



XIAOXIAO EDUCATION LIMITED
ACN 140 573 762

Suite 801 | Level 8 | 5 Elizabeth Street | Sydney NSW 2000 | Australia

13 June 2012

Mr Styn Timmermans
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

By Email

Dear Mr Timmermans

**Re: Progress Report on Offer - Xiaoxiao Education Limited
(ASX: XXL)**

FOR IMMEDIATE RELEASE

Summary

I refer to recent ASX Announcements regarding an approach by Mr Xu Zi to acquire a majority of the ordinary shares in Xiaoxiao Education Limited (**XXL**). Specifically, Mr Xu wishes to purchase all of the issued ordinary shares in the capital of Xiaoxiao Education Ltd held by Madam Yongrong Tong.

Mr Xu will be the Managing Director and owner of Australia China Mining Limited, which through a subsidiary, controls Qijiang Pingdong Mining Company Limited (PRC), a China based company intending to enter into iron ore mining production in the Chongqing province of the Peoples Republic of China (PRC).

In consideration for the abovementioned, Mr Xu offers an asset being the Datong Daluo iron ore mine (**'Datong'**) situated in the Chongqing Province, PRC.

Mr Xu intends to change the business nature of XXL to involvement in the Chinese mining sector, delivering assets in that sector to the Company, and to consequently dispose of the existing education assets.

This letter provides the ASX and the market with an update on the progress of the evaluation of the Offer to date.

Market Update

An Implementation Agreement giving effect to the transaction has been signed, subject to four Condition's Precedent.

In summary they are:

- The obtaining of any regulatory approval required;
- The Independent Expert stating in writing it's opinion that the advantages of the proposed restructure outweigh the disadvantages, or if applicable, that the proposed restructure is fair and reasonable;

- No bona fide alternative proposal is publicly announced which the Board of XXL, acting in good faith, determines is more favourable to the Minority Shareholders than the proposed Xu restructure; and
- Approval being obtained from Minority Shareholders before the End Date. (31 August 2012).

In a previous ASX Announcement the XXL Board advised that it had appointed BDO Corporate Finance to act as Independent Expert. Since that appointment, BDO have been acquired by Grant Thornton Australia. Grant Thornton is the Company's auditor and would therefore have a conflict of interest in also being the Independent Expert. Consequently, the Board appointed PKF to take over the role of Independent Expert.

The Independent Expert's Report prepared by PKF Corporate Advisory Pty Ltd has been received.

The Independent Directors have held a Special Board Meeting to consider the Expert's Report. The XXL Executive Chairman, Madam Yongrong Tong and Executive Director Mr Hao (Bryant) Zhang, have excluded themselves from any consideration of the Offer due to a conflict of interest, and did not attend the meeting.

The Independent Directors passed Resolutions relating to the Offer and the Report that it has received from its expert advisors. In particular, the Independent Directors decided as follows:

- To note and adopt the Independent Expert's Report prepared by PKF on the Offer. In particular, the Independent Directors noted the PKF finding that:

"Based on the above analysis we have concluded that:

- *The advantages to Minority Shareholders of Madam Tong selling her 81.03% of XXL outweigh the disadvantages.*
- *The disposal of XXL's Business and the acquisition of the Iron Ore Business is fair and reasonable to Minority Shareholders.*

Together, these two transactions comprise the Restructure. Whilst Minority Shareholders do not share in the premium for control which is only available to Madam Tong, as part of the Restructure, Minority Shareholders will benefit from XXL acquiring the Iron Ore Business and disposing of XXL's Business. There is a substantial value differential between the Iron Ore Business (which XXL is acquiring) and XXL's Business (which XXL is disposing).

*Having considered this, together with the analysis in this Report, we believe **that the advantages to Minority Shareholders of the Restructure outweigh the disadvantages.**" (PKF emphasis)*

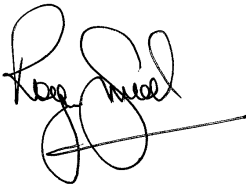
- That the Independent Directors accept the Independent Experts Report and conclusions, and agree to recommend the acceptance of the Offer by Minority Shareholders.
- To authorize the Company's lawyers and the Company Secretary to complete and lodge all paperwork with the appropriate authorities to give effect to the views and recommendation of the Independent Directors and to take the actions necessary to convene a general meeting of Shareholders to review and vote on the Offer.

A draft Notice of Meeting and Explanatory Memorandum is being prepared and the Company's legal advisers will forward it to ASIC and the ASX seeking their views and/or approval of the draft.

Once the draft has received ASIC and ASX approval, a General Meeting of Shareholders will then be called to consider the Offer and the conclusions of the Independent Expert.

As always, I assure all XXL Minority Shareholders that their interests are, and will be, the primary focus of their Independent Directors. I will provide Shareholders, and the market, with further information as, and when, it is available.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Roger Smeed', with a long horizontal line extending from the bottom of the signature.

Roger Smeed
Deputy Chairman