



XIAOXIAO EDUCATION LIMITED

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COMMENTARY IN CONJUNCTION WITH APPENDIX 4C TO 31 JUNE 2011

For the information of Shareholders and the general market, the Board of Xiaoxiao Education Limited (ASX: XXL) have authorized the release of this Commentary to accompany the Company's appendix 4C to 30 June 2011. It should be noted that, in accordance with Chinese accounting practices, Xiaoxiao's financial year runs January to December each year.

Through this Commentary, the Xiaoxiao Board seeks to provide a brief explanation of its quarterly results, as well as provide its Shareholders and the market with an update of its growth and expansion.

Shareholders will note that there is a decrease in Xiaoxiao's revenues for this, the quarter ended 30 June 2011. As has been explained in previous notices to the market, this is due to Xiaoxiao's fee payment system, which takes on payments from enrolments twice yearly, once in the first quarter, and once in the third quarter. This is in concurrence with the start of school terms in China, in March and September of each year.

No significant or abnormal costs were incurred in this quarter. At the end of 30 June, Xiaoxiao's cash reserves remain at AUD\$307, 000, despite an exchange rate loss of AUD\$24,000.

In other news, Xiaoxiao's consolidation of its assets and acquisitions, both in China and in Australia, continues. The Company has been focussing on the integration of the new pre-school acquisitions previously announced to the market. Xiaoxiao is ensuring that the operations and management of these new facilities are adhering to the Company's strict quality guidelines and protocols. Similarly in Australia, the Breakfast Point Childcare Centre is also being carefully integrated into the Xiaoxiao family, with strong current enrolments.

Xiaoxiao is still active in its investigation of targets for acquisition. However, with the number of current acquisitions, the Company's current priorities are to bring these new assets up to the Xiaoxiao standard, and integrating them into the Xiaoxiao network.

About Xiaoxiao Education Limited

Xiaoxiao operates a successful childhood education business in China with over 4,000 enrolled students in its pre-schools, and in excess of 4,000 additional children attending extra-curricular programs out of school hours and during holiday periods. The Company now has 12 pre-schools. In addition, Xiaoxiao has approximately 8,000 students attending short courses at its Hangzhou Binjiang Art Training School.

The Company employs over 500 staff, and has a regional R&D facility located in Beijing.

With an established and highly successful track record earned over 15 years; a growing portfolio of well located pre-schools; the adoption of quality international standards and breakthrough teaching methodologies; outstanding facilities; a scalable management structure, and an emphasis on teaching English as a second language during the important early childhood years, Xiaoxiao Education Limited is well positioned to lead the private pre-school education market in China and to develop similar opportunities elsewhere.

For further information please contact:

Roger Smeed

Deputy Chairman

Xiaoxiao Education Limited

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Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

Xiaoxiao Education Limited

ABN

26 140 573 762

Quarter ended ("current quarter")

30 June 2011

Consolidated statement of cash flows

| Cash flows related to operating activities | | Current quarter \$A'000 | Year to date (...6... months) \$A'000 |
|--|---|----------------------------|---|
| 1.1 | Receipts from customers | 375 | 2,832 |
| 1.2 | Payments for | | |
| | (a) staff costs | (917) | (1,807) |
| | (b) advertising and marketing | (13) | (24) |
| | (c) research and development | - | - |
| | (d) leased assets | (143) | (293) |
| | (e) other working capital | (93) | (232) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | - | - |
| 1.5 | Interest and other costs of finance paid | - | - |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Other (provide details if material) | | |
| | (a) Children catering and consumables | (281) | (516) |
| | (b) Statutory and Compliance | - | - |
| | (c) Travel | (30) | (42) |
| | (d) Taxes | (43) | (61) |
| Net operating cash flows | | (1,145) | (143) |

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

| | Current quarter \$A'000 | Year to date (....6...months) \$A'000 |
|--|----------------------------|---|
| 1.8 Net operating cash flows (carried forward) | (1,145) | (143) |
| Cash flows related to investing activities | | |
| 1.9 Payment for acquisition of: | | |
| (a) businesses (item 5) | - | (257) |
| (b) equity investments | - | (84) |
| (c) intellectual property | - | - |
| (d) physical non-current assets | - | - |
| (e) other non-current assets | - | - |
| 1.10 Proceeds from disposal of: | | |
| (a) businesses (item 5) | - | - |
| (b) equity investments | - | - |
| (c) intellectual property | - | - |
| (d) physical non-current assets | - | - |
| (e) other non-current assets | - | - |
| 1.11 Loans to related entities | (1,719) | (1,910) |
| 1.12 Loans repaid by other entities | 1,739 | 1,739 |
| 1.13 Other (provide details if material) | - | - |
| Net investing cash flows | 20 | (512) |
| 1.14 Total operating and investing cash flows | (1,125) | (655) |
| Cash flows related to financing activities | | |
| 1.15 Proceeds from issues of shares, options, etc. | - | - |
| 1.16 Proceeds from sale of forfeited shares | - | - |
| 1.17 Proceeds from borrowings | 498 | 1,038 |
| 1.18 Repayment of borrowings | (255) | (265) |
| 1.19 Dividends paid | - | - |
| 1.20 Other (provide details if material) | - | 83 |
| Net financing cash flows | 243 | 856 |
| Net increase (decrease) in cash held | (882) | 201 |
| 1.21 Cash at beginning of quarter/year to date | 1,213 | 157 |
| 1.22 Exchange rate adjustments to item 1.20 | (24) | (51) |
| 1.23 Cash at end of quarter | 307 | 307 |

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

| | | Current quarter \$A'000 |
|------|--|----------------------------|
| 1.24 | Aggregate amount of payments to the parties included in item 1.2 | 146 |
| 1.25 | Aggregate amount of loans to the parties included in item 1.11 | - |
| 1.26 | Explanation necessary for an understanding of the transactions Item 1.17 represents proceeds from loans from a director of the company Item 1.18 represents repayment of loan from a director of the company Item 1.24 represents directors fees paid to current directors of the company | |

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position (See 4ASB 1026 paragraph 12.2)

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | - | - |
| 3.2 Credit standby arrangements | - | - |

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 4.1 Cash on hand and at bank | 307 | 1,213 |
| 4.2 Deposits at call | - | - |
| 4.3 Bank overdraft | - | - |
| 4.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.23) | 307 | 1,213 |

Acquisitions and disposals of business entities

| | Acquisitions \$A'000 (Item 1.9(a)) | Disposals \$A'000 (Item 1.10(a)) |
|---|--|--|
| 5.1 Name of entity | - | - |
| 5.2 Place of incorporation or registration | - | - |
| 5.3 Consideration for acquisition or disposal | - | - |
| 5.4 Total net asset | - | - |
| 5.5 Nature of business | - | - |

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:


 (Director/Company secretary)

Date: 29.07.2011

Print name:

RITA YUAN WANG

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.

