

**XIAOXIAO EDUCATION LIMITED AND ITS
CONTROLLED ENTITES**

ACN 140 573 762



**APPENDIX 4E
PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011**

XIAOXIAO EDUCATION LIMITED ACN 140573762**Appendix 4E Preliminary Final Report****For The Year Ended 31 December 2011**

1. Name of entity: Xiaoxiao Education Limited
 ABN: 26 140 573 762
 Financial year ended: 31 December 2011
 Previous financial year ended: 31 December 2010

		\$	Up/Down	% Movement
2	Results for announcement to the market			
	Revenues from continuing operations	5,848,106	Up	2.94
2.1	Other Income	1,621	Down	(90.95)
	Total revenue and other income from ordinary activities	5,849,727	Up	2.64
	(Loss) before income tax from continuing operations	(2,879,463)	Up	3.66
2.2	(Loss) after income tax from continuing operations	(2,879,463)	Up	3.66
2.3	(Loss) after income tax for the year attributable to members of Xiaoxiao Education Limited	(2,879,463)	Up	3.66

2.4 Dividends

	Amount per share \$	Franked amount per share \$
This Period		
Final Dividend	Nil	Nil
Interim dividend	Nil	Nil
Previous Period		
Final Dividend	Nil	Nil
Interim Dividend	Nil	Nil

2.5 Record date for determining entitlements to dividends

N/A

2.6 Provide a brief explanation if any of figures reported above necessary to enable the figures to be understood:

The report is subject to Auditing. The Audited report will be released on 31 of March 2012.

3. Income Statement (refers to page 4)

4. Balance Sheet (refers to page 5)

5. Statement of Changes in Equity (refers to page 6)

6. Cash-flow Statement (refers to page 7)

7. Details of dividends/distributions – not applicable

8. Statement of retained earnings showing movements (refers to page 6)

9. Net tangible assets per security 2011: \$0.03 (2010: \$0.095)
10. Control gain or lost over entities during the year – not applicable
11. Details of associates and joint ventures entities – not applicable
12. Other significant and information – not applicable
13. Accounting standards used by foreign entities – not applicable
14. The accounts of this report are in the process of being audited or subject to review.
15. Accounts not yet audited or reviewed – not applicable

XIAOXIAO EDUCATION LIMITED ACN 140573762
Appendix 4E Preliminary Final Report
For The Year Ended 31 December 2011

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Statement of Comprehensive Income
For the Year Ended 31 December 2011

	Notes	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Revenue from school fees		5,848,106	5,681,126
Other Income		1,621	17,920
		5,849,727	5,699,046
School catering and consumables		(1,065,421)	(976,718)
Depreciation and amortisation expenses		(723,808)	(701,490)
Employee benefits expenses		(3,626,726)	(3,537,714)
Finance costs	1	(30,394)	(83,316)
IPO costs		-	(1,782,350)
Other expenses	1	(1,571,662)	(1,395,312)
Impairment on intangible assets		(1,711,179)	-
(Loss) before tax		(2,879,463)	(2,777,854)
Income tax expenses		-	-
Profit (loss) for the year		(2,879,463)	(2,777,854)
Other comprehensive income			
Exchange difference on translation of foreign operations		434,267	(817,539)
Total comprehensive income for the year		(2,445,196)	(3,595,393)
(Loss) attributable to:			
Owners of Xiaoxiao Education Limited		(2,879,463)	(2,777,854)
Non-controlling interest		-	-
		(2,879,463)	(2,777,854)
Total comprehensive income is attributable to:			
Parent entity Xiaoxiao Education Limited		(2,445,196)	(3,595,393)
Non-controlling interest		-	-
		(2,445,196)	(3,595,393)
Earnings per share attributable to ordinary equity holders			
Basic (cents)		(1.94)	(1.93)
Diluted (cents)		(1.94)	(1.93)

The accompanying notes form part of these financial statements.

Statement of Financial Position
For the Year Ended 31 December 2011

	Note	Consolidated Group 2011 \$	Consolidated Group 2010 \$
ASSETS			
Current Assets			
Cash and cash equivalents	3	137,925	156,973
Other receivables	4	2,172,150	3,874,095
Total current assets		<u>2,310,075</u>	<u>4,031,068</u>
Non-current Assets			
Property, plant and equipment		3,110,177	3,163,014
Intangible assets	8	7,935,678	9,888,198
Total non-current assets		<u>11,045,855</u>	<u>13,051,212</u>
Total Assets		<u>13,355,930</u>	<u>17,082,280</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	5	110,314	903,044
Unearned income	6	10,338	481,536
Total current liabilities		<u>120,652</u>	<u>1,384,580</u>
Non-current Liabilities			
Borrowings	7	1,248,160	1,265,386
Total non-current liabilities		<u>1,248,160</u>	<u>1,265,386</u>
Total Liabilities		<u>1,368,812</u>	<u>2,649,966</u>
Net Assets		<u>11,987,118</u>	<u>14,432,314</u>
EQUITY			
Issued capital	9	15,801,789	15,801,789
Retained profits/(losses)		(5,676,646)	(2,797,183)
Foreign exchange translation reserves		(687,732)	(1,121,999)
Capital and reserves attributable to members		9,437,411	11,882,607
Non-controlling interest	11	2,549,707	2,549,707
Total Equity		<u>11,987,118</u>	<u>14,432,314</u>

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2011

Consolidated

	Share Capital \$	Retained Profits \$	Foreign Currency Translation Reserve \$	Non- Controlling Interest \$	Total Equity \$
Balance at 1 January 2010	9,551,480	(19,329)	(304,460)	2,380,961	11,608,652
Non-controlling interest on business combination		-	-	168,746	168,746
Shares issued during the year, net of costs	6,250,309	-	-	-	6,250,309
Total comprehensive income	-	(2,777,854)	(817,539)	-	(3,595,393)
Balance as at 31 December 2010	15,801,789	(2,797,183)	(1,121,999)	2,549,707	14,432,314
Balance at 1 January 2011	15,801,789	(2,797,183)	(1,121,999)	2,549,707	14,432,314
Loss for the year	-	(2,879,463)			(2,879,463)
Exchange differences on translation of foreign operations	-	-	434,267	-	434,267
Balance as at 31 December 2011	15,801,789	(5,676,646)	(687,732)	2,549,707	11,987,118

The accompanying notes form part of these financial statements.

Statement of Cash Flows
For the Year Ended 31 December 2011

	Consolidated 2011 \$	Consolidated 2010 \$
Cash Flows From Operating Activities		
Receipts from customers	5,670,693	5,628,559
Payments to suppliers and employees	(6,121,497)	(8,744,111)
Others	1,254	(83,132)
Net cash outflow from operating activities	(449,550)	(3,198,684)
Cash Flows from Investing Activities		
Payment for acquisition of business, net of cash acquired	(340,886)	(877,066)
Payment of deposits for business acquisitions	-	(2,263,706)
Payment for acquisition of property, plant and equipment	(2,640)	(324,124)
Loans to related parties	(2,298,856)	-
Loans repaid by other entities	1,738,870	-
Net cash outflow/ inflow from investing activities	(903,512)	(3,464,896)
Cash Flows From Financing Activities		
Proceeds from issues of shares	-	6,250,309
Proceeds from borrowings	1,543,157	-
Repayment of borrowings	(265,520)	-
Others	83,358	-
Net cash inflow from financing activities	1,360,995	6,250,309
Net decrease/increase in cash and cash equivalents	7,933	(413,271)
Cash and cash equivalents brought forward	156,973	624,127
Effects of exchange rate changes	(26,981)	(53,883)
Cash and cash equivalents at 31 December 2011	137,925	156,973

The accompanying notes form part of these financial statements.

Notes to the financial statements
For the Year Ended 31 December 2011

NOTE 1. Profit before taxation

Profit for the year includes the following expenses

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Finance cost		
Interest paid to related parties	29,986	83,132
Bank charges	408	-
Other expenses		
Director fees	120,496	105,554
Rental expenses	755,370	650,698

NOTE 2 Earnings per share

	2011 \$	2010 \$
Loss attributable to members of the parent entity	(2,879,463)	(2,777,854)
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used as denominator in calculating basic earnings per share	148,096,037	143,644,179
Diluted earnings per share adjustment	-	-
	148,096,037	143,644,179
Basic earnings per share (cents)	(1.94)	(1.93)
Diluted earnings per share (cents)	(1.94)	(1.93)

NOTE 3. Cash and cash equivalents

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Cash in hand and at bank	137,925	156,973

NOTE 4. Other receivables

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
GST receivable	31,368	40,704
Rental deposit	34,512	28,281
Deposits paid for purchase of kindergartens	2,106,270	3,805,110
	2,172,150	3,874,095

NOTE 5. Trade and other payables

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Amount due to a director	316,233	633,077
Other payables	(205,919)	269,967
	110,314	903,044

NOTE 6. Unearned income

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
School fees received in advance	10,338	481,536

School fees received in advance relate to fees received but not yet earned.

NOTE 7. Borrowings

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Loan from a director (Madam Tong)*	1,248,160	1,265,386

*Loan repayment is not required within 2-3 years

NOTE 8. Intangible assets – structure contracts

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Fair value of structure contracts	9,500,000	9,500,000
Additional structure contracts with new kindergartens signed during the year	1,186,335	902,781
Less: Impairment	(1,727,746)	-
Less: Accumulated amortisation	(1,022,911)	(514,583)
Net carrying amount	<u>7,935,678</u>	<u>9,888,198</u>

Madam Tong, as sole investor of each of the Centres (Centres' Investor) entered into separate structure contracts with Yong-rong Education (Structure Contracts). Under the terms of the Structure Contracts, Yong-rong Education agreed to provide each of the Centres with certain management services in return for the Centres paying Yong-rong Education an annual fee of RMB\$10,000 (Management Fee) as well as all of the profits of the Centres (minus the costs associated with running each of the Centres and any other fees that must be deducted under PRC law including the reserve fund for development).

Details of the Structure Contracts are as follows:

- Yong-rong Education was appointed as the manager of each of the Centres on an exclusive basis and each of the Centres are restrained from allowing any third parties to carry out any of the services carried out by Yong-rong Education under the terms of the Structure Contracts;
- Yong-rong Education agreed to enter into contracts of employment directly with all of the directors, principals, senior managers and other core employees of the Centres;
- all of the directors (including the Chairman of the board and any supervisory directors), general manager, chief financial officer and other senior management personnel of each of the Centres will be nominated by Yong-rong Education and appointed by the Centres' Investor at the direction of Yong-rong Education;
- Yong-rong Education can require the Centres' Investor to terminate the position of any director (including the Chairman of the board and any supervisory director), general manager, chief financial officer or other senior management personnel that has been appointed according to its direction;
- each Centre agreed to allow Yong-rong Education to control all of its business activities;
- Yong-rong Education must approve each of the Centre's existing internal policies and any policies formulated by the Centres in the future;
- each Centre agreed not to enter into any new contracts, or to terminate, vary, amend, assign or otherwise deal with any of its existing contracts, without the prior approval of Yong-rong Education;
- Yong-rong Education agreed to license the Centres to use any intellectual property held by it, including the registered trademark owned by it;
- Yong-rong Education agreed to license the Centres to use any intellectual property (including software products) developed by Yong-rong Education during the term of the Structure Contracts;

NOTE 8. Intangible assets – structure contracts (continued)

Details of the Structure Contracts (continued)

- the Centres' Investor (Madam Tong) granted Yong-rong Education the exclusive, irrevocable and unconditional right to purchase the Centres' Investor's equity interest in each relevant Centre when, and to the extent, that applicable PRC law permits Yong-rong Education to own part or all of such equity interests in the Centres (or to require the Centres' Investor to sell it to another person nominated by Yong-rong Education) and the purchase price to be paid by Yong-rong Education or the nominated person will be the minimum amount of consideration permitted by applicable PRC law at the time the equity transfer takes place;
- the Centres' Investor agreed to grant Yong-rong Education the right to exercise all of its rights in respect of each Centre at committee meetings, board meetings and investor meetings;
- the Centres' Investor will ensure that each of the Centres perform their obligations under the terms of the Structure Contracts;
- the Centres' Investor agreed to assign any right it had to receive dividends and any other form of income from the Centres to Yong-rong Education;
- the term of the Structure Contracts is for an initial term of 20 years with options exercisable by Yong-rong Education to extend the initial term for further periods of 10 years each; and
- only Yong-rong Education has the right to terminate the Structure Contracts.

NOTE 9. Issued Capital

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Ordinary shares	15,801,789	15,801,789

NOTE 9. Issued Capital (continued)

Movements in ordinary share capital

	Company 2011		Company 2010	
	Number of Shares	2011 \$	Number of Shares	2010 \$
Balance at the beginning of the period/year	148,096,037	15,801,789	120,200,000	9,551,480
11/01/2010 – allotment of ordinary fully paid shares (IPO)	-	-	24,068,000	6,017,000
05/08/201 – allotment of ordinary fully paid shares	-	-	3,828,037	382,804
Capitalisation of IPO expenses	-	-	-	(149,495)
Balance at the end of the period/year	148,096,037	15,801,789	148,096,037	15,801,789

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of share held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary share have no par value and the company does not have a limited amount of authorised capital.

NOTE 10, Investment in Subsidiaries

Subsidiary of Xiaoxiao Education Limited is:

Name	Country of incorporation	Percentage of equity held 2010	Principal activities
Happy Elegant International Limited	Hong Kong	100%	Investment holding company

Subsidiary of Happy Elegant International limited is:

Name	Country of incorporation	Percentage of equity held 2010	Principal activities
Hangzhou Yong-Rong Education Consulting Co., Ltd	China	100%	Management company

NOTE 10. Investment in Subsidiaries (continued)

Controlled entities of Hangzhou Yong-Rong Education Consulting Co., Limited are:

Name	Country of Incorporation	Percentage of equity	Principal activities
Xiaoxiao Kindergarten	China	*	Pre-school education provider
Yinhe Kindergarten	China	*	Pre-school education provider
Jinyin Kindergarten	China	*	Pre-school education provider
Binjiang Art Training School	China	*	Art training school
Pujiang No.1 Kindergarten	China	*	Pre-school education provider
Pujiang No.3 Kindergarten	China	*	Pre-school education provider
Pujiang No.4 Kindergarten	China	*	Pre-school education provider
New Century Kindergarten	China	*	Pre-school education provider
Zhang An Kindergarten	China	*	Pre-school education provider
Haimen Kindergarten	China	*	Pre-school education provider
Beijing Yongrong Education Technology Co., Ltd	China	100%	Education consulting company
Chongqing Xiaoxiao Yube Education Consultation Co., Ltd	China	100%	Education consulting company
Beijing Nanyang Star Kindergarten	China	*	Pre-school education provider
Chongqing Huayu Kindergarten	China	*	Pre-school education provider
Hangzhou Songchen Huamei	China	*	Pre-school education provider

* Entities are controlled by Structure contracts as detailed in Note 8.

NOTE 11. Non-controlling interest

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Interest in the Kindergartens & Art School		
Contribution equity	2,132,696	2,132,696
Retained profit	417,011	417,011
	2,549,707	2,549,707

NOTE 12. Company details

The registered office of the Company is:

Xiaoxiao Education Limited
Suite 801 Level 8, 5 Elizabeth Street
Sydney NSW 2000
Australia

The principal places of business are:

CHINA

No. 117, Ningshui Road
Economical and Technological Development Zone
Xiaoshan, Hangzhou,
China

AUSTRALIA

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