,454 thousand (JP¥ 10,449 million) for the consolidated fiscal year ended December 31, 2009. Net cash used in operating activities for the consolidated fiscal year ended December 31, 2009 was US\$ 4,834 thousand (JP¥ 445 million). In addition, bonds payable (principal) of US\$ 3,800 (JP¥ 350 million) become due within one year after the end of this fiscal year.

This is primary due to the equity loss of affiliates as a result of XSEL incurred huge amount of loss, and the worldwide economic downturn after the subprime financial crisis hit the profitability of the Group's existing business. These conditions raise substantial doubt about the Group's ability to continue as a going concern.

The Group is continuing the repositioning of its business and moving ahead. At the same time the Management team is taking a number of actions. Going forward, the Group will be seeking to raise funds by selling certain assets and provide the proceeds for the redemption of the bond and making investments in the new ventures to diversify the business portfolio. In parallel, the Group will further cut overall corporate costs to improve profitability of the existing business and cut finance cost by the redemption of bond for the future sustainable growth. In addition, the Group will take advantage of its presence in the fast growing Chinese market, especially in light of the improving conditions in the global financial markets, and leverage its unique core competencies in China to capture local opportunities. There will be no additional loss expected with regards to the equity loss of XSEL since all the amounts invested in XSEL have been recognized as a loss by the end of this consolidated fiscal year.

However, as the Group's ability to continue as a going concern is heavily pending on the success of divestment of certain assets to raise funds, and the growth of its existing business and new ventures, there exist material uncertainties related to the substantial doubt about the Group's ability to continue as a going concern.

**5. Material Contracts Relating to Business**

**XINHUA NEWS AGENCY ("XNA")**

XFN and CEIS entered into a Content License Agreement Supplement to the Exclusive Broadcasting Agreement dated December 15, 2001, pursuant to which CEIS granted to XFN and its affiliates an exclusive license (worldwide excluding China), and a non-exclusive license (in China), to be the only party other than CEIS to distribute its real time newsfeeds, as well as the right to use the word "Xinhua" for XFN and its affiliates world wide. The agreement is effective for 20 years from May 18, 2000 and renewable for an additional term of 10 years at XFN's option on terms to be agreed between the parties.

Xinhua News Agency has not reviewed this document. Investors should not view or rely on Xinhua News Agency's relation with the Company as a guarantee of the performance of the Company as Xinhua News Agency will not provide any guarantee for any liabilities or obligations of the Group. Notwithstanding that major news organizations have on occasion published articles describing the Company as controlled by Xinhua News Agency, the Company is and operates as an independent entity, and other than described in this document, Xinhua News Agency and its affiliates have no role in its management or operations.

**FTSE/XINHUA INDEX LIMITED ("FXI")**

XFN, FTSE and FXI entered into a Shareholders' Agreement dated March 21, 2001 relating to the governance of, and the rights and obligations of XFN and FTSE and their relationship as shareholders of, FXI. The agreement is effective for a period of five years and, thereafter shall continue subject to the right of either shareholder to terminate the agreement by 12 months' prior written notice (such notice to expire no earlier than the end of the initial five-year period).

XFN and FXI entered into a Trade Mark License Agreement dated March 21, 2001 pursuant to which XFN grants FXI a non-exclusive license to use the "Xinhua" and "新華" trade marks as part of the name for the indices and data products of FXI and to sub-license such trade marks in connection with any Licensed Securities & Funds and Exchange-sponsored Securities (as defined in the agreement). FXI shall pay royalties to XFN at an agreed rate in respect of licenses for Exchange-sponsored Securities, Licensed Securities and Funds and other use or distribution of the relevant indices during the relevant royalty year. This agreement is effective for five years and, thereafter, shall continue subject to the right of either party to terminate the agreement by 12 months' prior written notice, unless sooner terminated. This agreement automatically terminates upon the termination of the Shareholders Agreement described in the preceding paragraph.

XFN and FTSE entered into a Classification System License Agreement dated November 29, 2001 pursuant to which FTSE granted to XFN a non-exclusive, non-transferable right to use, reproduce, display or refer to the FTSE Global Classification System for specified purposes. The agreement shall be effective for 12 months and automatically renewed for 12 months periods thereafter, unless XFN terminates the agreement by six months' prior notice to take effect at the end of the then current 12-month period. As of this date, calculation of the indices using the Classification System is conducted by FTSE in accordance with the Shareholders' Agreement until XFN assumes responsibility for the calculation at a date to be agreed between XFN and FTSE.

#### **MARKET NEWS INTERNATIONAL, INC.**

In December 2008, the Company signed an agreement to sell its US-based news subsidiary, MNI to Deutsche Boerse AG. The consideration was US\$10,000 thousand (JP¥921 million) in cash. The transaction was completed in January 2009

#### **SHANGHAI FAR EAST CREDIT RATING CO. LTD**

In December 2008, the Company signed an agreement to sell its credit ratings subsidiary, SFE to China Orient Asset Management Corporation at a consideration US\$5,900 thousand (JP¥ 543 million) in cash. The transaction was completed in January 2009.

#### **10% SENIOR GUARANTEED NOTES DUE 2011**

In November 2006, the Company issued US\$100,000 thousand (JP¥9,210 million) of the Notes. The proceeds from the issue of the Notes were used to refinance our loans, to fund strategic acquisitions and for general working capital purposes. In September 2008, the Company redeemed US\$48,739 thousand (JP¥4,489 million) of the Notes with the proceeds from the sale of Mergent Inc. In 2009, we redeemed US\$ 42,054 thousand (JP¥3,873 million) of the Notes outstanding leaving US\$9,207 thousand (JP¥848 million) of the Notes outstanding as at December 31, 2009.

## **6. Research and Development**

Not applicable

## **7. Analysis of Financial Condition, Operating Results and Cash Flow**

### **(1) Significant Accounting Policies and Management Estimates**

The consolidated financial statements of the Company are prepared in accordance with Japanese GAAP. In preparing these consolidated financial statements, the management of the Company makes significant estimates relating to significant accounting policies, such as impairment of securities, useful lives of depreciable assets, and valuation of deferred tax assets, and these estimates are continuously re-evaluated. However, since uncertainties exist in these estimates, actual results might differ from the estimates.

### **(2) Our Results of Operations**

The following table sets forth certain line items of our results of operations under Japanese GAAP for the fiscal year ended December 31, 2009 and 2008.

	Fiscal Year Ended December 31, 2009		Fiscal Year Ended December 31, 2008	
	US\$ thousands	JP¥ millions	US\$ thousands	JP¥ millions
Turnover	32,717	3,013	279,351	25,728
Gross profit	21,768	2,005	128,829	11,865
Operating income (loss)	△4,173	△384	△44,838	△4,130
Ordinary income (loss)	△85,360	△7,862	△54,789	△5,046
Net income for the year	△113,454	△10,449	△268,322	△24,712
EBITDA*	△2,846	△262	△160	△15

Note: \*Defined as operating income or loss plus depreciation and amortization of goodwill.

We also prepare financial statements in accordance with IFRS to meet the needs of global investors. Please refer to “Summary of Certain Significant Differences Between Japanese GAAP and IFRS Applied to Us”. The following table sets forth certain line items of our results of operations under IFRS for the fiscal year ended December 31, 2009 and 2008.

	Fiscal Year Ended December 31, 2009		Fiscal Year Ended December 31, 2008	
	US\$ thousands	JP¥ millions	US\$ thousands	JP¥ millions
Turnover	32,717	3,013	279,351	25,728
Gross profit	21,623	1,991	125,076	11,519
Net income for the year	△111,763	△10,293	△341,707	△31,471
EBITDA*	△19,016	△1,751	△457,315	△42,119

Note: \*Defined as profit (loss) before interest expense, tax, depreciation and amortization

EBITDA is presented 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 purchase goodwill. Purchase goodwill represents the excess of the aggregate purchase price over the fair values of the net assets of the business acquired and is required to be amortized under Japanese GAAP. Since amortization expense is a non-cash expense, we view EBITDA as an important measure of our cash flow and over-all financial performance.

### (3) Fiscal Year Ended December 31, 2009

#### Turnover

Turnover was US\$32,717 thousand (JP¥3,013 million) for the year ended December 31, 2009, as compared to US\$279,351 thousand (JP¥25,728 million) for the year ended December 31, 2008. Lower turnover in 2009 is primarily due to the Company’s much reduced size in 2009 as compared to 2008. This is the result of the deconsolidation of XSEL, sale of non-core businesses such as Mergent and Washington Analysis and closure of the Company’s Asia news business in 2008, and the sale of MNI and SFE in 2009.

#### Cost of sales

Cost of sales was US\$10,949 thousand (JP¥ 1,008 million) for the year ended December 31, 2009, as compared to US\$150,522 thousand (JP¥13,863 million) for the year ended December 31, 2008. Cost of sales represented 33.5% of turnover in 2009 versus 53.9% of turnover in 2008. The decrease in cost of sales percentage is due mainly to the Company’s much reduced size in 2009 as compared to 2008, and the deconsolidation of XSEL, as XSEL has a lower gross profit margin.

Cost of sales mainly consists of reporting and editorial staff costs, direct marketing expenses, production fees, distribution charges, data acquisition costs and media buying costs.

### **Gross profit margin**

Given the reasons mentioned above, gross profit margin was 66.5% for the year ended December 31, 2009 versus 46.1% for the year ended December 31, 2008. The higher gross profit margin in 2009 was mainly the result of the deconsolidation of XSEL, as XSEL has a lower gross profit margin.

### **Selling, general and administrative expenses**

Selling, general, and administrative expenses were US\$25,941 thousand (JP¥2,389 million) for the year ended December 31, 2009, lower than US\$173,666 thousand (JP¥15,995 million) for the year ended December 31, 2008. Lower selling, general, and administrative expenses are mainly due to the Company's much reduced size in 2009 as compared to 2008. This is the result of the deconsolidation of XSEL, sale of non-core businesses such as Mergent and Washington Analysis and closure of the Company's Asia news business in 2008, and the sale of MNI and SFE in 2009.

Our non-cash expenses included within selling, general and administrative expenses for the year ended December 31, 2009 included depreciation of US\$977 thousand (JP¥90 million), amortization of goodwill of US\$350 thousand (JP¥32 million) and non-cash share based payment expense of US\$2,095 thousand (JP¥193 million). Our depreciation and amortization of goodwill expenses for the year ended December 31, 2009 totaled US\$1,327 thousand (JP¥122 million) compared to depreciation and amortization of goodwill expenses for the year ended December 31, 2008 which totaled to US\$32,051 thousand (JP¥2,952 million).

Selling, general, and administrative expenses, as a percentage of turnover was 79.3% for the year ended December 31, 2009 versus 62.2% for the year ended December 31, 2008.

### **Operating income**

As a result of the above reasons for the decrease in selling, general and administrative expenses, operating loss was US\$4,173 thousand (JP¥384 million) for the year ended December 31, 2009, versus operating loss of US\$44,838 thousand (JP¥ 4,130 million) for the year ended December 31, 2008.

The smaller operating loss in 2009 is primarily due to the Company's lower selling, general and administrative expenses, and lower depreciation, as a result of the Company's much reduced size in 2009 as compared to 2008. This is the result of the deconsolidation of XSEL, sale of non-core businesses such as Mergent and Washington Analysis and closure of the Company's Asia news business in 2008, and the sale of MNI and SFE in 2009. The improvement is also attributable to reductions in corporate costs from a year ago.

### **Ordinary income**

Ordinary loss was US\$85,360 thousand (JP¥7,862 million) for the year ended December 31, 2009, versus ordinary loss of US\$54,789 thousand (JP¥5,046 million) for the year ended December 31, 2008.. The ordinary loss in 2009 is primarily due to the sharing of XSEL's losses in 2009. In 2009, XSEL is accounted for as an associated company instead of a consolidated subsidiary.

### **Net income for the period**

Net loss was US\$113,454 thousand (JP¥10,449 million) for the year ended December 31, 2009, versus net loss of US\$268,322 thousand (JP¥24,712 million) for the year ended December 31, 2008.

The net loss for the year ended December 31, 2009 includes:

- 1) deemed loss on change in equity of US\$7,941 thousand (JP¥731 million);
- 2) impairment loss of US\$5,433 thousand (JP¥500 million);
- 3) bad debt expense of US\$4,263 thousand (JP¥393 million); and
- 4) provision of allowance for doubtful accounts of US\$2,196 thousand (JP¥202 million)

### **EBITDA**

EBITDA was negative US\$2,846 thousand (JP¥262 million) for the year ended December 31, 2009, versus EBITDA loss of US\$160 thousand (JP¥15 million) for the year ended December 31, 2008. EBITDA is calculated by taking operating income (or loss) and adding back the following non-cash items: (1) depreciation and (2) amortization of goodwill.

## **(4) Liquidity and Capital Resources**

Please refer to “1. Summary of Results of Operations, etc. – Cashflow Analysis” for information on our liquidity and capital resources.

**(5) Summary of Certain Significant Differences Between Japanese GAAP and IFRS as Applied to Us**

We have presented certain information in this document that has been prepared in accordance with IFRS. The following are the significant differences between Japanese GAAP and IFRS as applied to us.

The audited financial information included in this document is prepared and presented in accordance with Japanese GAAP. This summary does not purport to be complete and is subject and qualified in its entirety by references to the respective pronouncements of Japanese GAAP and IFRS. It should be noted that the following summary has not been audited and may not include all differences between Japanese GAAP and IFRS which may be relevant to our financial information. Future differences between Japanese GAAP and IFRS resulting from changes in accounting standards or from transactions or events that may occur in the future have not been taken into account in this summary and we have not attempted to identify them.

**Share Issuance Costs**

Japanese GAAP requires share issuance costs to be charged to income when paid or deferred and amortized within a three-year period.

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.

In XFL’s consolidated income statement prepared in conformity with Japanese GAAP for the year ended December 31, 2005, stock issuance costs and related expenses were charged to income in the amount of US\$4,443 thousand (JP¥409 million). In the income statement prepared in conformity with IFRS, these costs are not charged to income.

**Listing Related Costs**

Japanese GAAP requires listing related costs to be charged to income when paid.

Under IFRS, external costs directly attributable to the listing are shown as a deduction, in equity from the proceeds.

**Consolidation Goodwill**

Japanese GAAP requires consolidation goodwill to be amortized within 20 years. The consolidation goodwill of the Group has been amortized by the straight-line method over a period of 20 years.

Under International Accounting Standard 36, consolidation goodwill in connection with a subsidiary acquired on or after March 31, 2004 is not to be amortized but to be assessed at least annually.

**Share-Based Payments**

Under Japanese GAAP, there were no specific accounting standards for recognizing share-based payments generated before May 1, 2006. However, the effects of share-based payment transactions after May 1, 2006, including expenses associated with transactions in which share options are granted to employees, is required to be reflected in the profit or loss and the financial position.

Under IFRS 2, Share-Based Payments, requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. Share-based payment transactions are measured based on the fair value method of accounting. An entity shall apply this IFRS for annual periods beginning on or after January 1, 2005. Earlier application is encouraged. If an entity applies IFRS-2 for a period beginning before January 1, 2005, it shall disclose that fact.

**Impairment and one-time amortization of goodwill**

Under Japanese GAAP, on top of the discounted cash flow methodology carried out under IFRS for impairment assessment of non current assets (including goodwill and intangible assets), additional review on the

recoverability of the net assets of the acquired subsidiary is carried out. As such, this may result in additional one-time amortization of goodwill under Japanese GAAP.

**(6) Issues that arouse material doubts to Assumption of Continuity of the Business of the Company**

The Group incurred operating loss of US\$ 44,838 thousand (JP¥ 4,130 million) and net loss of US\$ 268,322 thousand (JP¥ 24,712 million) for the consolidated fiscal year ended December 31, 2008, and operating loss of US\$ 4,173 thousand (JP¥ 384 million) and net loss of US\$ 113,454 thousand (JP¥ 10,449 million) for the consolidated fiscal year ended December 31, 2009. Net cash used in operating activities for the consolidated fiscal year ended December 31, 2009 was US\$ 4,834 thousand (JP¥ 445 million). In addition, bonds payable (principal) of US\$ 3,800 thousand (JP¥ 350 million) become due within one year after the end of this fiscal year.

This is primary due to the equity loss of affiliates as a result of XSEL incurred huge amount of loss, and the worldwide economic downturn after the subprime financial crisis hit the profitability of the Group's existing business. These conditions raise substantial doubt about the Group's ability to continue as a going concern.

The Group is continuing the repositioning of its business and moving ahead. At the same time the Management team is taking a number of actions. Going forward, the Group will be seeking to raise funds by selling certain assets and provide the proceeds for the redemption of the bond and making investments in the new ventures to diversify the business portfolio. In parallel, the Group will further cut overall corporate costs to improve profitability of the existing business and cut finance cost by the redemption of bond for the future sustainable growth. In addition, the Group will take advantage of its presence in the fast growing Chinese market, especially in light of the improving conditions in the global financial markets, and leverage its unique core competencies in China to capture local opportunities. There will be no additional loss expected with regards to the equity loss of XSEL since all the amounts invested in XSEL have been recognized as a loss by the end of this consolidated fiscal year.

However, as the Group's ability to continue as a going concern is heavily pending on the success of divestment of certain assets to raise funds, and the growth of its existing business and new ventures, there exist material uncertainties related to the substantial doubt about the Group's ability to continue as a going concern.

## IV. CONDITION OF FACILITIES

### 1. Outline of Investment in Facilities, etc.

Our capital expenditure needs are primarily the purchase of computer equipment for data storage, networking purposes and delivery of information to clients. Total capital expenditures were US\$420 thousand (JP¥39million) for the twelve months ended December 31, 2009.

### 2. Condition of Major Facilities (As of December 31, 2009)

#### (1) The Company

Location: Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands  
Note: As the Company is an exempted company and holding company, operations are conducted mainly outside the Cayman Islands and business headquarters is in Shanghai.

#### Business headquarters in Shanghai (XFL and Xinhua Financial Network (Shanghai) Ltd)

Location: 1606 Bank Mansion of Shanghai, 168 Yin Cheng Central Road, Pudong Shanghai, PRC  
Purpose: Office  
Area: 348.36 m<sup>2</sup> (leased, which expires on May 24, 2011)  
Employees working therein: 24 staff  
Rent for 2009\*: US\$169 thousand (JP¥16 million)

#### (2) Subsidiary in Japan

#### Regional office in Tokyo (Xinhua Finance Japan Limited)

Location: 16/F Shiroyama Trust Tower, 4-3-1 Toranomom, Minato-ku, Tokyo 105-6016, Japan.  
Purpose: Regional Office  
Area: 65.00 m<sup>2</sup> (leased, which expires on January 15, 2011)  
Employees working therein: 6 staff  
Rent for 2009\*: US\$102 thousand (JP¥9 million)

#### (3) Subsidiaries in foreign countries

#### Regional office in Hong Kong (XFL and Xinhua Financial Network Ltd)

Location: Suite 2103-4, Vicwood Plaza, 199 Des Voeux Central, Hong Kong  
Purpose: Regional Office  
Area: 305 m<sup>2</sup> (leased, which expires on December 16, 2010)  
Employees working therein: 17 staff  
Rent for 2009\*: US\$303 thousand (JP¥28 million)

#### Regional office in Beijing (Xinhua Financial Network (Beijing) Limited)

Location: Room 701, Kun Tai International Mansion, 12B Chaowai Street, Chaoyang District, Beijing 100020, China.  
Purpose: Regional Office  
Area: 805.65 m<sup>2</sup> (leased, which expires on November 24, 2010)  
Employees working therein: 40 staff  
Rent for 2009\*: US\$261 thousand (JP¥24 million)

Notes:

1 There is no material facility except for the office we rent.

- 2 \*Amount represents annual or monthly contractual rental obligations excluding applicable property taxes and management fees.

**3. Plans for Installation, Removal, etc. of Facilities**

Not Applicable

## V. CONDITION OF THE REPORTING COMPANY

### 1. Condition of Shares, etc. (As of December 31, 2009)

#### (1) Total number of shares, etc.

##### (i) Total number of shares

Number of Authorized Shares:	2,500,000
Total Number of Shares Outstanding:	1,513,943.79
Number of Shares Unissued:	986,056.21
Number of options to subscribe for equivalent number of ordinary shares committed to be issued pursuant to an Employee Stock Compensation Plan:	169,133.00
<b>FULLY DILUTED SHARES:</b>	<b>1,683,076.79</b>

#### Notes :

- The Company has established an employee stock compensation plan, which is administered by the compensation committee. It provides for coverage to include employees, directors, consultants and/or advisors and any others as determined by the board. The share price or option price (as the case may be) is determined by the committee but may not be below par value. The share pool is subject to adjustment but may not exceed 20% of the Enlarged Share Capital of the Company. Enlarged Share Capital is defined as the fully-diluted total outstanding share capital of the Company.
- The number of underlying share for each option is one (1).
- On 31 August 2007 the Company approved the issuance of a maximum of 27,000 shares to directors, officers and employees, a maximum of 10,753 shares of which could be granted in three separate tranches, among which 10,743 shares were actually granted and became issuable with a vesting schedule of 3,675 shares, 3,486 shares and 3,582 shares vested on 31 December 2007, 31 December 2008 and 31 December 2009 respectively, and the rest of which, namely 16,247 shares, have been set aside for issuance from time to time by the CEO.

Of the above 27,000 shares, 18,407 shares were issued by 30 September, 2009, representing 3,265 shares became issuable on 31 December 2007, 279 shares became issuable on 31 December 2008, 75 shares originally intended to become issuable on 31 December 2009 but early vested on 15 May 2009 and 14,788 shares to be issued at the discretion of the CEO. As a result, the number of the unissued shares among the above 27,000 shares is 8,593 as of 31 December 2009. Of the aforementioned 8,593 shares, 637 shares representing 150 shares vesting on 31 December 2009 and 487 shares to be issued at the discretion of the CEO have been issued on February 24, 2010.

The following table sets forth certain information as of December 31, 2009 regarding the options granted pursuant to the Employee Stock Compensation Plan.

	Number of Options	Issue Price of the Shares to be Issued upon the Exercise of the Options (per share)	Amount of Increase in the Share Capital Amount of the Shares to be Issued upon the Exercise of Options (per share)
Options granted pursuant to the Employee Stock Compensation Plan on 9 Feb 2005	600	US\$666.67 (JP¥61,400)	HK\$20
Options granted pursuant to the Employee Stock Compensation Plan for 2005	5,580	JP¥49,316	HK\$20
Options granted pursuant to	1,000	JP¥71,844	HK\$20

the Employee Stock Compensation Plan on 31 Jan 2006			
Options granted pursuant to the Employee Stock Compensation Plan for 2006	10,790	JP¥71,844	HK\$20
Options granted pursuant to the Employee Stock Compensation Plan for 2009	151,163	JP¥1,703	HK\$20

(ii) Details of Shares Outstanding

Registered / bearer shares And Par value or no-par-value	Registered shares with par value of HK\$20.00 per share
Class:	Ordinary
Number of shares outstanding:	1,513,943.79
Name of financial instruments exchange or approved financial instruments association in which shares are listed or registered	Tokyo Stock Exchange (Mothers Section)
Content:	Standard share of XFL with full voting right.

(2) Total number of shares issued and changes in capital stock (as of December 31, 2009)

Date	Remarks	Number of Shares Increased or Decreased	Cumulative Number of Shares Issued	Increase in Total Capital US\$*	Cumulative Total Capital US\$ (JP ¥)*
3-Jan-05	Share issuance related to employee compensation	60**	203,625.358**	154	155,546,849 (14,325,864,793)
15-Jan-05	Share issuance related to employee compensation	2,983.833**	206,609.191**	7,651	155,554,500 (14,326,569,450)
26-Feb-05	Share issuance related to employee compensation	1**	206,610.191**	3	155,554,503 (14,326,569,726)
31-Mar-05	Additional share issuance related to MNI acquisition	29**	206,639.191**	74	155,554,577 (14,326,576,542)
1-Apr-05	Exercise of warrants by a warrant-holder	6,944.444**	213,583.635**	5,000,000	160,554,577 (14,787,076,542)
28-Apr-05	Additional shares issuance related to Fortune China acquisition	24.655**	213,608.29**	71,720	160,626,297 (14,793,681,954)
14-Jun-05	Share issuance related to Taylor Rafferty acquisition	4,475**	218,083.29**	11,900,000	172,526,297 (15,889,671,954)
13-Jul-05	Share issuance related to Washington Analysis acquisition	798**	218,881.29**	2,000,000	174,526,297 (16,073,871,954)
15-Jul-05	Share issuance to a consultant	283**	219,164.29**	—	174,526,297 (16,073,871,954)
15-Jul-05	Share issuance to Executive	527**	219,691.29**	—	174,526,297 (16,073,871,954)
15-Sep-05	Share issuance related to Beijing Century Media Culture acquisition	3,480**	223,171.29**	3,000,000	177,526,297 (16,350,171,954)
15-Sep-05	Share issuance to Executive	348**	223,519.29**	—	177,526,297 (16,350,171,954)
22-Sep-05	Share issuance for the three-for-one stock split	439,332	662,851.29	—	177,526,297 (16,350,171,954)
15-Dec-05	Shares issuance for third party allotment	152,626	815,477.29	83,184,411	260,710,708 (24,011,456,207)
20-Jan-06	Exercise of options by an option holder	36	815,513.29	8,640	260,719,348 (24,012,251,951)
20-Jan-06	Share issuance to an employee	30	815,543.29	26	260,719,374 (24,012,254,346)
20-Jan-06	Share issuance related to employee compensation	30	815,573.29	20,693	260,740,067 (24,014,160,171)
20-Jan-06	Share issuance to employees related to share split	12.5	815,585.79	-	260,740,067 (24,014,160,171)
27-Jan-06	Share issuance to senior executives	5,478	821,063.79	-	260,740,067 (24,014,160,171)
15-Feb-06	Share issuance to a third party	2,000	823,063.79	-	260,740,067 (24,014,160,171)
15-Feb-06	Share issuance related to exercise of share options	12	823,075.79	5,001	260,745,068 (24,014,620,763)

\*Please note that this document is a translation of the document prepared in the Japanese language and filed with the Kanto Local Finance Bureau

15-Feb-06	Share issuance related to employee compensation	3	823,078.79	8	260,745,076 (24,014,621,500)
23-Feb-06	Share issuance related to exercise of warrants by a warrant holder	3,900	826,978.79	1,029,600	261,774,676 (24,109,447,660)
3-Mar-06	Share issuance to a consultant	4,650	831,628.79	-	261,774,676 (24,109,447,660)
13-Mar-06	Share issuance to an executive	15,262	846,890.79	-	261,774,676 (24,109,447,660)
21-Mar-06	Share issuance related to acquisition of Beijing Century Media Culture	14,629	861,519.79	8,374,613	270,149,289 (24,880,749,517)
18-Apr-06	Share issuance related to exercise of share options	566	862,085.79	234,261	270,383,550 (24,902,324,955)
8-May-06	Share issuance related to acquisition of Washington Analysis	3,543	865,628.79	3,182,503	273,566,053 (25,195,433,481)
8-May-06	Share issuance related to exercise of share options	392	866,020.79	161,169	273,727,222 (25,210,277,146)
8-Jun-06	Share issuance related to acquisition of Ming Shing International Limited	18,105	884,125.79	11,665,902	285,393,124 (26,284,706,721)
8-Jun-06	Share issuance related to acquisition of Beijing Jing Guan Xin Cheng Advertising Co Ltd	6,602	890,727.79	4,253,979	289,647,103 (26,676,498,186)
25-Jul-06	Share issuance to China Development Research Foundation	1,500	892,227.79	751,351	290,398,454 (26,745,697,614)
25-Jul-06	Share issuance related to exercise of share options	156	892,383.79	67,919	290,466,373 (26,751,952,953)
6-Sep-06	Share issuance to senior executives	18,107	910,490.79	6,152,243	296,618,616 (27,318,574,534)
6-Sep-06	Share issuance related to acquisition of Stone & McCarthy	4,299	914,789.79	1,800,000	298,418,616 (27,484,354,534)
6-Sep-06	Share issuance related to exercise of share options	12	914,801.79	5,022	298,423,638 (27,484,817,060)
22-Sep-06	Share issuance to a senior executive	800	915,601.79	208,265	298,631,903 (27,503,998,266)
22-Nov-06	Share issuance related to acquisition of Taylor Rafferty	16,036	931,637.79	5,948,071	304,579,974 (28,051,815,606)
10-Jan-07	Share issuance related to acquisition of GLC	43,975	975,612.79	24,338,504	328,918,478 (30,293,391,824)
10-Jan-07	Share issuance related to employee compensation	27	975,639.79	23	328,918,501 (30,293,393,942)
10-Jan-07	Share issuance related to exercise of share option	12	975,651.79	4,928	328,923,429 (30,293,847,811)
8-Feb-07	Share issuance related to exercise of share option	288	975,939.79	138,247	329,061,676 (30,306,580,325)
20-Mar-07	Share issuance related to acquisition of Xinhua Finance Advertising	20,740	996,679.79	11,878,390	340,940,066 (31,400,580,044)
20-Mar-07	Share issuance related to acquisition of Beijing Century Media Culture	12,965	1,009,644.79	7,404,653	348,344,719 (32,082,548,585)
22-Mar-07	Share issuance related to exercise of share option	438	1,010,082.79	185,663	348,530,381 (32,099,648,132)
27-Apr-07	Share issuance related to acquisition of Washington Analysis	4,345	1,014,427.79	2,598,955	351,129,336 (32,339,011,887)
20-May-07	Share issuance related to exercise of share option	520	1,014,947.79	227,607	351,356,943 (32,359,974,492)
22-Aug-07	Share issuance related to exercise of share option	12	1,014,959.79	8,198	351,365,141 (32,360,729,528)
12-Sep-07	Share issuance related to employee compensation	3,500	1,018,459.79	669,700	352,034,841 (32,422,408,898)
8-Oct-07	Share issuance related to employee compensation	539	1,018,998.79	166,860	352,201,701 (32,437,776,685)
26-Nov-07	Share issuance related to acquisition of Taylor Rafferty	14,055	1,033,053.79	4,177,784	356,379,485 (32,822,550,591)
31-Jan-08	Share issuance related to employee compensation	7,035	1,040,088.79	1,927,195	358,306,680 (33,000,045,263)
29-Feb-08	Share issuance related to employee compensation	50	1,040,138.79	15,380	358,322,061 (33,001,461,795)
2-May-08	Share issuance related to acquisition of Xinhua Finance Advertising	125,634	1,165,772.79	10,000,000	368,322,061 (33,922,461,795)
2-May-08	Share issuance related to acquisition of Beijing Century Media Culture	27,354	1,193,126.79	2,177,314	370,499,375 (34,122,992,414)
31-May-08	Share issuance related to employee compensation	116	1,193,242.79	28,101	370,527,475 (34,125,580,487)
20-May-08	Share issuance related to acquisition of Xinhua Finance Advertising	48,518	1,241,760.79	4,706,423	375,233,898 (34,559,042,045)
20-Aug-08	Share issuance related to acquisition of Xinhua Finance Advertising	115,329	1,357,089.79	3,000,000	378,233,898 (34,835,342,045)
20-Aug-08	Share issuance related to acquisition of	128,962	1,486,051.79	3,354,628	381,588,526

\*Please note that this document is a translation of the document prepared in the Japanese language and filed with the Kanto Local Finance Bureau

31-Jan-09	Beijing Century Media Culture Share issuance related to a consultant, director, and employee compensation	4,054	1,490,105.79	1,079,699	(35,144,303,284) 382,668,225 (35,243,743,559)
31-Jul-09	Share issuance related to director and employee compensation	23,838	1,513,943.79	1,154,073	383,822,298 (35,350,033,654)

Notes:

- 1 \* "Total Capital" includes share capital and share premium.
- 2 \*\* represent the number of shares on a pre-three-for-one stock split basis
- 3 No stock option was exercised for the year ended December 31, 2009.
- 4 For the balance of warrants and options as of December 31, 2009, issue prices of the shares to be issued, the amount of increase in the capital amount upon exercise of these warrants and options, please see section (1) Total number of shares, etc.

**(3) Distribution by Type of Shareholders (as at December 31, 2009)**

	Government/ Local Government/ Public Corporations	Individuals	Financial Institutions	Securities Companies	Other Companies / Entities	Non-Residents	Total
Number of beneficial shareholders	2	11,578	2	2	98	131	11,813
Number of shares	69	869,967	13,762	4,170	138,532.015	487,443.775	1,513,943.79
% to total outstanding shares	0.00%	57.46%	0.91%	0.28%	9.15%	32.20%	100%

Note : Shares held by Horsford Nominees Limited are re-classified on a beneficiary-shareholder basis.

**(4) Major Shareholders (as at December 31, 2009)**

Number	Name of Shareholder	Address	Number of Shares	Shareholding %
1	Luck Wing Group Limited	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	198,430	13.11%
2	HSBC Broking Securities (Asia) Limited	Custody Department, 3-1-1 Nihonbashi Chuo-ku, Tokyo 103-0027	193,722	12.80%
3	NIS Group Co., Ltd.	Shinjuku L-Tower 25F, 1-6-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo	114,717	7.58%
4	PICTET & CIE 828060 Standing Proxy: SMBC	1-1-2 Yurakucho, Chiyoda-ku, Tokyo 100-0006	68,074	4.50%
5	Nomura Singapore Standing Proxy : Nomura Securities	1-9-1 Nihonbashi Chuo-ku, Tokyo 103-8011	51,243	3.40%
6	BBH (LUX) for Genesis Smaller Co. Standing Proxy : BTMU	BTMU, 2-11-3 Hamamatsucho Minato-ku, Tokyo 105-0013	31,539	2.08%
7	Morgan Stanley and Company	Citibank Japan Ltd., Citi Group Center 14F, 2-3-14 Highashi Shinagawa, Shinagawaku, Tokyo 140-8639	30,265	2.00%
8	Kazunori Miyata	Miyakonojo-Shi, Miyazaki	28,938	1.91%
9	UBS Financial Service Special Custody Account for EBOC	Citibank Japan Ltd., Citi Group Center 14F, 2-3-14 Highashi Shinagawa, Shinagawaku, Tokyo 140-8639	17,079	1.13%
10	Ri-Man Buraza-Zu Inku Jiyoudaimizuho	4-16-13, Tsukishima, Chuo-ku, Tokyo 104-0052	13,500	0.89%
Total			747,507	49.40%

Notes:

- 1 The issued share capital of the Company as at 31 Dec 2009 was 1,513,943.79 shares.

## 2. Dividend Policy

Since the Company has a relatively short operating history, dividends have not yet been declared and paid.

In order to maintain the Company's leadership in its business sector and maximize the value of the Company, the Company has thus far considered funding the expansion of its business paramount to the distribution of dividends. Currently, the Company is making efforts to strengthen its profit profile while expanding the business.

In relation to the Company's organization having the power to declare dividends, please see "Dividends" in "1. Outline of Corporate System, etc.", "I. Outline of Legal and other Systems in the Home Country" of Part I.

## 3. Trend in Share Prices

### (1) Table of the highest and lowest share prices for the most recent five fiscal years

Term	Year and month of the fiscal year end	Share Price High (JP ¥)	Share Price Low (JP ¥)
The 2 <sup>nd</sup> fiscal year	December, 2005	146,333	41,667
The 3 <sup>rd</sup> fiscal year	December, 2006	109,000	36,750
The 4 <sup>th</sup> fiscal year	December, 2007	93,800	20,750
The 5 <sup>th</sup> fiscal year	December, 2008	24,150	980
The 6 <sup>th</sup> fiscal year	December, 2009	2,800	1,013

Notes:

- 1 The table shows the highest and lowest price on Mothers Section of the Tokyo Stock Exchange.
- 2 The share prices are on post-share split basis.

### (2) The table of the highest and lowest share prices for each of the six most recent months in the current fiscal year

Month	Share Price High (JP ¥)	Share Price Low (JP ¥)
July 2009	2,040	1,501
August 2009	1,822	1,503
September 2009	1,676	1,227
October 2009	1,489	1,227
November 2009	1,840	1,283
December 2009	1,592	1,310

Note: The table shows the highest and lowest price on Mothers Section of the Tokyo Stock Exchange

## 4. Director and Officers

### (1) Personal history and Number of Shares Owned – Directors and Officers (as at May 17, 2010)

#### (i) Members of the Board of Directors

Position	Name	Date of birth	Term of office	Personal history	Number of shares owned
Chairman and Chairman of Audit and Compensation Committees	WU Ji Guang	7/16/1951	2004 – 2009 #	Mr. Wu has been a director and our Chairman since April 2004 and held the same positions at XFN from May 2003 to April 2004. Mr. Wu is also President of China Media Development Shenzhen Incorporation, a company wholly-owned by XNA.	300

Chief Executive Officer and member of Investment Committee	Jae Young LIE	2/19/1961	2008 – 2013 #	Mr. Lie has been our Chief Executive Officer since May 2008 and has served as a director since April 2004. He has been with XFL since 2000 and has served as Chief Operating Officer and President of the Company. Prior to that, Mr. Lie was the Senior Director of Sales and Marketing for Fritz Companies, Inc. Mr. Lie holds a Bachelor Degree in Economics from University of California, Berkeley, USA. Mr. Lie speaks Mandarin, Japanese, Korean, and English.	15,178
Director and member of Investment Committee	Aloysius T. LAWN	12/4/1958	#	Mr. Lawn was appointed as a director in June 2007 and is a business consultant. He is a member of the Investment Committee of the Company. He served as a director of Stonepath Group, Inc. from February 2001 to February 2007. Until December 2006, Mr. Lawn was the Executive Vice President – General Counsel and Secretary of Talk America Holdings, Inc., an integrated communications service provider with programs designed to benefit the residential and small business markets. Prior to joining Talk America Holdings, Inc. in 1996, Mr. Lawn was an attorney in private practice with extensive experience in private and public financings, mergers and acquisitions, securities regulation and corporate governance. Mr. Lawn graduated from Yale University and Temple University School of Law. Mr. Lawn is an independent director of XSEL. XSEL is an associated company of the Company and its shares are listed on the Nasdaq Global Market.	1,500
Independent Director and member of Compensation Committee	Jeanne MURTAUGH	6/5/1950	#	Ms. Murtaugh was the Vice Chairman Emeritus of Bank of New York ConvergeX Group, LLC, a leading firm in agency brokerage and investment technology solutions and Vice Chairman of BNY ConvergeX Execution Solutions, based in New York before her retirement at the end of 2008. Ms. Murtaugh joined The Bank of New York in 1997 through the acquisition of BNY Brokerage where she was a lead principal. She began her career at J.P. Morgan, then served in various management positions at Wachovia Bank where she established the Bank's retail brokerage business and global custody services, and subsequently at Morgan Stanley & Co. through its ESI subsidiary. Ms. Murtaugh earned a B.S. degree from the University of North Carolina.	150

Independent Director and member of Audit Committee	CHEN Xiaolu	7/30/1946	#	Mr. Chen is the son of one of the few legendary founders of the People's Republic of China along with Chairman Mao. His father was one of the Ten Marshals credited with the 1949 victory and was also named the first Mayor of Shanghai, China's most important commercial city. Mr. Chen Xiaolu himself has held a number of senior positions with China's military and served as Deputy Defense Attaché at the Chinese Embassy in London. He was also Departmental Director of the Political Restructuring Research Office of the Communist Party of China's Central Committee. In the early 1990s, he moved into the business world, and is currently a Director of Standard International Investment Consultancy Co, Ltd and also an Independent Director of Bosera Funds.	150
<b>Total</b>					<b>17,278</b>

Note: # All directors are subject to retirement by rotation and re-election by shareholders at annual general meetings. Please see "5 Condition of Corporate Governance, etc." below.

(ii) **Executive Officer**

Position	Name	Date of birth	Term of office	Personal history	Number of shares owned
Chief Financial Officer	Yvonne Siuhung WANG-LIU	8/22/1970	Indefinite	Ms. Yvonne Wang is responsible for developing the Company's overall financial strategy and internal control. She has over 17 years of solid business experience including from Big 6 accounting firms. Prior to joining the Company, Ms. Wang worked at XSEL (the Company's then subsidiary and now an associated company) XSEL as the Vice-President of Finance where she led the finance team to successfully obtain Sarbanes Oxley Compliance and a series of campaigns to improve financial control. Ms Wang has a Master of Business Administration (MBA) from University of Southern California and she is a Certified Public Accountant (CPA).	-
<b>Total</b>					<b>-</b>

Note : Mr. John McLean ceased to be an officer of the Company and becomes a consultant of the Company with effect from 1 January 2010.

(2) **Remuneration of members of the board of directors and of other management bodies**

COMPENSATION FOR DIRECTORS FY 2009

	Total US\$	Total JP¥'000
Director Fees	226,992	20,906
Salary	350,000	32,235
Expenses Allowance	-	-
Share based payments	522,431	48,116
Bonus	349,999	32,235
Other	1,539	142
<b>TOTAL</b>	<b>1,450,961</b>	<b>133,634</b>

\*Please note that this document is a translation of the document prepared in the Japanese language and filed with the Kanto Local Finance Bureau

Note: The figures presented above are for the directors of the Company for the year ended December 31, 2009 and include salary, expense allowance and other emoluments relating to their employment by the Group.

## **5. Condition of Corporate Governance, etc.**

### **(1) Condition of Corporate Governance.**

#### **(i) Management**

The business of the Company is managed and conducted by the board. The board currently consists of five directors, of which three are independent directors. The composition of the board, the experience of the individual directors and the dynamics of the board of the Group service to ensure both the board's effectiveness and the inability of an individual or small group to dominate the board's decision-making. The board has determined that each of the outside directors is independent in character and judgment.

The Articles of Association of the Company provide that at each annual general meeting of shareholders, one-third of the directors (other than a director who is the Chairman or the CEO) for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that retiring directors are immediately eligible for re-election. This re-election mechanism ensures that shareholders are involved in the decision-making process of the Company. Any director who is the Chairman or the CEO is subject to this same requirement every five years. The board then delegates its power to conduct the business of the Company to executive officers including the CEO, who is in charge of the general management of the business of the Company, the Chief Financial Officer, who is in charge of financial and accounting matters of the Company, or a committee appointed by the board. The Articles of Association allow the board to delegate any of its powers, authorities and discretions to committees, consisting of such director or directors and other persons as it thinks fit, and the board may, from time to time, revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes. Any committee formed by the board shall, in the exercise of the powers, authorities and discretions delegated, conform to any regulations, which may be imposed on it by the board.

In order to manage the Company in an efficient manner, the board has established a number of committees. Besides the Audit Committee described below, the Company has also established a Compensation Committee consisting of two independent non-executive directors of the Company. The purpose of the Compensation Committee is to assist the board by reviewing and determining the compensation to be paid to employees and officers of the Company. The Committee is authorized to do all things that the board would otherwise be authorized to do in respect of compensation of officers and employees of the Company and full minutes of all meetings of the Compensation Committee must be kept and filed with the Company. The Company has established an Investment Committee which consists of two directors of the Company by the resolution of the board of directors on November 17, 2005. The Investment Committee is empowered to approve investments and acquisitions of the Company with a value which is less than US\$2 million (JP¥184 million).

At all times the performance of the duties of directors, officers and employees of the Company and any committee established by the board is monitored and supervised by the board.

#### **(ii) Audit**

An Audit Committee consisting of two independent non-executive directors of the Company was established. The purpose of the Audit Committee is to assist the board by reviewing (i) quarterly, and annual financial information of the Company; (ii) external and internal audit reports; and (iii) systems of corporate governance and control which management and the board have established.

The Audit Committee will comprise a minimum of at least two directors who are neither officers or employees of the Company nor executive directors, officers or employees of any subsidiary of the Company. The majority of the Audit Committee will be independent non-executive directors of the Company and the Chairman of the Audit Committee will be an independent non-executive director of the Company.

The Audit Committee will have full and unlimited access to all books and accounts of the Company and shall have the following duties and responsibilities:

- (a) reviewing, in draft form, the Company's annual report and accounts and quarterly reports and providing advice and comments thereon to the board;
- (b) reviewing and supervising the Company's financial reporting and internal control procedures; and
- (c) monitoring the execution of duties of directors and executive officers.

Deloitte Touche Tohmatsu LLC, which is independent from the corporate body of the Company, has been appointed as the outside auditor of the Company. The financial statements of the Company are audited by the outside auditor in accordance with auditing standards generally accepted in Japan. The outside auditor makes a written report on the financial statements in accordance with Japanese GAAP and the report of the outside auditor is submitted to the general shareholders meeting.

**(iii) Compensation for directors**

Under the Articles of Association of the Company compensation for directors is determined by the board and in turn may be delegated to the Compensation Committee established by the board. The Compensation Committee shall consist of no fewer than two directors as determined by a resolution of the board, the majority of whom shall be independent non-executive directors and persons who are not executive officers of the Company. Such remuneration shall be divided amongst the members of the board in such proportions and in such manner as the board or the Compensation Committee (as the case may be) may agree, or, failing agreement, equally, except that any director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. Such remuneration shall be deemed to accrue from day to day. The total amount paid to directors as their compensation (including salary as employees) was US\$1,450,961 in the fiscal year 2009.

**(iv) Internal Audit**

The Company's Internal Audit team consists of one Internal Auditor who reports directly to the Audit Committee. He sets out his annual audit plan being approved by the CEO prior to year end that covers most of the major entities. He carries out his audit routine and procedures based on four steps being (1) Planning, (2) Fieldwork (3) Reporting and (4) Follow up. When working with management and staff, he aims at maintaining 6 key principals being (1) Integrity, (2) Objectivity (3) Accuracy (4) Constructive (5) Courtesy and (6) Confidentiality. When performing his fieldwork, he carries out the following audit procedures: (1) observing the operational control (2) inquire how the control is performed (3) tracing items to source documentation for evidence of control operation (4) perform walk through test and (5) perform substantive/detailed testing.

Every time an audit assignment is completed with management's response, an audit report will be submitted to the audit committee for review and comment. Should any of the external auditors have questions on the Company's existing control, they may contact the Internal Auditor directly.

**(v) Personal relationship, capital relationship or contractual relationship between the outside directors, audit committee members and the Company**

There is no personal relationship or contractual relationship between the independent directors, audit committee members and the Company. The capital relationship is provided in 4. Director and Officers section.

**(vi) CPAs information**

- (a) The CPAs who belong to Deloitte Touche Tohmatsu LLC (a Japanese member firm of Deloitte Touche Tohmatsu, a Swiss Verein) that conducted the audit activities for the fiscal year of 2009 were:

Yoshitaka Asaeda and Tomoyasu Maruyama

- (b) Composition of assistants:

CPA	2
Junior CPA	3
Others	3

**(2) Compensation for Outside Auditors.**

**(i) Compensation for foreign accountants etc.**

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

	January 1, 2008 to December 31, 2008		January 1, 2009 to December 31, 2009	
	Fees accruing from audit practice	Fees accruing from non-audit practice	Fees accruing from audit practice	Fees accruing from non-audit practice
The Company	1,849 (170)	164 (15)	1,139 (105)	403 (37)
Consolidated subsidiaries	3,785 (349)	229 (21)	41 (4)	148 (14)
Total	5,634 (519)	393 (36)	1,181 (109)	551 (51)

**(ii) Content of other material compensations**

Not applicable.

**(iii) Content of the non-audit practice conducted to the Company by foreign accountants etc.**

Not applicable.

**(iv) Principles regarding determination of the compensation for outside auditors**

Not applicable.

## VI. FINANCIAL CONDITION

### (1) Basis of presenting consolidated financial statements and financial statements

- (a) The consolidated financial statements of the Company 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”). The consolidated financial statements of the Company for the year from January 1, 2008 to December 31, 2008 was prepared in accordance with the Consolidated Financial Statements Rule before revision, and the consolidated financial statements of the Company for the year from January 1, 2009 to December 31, 2009 was prepared in accordance with the Consolidated Financial Statements Rule after revision.
- (b) The financial statements of the Company 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”).

The financial statements of the Company for the year from January 1, 2008 to December 31, 2008 was prepared in accordance with the Financial Statements Rule before revision, and the financial statements of the Company for the year from January 1, 2009 to December 31, 2009 was prepared in accordance with the Financial Statements Rule after revision.

- (c) The fourth clause of Article 127 of the Financial Statements Rule is applied to the financial information of the Company.
- (d) The consolidated financial statements of the Company and the financial statements of the Company 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 quotations by the Bank of Tokyo-Mitsubishi UFJ, Ltd. for buying and selling spot US\$ by telegraphic transfer against yen as of December 30, 2009, which is calculated as US\$1 = JPY92.10, in accordance with Article 132 of the Financial Statements Rules. U.S. dollar amounts are presented in thousands (rounded), and Japanese yen amounts are stated in millions (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.

### (2) Audit certification

Pursuant to Article 193-2, term 1 of the FIEL, Deloitte Touche Tohmatsu LLC has performed an audit on the consolidated financial statements of the Company for the year from January 1, 2009 to December 31, 2009 and for the year from January 1, 2008 to December 31, 2008 and the financial statements of the Company for the year from January 1, 2009 to December 31, 2009 and for the year from January 1, 2008 to December 31, 2008. On 1 July, 2009, Deloitte Touche Tohmatsu, from which the Company had been receiving audit certification previously, became Deloitte Touche Tohmatsu LLC pursuant to the change in the category of auditing firms.

# 1. Financial Information

## ① Consolidated balance sheets

		Consolidated fiscal year - prior year (As of December 31, 2008) (Unit: Thousands of U.S. Dollars)	Consolidated fiscal year - prior year (As of December 31, 2008) (Unit: Millions of Japanese Yen)	Consolidated fiscal year - current year (As of December 31, 2009) (Unit: Thousands of U.S. Dollars)	Consolidated fiscal year - current year (As of December 31, 2009) (Unit: Millions of Japanese Yen)
Assets					
Current assets					
Cash and deposits	※1	75,289	6,934	23,688	2,182
Accounts receivable-trade	※2	8,203	756	2,213	204
Short-term investment securities		756	70	-	-
Accounts receivable-other		5,014	462	2,095	193
Other	※2	14,337	1,320	1,562	144
Total current assets		103,600	9,542	29,558	2,722
Non-current assets					
Property, plant and equipment					
Buildings and structures		5,566	513	986	91
Accumulated depreciation		△ 1,950	△ 180	△ 445	△ 41
Buildings and structures, net		3,616	333	540	50
Tools, furniture and fixtures		8,095	746	3,028	279
Accumulated depreciation		△ 5,940	△ 547	△ 2,030	△ 187
Tools, furniture and fixtures, net		2,155	199	998	92
Total property, plant and equipment		5,772	532	1,538	142
Intangible assets					
Goodwill		15,114	1,392	-	-
Right of trademark		400	37	300	28
Contractual rights and other	※4	633	58	-	-
Total intangible assets		16,147	1,487	300	28
Investments and other assets					
Investment securities		205	19	65	6
Stocks of subsidiaries and affiliates		89,062	8,203	-	-
Investments in capital of subsidiaries and affiliates		188	17	7,840	722
Total investments and other assets	※2	89,455	8,239	7,906	728
Total non-current assets		111,373	10,257	9,744	897
Deferred assets					
Bond issuance costs		1,140	105	133	12
Total deferred assets		1,140	105	133	12
Total assets		216,113	19,904	39,434	3,632

		Consolidated fiscal year - prior year (As of December 31, 2008) (Unit: Thousands of U.S. Dollars)	Consolidated fiscal year - prior year (As of December 31, 2008) (Unit: Millions of Japanese Yen)	Consolidated fiscal year - current year (As of December 31, 2009) (Unit: Thousands of U.S. Dollars)	Consolidated fiscal year - current year (As of December 31, 2009) (Unit: Millions of Japanese Yen)
Liabilities					
Current liabilities					
Accounts payable-trade		5,804	535	1,106	102
Current portion of bond		41,474	3,820	3,787	349
Short-term loans payable	※1,3	16,208	1,493	16,726	1,540
Income taxes payable		2,372	218	984	91
Accounts payable-other		1,971	182	1,401	129
Accrued expenses		15,313	1,410	6,664	614
Unearned revenue		1,685	155	-	-
Notes payable-non-operating		44	4	-	-
Lease obligations	※1	9	1	-	-
Other		452	42	552	51
Total current liabilities		85,333	7,859	31,220	2,875
Non-current liabilities					
Bonds payable		9,508	876	5,388	496
Lease obligations	※1	4	0	-	-
Long-term accounts payable-other		400	37	-	-
Deferred tax liabilities		202	19	42	4
Other		1,074	99	1,042	96
Total non-current liabilities		11,188	1,030	6,472	596
Total liabilities		96,521	8,890	37,692	3,471
Net Assets					
Shareholders' equity					
Capital stock		3,810	351	3,882	358
Capital surplus		401,693	36,996	403,856	37,195
Retained earnings		△ 269,549	△ 24,825	△ 383,004	△ 35,275
Total shareholders' equity		135,955	12,521	24,734	2,278
Valuation and translation adjustments					
Valuation differences on available-for-sale securities		40	4	36	3
Foreign currency translation adjustments	※5	△ 24,320	△ 2,240	△ 24,853	△ 2,289
Total valuation and translation adjustments		△ 24,280	△ 2,236	△ 24,817	△ 2,286
Subscription rights to shares		1,797	166	1,659	153
Minority interests		6,120	564	166	15
Total net assets		119,592	11,014	1,742	160
Total liabilities and net assets		216,113	19,904	39,434	3,632

② Consolidated income statements

		Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008) (Unit: Thousands of U.S. Dollars)	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008) (Unit: Millions of Japanese Yen)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009) (Unit: Thousands of U.S. Dollars)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009) (Unit: Millions of Japanese Yen)
Net sales		279,351	25,728	32,717	3,013
Cost of sales		150,522	13,863	10,949	1,008
Gross profit		128,829	11,865	21,768	2,005
Selling, general and administrative expenses					
Directors' compensations		10,290	948	1,451	134
Salaries and allowances		48,169	4,436	8,115	747
Advertising expenses		10,419	960	101	9
Depreciation		11,939	1,100	977	90
Amortization of goodwill		20,113	1,852	350	32
Commission fee		-	-	5,871	541
Others		72,736	6,699	9,076	836
Total selling, general and administrative expenses		173,666	15,995	25,941	2,389
Operating loss (△)		△ 44,838	△ 4,130	△ 4,173	△ 384
Non-operating income					
Interest and dividend income		4,590	423	1,154	106
Foreign exchange gain		8,226	758	357	33
Commission fee		-	-	1,578	145
Others		3,865	356	923	85
Total non-operating income		16,681	1,536	4,012	370
Non-operating expenses					
Interest expenses		24,492	2,256	3,996	368
Equity in loss of affiliates		-	-	80,448	7,409
Stock issuance cost		550	51	-	-
Others		1,591	147	755	70
Total non-operating expenses		26,633	2,453	85,199	7,847
Ordinary loss (△)		△ 54,789	△ 5,046	△ 85,360	△ 7,862
Extraordinary gains					
Gain on sales of noncurrent assets	※3	229	21	-	-
Gain on termination of a derivative contract		4,297	396	-	-
Gain on forfeiture of share option		876	81	-	-
Gain on sales of stocks of subsidiaries and affiliates		17,635	1,624	1,042	96
Gain on transfer of business		6,017	554	-	-
Total extraordinary gains		29,055	2,676	1,042	96
Extraordinary losses					
Loss on change in equity		14,858	1,368	7,941	731
Loss on prior periods adjustment	※5	3,692	340	-	-
Loss on sales of a non-deliverable option		2,150	198	-	-
Loss on valuations of investments securities		607	56	-	-
Provision of allowance for doubtful accounts	※6	42,098	3,877	2,196	202
Bad debt expense		-	-	4,263	393
Loss on sales of stocks of subsidiaries and affiliates		4,159	383	35	3
Loss on sales and retirement of noncurrent assets	※4	436	40	98	9
Loss on transfer of business		300	28	-	-
Amortization of goodwill	※2	95,054	8,754	-	-
Impairment loss	※1	203,703	18,761	5,433	500
Others		296	27	190	18
Total extraordinary losses		367,353	33,833	20,156	1,856
Loss before income taxes and minority interests (△)		△ 393,088	△ 36,203	△ 104,474	△ 9,622
Income taxes (current)		10,636	980	2,480	228
Income taxes (deferred)		△ 3,296	△ 304	△ 156	△ 14
Total income tax		7,340	676	2,324	214
Minority interests in income		△ 132,106	△ 12,167	6,656	613
Net loss (△)		△ 268,322	△ 24,712	△ 113,454	△ 10,449

\*Please note that this document is a translation of the document prepared in the Japanese language and filed with the Kanto Local Finance Bureau

③ Consolidated statement of changes in net assets

	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008) (Unit: Thousands of U.S. Dollars)	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008) (Unit: Millions of Japanese Yen)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009) (Unit: Thousands of U.S. Dollars)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009) (Unit: Millions of Japanese Yen)
<b>Shareholders' equity</b>				
<b>Capital stock</b>				
Beginning balance	2,649	244	3,810	351
Change of items during the year				
Issuance of new shares	18	2	72	7
Increase by share exchanges	1,143	105	-	-
Total changes of items during the year	1,162	107	72	7
Ending balance	3,810	351	3,882	358
<b>Capital surplus</b>				
Beginning balance	377,646	34,781	401,693	36,996
Change of items during the year				
Issuance of new shares	1,952	180	2,162	199
Increase by share exchanges	22,095	2,035	-	-
Total changes of items during the year	24,048	2,215	2,162	199
Ending balance	401,693	36,996	403,856	37,195
<b>Retained earnings</b>				
Beginning balance	△ 1,227	△ 113	△ 269,549	△ 24,825
Change of items during the year				
Net loss	△ 268,322	△ 24,712	△ 113,454	△ 10,449
Total changes of items during the year	△ 268,322	△ 24,712	△ 113,454	△ 10,449
Ending balance	△ 269,549	△ 24,825	△ 383,004	△ 35,275
<b>Total shareholders' equity</b>				
Beginning balance	379,067	34,912	135,955	12,521
Change of items during the year				
Issuance of new shares	1,971	181	2,234	206
Net loss	△ 268,322	△ 24,712	△ 113,454	△ 10,449
Increase by share exchanges	23,238	2,140	-	-
Total changes of items during the year	△ 243,113	△ 22,391	△ 111,221	△ 10,243
Ending balance	135,955	12,521	24,734	2,278
<b>Valuation and translation adjustments</b>				
<b>Valuation difference on available-for-sale securities</b>				
Beginning balance	441	41	40	4
Change of items during the year				
Net changes of items other than shareholders' equity	△ 401	△ 37	△ 4	△ 0
Total changes of items during the year	△ 401	△ 37	△ 4	△ 0
Ending balance	40	4	36	3

	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008) (Unit: Thousands of U.S. Dollars)	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008) (Unit: Millions of Japanese Yen)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009) (Unit: Thousands of U.S. Dollars)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009) (Unit: Millions of Japanese Yen)
Deferred gains or losses on hedges				
Beginning balance	△ 7,361	△ 678	-	-
Change of items during the year				
Net changes of items other than shareholders' equity	7,361	678	-	-
Total changes of items during the year	7,361	678	-	-
Ending balance	-	-	-	-
Foreign currency translation adjustment				
Beginning balance	△ 12,396	△ 1,142	△ 24,320	△ 2,240
Change of items during the year				
Net changes of items other than shareholders' equity	△ 11,924	△ 1,098	△ 533	△ 49
Total changes of items during the year	△ 11,924	△ 1,098	△ 533	△ 49
Ending balance	△ 24,320	△ 2,240	△ 24,853	△ 2,289
Total valuation and translation adjustments				
Beginning balance	△ 19,316	△ 1,779	△ 24,280	△ 2,236
Change of items during the year				
Net changes of items other than shareholders' equity	△ 4,964	△ 457	△ 536	△ 49
Total changes of items during the year	△ 4,964	△ 457	△ 536	△ 49
Ending balance	△ 24,280	△ 2,236	△ 24,817	△ 2,286
Subscription rights to shares				
Beginning balance	8,966	826	1,797	166
Change of items during the year				
Net changes of items other than shareholders' equity	△ 7,169	△ 660	△ 139	△ 13
Total changes of items during the year	△ 7,169	△ 660	△ 139	△ 13
Ending balance	1,797	166	1,659	153
Minority interests				
Beginning balance	203,755	18,766	6,120	564
Change of items during the year				
Net changes of items other than shareholders' equity	△ 197,634	△ 18,202	△ 5,955	△ 548
Total changes of items during the year	△ 197,634	△ 18,202	△ 5,955	△ 548
Ending balance	6,120	564	166	15
Net assets				
Beginning balance	572,472	52,725	119,592	11,014
Change of items during the year				
Issuance of new shares	1,971	181	2,234	206
Net loss	△ 268,322	△ 24,712	△ 113,454	△ 10,449
Increase by share exchanges	23,238	2,140	-	-
Net changes of items other than shareholders' equity	△ 209,767	△ 19,320	△ 6,630	△ 611
Total changes of items during the year	△ 452,880	△ 41,710	△ 117,850	△ 10,854
Ending balance	119,592	11,014	1,742	160



④ Consolidated cashflow statements

	Consolidated fiscal year -prior year (From January 1, 2008 to December 31, 2008) (Unit: Thousands of US dollars)	Consolidated fiscal year -prior year (From January 1, 2008 to December 31, 2008) (Unit: Millions of Japanese Yen)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009) (Unit: Thousands of US dollars)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009) (Unit: Millions of Japanese Yen)
Net cash provided by (used in) operating activities				
Loss before income taxes and minority interests (△)	△ 393,088	△ 36,203	△ 104,474	△ 9,622
Depreciation and amortization	5,390	496	977	90
Impairment loss	203,703	18,761	5,433	500
Amortization	19,735	1,818	-	-
Amortization of goodwill	118,298	10,895	350	32
Share-based compensation	14,148	1,303	2,095	193
Interest and dividends income	△ 4,590	△ 423	△ 1,154	△ 106
Interest expenses	24,492	2,256	3,996	368
Gain (loss) on change in equity (△ : gain)	14,858	1,368	7,941	731
Equity in gain (loss) of affiliates (△ : gain)	-	-	80,448	7,409
Gain (loss) on valuation of investment securities (△ : gain)	607	56	-	-
Stock issuance cost	550	51	-	-
Gain (loss) on sales and retirement of noncurrent assets (△ : gain)	207	19	98	9
Increase (decrease) in allowance for doubtful accounts	42,098	3,877	2,196	202
Bad debt expense	-	-	4,263	393
Gain (loss) on transfer of business (△ : gain)	△ 5,717	△ 527	-	-
Gain (loss) on sales of stocks of subsidiaries and affiliates (△ : gain)	△ 13,477	△ 1,241	△ 1,006	△ 93
Gain (loss) on termination of a derivative contract (△ : gain)	△ 4,297	△ 396	-	-
Gain (loss) on disposal of a non-deliverable option (△ : gain)	2,150	198	-	-
Increase (decrease) in accounts receivable (△ : increase)	△ 35,686	△ 3,287	1,784	164
Increase (decrease) in accounts payable (△ : decrease)	41,814	3,851	△ 905	△ 83
Increase (decrease) in other current assets (△ : increase)	16,550	1,524	3,885	358
Increase (decrease) in other current liabilities (△ : decrease)	8,028	739	△ 8,847	△ 815
Other, net	8,672	799	704	65
Subtotal	64,448	5,936	△ 2,217	△ 204
Income taxes paid	△ 6,957	△ 641	△ 2,617	△ 241
Net cash provided by (used in) operating activities (△: used in)	57,491	5,295	△ 4,834	△ 445
Net cash provided by (used in) investment activities				
Proceeds from withdrawal of time deposits	4,606	424	-	-
Interest and dividends income received	4,590	423	1,154	106
Deposit paid for acquisition	△ 14,175	△ 1,305	-	-
Proceeds from sales and redemption of securities	3,669	338	-	-
Purchase of property, plant and equipment	△ 5,500	△ 507	△ 420	△ 39
Proceeds from sales of property, plant and equipment	415	38	89	8
Purchase of intangible assets	△ 11,483	△ 1,058	-	-
Purchase of investment securities	△ 2,232	△ 206	-	-
Proceeds from sales and redemption of investment securities	1,335	123	-	-
Purchase of derivative transactions	△ 24,050	△ 2,215	-	-
Proceeds from sales of derivative transactions	2,150	198	-	-
Decrease (increase) in short-term loans receivable	△ 8,755	△ 806	-	-
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	※2 86,728	7,988	7,740	713
Purchase of investments in subsidiaries	△ 5,630	△ 519	-	-
Proceeds from transfer of business	※3 5,156	475	-	-
Payment for conversion of classified shares issued by the subsidiary	※4 △ 57,029	△ 5,252	-	-
Subsequent consideration paid for the acquisition of shares of certain subsidiaries	△ 60,999	△ 5,618	-	-
Other, net	△ 1,142	△ 105	1,422	131
Net cash provided by (used in) investing activities (△: used in)	△ 82,347	△ 7,584	9,984	920

\*Please note that this document is a translation of the document prepared in the Japanese language and filed with the Kanto Local Finance Bureau

		Consolidated fiscal year -prior year (From January 1, 2008 to December 31, 2008) (Unit: Thousands of US dollars)	Consolidated fiscal year -prior year (From January 1, 2008 to December 31, 2008) (Unit: Millions of Japanese Yen)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009) (Unit: Thousands of US dollars)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009) (Unit: Millions of Japanese Yen)
Net cash provided by (used in) financing activities					
Interest expenses paid		△ 17,039	△ 1,569	△ 2,950	△ 272
Increase (decrease) in deposit pledged (△: increase)		8,797	810	△ 218	△ 20
Repayments of long-term loans payable		△ 242	△ 22	-	-
Redemption of bonds		△ 48,739	△ 4,489	△ 42,054	△ 3,873
Net increase (decrease) in short-term loans payable (△: decrease)		155	14	413	38
Proceeds from stock issuance to minority shareholders		27,381	2,522	-	0
Cash dividends paid to minority shareholders		△ 2,523	△ 232	△ 2,500	△ 230
Repayments of finance lease obligations		△ 35	△ 3	-	-
Increase (decrease) in long term other payables (△: decrease)		4,945	455	-	-
Net cash provided by (used in) financing activities (△: used in)		△ 27,302	△ 2,514	△ 47,308	△ 4,357
Effect of exchange rate change on cash and cash equivalents		△ 15,591	△ 1,436	△ 359	△ 33
Net increase (decrease) in cash and cash equivalents (△: decrease)		△ 67,748	△ 6,240	△ 42,517	△ 3,916
Cash and cash equivalents at beginning of year		125,373	11,547	57,624	5,307
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	※5	-	-	△ 9,679	△ 891
Cash and cash equivalents at end of year	※1	57,624	5,307	5,428	500



Basis of presenting consolidated financial statements

Item	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)
1 Scope of consolidation	<p>(1) The number of consolidated subsidiaries: 35</p> <p>The name of major consolidated subsidiaries are as follows:</p> <p>Asia</p> <p>Xinhua Financial Network Ltd. Xinhua Financial Network (Beijing) Ltd Xinhua Financial Network (Shanghai) Limited Other subsidiaries in Asia: 22</p> <p>U.S.A.</p> <p>Taylor Rafferty Associates, Inc. Market News International, Inc Other subsidiaries in U.S.A.: 4</p> <p>Other Locations: 4 Intelligence Asia Pty Ltd., Xinhua Financial Network Inc. and Shanghai Netchina Limited are excluded from the scope of consolidation due to dissolution.</p> <p>Mergent, Inc. and its 7 subsidiaries, as well as Kinetic Information System Services Limited and Washington Analysis Corporation are excluded from the scope of consolidation due to subsequent sale of shares.</p> <p>Because the ratio of voting rights of the Company decreased, Xinhua Finance Media Limited ("XFM") and its 72 subsidiaries, which were previously consolidated, were excluded from the scope of consolidation. As a consequence, XFM is now held as an associate, which is accounted for under the equity method. As the control of XFM by the Company was dissolved on December 31, 2008, the financial results of XFM are consolidated only in the consolidated income statements and consolidated cashflow statements.</p>	<p>(1) The number of consolidated subsidiaries: 24</p> <p>The name of major consolidated subsidiaries are as follows:</p> <p>Asia</p> <p>Xinhua Financial Network Ltd. Xinhua Financial Network (Beijing) Ltd Xinhua Financial Network (Shanghai) Limited Other subsidiaries in Asia: 13</p> <p>U.S.A.</p> <p>Taylor Rafferty Associates, Inc. Other subsidiaries in U.S.A.: 3</p> <p>Other Locations: 4 Market News International Inc. and its subsidiary and Shanghai Far East Credit Rating Co. Ltd. and its 6 subsidiaries, are excluded from the scope of consolidation due to sale of shares.</p> <p>Xinhua Investment Group Hong Kong Limited is excluded from the scope of consolidation due to dissolution.</p> <p>FTSE/Xinhua Index Ltd ("FXI") and its subsidiaries were excluded from the scope of consolidation due to cease of power to cast the majority votes at the meeting of board of directors. As a consequence, FXI is now held as an associate, which is accounted for under the equity method. The control of FXI by the Company was dissolved on November 30, 2009, the financial results of FXI are consolidated only for the period in the consolidated income statements and consolidated cashflow statements.</p> <p>Fortune China Public Relations (Beijing) Limited is consolidated because of newly setup.</p>

Item	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)
2 Adoption of the equity method	<p>(1) Number of associated company accounted by the equity method : 2</p> <p>Name of the associated company NingBo Far East Credit Rating Co., Ltd. Xinhua Finance Media Limited</p> <p>Best Independent Research, LLC (BIR), which had been accounted by the equity method, was excluded from the scope of the equity method application because the Company sold all shares of Mergent Inc. that had held equity interests in BIR.</p> <p>Because the ratio of voting rights of the Company decreased, Xinhua Finance Media Limited (“XFM”) and its 72 subsidiaries, which were previously consolidated, were excluded from the scope of consolidation. As a consequence, XFM is now held as an associate, which is accounted for under the equity method.</p>	<p>(2) Number of associated company accounted by the equity method : 2</p> <p>Name of the associated company Xinhua Sports &amp; Entertainment Limited (formerly known as Xinhua Finance Media Limited) FTSE/Xinhua Index Ltd</p> <p>NingBo Far East Credit Rating Co. Ltd (NingBo), which had been accounted by the equity method, was excluded from the scope of the equity method application because the Company sold shares of Shanghai Far East Credit Rating Co. that had held equity interest in NingBo.</p> <p>FTSE/Xinhua Index Ltd (“FXI”) and its subsidiaries were excluded from the scope of consolidation due to cease of power to cast the majority votes at the meeting of board of directors. As a consequence, FXI is now held as an associate, which is accounted for under the equity method.</p>
3 Reconciliation of closing date for consolidation	There is no consolidated subsidiary whose closing date for the year is different from that of the Company.	Same as on the left.
4 Significant accounting policies (1) Valuation basis and method for assets	<p>Securities</p> <p>(a) Trading securities -Fair value method (the cost of securities sold is determined based on the moving-average cost method) (b) Available-for sale securities -With fair value Fair value method based on fair value information, such as market information, at the balance sheet date is applied. (Unrealized gain or loss is accounted for as a net asset item, and costs of sales are based on the moving-average method.) -With no fair value Cost method based on the moving-average method is applied</p> <p>Derivatives Fair value method</p>	<p>Securities</p> <p>(a) Trading securities</p> <hr/> <p>(b) Available-for sale securities -With fair value Same as on the left.</p> <p>-With no fair value Same as on the left.</p> <p>Derivatives</p> <hr/> <p>(a) Property and equipment Same as on the left.</p>
(2) Depreciation or amortization method	<p>(a) Property, plant and equipment Depreciation of property, plant and equipment is computed substantially by the straight-line method. Estimated useful lives are the followings: Buildings and structures: 3 to 20 years Tools, furniture and fixtures: 1 to 10 years</p> <p>(b) Intangible assets Intangible assets are amortized by the straight-line method. Estimated useful lives are as follows: Right of trademark: 11 years Contractual rights and other: 3 to 50 years</p>	<p>(a) Property and equipment Same as on the left.</p> <p>(b) Intangible assets Intangible assets are amortized by the straight-line method. Estimated useful lives are as follows: Right of trademark: 11 years</p>

Item	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)
(3) Deferred assets	(a) Bond issuance cost Bond issuance cost is amortized by the straight-line method over maturity.	(a) Bond issuance cost Same as on the left.
(4) Allowance, reserve and provision	Allowance for doubtful accounts The allowance has been determined mainly by evaluation of respective potential losses in the receivables outstanding.	Allowance for doubtful accounts Same as on the left.
(5) Conversion of significant items in foreign currencies	All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into functional currency at the exchange rates at the balance sheet date, while all revenue and expense accounts are translated into functional currency at the average rate of the year. 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 "Foreign currency translation adjustments" in a separate component of net assets.	Same as on the left.
(6) Leases	For finance leases deemed not to transfer ownership of the leased property to the lessee, leased properties are capitalized.	<hr/>
(7) Hedge accounting	(a) Policy for hedge accounting -Deferral method is applied.  (b) Hedging instruments and hedged items Hedging instruments: -Cross currency swap Hedged items: -Corporate bonds denominated in foreign currencies  (c) Hedging policy -In order to manage the interest risk and currency risk, debts are hedged to the extent of the amount of the items to be hedged.  (d) Effectiveness testing of hedging -Effectiveness of the hedge should be demonstrated under an effectiveness test by comparing the volatility ratio of cumulative changes in fair value of the hedged item and the hedging instrument.	(a) Policy for hedge accounting <hr/> (b) Hedging instruments and hedged items <hr/> (c) Hedging policy <hr/> (d) Effectiveness testing of hedging <hr/>

Item	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)
(8) Other significant items for the preparation of the consolidated financial statements	<p>Accounting policy of the consumption tax Tax-excluding method is applied.</p> <p>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=92.10, from the Tokyo Foreign Exchange Market as of December 30, 2009. The Japanese yen amounts are stated only for 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.</p> <p>Translation of XFL's functional currency into reporting currency XFL, as a foreign company, adopts Chinese Yuan for functional currency while U.S. Dollar is adopted as reporting currency. Translation into reporting currency for preparation of financial statements is based on the Article 21 of International Accounting Standards. Monetary assets and liabilities are translated at the rate of the closing date while non-monetary assets and liabilities are translated at the rate of the transaction date. All revenue and expense accounts are translated at the rate of the transaction date, and differences arising from such translation are included in the "Foreign currency translation adjustments" in net assets.</p>	<p>Accounting policy of the consumption tax Same as on the left.</p> <p>Conversion of dollars into yen Same as on the left.</p> <p>Translation of XFL's functional currency into reporting currency Same as on the left.</p>
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.	Same as on the left.
6 Amortization of goodwill and negative goodwill	Goodwill is amortized by the straight-line method over 5 years and 20 years. Negative goodwill is amortized by the straight-line method over 20 years.	Same as on the left.
7 Cash and cash equivalents in the consolidated cashflow statements	Cash equivalents in the consolidated cashflow statement 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.	Same as on the left.

Change in basis of presenting consolidation financial statements

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)
	<p>(Accounting Standards for Lease Transactions)</p> <p>Effective from this year, the Company adopted "Accounting Standards for Lease Transactions" (Corporate Accounting Standards No. 13 revised on March 30, 2007) and the "Guide for Adopting the Accounting Standards for Lease Transactions" (Corporate Accounting Standards Adoption Guide No. 16 revised on March 30, 2007).</p> <p>The effect of this change is to decrease ordinary income and income before income taxes, minority interests and distribution of profits from joint alliances by USD 2,827 thousand (JPY 260 million) for the period ended December 31, 2009, respectively.</p>

Change in presentation

<p>Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)</p>	<p>Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)</p>
	<p>(Consolidated balance sheets)</p> <p>"Unearned revenue" (378 thousand USD dollars (35 million Japanese yen) ), "Notes payable-non-operating" (49 thousand USD dollars (5 million Japanese yen)) and "Lease obligations " (4 thousand USD dollars (0 million Japanese yen)), which were represented separately in previous years, are included in "others" in Current liabilities as their amount fell below 5% of the total Liabilities and net assets.</p> <p>"Long-term account payable-other" (300 thousand USD dollars (28 million Japanese yen)) and " Long – term lease obligation" ( 0 thousand USD dollars (0 million Japanese yen)) , which were represented separately in previous years, are included in "others" in Non -current liabilities as their amount fell below 5% of the total Liabilities and net assets.</p> <p>(Consolidated income statements)</p> <p>"Commission fee" (USD 16,314 thousand (JPY 1,503 million) for the period ended December 31, 2008), which was included in "others" in Selling, general and administrative expenses in previous years, is represented separately as their amount exceeded 10% of the total Selling, general and administrative expenses.</p> <p>(Consolidated cash flow statements)</p> <p>Conform to the Financial Instruments and Exchange Act, the Entity is required to unify the disclosure name for "amortization" into "depreciation and amortization" under operating cash flow, in order to have better representation and comparison of the financial statements upon the updates of XBRL in EDINET. Accordingly, "depreciation and amortization" will be used in the presentation of the financial statements from current year. The amortization included in current year's "depreciation and amortization" is 295 thousand USD dollars (27 million Japanese yen).</p>

Footnote Information  
(Consolidated balance sheets)

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

Consolidated fiscal year - prior year (As of December 31, 2008)	Consolidated fiscal year - current year (As of December 31, 2009)
<p>※1 Assets collateralized and corresponding liabilities</p> <p>Assets collateralized</p> <p>Bank deposit</p> <p style="text-align: right;">18,004 (1,658)</p> <p>Corresponding liabilities</p> <p>Short-term loan payable</p> <p style="text-align: right;">15,969 (1,471)</p> <p>Lease obligations</p> <p style="text-align: right;">9 (1)</p> <p>Long term lease obligations</p> <p style="text-align: right;">4 (0)</p> <p>※2 Assets are presented after deduction of allowance for doubtful accounts.</p> <p style="padding-left: 20px;">Amounts deducted from current assets:</p> <p style="text-align: right;">7,581 (698)</p> <p>※3 Xinhua Financial Network (Shanghai) Ltd., Xinhua Financial Network Korea Company Limited, and Shanghai Huacai Investment Advisory Company Limited have line of credit agreements with banks. The amount of the lines of credit and the balance outstanding under the agreements at December 31, 2008 are as follows:</p> <p style="padding-left: 20px;">Total amount of the line of credit</p> <p style="text-align: right;">30,308 (2,791)</p> <p style="padding-left: 20px;">Outstanding balance</p> <p style="text-align: right;">16,071 (1,480)</p> <hr/> <p style="padding-left: 20px;">Remaining amount of the line of credit</p> <p style="text-align: right;">14,237 (1,311)</p>	<p>※1 Assets collateralized and corresponding liabilities</p> <p>Assets collateralized</p> <p>Bank deposit</p> <p style="text-align: right;">18,222 (1,678)</p> <p>Corresponding liabilities</p> <p>Short-term loan payable</p> <p style="text-align: right;">16,184 (1,491)</p> <p>Lease obligations</p> <p style="text-align: right;">9 (1)</p> <p>Long term lease obligations</p> <p style="text-align: right;">4 (0)</p> <p>※2 Assets are presented after deduction of allowance for doubtful accounts.</p> <p style="padding-left: 20px;">Amounts deducted from current assets:</p> <p style="text-align: right;">967 (89)</p> <p style="padding-left: 20px;">Amounts deducted from investment and other assets:</p> <p style="text-align: right;">5,904 (544)</p> <p>※3 Xinhua Financial Network (Shanghai) Ltd., Xinhua Financial Network Korea Company Limited, and Shanghai Huacai Investment Advisory Company Limited have line of credit agreements with banks. The amount of the lines of credit and the balance outstanding under the agreements at December 31, 2009 are as follows:</p> <p style="padding-left: 20px;">Total amount of the line of credit</p> <p style="text-align: right;">30,925 (2,848)</p> <p style="padding-left: 20px;">Outstanding balance</p> <p style="text-align: right;">16,692 (1,537)</p> <hr/> <p style="padding-left: 20px;">Remaining amount of the line of credit</p> <p style="text-align: right;">14,234 (1,311)</p>

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

Consolidated fiscal year - prior year (As of December 31, 2008)	Consolidated fiscal year - current year (As of December 31, 2009)
※4 This account represents contractual rights such as agency rights and publishing rights as well as intellectual properties such as data bases.  ※5 This account includes the difference arising on the translation of XFL's functional currency into reporting currency.  ※1-5 notes correspond with ※1-5 as denoted in the consolidated balance sheet.	※4 _____  ※5 Same as on the left.  Same as on the left.

## (Consolidated income statements)

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

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)				Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)			
※1 Impairment loss The Group recognized an impairment loss for asset groups presented below for the year ended December 31, 2008.				※1 Impairment loss The Group recognized an impairment loss for asset groups presented below for the year ended December 31, 2009.			
Region	Type	Account	Impairment loss	Region	Type	Account	Impairment loss
Asia	Asset for Operation	Equipment	2,188 (202)	Asia	Others	Goodwill	4,995 (460)
Asia	Asset for Operation	Intangible Asset	28,908 (2,662)	Asia	Others	Other Intangible Assets	438 (40)
Asia	Other	Goodwill	134,606 (12,397)	Total			5,433 (500)
North America	Other	Goodwill	38,001 (3,500)				
Total			203,703 (18,761)				
Impairment loss on equipment / intangible assets was recognized as an extraordinary loss because the future cash flows from those assets expected to be generated in respective estimated periods were considered unrecoverable due to change in economic environment. The impairment loss was determined at amount by which the carrying amount of the asset exceeds its recoverable amount based on its value in use. The discount rate used for computation of present value of future cash flows was ranging from 9.0% to 11.0%.				Grouping is basically implemented by each company unit. However, if it is possible to identify cashflows from an individual asset, recoverable amount is determined for each individual asset. Impairment loss for assets above were recognized as an extraordinary loss because the future cash flows from those assets expected to be generated in respective estimated periods were considered unrecoverable due to change in economic environment. The impairment loss was determined at amount by which the carrying amount of the asset exceeds its recoverable amount based on its value in use. The discount rate used for computation of present value of future cash flows was ranging from 9.0% to 10.0%.			
As losses have been anticipated upon the sales of shares of Mergent Inc., Kinetic Information System Services Limited, Washington Analysis Corporation, Market News International Inc. and Shanghai Far East Credit Rating Co., Ltd., as well as assets of G7 Group, Inc. and Taylor Rafferty, the Group recognized such estimated loss as an impairment loss on goodwill.							
Additionally, this account includes impairment losses on goodwill for subsidiaries of Xinhua Finance Media Limited, a former consolidated subsidiary of the Company which become an associate at this year end.							
※2 Amortization of goodwill Xinhua Finance Media Limited ("XFM"), a former subsidiary of the Company, was excluded from the scope of consolidation and is now held as an associate, which is accounted for under the equity method, due to a decrease in the Company's ratio of voting rights because all of XFM's series B ordinary shares attached with 10 voting rights for each share that were held by the Company were converted into series A ordinary shares of which voting right attached with was one for each share. Before the conversion of shares, a portion of XFM's net assets which the Company reclassified from receivable without new share issuance, had been regarded as interests which belonged to the Company. However, as the Company lost control over XFM due to the decrease in the ratio of voting rights, the amount of difference between the part of the said portion of XFM's net assets over which the Company lost control was reclassified into goodwill net assets of XFM shared by the Company based on the decreased voting right ratio and the cost of investment in XFM was recognized as goodwill, and immediately amortized at one time in accordance with the Article 32-1 in the statement No.7, "Guideline for Consolidation Procedures" issued by the Accounting Standards Committee.				※2 _____			

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)																																
<p>※3 Components of gain on sales of noncurrent assets are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Tools, furniture and fixtures</td> <td style="text-align: right;">229</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">(21)</td> <td></td> </tr> </table> <p>※4 Components of loss on sales and retirement of noncurrent assets are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Tools, furniture and fixtures</td> <td style="text-align: right;">436</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">(40)</td> <td></td> </tr> </table> <p>※5 Loss on prior periods adjustment</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Subsequent consideration paid</td> <td style="text-align: right;">3,359</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(309)</td> </tr> </table> <p>As the Group recognized additional goodwill based on the conditional acquisition cost set forth in the sale and purchase agreements of its subsidiaries' shares and equity interests, the Group recognized a loss on prior year adjustment arising from retroactive adjustments of goodwill and its amortization.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Allocation of acquisition costs</td> <td style="text-align: right;">333</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(31)</td> </tr> </table> <p>As the Group reviewed and fixed the allocation of acquisition costs of Kinetic Information System Services Limited, which had been open as of the previous year end, the Group recognized a loss on prior year adjustment arising from retroactive adjustments of goodwill and its amortization, and intangible assets and its amortization.</p> <p>※6 This account includes USD 25,000 thousand (JPY 2,303 million) of a provision for receivables from debtors in bankruptcy, rehabilitation or similar status. The allowance is provided for the entire amount of the uncollectible receivable which is a principal protected equity-linked note issued by Lehman Brothers Holdings Inc. that has filed for Chapter 11 protection under the Federal bankruptcy law.</p> <p>※1-6 notes correspond with ※1-6 as denoted in the consolidated income statement.</p>	Tools, furniture and fixtures	229			(21)		Tools, furniture and fixtures	436			(40)		Subsequent consideration paid	3,359				(309)	Allocation of acquisition costs	333				(31)	<p>※3 _____</p> <p>※4 Components of loss on sales and retirement of noncurrent assets are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Buildings and structures</td> <td style="text-align: right;">53</td> </tr> <tr> <td></td> <td style="text-align: right;">(5)</td> </tr> <tr> <td style="padding-left: 20px;">Tools, furniture and fixtures</td> <td style="text-align: right;">45</td> </tr> <tr> <td></td> <td style="text-align: right;">(4)</td> </tr> </table> <p>※5 _____</p> <p>※6 _____</p> <p>Same as on the left.</p>	Buildings and structures	53		(5)	Tools, furniture and fixtures	45		(4)
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(Consolidated statement of changes in net assets)

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)

1. Number and class of issued shares

	Beginning balance	Increase	Decrease	Ending balance
Issued shares				
Ordinary share (shares)	1,033,054	452,998	-	1,486,052

(Note1) In the increase of ordinary shares indicated above, 445,797 shares are issued for acquisition of subsidiaries' shares by way of share exchange, and 7,201 shares are issued due to execution of share subscription rights.

2. Share subscription rights

The ending balance of share subscription rights granted by the Company as share option rights is USD 1,797 thousand (JPY 166 million).

There is no ending balance of share subscription rights granted by consolidated subsidiaries.

3. Dividend

Not applicable.

Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)

1. Number and class of issued shares

	Beginning balance	Increase	Decrease	Ending balance
Issued shares				
Ordinary share (shares)	1,486,052	27,892	-	1,513,944

(Note1) In the increase of ordinary shares indicated above, all are issued due to execution of share subscription rights.

2. Share subscription rights

The ending balance of share subscription rights granted by the Company as share option rights is USD 1,659 thousand (JPY 153 million).

There is no ending balance of share subscription rights granted by consolidated subsidiaries.

3. Dividend

Not applicable.

## (Consolidated cashflow statements)

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

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)																																																																								
<p>※1 Reconciliation between ending balance of cash and cash equivalents in consolidated cashflow statement and balance in the consolidated balance sheet:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Cash and bank balances</td> <td style="text-align: right;">75,289</td> </tr> <tr> <td></td> <td style="text-align: right;">(6,934)</td> </tr> <tr> <td>Deposit pledged as collateral</td> <td style="text-align: right;">△18,004</td> </tr> <tr> <td></td> <td style="text-align: right;">(△1,658)</td> </tr> <tr> <td>Marketable securities</td> <td style="text-align: right;">340</td> </tr> <tr> <td></td> <td style="text-align: right;">(31)</td> </tr> <tr> <td style="border-top: 1px solid black;">Cash and cash equivalents</td> <td style="text-align: right; border-top: 1px solid black;">57,624</td> </tr> <tr> <td></td> <td style="text-align: right;">(5,307)</td> </tr> </table>	Cash and bank balances	75,289		(6,934)	Deposit pledged as collateral	△18,004		(△1,658)	Marketable securities	340		(31)	Cash and cash equivalents	57,624		(5,307)	<p>※1 Reconciliation between ending balance of cash and cash equivalents in consolidated cashflow statement and balance in the consolidated balance sheet:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Cash and bank balances</td> <td style="text-align: right;">23,688</td> </tr> <tr> <td></td> <td style="text-align: right;">(2,182)</td> </tr> <tr> <td>Deposit pledged as collateral</td> <td style="text-align: right;">△18,222</td> </tr> <tr> <td></td> <td style="text-align: right;">(△1,678)</td> </tr> <tr> <td>Bank Overdraft</td> <td style="text-align: right;">△38</td> </tr> <tr> <td></td> <td style="text-align: right;">(△3)</td> </tr> <tr> <td style="border-top: 1px solid black;">Cash and cash equivalents</td> <td style="text-align: right; border-top: 1px solid black;">5,428</td> </tr> <tr> <td></td> <td style="text-align: right;">(500)</td> </tr> </table>	Cash and bank balances	23,688		(2,182)	Deposit pledged as collateral	△18,222		(△1,678)	Bank Overdraft	△38		(△3)	Cash and cash equivalents	5,428		(500)																																								
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<p>※2 Major component of subsidiaries' assets and liabilities newly excluded from consolidation through disposal of its shares</p> <p>Major components of the unconsolidated subsidiaries' (Mergent Inc., Washington Analysis Corporation and Convey Advertising Co., Limited) assets and liabilities through disposal of shares, proceeds from sale of investment in subsidiaries are summarized as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Current assets</td> <td style="text-align: right;">49,046</td> </tr> <tr> <td></td> <td style="text-align: right;">(4,517)</td> </tr> <tr> <td>Non-current assets</td> <td style="text-align: right;">133,842</td> </tr> <tr> <td></td> <td style="text-align: right;">(12,327)</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">△ 28,731</td> </tr> <tr> <td></td> <td style="text-align: right;">(△ 2,646)</td> </tr> <tr> <td>Non-current liabilities</td> <td style="text-align: right;">△ 6,261</td> </tr> <tr> <td></td> <td style="text-align: right;">(△ 577)</td> </tr> <tr> <td>Gain on sale of investment in subsidiaries</td> <td style="text-align: right;">13,477</td> </tr> <tr> <td></td> <td style="text-align: right;">(1,241)</td> </tr> <tr> <td style="border-top: 1px solid black;">Net proceed on sale of investment in subsidiaries</td> <td style="text-align: right; border-top: 1px solid black;">161,374</td> </tr> <tr> <td></td> <td style="text-align: right;">(14,863)</td> </tr> <tr> <td>Cash and cash equivalents of disposed subsidiaries</td> <td style="text-align: right;">△74,646</td> </tr> <tr> <td></td> <td style="text-align: right;">(△6,875)</td> </tr> <tr> <td style="border-top: 1px solid black;">Net cash inflow due to sales of investment in subsidiaries</td> <td style="text-align: right; border-top: 1px solid black;">86,728</td> </tr> <tr> <td></td> <td style="text-align: right;">(7,988)</td> </tr> </table>	Current assets	49,046		(4,517)	Non-current assets	133,842		(12,327)	Current liabilities	△ 28,731		(△ 2,646)	Non-current liabilities	△ 6,261		(△ 577)	Gain on sale of investment in subsidiaries	13,477		(1,241)	Net proceed on sale of investment in subsidiaries	161,374		(14,863)	Cash and cash equivalents of disposed subsidiaries	△74,646		(△6,875)	Net cash inflow due to sales of investment in subsidiaries	86,728		(7,988)	<p>※2 Major component of subsidiaries' assets and liabilities newly excluded from consolidation through disposal of its shares</p> <p>Major components of the unconsolidated subsidiaries' (Market News International Inc. and Shanghai Far East Credit Rating Co. Ltd.) assets and liabilities through disposal of shares, proceeds from sale of investment in subsidiaries are summarized as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Current assets</td> <td style="text-align: right;">8,716</td> </tr> <tr> <td></td> <td style="text-align: right;">(803)</td> </tr> <tr> <td>Non-current assets</td> <td style="text-align: right;">14,727</td> </tr> <tr> <td></td> <td style="text-align: right;">(1,356)</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">△6,123</td> </tr> <tr> <td></td> <td style="text-align: right;">(△564)</td> </tr> <tr> <td>Non-current liabilities</td> <td style="text-align: right;">-</td> </tr> <tr> <td></td> <td style="text-align: right;">(-)</td> </tr> <tr> <td>Minority interests</td> <td style="text-align: right;">△2,975</td> </tr> <tr> <td></td> <td style="text-align: right;">(△274)</td> </tr> <tr> <td>Reserve released</td> <td style="text-align: right;">△242</td> </tr> <tr> <td></td> <td style="text-align: right;">(△22)</td> </tr> <tr> <td>Loss on sale of investment in subsidiaries</td> <td style="text-align: right;">306</td> </tr> <tr> <td></td> <td style="text-align: right;">28</td> </tr> <tr> <td style="border-top: 1px solid black;">Net proceed on sale of investment in subsidiaries</td> <td style="text-align: right; border-top: 1px solid black;">14,410</td> </tr> <tr> <td></td> <td style="text-align: right;">(1,327)</td> </tr> <tr> <td>Cash and cash equivalents of disposed subsidiaries</td> <td style="text-align: right;">△6,670</td> </tr> <tr> <td></td> <td style="text-align: right;">(△614)</td> </tr> <tr> <td style="border-top: 1px solid black;">Net cash inflow due to sale of investment in subsidiaries</td> <td style="text-align: right; border-top: 1px solid black;">7,740</td> </tr> <tr> <td></td> <td style="text-align: right;">(713)</td> </tr> </table>	Current assets	8,716		(803)	Non-current assets	14,727		(1,356)	Current liabilities	△6,123		(△564)	Non-current liabilities	-		(-)	Minority interests	△2,975		(△274)	Reserve released	△242		(△22)	Loss on sale of investment in subsidiaries	306		28	Net proceed on sale of investment in subsidiaries	14,410		(1,327)	Cash and cash equivalents of disposed subsidiaries	△6,670		(△614)	Net cash inflow due to sale of investment in subsidiaries	7,740		(713)
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Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)																								
<p>※3 Major component of assets and liabilities decreased by transfer of business</p> <p>Major components of assets and liabilities decreased by disposal of operation of Xinhua PR News Wire, G7 and Taylor Rafferty and the proceeds from disposal are summarized as follows:</p> <table data-bbox="248 472 738 814"> <tr> <td>Current assets</td> <td>3,572</td> </tr> <tr> <td></td> <td>(329)</td> </tr> <tr> <td>Non-current assets</td> <td>304</td> </tr> <tr> <td></td> <td>(28)</td> </tr> <tr> <td>Current liabilities</td> <td>△ 3,171</td> </tr> <tr> <td></td> <td>(△ 292)</td> </tr> <tr> <td>Non-current liabilities</td> <td>△ 1,266</td> </tr> <tr> <td></td> <td>(△ 117)</td> </tr> <tr> <td>Gain on sale of a business</td> <td>5,717</td> </tr> <tr> <td></td> <td>(527)</td> </tr> <tr> <td>Net proceeds on sale of a business</td> <td>5,156</td> </tr> <tr> <td></td> <td>(475)</td> </tr> </table>	Current assets	3,572		(329)	Non-current assets	304		(28)	Current liabilities	△ 3,171		(△ 292)	Non-current liabilities	△ 1,266		(△ 117)	Gain on sale of a business	5,717		(527)	Net proceeds on sale of a business	5,156		(475)	<p>※3 _____</p>
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Gain on sale of a business	5,717																								
	(527)																								
Net proceeds on sale of a business	5,156																								
	(475)																								
<p>※4 Major component of subsidiary's assets and liabilities newly excluded from consolidation due to the conversion of classified shares issued by the subsidiary</p> <p>Major components of assets and liabilities of Xinhua Finance Media Limited at the time of exclusion from consolidation due to the conversion of classified shares of Xinhua Finance Media Limited held by the Company:</p> <table data-bbox="248 1119 760 1402"> <tr> <td>Cash and bank balances</td> <td>57,029</td> </tr> <tr> <td></td> <td>(5,252)</td> </tr> <tr> <td>Other current assets</td> <td>106,885</td> </tr> <tr> <td></td> <td>(9,844)</td> </tr> <tr> <td>Non-current assets</td> <td>315,823</td> </tr> <tr> <td></td> <td>(29,087)</td> </tr> <tr> <td>Current liabilities</td> <td>△ 135,326</td> </tr> <tr> <td></td> <td>(△ 12,464)</td> </tr> <tr> <td>Non-current liabilities</td> <td>△ 121,642</td> </tr> <tr> <td></td> <td>(△ 11,203)</td> </tr> </table>	Cash and bank balances	57,029		(5,252)	Other current assets	106,885		(9,844)	Non-current assets	315,823		(29,087)	Current liabilities	△ 135,326		(△ 12,464)	Non-current liabilities	△ 121,642		(△ 11,203)	<p>※4 _____</p>				
Cash and bank balances	57,029																								
	(5,252)																								
Other current assets	106,885																								
	(9,844)																								
Non-current assets	315,823																								
	(29,087)																								
Current liabilities	△ 135,326																								
	(△ 12,464)																								
Non-current liabilities	△ 121,642																								
	(△ 11,203)																								
<p>※5 _____</p>	<p>※5 Major component of subsidiaries' assets and liabilities newly excluded from consolidation.</p> <p>Major components of the unconsolidated subsidiary's (FTSE/Xinhua Index Limited) assets and liabilities through loss of control due to the retirement of a director sent from the Company are summarized as follows:</p> <table data-bbox="854 1591 1369 1875"> <tr> <td>Cash and bank balances</td> <td>9,679</td> </tr> <tr> <td></td> <td>(891)</td> </tr> <tr> <td>Other current assets</td> <td>8,428</td> </tr> <tr> <td></td> <td>(776)</td> </tr> <tr> <td>Non-current assets</td> <td>1</td> </tr> <tr> <td></td> <td>(0)</td> </tr> <tr> <td>Current liabilities</td> <td>△3,809</td> </tr> <tr> <td></td> <td>(△350)</td> </tr> <tr> <td>Non-current liabilities</td> <td>0</td> </tr> <tr> <td></td> <td>(0)</td> </tr> </table>	Cash and bank balances	9,679		(891)	Other current assets	8,428		(776)	Non-current assets	1		(0)	Current liabilities	△3,809		(△350)	Non-current liabilities	0		(0)				
Cash and bank balances	9,679																								
	(891)																								
Other current assets	8,428																								
	(776)																								
Non-current assets	1																								
	(0)																								
Current liabilities	△3,809																								
	(△350)																								
Non-current liabilities	0																								
	(0)																								





(Securities)

As of December 31, 2008

1. Trading securities

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

Amount on the consolidated balance sheet	Gain / loss included in the consolidated income statement
416	△462
(38)	(△43)

2. Available-for-sale securities with fair value

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

Category	Acquisition cost	Amount on the consolidated balance sheet	Difference
Book value more than acquisition cost:			
Other	59	184	125
	(5)	(17)	(11)
Subtotal	59	184	125
	(5)	(17)	(11)
Book value is less than acquisition cost:			
1) Equity securities	21	21	-
	(2)	(2)	(-)
2) Other	29	-	△29
	(3)	(-)	(△3)
Subtotal	50	21	△29
	(5)	(2)	(△3)
TOTAL	109	205	96
	(10)	(19)	(9)

3. Securities not stated at fair value

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

Category	Amount on the consolidated balance sheet
(1) Available-for-sale securities	
Other	340
	(31)
(2) Interest in associate	
Listed shares	89,062
	(8,203)

As of December 31, 2009

1. Available-for-sale securities with fair value

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

Category	Acquisition cost	Amount on the consolidated balance sheet	Difference
Book value more than acquisition cost:			
1) Equity securities	21 (2)	65 (6)	44 (4)
TOTAL	21 (2)	65 (6)	44 (4)

2. Securities not stated at fair value

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

Category	Amount on the consolidated balance sheet
(1) Interest in associate	
Listed shares	- (-)
(2) Investment in capital of subsidiaries and affiliates	7,840 (722)

(Derivative transactions)

1 Detail of transaction

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)
<p>(1) Nature of transaction Cross currency swap</p> <p>(2) Management policy for derivative transaction The Group uses derivative financial instruments to reduce their risks of fluctuations in interest rates and foreign currency exchange. The Group does not enter into derivatives for trading or speculative purposes.</p> <p>(3) Purpose of the transaction The Group enters into a cross currency swap contract to hedge market interest rate risk and foreign exchange risk associated with interest exposures and principal of bonds denominated in foreign currencies. The Group applies hedge accounting for the derivative transaction.</p> <p>(a) Policy for hedge accounting Deferral method</p> <p>(b) Hedging instruments and hedged items -Hedging instruments: Cross currency swap -Hedged items: Corporate bonds denominated in foreign currencies</p> <p>(c) Hedging policy In order to manage the interest risk and currency risk, debts are hedged to the extent of the amount of the items to be hedged.</p> <p>(d) Effectiveness testing of hedging Effectiveness of the hedge should be demonstrated under effectiveness test by comparing the ratio of volatility of hedged item and cumulative change in fair value of the hedging instrument.</p> <p>(4) Nature and detail of the risk Cross currency swap contract is subject to foreign currency exchange risk and market interest rate risk. Because the counterparties to the derivative is limited to major financial institutions with high credit rate, the Group does not anticipate any losses caused by credit risk.</p> <p>(5) Risk management policy Derivative transactions entered into by the Group have been made and managed by the Financial Department in accordance with internal policies which regulate the authorization and credit limit amount.</p>	

2 Fair value information

Consolidated fiscal year - prior year (as of December 31, 2008)

There is no relevant item since no balance outstanding as at December 31, 2008.

Consolidated fiscal year - current year (as of December 31, 2009)

Not applicable.

(Employees' Retirement Benefits)

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)

1. Retirement benefit scheme  
Subsidiaries located in Hong Kong, PRC and U.S.A. apply defined-contribution retirement benefit plan.
2. Projected benefit obligation (as of December 31, 2008)  
Not applicable.
3. Service cost and relative expenses  
Not applicable.
4. Basis of calculation to determine projected benefit obligation  
Not applicable.

Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)

1. Retirement benefit scheme  
Subsidiaries located in Hong Kong, PRC and U.S.A. apply defined-contribution retirement benefit plan.
2. Projected benefit obligation (as of December 31, 2009)  
Not applicable.
3. Service cost and relative expenses  
Not applicable.
4. Basis of calculation to determine projected benefit obligation  
Not applicable.

(Share options, warrants or share-based-payments granted or issued)

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)

Expenses recognized

Selling, general and administrative expenses – Directors' emolument USD 4,641 thousand (JPY 427 million)  
Selling, general and administrative expenses – Other USD 9,508 thousand (JPY 876 million)

Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)

Expenses recognized

Selling, general and administrative expenses – Directors' emolument USD 522 thousand (JPY 48 million)  
Selling, general and administrative expenses – Other USD 1,573 thousand (JPY 145 million)

(Share option)

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)

1. Outline, size and change of the number of share option

(1) Outline of share option

Company Name	The Company			
Year	2005	2006		
Type	Share Option	Share option (1)	Share option (2)	Share option (3)
Category and number of person designated	166 employees	2 directors	5 directors	209 employees
Class and number of objective shares (*1)	14,910 Ordinary shares	5,000 ordinary shares	6,000 ordinary shares	26,656 ordinary shares
Grant date	February 9, 2005	January 31, 2006	January 31, 2006	April 30, 2006
Terms and condition for vesting	1/3 grant vested on Dec 31 2005; 1/3 vested on Dec 31 2006; 1/3 vested on Dec 31 2007. (*2)	834 shares vested on each of Jan 31, Apr 30, Jul 30, Oct 31, 2006 & Jan 31, 2007 and 830 shares vested on Apr 30, 2007	1/4 grant vested on Apr 30, 2006, Jul 31, 2006, Oct 31, 2006 & Jan 31, 2007 (*2)	1/3 grant vested on Dec 31, 2006; 1/3 vested on Dec 31, 2007; 1/3 vested on Dec 31, 2008 (*2)
Service period required to be vested	From Feb 9, 2005 to Dec 31, 2007	-	From Jan 31, 2006 to Jan 31, 2007	From Apr 30, 2006 to Dec 31, 2008
Exercisable period	From Jan 1, 2006 to Feb 8, 2015	From Jan 31, 2006 to Feb 1, 2009	From Apr 30, 2006 to Feb 1, 2016	From Jan 1, 2007 to Apr 30, 2016

Company Name	The Company	
Year	2006	2008
Type	Share option (4)	Restricted shares (*5)
Category and number of person designated	1 employee	1 employee
Class and number of objective shares (*1)	114 ordinary shares	150 ordinary shares
Grant date	July 1, 2006	January 15, 2008
Terms and condition for vesting	1/3 grant vested on Dec 31, 2006; 1/3 vested on Dec 31, 2007; 1/3 vested on Dec 31, 2008 (*2)	1/3 vested on Jan 15, 2008, 1/3 vested on Dec 31, 2008 and 1/3 vested on Dec 31, 2009 (*6)
Service period required to be vested	From July 1, 2006 to Dec 31, 2008	From Jan 15, 2008 to Dec 31, 2009
Exercisable period	From Jan 1, 2007 to Apr 30, 2016	From Jan 15, 2008 to Jan 14, 2018

Company Name	Xinhua Finance Media Limited			
Year	2006		2007	
Type	Restricted share (*4)	Share Option	Share option (1)	Share option (2)
Category and number of person designated	1 director	190 employees	1 employee	3 independent directors
Class and number of objective shares (*1)	11,050,000 Class A Common Shares	11,198,180 Class A Common Shares	221,280 Class A Common Shares	90,000 Class A Common Shares
Grant date	June 13, 2006	July 11, 2006	January 15, 2007	April 25, 2007
Terms and condition for vesting	(*4)	1/2 to be vested by Dec 31, 2007 or upon certain corporate event, whichever is earlier; 1/4 vested on Dec 31, 2008, 1/4 vested on Dec 31, 2009 (*3)	-	1/3 vested on Mar 8, 2008, 1/3 vested on Mar 8, 2009 and 1/3 vested on Mar 8, 2010
Service period required to be vested	From June 13, 2006 to June 13, 2011	From June 11, 2006 to Dec 31, 2009	-	From Apr 25, 2007 to Mar 8, 2010
Exercisable period	From June 13, 2007 to June 13, 2011	From December 31, 2007 or upon certain corporate event, whichever is the earlier	From Mar 9, 2007 to Mar 8, 2008	From Mar 8, 2008 to Apr 24, 2017

\*Please note that this document is a translation of the document prepared in the Japanese language and filed with the Kanto Local Finance Bureau

		to July 11, 2011		
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*\*Please note that this document is a translation of the document prepared in the Japanese language and filed with the Kanto Local Finance Bureau*

Company Name	Xinhua Finance Media Limited			
Year	2007	2008		
Type	Share option (3)	Restricted shares (*5)	Share option (1)	Share option (2)
Category and number of person designated	4 independent directors	4 directors and 94 employees	2 directors	6 directors
Class and number of objective shares (*1)	120,000 Class A Common Shares	5,576,000 Class A Ordinary Shares	60,000 Class A Ordinary Shares	120,000 Class A Ordinary Shares
Grant date	September 26, 2007	February 19, 2008	April 30, 2008	June 13, 2008
Terms and condition for vesting	1/3 vested on Sep 26, 2008, 1/3 vested on Sep 26, 2009 and 1/3 vested on Sep 26, 2010	1/3 vested on Mar 31, 2008, 1/3 vested on Mar 31, 2009 and 1/3 vested on Mar 31, 2010 (*6)	1/3 vested on Apr 30, 2009, 1/3 vested on Apr 30, 2010 and 1/3 vested on Apr 30, 2011 (*7)	1/3 vested on June 13, 2008, 1/3 vested on June 13, 2009 and 1/3 vested on June 13, 2010 (*7)
Service period required to be vested	From Sep 26, 2007 to Sep 26, 2010	From Feb 19, 2008 to Mar 31, 2010	From Apr 30, 2008 to Apr 30, 2011	From June 13, 2008 to June 13, 2010
Exercisable period	From Sep 26, 2008 to Sep 25, 2017	From Mar 31, 2008 to Feb 18, 2018	From Apr 30, 2009 to Apr 29, 2018	From June 13, 2008 to June 12, 2018

(\*1)The number of shares to be applied.

All options granted prior to 2006 have all been adjusted for the 2,000 to 1 share reverse share split in August 24, 2004 and 3 for 1 share split in September 22, 2005.

(\*2)If employment is terminated for cause, vesting will cease and any un-exercised portion of the option will be forfeited immediately on the last employment date.

If employment is terminated voluntarily by the employee:

- 1)Unvested options (if any) which are scheduled to vest in the same calendar year of the termination will vest on the last day of that calendar year, and expire 12 months after the date of vesting
- 2) All unvested options (if any) scheduled to vest in subsequent years will be forfeited
- 3) All vested options can be exercised until expiration which will be the later of 12 months from the date of termination and 12 months after the date of vesting of any options in the year of termination (if any).

(\*3) If employment is terminated with or without cause, the option agreement permits the exercise or purchase of the options granted for a period of 3 months following the recipient's voluntary termination of service with the Group, or the recipient's disability or death, the options will terminate to the extent not exercised or purchased on the last day of the specified period or the last day of the original term of the options, whichever occurs first. If employment is terminated voluntarily by the employee, vesting will cease and any un-exercised portion of the option will expire three months after the date of termination.

(\*4) Issued shares which have the terms and conditions for vesting. The relevant shareholder does not obtain any shareholder's rights until the vesting period elapses. These shares are substantially equal to share options, therefore, accounting treatments are the same as that of share options. Pursuant to a resolution passed on March 7, 2007, the vesting period of the 11,050,000 common shares is revised as below:

- 1,500,000 shares vested on March 9, 2007
- 2,210,000 shares will vest on June 13, 2008
- 2,210,000 shares will vest on June 13, 2009
- 2,210,000 shares will vest on June 13, 2010
- 2,920,000 shares will vest on June 13, 2011

(\*5) Issued shares which have the terms and conditions for vesting. The relevant shareholder does not obtain any shareholder's rights until the vesting period lapses. These shares are substantially equal to share options, therefore, accounting treatments are the same as that of share options.

(\*6) If employment is terminated for cause or voluntarily by the employee, the right to vest in the restricted shares grant will terminate effective as of the earlier of

- 1) the date that the employee gives or is provided with written notice of Termination of Service,
- 2) if the employee is an employee of any subsidiary, the date that the employee is no longer actively employed and physically present on the premises of the Company or any of its subsidiaries, regardless of any notice period or period of pay in lieu of such notice required under any applicable statute or the common law.
- 3) if the employee is an employee of any subsidiary, the date on which your employer ceases to be a subsidiary of the Company.

In the event of a change in control of the company, the unvested portion of restricted shares grant shall be accelerated and become fully vested and shall be issued by the Company immediately prior to the consummation of such transaction.

(\*7) If the service is terminated for cause or voluntarily by the directors, the right to vest in the share option grant will terminate effective as of the earlier of the date that they give or are provided with written notice of Termination of Service.

In the event of a change in control of the company, the unvested portion of share option grant shall be accelerated and become fully vested and shall be issued by the Company immediately prior to the consummation of such transaction.

(\*8) Xinhua Finance Media Limited has been transferred from a consolidated subsidiary to an associate from December 31, 2008.

## (2) Size and change of the number of share option

## (i) Number of objective shares of share option

(Unit: share)

Company Name	The Company				
Year	2005	2006			
Type	Share Option	Share Option (1)	Share Option (2)	Share Option (3)	Share Option (4)
Number of objective shares for unvested option					
Beginning balance of the period	-	-	-	8,684	38
Granted	-	-	-	-	-
Lapsed	-	-	-	3,037	38
Vested	-	-	-	5,647	-
Unvested balance	-	-	-	-	-
Number of objective shares for vested option					
Beginning balance of the period	11,110	5,000	5,000	14,660	76
Vested	-	-	-	5,647	-
Exercised	-	-	-	-	-
Lapsed	1,536	-	2,500	1,662	76
Unexercised balance	9,574	5,000	2,500	18,645	-

Company Name	The Company
Year	2008
Type	Restricted shares
Number of objective shares for unvested option	
Beginning balance of the period	-
Granted	150
Lapsed	100
Vested	50
Unvested balance	-
Number of objective shares for vested option	
Beginning balance of the period	-
Vested	50
Derestricted	50
Lapsed	-
Unexercised balance	-

Company Name	Xinhua Finance Media Limited				
Year	2006		2007		
Type	Restricted share	Share Option	Share option (1)	Share option (2)	Share option (3)
Number of objective shares for unvested option					
Beginning balance of the period	9,550,000	5,001,171	-	90,000	120,000
Granted	-	-	-	-	-
Lapsed	-	664,081	-	-	-
Vested	9,550,000	3,580,254	-	30,000	40,000
Unvested balance	-	756,836	-	60,000	80,000
Number of objective shares for vested option					
Beginning balance of the period	-	2,467,556	221,280	-	-
Vested	9,550,000	3,580,254	-	30,000	40,000
Exercised (or derestricted)	9,550,000	194,662	-	-	-
Lapsed	-	94,343	221,280	-	-
Unexercised balance	-	5,758,805	-	30,000	40,000

Company Name	Xinhua Finance Media Limited		
Year	2008		
Type	Restricted shares	Share option (1)	Share option (2)
Number of objective shares for unvested option			
Beginning balance of the period	-	-	-
Granted	5,576,000	60,000	120,000
Lapsed	612,800	-	-
Vested	2,952,400	-	40,008
Unvested balance	2,010,800	60,000	79,992
Number of objective shares for vested option			
Beginning balance of the period	-	-	-
Vested	2,952,400	-	40,008
Exercised	-	-	-
Lapsed	6,000	-	-
Unexercised balance	2,946,400	-	40,008

Note: Xinhua Finance Media Limited has been transferred from a consolidated subsidiary to an associate from December 31, 2008.

(ii) Unit price information

Company Name	The Company				
Year	2005	2006			
Type	Share Option	Share Option (1)	Share Option (2)	Share Option (3)	Share Option (4)
Exercise price	JPY 49,316	JPY 74,247	JPY 71,844	JPY 71,844	JPY 71,844
Average price of shares upon exercise	JPY 77,520	-	-	JPY 80,556	-
Fair value of option at grant date per option	-	-	-	-	USD 252.92

Company Name	The Company
Year	2008
Type	Restricted Share
Exercise price	-
Average price of shares upon exercise	-
Fair value of option at grant date per option	JPY 16,900

Company Name	Xinhua Finance Media Limited				
Year	2006		2007		
Type	Restricted Share	Share Option	Share option (1)	Share option (2)	Share option (3)
Exercise price	USD 0.001	USD 0.001	USD 5.0	USD 6.50	USD 4.39
Average price of shares upon exercise	-	USD 3.62	-	-	-
Fair value of option at grant date per option	USD 0.60	USD 0.60	USD 2.0808	USD 0.60	USD 1.8516

Company Name	Xinhua Finance Media Limited		
Year	2008		
Type	Restricted Share	Share option (1)	Share option (2)
Exercise price	-	USD 1.640	USD 1.265
Average price of shares upon exercise	-	-	-
Fair value of option at grant date per option	USD 4.48	USD 1.3930	USD 1.5467

Note: Xinhua Finance Media Limited has been transferred from a consolidated subsidiary to an associate from December 31, 2008.

## 2. Valuation Method for Share Option

Determination of estimated fair value of share option granted during the fiscal year is as follows.

### (1) Valuation method used

(i) Share option : Black-Scholes Model, Binominal Model and its variants

### (2) Factors and basis of estimation

Company Name	Xinhua Finance Media Limited	
	Share Option (1)	Share Option (2)
Type		
Price volatility (*1)	88%	93%
Estimated remaining exercisable period (*2)	10 years	10 years
Estimated dividend (*3)	NIL	NIL
Free risk rate (*4)	3.770%	4.270%

(\*1) It calculates based on the stock prices results of one year.

(\*2) It is assumed that the grantee will exercise the option at the time of vesting, therefore, it is calculated in assumption that the estimated remaining period of share options equals to service period required to be vested.

(\*3) With reference to the track record, it is assumed the dividend is zero during the estimated option life attributable to ordinary shares.

(\*4) The risk free rate has made reference to the yield of US Treasury bond applicable to the estimated remaining period of options.

(\*5) Xinhua Finance Media Limited has been transferred from a consolidated subsidiary to an associate from December 31, 2008.

## 3. Determination of estimation for number of share option to be vested

Actual lapsed number shall be considered because grantee will exercise the option at the time of vesting.

Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)

1. Outline, size and change of the number of share option

(1) Outline of share option

Company Name	The Company			
Year	2005	2006		
Type	Share Option	Share option (1)	Share option (2)	Share option (3)
Category and number of person designated	166 employees	2 directors	5 directors	209 employees
Class and number of objective shares (*1)	14,910 Ordinary shares	5,000 ordinary shares	6,000 ordinary shares	26,656 ordinary shares
Grant date	February 9, 2005	January 31, 2006	January 31, 2006	April 30, 2006
Terms and condition for vesting	1/3 grant vested on Dec 31 2005; 1/3 vested on Dec 31 2006; 1/3 vested on Dec 31 2007. (*2)	834 shares vested on each of Jan 31, Apr 30, Jul 30, Oct 31, 2006 & Jan 31, 2007 and 830 shares vested on Apr 30, 2007	1/4 grant vested on Apr 30, 2006, Jul 31, 2006, Oct 31, 2006 & Jan 31, 2007 (*2)	1/3 grant vested on Dec 31, 2006; 1/3 vested on Dec 31, 2007; 1/3 vested on Dec 31, 2008 (*2)
Service period required to be vested	From Feb 9, 2005 to Dec 31, 2007	-	From Jan 31, 2006 to Jan 31, 2007	From Apr 30, 2006 to Dec 31, 2008
Exercisable period	From Jan 1, 2006 to Feb 8, 2015	From Jan 31, 2006 to Feb 1, 2009	From Apr 30, 2006 to Feb 1, 2016	From Jan 1, 2007 to Apr 30, 2016

Company Name	The Company		
Year	2006	2008	2009
Type	Share option (4)	Restricted shares (*3)	Share option
Category and number of person designated	1 employee	1 employee	4 independent directors, 1 director and 17 employees
Class and number of objective shares (*1)	114 ordinary shares	150 ordinary shares	157,830 ordinary shares
Grant date	July 1, 2006	January 15, 2008	May 22, 2009
Terms and condition for vesting	1/3 grant vested on Dec 31, 2006; 1/3 vested on Dec 31, 2007; 1/3 vested on Dec 31, 2008 (*2)	1/3 vested on Jan 15, 2008, 1/3 vested on Dec 31, 2008 and 1/3 vested on Dec 31, 2009 (*4)	1/3 grant vested on Dec 31, 2009; 1/3 vested on Dec 31, 2010; 1/3 vested on Dec 31, 2011 (*5)
Service period required to be vested	From July 1, 2006 to Dec 31, 2008	From Jan 15, 2008 to Dec 31, 2009	From May 22, 2009 to Dec 31, 2011
Exercisable period	From Jan 1, 2007 to Apr 30, 2016	From Jan 15, 2008 to Jan 14, 2018	From Dec 31, 2009 to Dec 31, 2019

(\*1)The number of shares to be applied.

All options granted prior to 2006 have all been adjusted for the 2,000 to 1 share reverse share split in August 24, 2004 and 3 for 1 share split in September 22, 2005.

(\*2)If employment is terminated for cause, vesting will cease and any un-exercised portion of the option will be forfeited immediately on the last employment date.

If employment is terminated voluntarily by the employee:

1)Unvested options (if any) which are scheduled to vest in the same calendar year of the termination will vest on the last day of that calendar year, and expire 12 months after the date of vesting

2) All unvested options (if any) scheduled to vest in subsequent years will be forfeited

3) All vested options can be exercised until expiration which will be the later of 12 months from the date of termination and 12 months after the date of vesting of any options in the year of termination (if any).

(\*3) Issued shares which have the terms and conditions for vesting. The relevant shareholder does not obtain any shareholder's rights until the vesting period lapses. These shares are substantially equal to share options, therefore, accounting treatments are the same as that of share options.

(\*4) If employment is terminated for cause or voluntarily by the employee, the right to vest in the restricted shares grant will terminate effective as of the earlier of

1) the date that the employee gives or is provided with written notice of Termination of Service,

2) if the employee is an employee of any subsidiary, the date that the employee is no longer actively employed and physically present on the premises of the Company or any of its subsidiaries, regardless of any notice period or period of pay in lieu of such notice required under any applicable statute or the common law.

3) if the employee is an employee of any subsidiary, the date on which your employer ceases to be a subsidiary of the Company.

In the event of a change in control of the company, the unvested portion of restricted shares grant shall be accelerated and become fully vested and shall be issued by the Company immediately prior to the consummation of such transaction.

(\*5) If employment is terminated for cause, vesting will cease and any un-exercised portion of the option will be forfeited immediately on the last employment date.

If employment is terminated voluntarily by the employee:

1)Unvested options (if any) which are scheduled to vest in the same calendar year of the termination will vest on the last day of that calendar year, and expire 12 months after the date of vesting

2) All unvested options (if any) scheduled to vest in subsequent years will be forfeited

3) All vested options may be exercised until expiration of the twelve-month period following the termination, or if earlier, the expiration of the term of the Option.

## (2) Size and change of the number of share option

## (i) Number of objective shares of share option

(Unit: share)

Company Name	The Company			
Year	2005	2006		
Type	Share Option	Share Option (1)	Share Option (2)	Share Option (3)
Number of objective shares for unvested option				
Beginning balance of the period	-	-	-	-
Granted	-	-	-	-
Lapsed	-	-	-	-
Vested	-	-	-	-
Unvested balance	-	-	-	-
Number of objective shares for vested option				
Beginning balance of the period	9,574	5,000	2,500	18,645
Vested	-	-	-	-
Exercised	-	-	-	-
Lapsed	3,994	5,000	1,500	7,855
Unexercised balance	5,580	-	1,000	10,790

Company Name	The Company
Year	2009
Type	Share Option
Number of objective shares for unvested option	
Beginning balance of the period	-
Granted	157,830
Lapsed	6,667
Vested	52,610
Unvested balance	98,553
Number of objective shares for vested option	
Beginning balance of the period	-
Vested	52,610
Derestricted	-
Lapsed	-
Unexercised balance	52,610

## (ii) Unit price information

Company Name	The Company				
Year	2005	2006			
Type	Share Option	Share Option (1)	Share Option (2)	Share Option (3)	Share Option (4)
Exercise price	JPY 49,316	JPY 74,247	JPY 71,844	JPY 71,844	JPY 71,844
Average price of shares upon exercise	JPY 77,520	-	-	JPY 80,556	-
Fair value of option at grant date per option	-	-	-	-	USD 252.92

Company Name	The Company	
Year	2008	2009
Type	Restricted Share	Share Option
Exercise price	-	JPY 1,703
Average price of shares upon exercise	-	-
Fair value of option at grant date per option	JPY 16,900	USD 1,816

## 2. Valuation Method for Share Option

Determination of estimated fair value of share option granted during the fiscal year is as follows.

### (1) Valuation method used

(i) Share option : Black-Scholes Model, Binominal Model and its variants

### (2) Factors and basis of estimation

Company Name	The Company			
Type	Share Option			
	Directors	Key Executives	Important Executives	Important Management
Price volatility (*1)	85%			
Estimated dividend (*2)	NIL			
Risk free rate (*3)	1.441%			
Exit Rate (*4)	36%	12%	27%	20%
Trigger Price Multiple (*5)	2x	1.9x	1.5x	1.6x

(\*1) The annualized volatility of the daily share prices of the Company prior to the issuance of share option was considered.

(\*2) With reference to the track record, it is assumed the dividend is zero during the estimated option life attributable to ordinary shares.

(\*3) The risk free rate has made reference to the yield of Japanese government bond as at the grant date. The year of maturity of the Bond being referred is determined in accordance with the life of the option.

(\*4) With reference to the track record of staff turnover rate.

(\*5) With reference to the past exercise record.

## 3. Determination of estimation for number of share option to be vested

Actual lapsed number shall be considered because grantee will exercise the option at the time of vesting.

(Warrant and Share-based payment)

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)

1. Outline, size and change of warrant and share-based payment

(1) Outline of warrant and share-based payment

Company Name	The Company			
Year	2004	2005	2006	
Type	Share-Based Payment	Share-Based Payment	Warrant	Share-based payment (1)
Category and number of person designated	230 employees	2 directors of the group, 1 adviser and 3 employees	1 third party	1 third party
Class and number of objective shares (*2)	79,129.26 Ordinary shares	28,168 ordinary shares	20,000 ordinary shares	2,000 ordinary shares
Grant date (*1)	April 6; Jun 17, 21, 22, 30; Jul 11& 19; Aug 16 & 20; Dec 28 & 30, 2004 (*3)	Jul 15, Sept 15 & Dec 15, 2005	February 14, 2006	February 14, 2006
Exercisable period	-	-	From February 15, 2007 to February 16, 2009	-

Company Name	The Company			
Year	2006			2007
Type	Share-based payment (2)	Share-based payment (3)	Share-based payment (4)	Share-based payment (1)
Category and number of person designated	1 third party	2 directors and 4 employees	1 director	145 Employees 1 Director
Class and number of objective shares (*2)	1,500 ordinary shares	18,107 ordinary shares	800 ordinary shares	10,591 Ordinary shares
Grant date (*1)	July 25, 2006	September 6, 2006	September 22, 2006	August 31, 2007
Terms and condition for vesting	-	-	-	1/3 vested on Dec 31, 2007, 1/3 vested on Dec 31, 2008 and 1/3 vested on Dec 31, 2009 (*7)

Company Name	The Company			
Year	2007			
Type	Share-based payment (2)	Share-based payment (3)	Share-based payment (4)	Share-based payment (5)
Category and number of person designated	1 Employee	1 Employee	1 Employee	1 Ex-employee
Class and number of objective shares (*2)	500 Ordinary shares	3,000 Ordinary shares	3,000 Ordinary shares	1,463 Ordinary shares
Grant date (*1)	September 11, 2007	September 11, 2007	September 11, 2007	September 11, 2007
Terms and condition for vesting	-	1/3 vested on Dec 31, 2007, 1/3 vested on Dec 31, 2008 and 1/3 vested on Dec 31, 2009	(*4)	(*5)

Company Name	The Company			
Year	2007			
Type	Share-based payment (6)	Share-based payment (7)	Share-based payment (8)	Share-based payment (9)
Category and number of person designated	3 Directors	1 Employee	1 Ex-employee	1 Consultant
Class and number of objective shares (*2)	1,150 Ordinary shares	34 Ordinary shares	2,000 Ordinary shares	4,000 Ordinary shares
Grant date (*1)	September 20, 2007	October 5, 2007	November 5, 2007	November 5, 2007
Terms and condition for vesting	1/2 vested on Dec 31, 2007, 1/2 vested on Dec 31, 2008	-	-	1/2 vested on Dec 31, 2008, 1/2 vested on Dec 31, 2009 (*8)

Company Name	The Company	
Year	2007	2008
Type	Share-based payment (10)	Share-based payment
Category and number of person designated	5 Employees	1 Ex-employee
Class and number of objective shares (*2)	451 Ordinary shares	116 Ordinary shares
Grant date (*1)	November 9, 2007	May 14, 2008
Terms and condition for vesting	1/3 vested on Dec 31, 2007, 1/3 vested on Dec 31, 2008 and 1/3 vested on Dec 31, 2009	-

Company Name	Xinhua Finance Media Limited		
Year	2006		2008
Type	Warrant(1)	Warrant(2)	Warrant
Category and number of person designated	1 shareholder	1 consultant	1 consultant
Class and number of objective shares (*2)	4,099,968 Class A Common Shares	630,000 Class A Common Shares	400,000 Class A Ordinary Shares
Grant date (*1)	September 22, 2006	December 7, 2006	April 1, 2008
Exercisable period	From September 22, 2006 to September 22, 2011	From December 7, 2006 to December 7, 2011	From Dec 31, 2008 to Dec 31, 2011

(\*1)Contract date as for the share-based payment

(\*2)The number of shares to be applied.

All shares and options granted prior to 2006 have all been adjusted for the 2,000 to 1 share reverse share split in August 24, 2004 and 3 for 1 share split in September 22, 2005.

(\*3) Detailed terms and conditions are approved by the board in April 2004.

(\*4) 1/3 immediate, 1/3 restricted selling until September 11, 2008 and 1/3 restricted selling until September 11, 2009.

(\*5) 100% of the shares are locked up on date of grant such that 1/3 will be freely tradable on December 31, 2007, 1/3 will be freely tradable on December 31, 2008 and 1/3 will be tradable on December 31, 2009.

(\*6) Xinhua Finance Media Limited has been transferred from a consolidated subsidiary to an associate from December 31, 2008.

(\*7) On December 26, 2008, the Company has offered the grantee a cash payment of USD60.90 per share being settlement in full of

Restricted Shares grant which the grantee are entitled to. Unvested shares grant of 1,967 shares were settled under this arrangement.

(\*8) The 2,000 shares to be vested on December 31, 2009 have been early vested on December 31, 2008.

Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)

1. Outline, size and change of warrant and share-based payment

(1) Outline of warrant and share-based payment

Company Name	The Company			
Year	2004	2005	2006	
Type	Share-Based Payment	Share-Based Payment	Warrant	Share-based payment (1)
Category and number of person designated	230 employees	2 directors of the group, 1 adviser and 3 employees	1 third party	1 third party
Class and number of objective shares (*2)	79,129.26 Ordinary shares	28,168 ordinary shares	20,000 ordinary shares	2,000 ordinary shares
Grant date (*1)	April 6; Jun 17, 21, 22, 30; Jul 11& 19; Aug 16 & 20; Dec 28 & 30, 2004 (*3)	Jul 15, Sept 15 & Dec 15, 2005	February 14, 2006	February 14, 2006
Exercisable period	-	-	From February 15, 2007 to February 16, 2009	-

Company Name	The Company			
Year	2006			2007
Type	Share-based payment (2)	Share-based payment (3)	Share-based payment (4)	Share-based payment (1)
Category and number of person designated	1 third party	2 directors and 4 employees	1 director	145 Employees 1 Director
Class and number of objective shares (*2)	1,500 ordinary shares	18,107 ordinary shares	800 ordinary shares	10,591 Ordinary shares
Grant date (*1)	July 25, 2006	September 6, 2006	September 22, 2006	August 31, 2007
Terms and condition for vesting	-	-	-	1/3 vested on Dec 31, 2007, 1/3 vested on Dec 31, 2008 and 1/3 vested on Dec 31, 2009 (*6)

Company Name	The Company			
Year	2007			
Type	Share-based payment (2)	Share-based payment (3)	Share-based payment (4)	Share-based payment (5)
Category and number of person designated	1 Employee	1 Employee	1 Employee	1 Ex-employee
Class and number of objective shares (*2)	500 Ordinary shares	3,000 Ordinary shares	3,000 Ordinary shares	1,463 Ordinary shares
Grant date (*1)	September 11, 2007	September 11, 2007	September 11, 2007	September 11, 2007
Terms and condition for vesting	-	1/3 vested on Dec 31, 2007, 1/3 vested on Dec 31, 2008 and 1/3 vested on Dec 31, 2009	(*4)	(*5)

Company Name	The Company			
Year	2007			
Type	Share-based payment (6)	Share-based payment (7)	Share-based payment (8)	Share-based payment (9)
Category and number of person designated	3 Directors	1 Employee	1 Ex-employee	1 Consultant
Class and number of objective shares (*2)	1,150 Ordinary shares	34 Ordinary shares	2,000 Ordinary shares	4,000 Ordinary shares
Grant date (*1)	September 20, 2007	October 5, 2007	November 5, 2007	November 5, 2007
Terms and condition for vesting	1/2 vested on Dec 31, 2007, 1/2 vested on Dec 31, 2008	-	-	1/2 vested on Dec 31, 2008, 1/2 vested on Dec 31, 2009 (*7)

Company Name	The Company			
Year	2007	2008	2009	
Type	Share-based payment (10)	Share-based payment	Share-based payment (1)	Share-based payment (2)
Category and number of person designated	5 Employees	1 Ex-employee	1 Director 1 ex-executive	4 independent Directors
Class and number of objective shares (*2)	451 Ordinary shares	116 Ordinary shares	20,000 Ordinary shares	1,450 Ordinary shares
Grant date (*1)	November 9, 2007	May 14, 2008	May 31, 2009	May 31, 2009
Terms and condition for vesting	1/3 vested on Dec 31, 2007, 1/3 vested on Dec 31, 2008 and 1/3 vested on Dec 31, 2009	-	-	1/2 to be issued on or about May 31, 2009 and 1/2 to be issued on or about Dec 31, 2009

(\*1)Contract date as for the share-based payment

(\*2)The number of shares to be applied.

All shares and options granted prior to 2006 have all been adjusted for the 2,000 to 1 share reverse share split in August 24, 2004 and 3 for 1 share split in September 22, 2005.

(\*3) Detailed terms and conditions are approved by the board in April 2004.

(\*4) 1/3 immediate, 1/3 restricted selling until September 11, 2008 and 1/3 restricted selling until September 11, 2009.

(\*5) 100% of the shares are locked up on date of grant such that 1/3 will be freely tradable on December 31, 2007, 1/3 will be freely tradable on December 31, 2008 and 1/3 will be tradable on December 31, 2009.

(\*6) On December 26, 2008, the Company has offered the grantee a cash payment of USD60.90 per share being settlement in full of

Restricted Shares grant which the grantee are entitled to. Unvested shares grant of 1,967 shares were settled under this arrangement.

(\*7) The 2,000 shares to be vested on December 31, 2009 have been early vested on December 31, 2008.

## (2) Size and change of the number of warrant

### (i) Unit price information

Company Name	The Company
Year	2006
Type	Warrant
Exercise price	JPY 82,500
Average price of shares upon exercise	-
Fair value of option at grant date per warrant	USD 8.44

## (Taxation)

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

Consolidated fiscal year - prior year (As of December 31, 2008)		Consolidated fiscal year - current year (As of December 31, 2009)	
1 Major components of deferred tax assets and liabilities		1 Major components of deferred tax assets and liabilities	
(Deferred tax assets)		(Deferred tax assets)	
Unutilized tax losses	9,405	Unutilized tax losses	13,605
	(866)		(1,253)
Allowance for doubtful accounts	65	Accruals	460
	(6)		(42)
Accruals	446	Other	114
	(41)		(10)
Other	327	Subtotal	14,179
	(30)		(1,306)
Subtotal	10,243	Valuation reserve	△14,179
	(943)		(△ 1,306)
Valuation reserve	△10,239	Total deferred tax assets	-
	(△ 943)		(-)
Total deferred tax assets	3	(Deferred tax liabilities)	
	(0)	Accelerated depreciation	△ 34
(Deferred tax liabilities)			(△ 3)
Revaluation of subsidiaries' assets and liabilities on consolidation	△ 158	Other	△ 8
	(△ 15)		(△ 1)
Other	△ 47	Total deferred tax liabilities	△ 42
	(△ 4)		(△ 4)
Total deferred tax liabilities	△ 206	Net of deferred tax assets and deferred tax liabilities	△ 42
	(△ 19)		(△ 4)
Net of deferred tax assets and deferred tax liabilities	△ 202		
	(△ 19)		
Net of deferred tax assets and deferred tax liabilities appear on the Consolidated Balance Sheets as follows:		Net of deferred tax assets and deferred tax liabilities appear on the Consolidated Balance Sheets as follows:	
Deferred tax assets – current	-	Deferred tax assets – current	-
	(-)		(-)
Deferred tax assets – non-current	-	Deferred tax assets – non-current	-
	(-)		(-)
Deferred tax liabilities – current	-	Deferred tax liabilities – current	-
	(-)		(-)
Deferred tax liabilities – non-current	△ 202	Deferred tax liabilities – non-current	△ 42
	(△ 19)		(△ 4)

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

Consolidated fiscal year - prior year (As of December 31, 2008)		Consolidated fiscal year - current year (As of December 31, 2009)	
2 Reconciliation between the normal statutory tax rate and the actual effective tax rate		2 Reconciliation between the normal statutory tax rate and the actual effective tax rate	
Tax at the applicable income tax rate	16.5%	Tax at the applicable income tax rate	16.5%
(Reconciliation)		(Reconciliation)	
Tax effect of expenses not deductible for tax purposes	△16.6%	Tax effect of expenses not deductible for tax purposes	△16.2%
Tax effect of income not taxable for tax purposes	0.2%	Tax effect of income not taxable for tax purposes	0.6%
Effect of different tax rates of subsidiaries operating in other jurisdictions	△2.0%	Effect of different tax rates of subsidiaries operating in other jurisdictions	0.9%
Other	△0.2%	Effect of charges in valuation reserve	△4.1%
		Other	0.1%
Tax effect and effective tax rate for the year	△2.1%	Tax effect and effective tax rate for the year	△2.2%

(Business Combinations)

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)

Purchase method

1. Significant adjustment on original allocations of acquisition costs

The allocation of acquisition costs of Kinetic Information System Services Limited, Shanghai Tongxin Information Technology Consulting Co., Limited, East Alliance Limited, Guangzhou Singshine Communication Co., Limited, Shanghai Singshine Marketing Service Co., Ltd., Beijing Perspective Orient Movie and Television Intermediary Co., Ltd., JCBN Co., Ltd and Profitown Development Limited had not been determined at the previous year end because the valuation had not been completed.

The amount of adjustment made on goodwill by reviewing the allocation in this fiscal year is as follows:

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

Item	Adjustment made on goodwill
Intangible assets	△5,548 (△511)
Deferred tax liabilities	1,503 (138)
Total	△4,045 (△373)

Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)

Not applicable.

(Segment information)  
**【Business segmental information】**

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)

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

	Financial information business	Media business	Total	Eliminated or unallocated	Consolidated
I Sales and operating income / loss					
Sales					
(1) Outside customer	93,320	186,031	279,351	-	279,351
	(8,595)	(17,133)	(25,728)	(-)	(25,728)
(2) Inter segment or transfer	-	-	-	-	-
	(-)	(-)	(-)	(-)	(-)
Total	93,320	186,031	279,351	-	279,351
	(8,595)	(17,133)	(25,728)	(-)	(25,728)
Operating expenses	100,788	212,012	312,799	11,389	324,188
	(9,283)	(19,526)	(28,809)	(1,049)	(29,858)
Operating income (△ loss)	△ 7,468 (△688)	△ 25,981 (△2,393)	△ 33,449 (△3,081)	△ 11,389 (△1,049)	△ 44,838 (△4,130)
II Assets, depreciation and amortization, impairment loss and capital expenditures					
Assets	216,113	-	216,113	-	216,113
	(19,904)	(-)	(19,904)	(-)	(19,904)
Depreciation and amortization	3,384	21,235	24,619	-	24,619
	(312)	(1,956)	(2,267)	(-)	(2,267)
Impairment loss	39,148	164,555	203,703	-	203,703
	(3,606)	(15,156)	(18,761)	(-)	(18,761)
Capital expenditures	5,188	19,640	24,828	-	24,828
	(478)	(1,809)	(2,287)	(-)	(2,287)

Note

- Business segments are based on its nature and management classification of turnover.
- Business segments comprise of the followings:
  - Financial information business .....Financial information business includes the provision of indices, financial news feeds, credit ratings and investor relations services.
  - Media business.....Media business includes publishing financial books and magazine, television consulting and distribution and other media and advertising related businesses.
- Operating expenses of USD 11,389 thousand (JPY 1,049 million) classified as the Eliminated or unallocated are the unallocated expenses related to the managerial department of the Company.
- XFM and its subsidiaries, which were in Media business in the current year, were excluded from the scope of consolidation in the current year. As a consequence, XFM is now held as an associate, which is accounted for under the equity method. As the control on XFM by the Company was dissolved on December 31, 2008, only the assets related to the media business is excluded.

Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)

Consolidated subsidiaries of the Company operating Media business in consolidated fiscal year – prior year were excluded from the scope of consolidation as of December 31, 2008 and are accounted for under equity method since January 1, 2009. As a consequence, the Group operates in one business segment during the consolidated fiscal period thus information on business segment is omitted.

**【Regional segmental information】**

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)

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

	Japan	Asia	North America	Others	Total	Eliminated or unallocated	Consolidated
I Sales and operating income / loss							
Sales							
(1) Outside customer	468	220,151	58,693	39	279,351	-	279,351
	(43)	(20,276)	(5,406)	(4)	(25,728)	(-)	(25,728)
(2) Inter segment or transfer	-	7,582	1,222	2,238	11,042	△ 11,042	-
	(-)	(698)	(113)	(206)	(1,017)	(△1,017)	(-)
Total	468	227,734	59,915	2,277	290,393	△ 11,042	279,351
	(43)	(20,974)	(5,518)	(210)	(26,745)	(△1,017)	(25,728)
Operating expenses	843	253,559	65,431	15,839	335,672	△ 11,483	324,188
	(78)	(23,353)	(6,026)	(1,459)	(30,915)	(△1,058)	(29,858)
Operating income / loss	△ 375	△ 25,825	△ 5,516	△ 13,562	△ 45,279	441	△ 44,838
(△)	(△35)	(△2,379)	(△508)	(△1,249)	(△4,170)	(41)	(△4,130)
II Assets	675	114,904	14,005	86,529	216,113	-	216,113
	(62)	(10,583)	(1,290)	(7,969)	(19,904)	(-)	(19,904)

Note

- Location segments are based on geographical proximity.
- Main countries or locations which do not belong to Japan:
  - Asia ..... Hong Kong, China, Singapore and other locations.
  - North America.....U.S.A.
  - Others..... U.K., British West Indies and other locations.
- There is no unallocated operating expenses included in the eliminated or unallocated column above.

Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)

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

	Japan	Asia	North America	Others	Total	Eliminated or unallocated	Consolidated
I Sales and operating income / loss							
Sales							
(1) Outside customer	383	27,342	4,966	26	32,717	-	32,717
	(35)	(2,518)	(457)	(2)	(3,013)	(-)	(3,013)
(2) Inter segment or transfer	-	6,248	47	982	7,276	△ 7,276	-
	(-)	(575)	(4)	(90)	(670)	(△670)	(-)
Total	383	33,590	5,012	1,007	39,993	△ 7,276	32,717
	(35)	(3,094)	(462)	(93)	(3,683)	(△670)	(3,013)
Operating expenses	554	21,608	7,738	14,263	44,163	△ 7,273	36,890
	(51)	(1,990)	(716)	(1,314)	(4,067)	(△670)	(3,398)
Operating income / loss	△ 170	11,982	△ 2,726	△ 13,256	△ 4,170	△ 3	△ 4,173
(△)	(△16)	(1,104)	(△251)	(△1,221)	(△384)	(△0)	(△384)
II Assets	77	29,646	599	9,112	39,434	-	39,434
	(7)	(2,730)	(55)	(889)	(3,632)	(-)	(3,632)

Note

- Location segments are based on geographical proximity.
- Main countries or locations which do not belong to Japan:
  - Asia ..... Hong Kong, China, Singapore and other locations.
  - North America.....U.S.A.
  - Others..... British West Indies and other locations.
- There is no unallocated operating expenses included in the eliminated or unallocated column above.

**【Overseas sales】**

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)

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

	Asia	North America	Europe	Others	Total
I Oversea sale	215,566 (19,854)	42,774 (3,940)	16,057 (1,479)	2,254 (208)	276,651 (25,480)
II Consolidated sale	- (-)	- (-)	- (-)	- (-)	279,351 (25,728)
III Ratio of overseas sales which accounts for consolidated sale (%)	77.2%	15.3%	5.7%	0.8%	99.0%

Note

- 1 Location segments are based on the geographical proximity.
- 2 Main countries or locations which do not belong to Japan.:
  - (1)Asia ..... Hong Kong, China, Singapore and other locations.
  - (2)North America .....U.S.A. and Canada
  - (3)Europe.....U.K., Germany, France and other locations.
  - (4)Others.....Australia, South America and other locations.
- 3 Overseas sales are sales of the Group recognized in countries or locations other than Japan.

Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)

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

	Asia	North America	Europe	Others	Total
I Oversea sale	18,184 (1,675)	2,355 (217)	11,386 (1,049)	10 (1)	31,935 (2,941)
II Consolidated sale	- (-)	- (-)	- (-)	- (-)	32,717 (3,013)
III Ratio of overseas sales which accounts for consolidated sale (%)	55.6%	7.2%	34.8%	0.0%	97.6%

Note

- 1 Location segments are based on the geographical proximity.
- 2 Main countries or locations which do not belong to Japan.:
  - (1)Asia ..... Hong Kong, China, Singapore and other locations.
  - (2)North America .....U.S.A. and Canada
  - (3)Europe.....U.K., Germany, France and other locations.
  - (4)Others.....Australia, South America and other locations.
- 3 Overseas sales are sales of the Group recognized in countries or locations other than Japan.

**【Related party transactions】**

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)

**Directors and major individual shareholders**

Category	Name of the related party	Address	Occupation/ Nature of business	Ratio of voting right (held by the related party) Directly/ Indirectly held (%)	Relationship		Nature of transactions	Amount USD (in thousands) / JPY (in millions)	Name of account	Remaining balance on balance sheet as of the year end USD (in thousands) / JPY (in millions)
					Concurrency of directors	Business relationship				
Directors and major individual shareholders	Fredy Bush	Shanghai, PRC	Executive	Directly held: 0.03% Indirectly held: 4.52%	-	-	Purchase of receivable by the Company	USD 3,300 (JPY 304)	Other payable	USD 3,300 (JPY 304)

(Note) An allowance is provided for the receivable discussed in “Nature of transaction” at amount considered to be uncollectible.

Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)

(Additional Information)

From this fiscal year, the Company and its subsidiaries have applied “Accounting Standard for Related Party Disclosures” (ASBJ statement No. 11, issued on October 17, 2006) and “Guidance on Accounting Standard for Related Party 2006). The adoption of them requires the Company no further disclosure of objects compared with the previous method.

1 Related party transactions

(1) Related party transactions with the reporting company

A) Nonconsolidated subsidiaries and associates

Category	Name of the related party	Address	Capital stock USD (in thousands)/ JPY (in millions)	Occupation/ Nature of business	Ratio of voting right (held by the related party)	Relationship with Related party	Nature of transactions	Amount USD (in thousands)/ JPY (in millions)	Name of account	Remaining balance on balance sheet as of the year end USD (in thousands)/ JPY (in millions)
					Directly/ Indirectly held (%)					
Associates	Xinhua Sports & Entertainment Limited	Beijing, PRC	USD 176 (JPY16)	Investment management	Directly: 28.37%	-Borrowing of loan payable	Borrowing of loan payable	USD 6,230 (JPY 574)	-	-
							Payment of interest	USD 232 (JPY 21)		

(Terms and conditions and their making policy)

The conditions of loan payable take market interest rate into consideration.

(2) Related party transactions with the consolidated subsidiaries of the reporting company

Category	Name of the related party	Address	Capital stock USD (in thousands)/ JPY (in millions)	Occupation/ Nature of business	Ratio of voting right (held by the related party)	Relationship with Related party	Nature of transactions	Amount USD (in thousands)/ JPY (in millions)	Name of account	Remaining balance on balance sheet as of the year end USD (in thousands)/ JPY (in millions)
					Directly/ Indirectly held (%)					
Subsidiaries of Affiliates	Xinhua Finance Media (Shanghai) Co., Ltd.	Shanghai, PRC	USD 6,800 (JPY626)	Investment management	Indirectly: 28.37%	-Lending of loan receivable	Lending of loan receivable	USD 6,220 (JPY 573)	-	-
							Receipt of interest	USD 208 (JPY 19)		

(Terms and conditions and their making policy)

The conditions of loan payable take market interest rate into consideration.

2 Parents or Material associates

(1) Summary financial statements

Material associates are Xinhua Sports & Entertainment Limited and FTSE/Xinhua Index Ltd as of December 31, 2009 and their summary financial statements are as follows;

	Xinhua Sports & Entertainment Limited		FTSE/Xinhua Index Ltd	
	(Unit: Thousands of U.S. Dollars)	(Unit: Millions of Japanese Yen)	(Unit: Thousands of U.S. Dollars)	(Unit: Millions of Japanese Yen)
Total current assets	150,860	(13,894)	20,012	(1,843)
Total non-current assets	54,648	(5,033)	19	(2)
Total current liabilities	197,634	(18,202)	4,351	(401)
Total non-current liabilities	67,154	(6,185)	0	(0)
Total net assets	△59,280	(△5,460)	15,681	(1,444)
Net sales	99,231	(9,139)	2,009	(185)
Income / Loss (△) before income taxes and minority interests	△382,019	(△35,184)	1,719	(158)
Net Income / loss (△)	△392,088	(△36,111)	1,382	(127)

(Note) Summary financial statements of Xinhua Sports & Entertainment Limited are subject to change since the audit has not completed. However, its impact to the consolidated financial statements of the Group is considered to be minor.

Summary financial statements of FTSE/Xinhua Index Ltd are as from December 1, 2009 to December 31, 2009 since it became an equity method affiliate as of November 30, 2009.

## (Per share information)

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

Item	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)
Net assets per Share	75.15 (6,921.32)	△0.05 (△4.61)
Net income/ loss (△) per share	△212.89 (△19,606.87)	△75.56 (△6,958.75)
Diluted net income per share	As the Group is in a loss position, diluted net loss per share information is not stated.	As the Group is in a loss position, diluted net loss per share information is not stated.

(Note) Basis of calculation for the net income/ loss (△) and diluted net income per share

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

Item	Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)
Net income per share		
Net income / loss (△) for the year	△268,322 (△ 24,712)	△113,454 (△ 10,449)
Net income NOT attributed to ordinary shareholders	- (-)	- (-)
Net income / loss (△) attributed to ordinary shares	△268,322 (△ 24,712)	△113,454 (△ 10,449)
Average number of ordinary shares during the period / year (shares)	1,260,396.77	1,501,582.51
Diluted net income per share		
Adjustment on net income for the period / year	- (-)	- (-)
Number of ordinary shares to be increased (shares) (increased by share subscription rights)	- (-)	- (-)
Overview of potential shares without dilutive effect excluded from the formula of diluted income per share for the period / year	5 types of share subscription rights (Number of shares to be issued upon exercise: 36,217 shares), and 6 types of restricted share (Number of shares: 6,937 shares) issued by the Company.  8 types of share subscription rights (Number of shares to be issued upon exercise: 12,019,631 shares), and 2 types of restricted share (Number of shares: 4,957,200 shares) issued by associate, Xinhua Finance Media Limited.	Share of subscription rights (Number of shares to be issued upon exercise: 98,553 shares) issued by the Company.

(Significant subsequent events)

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)
<p>1. Sale of Market News International Inc.</p> <p>On January 26, 2009, the Group sold all its equity stake (100.0%) in Market News International Inc. ("MNI").</p> <p>(1) Reason for the sale of the subsidiary The Group has made a strategic decision to unlock shareholder value by focusing our resources on our core competency, which is providing valuable information to China's financial information sector.</p> <p>(2) Purchaser Jasmine Acquisition Co.</p> <p>(3) Outline of MNI Address : New York, U.S.A. Business : Production of financial news and information and served the global fixed income and foreign exchange market. Transactions with the Company : Not applicable</p> <p>(4) Outline of the sale (a) Number of shares sold: 100,000 shares (100%)</p> <p>(b) Total sale price: USD10 million in cash</p>	<p>1. _____</p>

Consolidated fiscal year - prior year (From January 1, 2008 to December 31, 2008)	Consolidated fiscal year - current year (From January 1, 2009 to December 31, 2009)
<p>2. Sale of Shanghai Far East Credit Rating Co., Ltd.</p> <p>On January 23, 2009, the Group sold its entire equity stake (50.0%) in Shanghai Far East Credit Rating Co., Ltd. ("SFE").</p> <p>(1) Reason for the sale of the subsidiary Given the current economic environment and the still evolving ratings sector in China, the corporate bond market in China has not developed as quickly as we had expected. As a result, we decided to withdraw from the investment in SFE and focus on research areas.</p> <p>(2) Purchaser Shanghai Dongxing Investment Holding Development Company (上海东兴投资控股发展公司)</p> <p>(3) Outline of SFE Address : Shanghai, PRC. Business : Local ratings provider Transactions with the Company : Not applicable</p> <p>(4) Outline of the sale (a) Number of shares sold: 15,000,000 shares (50%)  (b) Total sale price: USD5.9 million in cash</p> <p>3. Redemption of Senior Guaranteed Notes</p> <p>On February 6, 2009, the Board of Directors resolved an early redemption for a portion of its Senior Guaranteed Notes (the "Notes") and the Group announced that it has commenced a tender offer for the Notes. Subsequently, the Group completed the tender offer on March 11, 2009.</p> <p>(1) Purpose of the redemption The Group plans to reduce the long term indebtedness through the redemption of bonds.</p> <p>(2) Payment Date March 11, 2009</p> <p>(3) Redemption amount USD 38,943 thousand</p> <p>(4) Redemption price 100% of the face value</p> <p>(5) Outline of the Notes Original issue date : November 21, 2006 Original maturity date : November 20, 2011 Total amount of the Notes : USD 100,000 thousand Interest rate : 10% Amount outstanding as of December 31, 2008 : USD 51,261 thousand</p> <p>(6) Effect on interest expense saving per year USD 3,894 thousand</p> <p>The tender offer consideration is the result of the cash proceeds from the sale of capital stock of certain subsidiaries of the Group.</p>	<p>2. _____</p> <p>3. _____</p>



⑤ Consolidated supporting schedules

【Schedule of bond】

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

Company	Description	Date of issue	Balance at the beginning of the year	Balance at the end of the year	Interest rate (%)	Assets collateralized	Date of maturity
Xinhua Finance Limited	Senior Guaranteed notes in US dollars	November 21, 2006	50,982 (4,695)	9,175 (845)	10%	—	2011/11/20
Total	—	—	50,982 (4,695)	9,175 (845)	—	—	—

Annual maturities of bond as of December 31, 2009 for the next five years are as follow:

Within 1 year	Over 1 year to 2 years	Over 2 year to 3 years	Over 3 year to 4 years	Over 4 year to 5 years
3,787	5,388	—	—	—
(349)	(496)	(-)	(-)	(-)

【Schedule of loans and obligations】

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

Category	Balance at the beginning of the year	Balance at the end of the year	Average interest rate (%)	Repayment date
Short-term debt	16,208 (1,493)	16,688 (1,537)	5.14%	—
Current portion of long term debt	— (-)	— (-)	—	—
Long-term bank loans (excluding current portion)	— (-)	— (-)	—	—
Other interest-bearing obligation				
Obligation under finance lease -due within one year	9 (1)	4 (0)	1.83%	—
Obligation under finance lease	4 (0)	0 (0)	1.83%	Year 2011
Total	16,221 (1,494)	16,693 (1,537)	—	—

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 Obligation under finance lease 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
Other interest-bearing obligation (Obligation under finance lease)	0 (0)	— (-)	— (-)	— (-)

(2) Other

Quarterly result in the current consolidated fiscal year

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

	1st quarter From January 1, 2009 to March 31, 2009	2nd quarter From April 1, 2009 to June 30, 2009	3rd quarter From July 1, 2009 to September 30, 2009	4th quarter From October 1, 2009 to December 31, 2009
Net Sales	9,095 (838)	8,461 (779)	8,556 (788)	6,606 (608)
Loss before income taxes and minority interests	9,781 (901)	4,413 (406)	7,790 (717)	82,489 (7,597)
Net loss for the period	11,511 (1,060)	6,996 (644)	10,892 (1,003)	84,055 (7,741)
Net loss per share (U.S. Dollars (Japanese Yen))	7.73 (712.11)	4.70 (432.44)	7.20 (662.84)	55.52 (5,113.45)

## **2. Schedule of major assets, liabilities, profits and losses**

Please refer to the Financial Information and related notes aforementioned.

## **3. Other**

Not applicable.

## **VII. TREND IN FOREIGN EXCHANGE RATES**

Since the foreign exchange rate between JP¥ and US\$ is published in more than two Japanese daily newspapers, the information is omitted.

## VIII. SUMMARY OF SHARE HANDLING, ETC. IN JAPAN

### 1. Summary of Share Handling, etc. in Japan

#### (1) Places for Accepting Applications for Transfer of shares and Administrant of Share Register in Japan

There is no transfer handling place or Administrant of Share Register for the shares of the Company in Japan. Pursuant to the Clearing and Settlement System of Foreign shares, shares of the Company owned by Beneficial Shareholders are deposited with the local custodian in Hong Kong in the name of JASDEC or its nominee. The Mitsubishi UFJ Trust and Banking Corporation has been appointed Shareholder Service Agent in accordance with the Timely Disclosure of Corporate Information by Issuer of Listed Securities and the Like.

In principle, transactions on the Tokyo Stock Exchange in shares of the Company will be settled by transfer between the respective foreign securities transactions accounts of the buyer and seller, if they are clients of the same trading participant or between the accounts of the respective securities companies with JASDEC, if the buyer and seller are clients of different securities companies. In these cases the number of shares held by the custodian in Hong Kong will not change.

A summary of the matters concerning shareholding, including the right of Beneficial Shareholders to receive dividends and exercise voting rights indirectly through JASDEC is stated below, based, among other things, upon a Custody Agreement and Memorandum Concerning Custody Agreement both between JASDEC and the local custodian, a Service Agreement among JASDEC, the shareholder service agent and the Company, a Paying Agreement among JASDEC, the dividend paying banks and the Company, and a Foreign Securities Transactions Account Agreement among the securities company which is a general trading participant and the respective Beneficial Shareholders, which are either executed or scheduled to be executed.

#### (2) Special Privileges to Shareholders

Not applicable.

#### (3) Restrictions on the Transfer of the shares

Not applicable.

#### (4) Other Matters Concerning the Handling of shares

##### (a) Close of Accounts:

December 31, each year.

##### (b) General Shareholders' Meeting:

A general shareholders' meeting of the Company shall be held in each year other than 2004.

##### (c) Close of the Register

The register including any overseas or local or other branch register of shareholders may, after notice has been given by advertisement in an appointed newspaper or any other newspapers in accordance with the requirements of any designated stock exchange or by any electronic means in such manner as may be accepted by the designated stock exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the board of the Company may determine and either generally or in respect of any class of shares.

##### (d) Record Dates:

The shareholders entitled to receive any dividend, distribution, allotment or issue shall be the shareholders on such date the Company or the directors fixed on or at any time not more than thirty (30)

days before or after, any date on which such dividend, distribution, allotment or issue is declared, paid or made by giving not less than fourteen (14) clear days notice to the designated stock exchange of such date.

The Beneficial Shareholders entitled to receive any dividend shall generally be the Beneficial Shareholders shown upon the list of Beneficial Shareholders prepared by the shareholder service agent on the same calendar day.

(e) Types of Share Certificates:

Every person whose name is entered, upon an allotment of shares, as a shareholder in the register shall be entitled, without payment, to receive one certificate for all such shares of any one class or several certificates each for one or more of such shares of such class upon payment for every certificate after the first of such reasonable out of pocket expenses as the board from time to time determines. In the case of a share held jointly by several persons, the Company shall not be bound to issue more than one certificate and delivery of a certificate to one of several joint holders shall be sufficient delivery to all such holders.

(f) Charges Respecting Share Certificate:

The Beneficial Shareholders are required to pay the annual charge for opening and maintaining a Foreign Securities Transactions Account at a securities company in Japan as well as fees for the execution of specific transactions, pursuant to the Foreign Securities Transaction Account Agreement. In the Cayman Islands, upon an allotment of shares, shareholders need to pay reasonable out of pocket expenses as the board from time to time determines in order to receive the second certificates on as mentioned above. A shareholder wishing to transfer part of his shares included in the share certificate shall pay fees to have the new share certificate for the remaining shares issued. If a share certificate shall be damaged or defaced or alleged to have been lost, stolen or destroyed a new certificate representing the same shares may be issued upon payment of such fee as the board may determine and, subject to compliance with such terms (if any) as to evidence and indemnity and to payment of the costs and reasonable out of pocket expenses of the Company in investigating such evidence and preparing such indemnity as the board may think fit.

(g) Newspaper in which Public Notice shall be made:

The Company will publish notices regarding specific matters such as the notice to shareholders concerning shareholders' meetings in a major daily newspaper published in Japan.

## **2. Exercise of Rights of Beneficial Shareholders in Japan, etc.**

### **(1) Exercise of Voting Rights of Beneficial Shareholders**

The Beneficial Shareholders will be notified of a shareholders' meeting by a mail thereto of notice of a shareholders' meeting, etc. or by a publication in a major daily newspaper published in Japan, which will include information as to what they must do in order to exercise their voting rights. JASDEC will not exercise voting rights on behalf of a Beneficial Shareholder except upon instruction from such Beneficial Shareholder.

### **(2) Distribution of Dividends, etc.**

Upon receipt from the Company of the notice of a dividend payment, the shareholder service agent will inform the Beneficial Shareholders accordingly.

The Company will pay the required sum to the local custodian on behalf of JASDEC, which will transfer it to the dividend paying bank, which will, in turn, distribute the same through post offices or through bank accounts directly to Beneficial Shareholders or indirectly via other paying banks. The Beneficial Shareholders are those shown upon the list of Beneficial Shareholders, prepared by the shareholder service agent.

### **(3) Method of Transfer of shares**

In Japan, the Beneficial Shareholder will not hold certificates of shares of the Company. Any Beneficial Shareholder may transfer his rights with respect to shares of the Company by means of trading on the Stock

Exchange. In this case, trading will be cleared by means of a book transfer between accounts opened with a given securities company who are general trading participants or between accounts of securities companies opened with JASDEC.

#### (4) Tax Treatment of Dividends, etc. in Japan

##### (a) Dividends

Dividends to Beneficial Shareholders are treated as dividend income under the Japanese tax laws.

Tax treatment of dividends is as follows: with respect to dividends received by individuals who are Japanese residents or by Japanese corporations, the balance of such dividends remaining after collection of the withholding tax, if any, in Cayman Islands or any local public entity thereof from the payment of such dividends in Cayman Islands, will be subject to a Japanese income tax to be withheld at source, rates of which are as described in the table below.

From January 1, 2009, Japanese residents having less than 5% of the Company's shares can select the self-assessed separate taxation (shinkoku bunri kazei).

##### <Withholding Tax Rate>

Time period at which receiving dividends	Japanese corporations	Japanese residents holding 5 % or more of the shares of the Company	Japanese residents holding less than 5 % of the shares of the Company
To December 31 2011	7 % (income tax)	20 % (income tax)	7 % (income tax), 3 % (residence tax)
After January 1, 2012	15 % (income tax)		15 % (income tax), 5 % (residence tax)

The dividends referred to above are those received from foreign corporations; therefore, no dividends credit is applicable in the case of individual shareholders and no non-inclusion of dividends in profit is applicable in the case of corporate shareholders.

In respect of the amount of tax collected in Cayman Islands, a foreign tax credit is applicable in accordance with the Japanese tax laws to a recipient of dividends who does not opt for the separate withholding taxation of the dividends received by it.

##### (b) Capital Gain and Loss

The tax treatment of the capital gain or loss arising from the transaction in the shares of the Company in Japan is the same as that of the capital gain or loss from transactions in the shares of a domestic corporation. Therefore, gain or loss on disposal of institutional shareholders will be included in the taxable income and be subject to corporate tax.

##### (c) Inheritance Tax

Beneficial Shareholders domiciled in Japan who have inherited the shares of the Company by succession or by will are liable for the inheritance tax in accordance with the Inheritance Tax Law of Japan. However, they may be entitled to the foreign tax credit under certain circumstances.

#### (5) Other Notices and Reports

When a notification about shareholders' meeting is sent to beneficial shareholders of the Company, the organization which deals with shares affairs receives the notification from the Company, and delivers it to beneficial shareholders based on the specified list on record dates or notifies publicly in a prescribed manner.

## **IX. REFERENCE INFORMATION**

### **1. Parent Company**

Not applicable.

### **2. Other Reference Information**

We filed the following documents with the Director of KLFB from the beginning of the fiscal year 2009 to the date of filing of this document.

#### **(1) Extraordinary Report**

Filed with the Director of the KLFB on January 14, 2009 pursuant to Article 24-5, Paragraph 4 of the FIEL and Article 19, Paragraph 2, Sub-paragraph 2 of the Cabinet Ordinance Concerning Disclosure of Corporate Information, etc

#### **(2) Extraordinary Report**

Filed with the Director of the KLFB on January 26, 2009 pursuant to Article 24-5, Paragraph 4 of the FIEL and Article 19, Paragraph 2, Sub-paragraph 2 of the Cabinet Ordinance Concerning Disclosure of Corporate Information, etc

#### **(3) Extraordinary Report**

Filed with the Director of the KLFB on April 7, 2009 pursuant to Article 24-5, Paragraph 4 of the FIEL and Article 19, Paragraph 2, Sub-paragraph 3 of the Cabinet Ordinance Concerning Disclosure of Corporate Information, etc

#### **(4) Annual Securities Report**

Filed with the Director of the KLFB on May 11, 2009 pursuant to Article 24, Paragraph 1 of the FIEL.

#### **(5) Quarterly Report and Confirmation Letter**

Quarterly Report filed with the Director of the KLFB on May 15, 2009 pursuant to Article 24-4, Paragraph 7 of the FIEL.

Confirmation Letter filed with the Director of the KLFB on May 15, 2009 pursuant to Article 24-4-8, Paragraph 1 of the FIEL.

#### **(6) Extraordinary Report**

Filed with the Director of the KLFB on May 18, 2009 pursuant to Article 24-5, Paragraph 4 of the FIEL and Article 19, Paragraph 2, Sub-paragraph 3 of the Cabinet Ordinance Concerning Disclosure of Corporate Information, etc

#### **(7) Extraordinary Report**

Filed with the Director of the KLFB on May 29, 2009 pursuant to Article 24-5, Paragraph 4 of the FIEL and Article 19, Paragraph 2, Sub-paragraph 3 of the Cabinet Ordinance Concerning Disclosure of Corporate Information, etc

#### **(8) Amendment to Annual Securities Report**

Filed with the Director of the KLFB on June 1, 2009.

**(9) Amendment to Extraordinary Report regarding the amendment to the Extraordinary Report dated May 29, 2009**

Filed with the Director of the KLFB on June 10, 2009.

**(10) Quarterly Report and Confirmation Letter**

Quarterly Report filed with the Director of the KLFB on August 14, 2009 pursuant to Article 24-4, Paragraph 7 of the FIEL.

Confirmation Letter filed with the Director of the KLFB on August 14, 2009 pursuant to Article 24-4-8, Paragraph 1 of the FIEL.

**(11) Quarterly Report and Confirmation Letter**

Quarterly Report filed with the Director of the KLFB on November 13, 2009 pursuant to Article 24-4, Paragraph 7 of the FIEL.

Confirmation Letter filed with the Director of the KLFB on November 13, 2009 pursuant to Article 24-4-8, Paragraph 1 of the FIEL.

## **PART II. INFORMATION ON THE GUARANTOR, ETC.**

### **I. INFORMATION ON THE GUARANTOR**

Not Applicable.

### **II. INFORMATION ON THE COMPANIES OTHER THAN THE GUARANTOR**

Not Applicable.

### **III. INFORMATION ON INDEX, ETC.**

Not Applicable.