

**XIAOXIAO EDUCATION LIMITED  
AND ITS CONTROLLED ENTITIES**

ABN 26 140 573 762



**Annual Report**

**FOR THE YEAR ENDED  
ENDED 31 DECEMBER 2011**



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**Annual Report**  
**For The Year Ended 31 December 2011**

<b>Contents</b>	<b>Page</b>
CORPORATE INFORMATION.....	2
REVIEW OF OPERATIONS.....	3
DIRECTORS' REPORT.....	3
SUMMARY OF RESULTS.....	3
AUDITOR'S INDEPENDENCE DECLARATION.....	15
CORPORATE GOVERNANCE STATEMENT.....	16
FINANCIAL STATEMENTS.....	27
Consolidated Statement of Comprehensive Income.....	27
Consolidated Statement of Financial Position.....	28
Consolidated Statement of Changes in Equity.....	29
Consolidated Statement of Cash Flows.....	30
NOTE 1. Statement of Significant Accounting Policies.....	31
NOTE 2. Profit before taxation.....	39
NOTE 3. Earnings per share.....	39
NOTE 4. Cash and cash equivalents.....	40
NOTE 5. Other receivables.....	40
NOTE 6. Property, plant and equipment.....	41
NOTE 7. Trade and other payables.....	42
NOTE 8. Unearned income.....	42
NOTE 9. Borrowings.....	42
NOTE 10. Intangible assets – structure contracts.....	43
NOTE 11. Taxation.....	45
NOTE 12. Issued Capital.....	45
NOTE 13. Capital management.....	46
NOTE 14. Investment in Subsidiaries.....	47
NOTE 15. Non-controlling interest.....	48
NOTE 16. Auditor remuneration.....	48
NOTE 17. Commitments.....	49
NOTE 18. Contingent assets and contingent liabilities.....	49
NOTE 19. Financial risk management.....	49
NOTE 20. Business Combination.....	52
NOTE 21. Operating segments.....	52
NOTE 22. Events after balance date.....	53
NOTE 23. Interest of key management personnel (KMP).....	54
NOTE 24. Cash Flow Information.....	56
NOTE 25. Parent Company Information.....	56
NOTE 26. Company details.....	57
DIRECTORS' DECLARATION.....	58
INDEPENDENT AUDITOR'S REPORT.....	59
ADDITIONAL ASX INFORMATION.....	62



## **CORPORATE INFORMATION**

**Xiaoxiao Education Limited**

**ABN 26 140 573 762**

### **Directors**

Madam Yongrong Tong (Executive Chair/Managing Director)

Roger Smeed (Deputy Chair)

Ernest Kwok Wong

Hao Zhang

Yinong Ye

Xuhua Li

Hongxia Lu

### **Company Secretary**

Rita Wang

### **Registered Office**

Suite 801, Level 8

5 Elizabeth Street

Sydney NSW 2000

Australia

### **Share Registry**

Computershare Investor Services Pty Limited

Yarra Falls, 452 Johnstone Street

Abbotsford Victoria 3067

Australia

### **Bankers**

Commonwealth Bank of Australia

Cnr London Circuit and Ainslie Avenue

Canberra Australian Capital Territory 2600

Westpac

425 Victoria Avenue

Chatswood NSW 2067

### **Auditor**

Grant Thornton Audit Pty Ltd

Level 1, 67 Greenhill Road

Wayville South Australia 5034

### **Legal Advisor**

Norton Rose

RACV Tower, 485 Bourke Street

Melbourne Victoria 3000

### **Website Address**

[www.xiaoxiao.com.au](http://www.xiaoxiao.com.au)

**Xiaoxiao Education Ltd shares are listed on the Australian Securities Exchange (ASX)**

**ASX Code: XXL**

- All monetary amounts in this report are in Australian Dollars unless stated otherwise.
- Xiaoxiao's financial year begins on 1 January and ends on 31 December each year.



## REVIEW OF OPERATIONS

### THE COMPANY

Xiaoxiao Education Limited (Xiaoxiao) was listed on the Australian Securities Exchange (ASX) on 2 February 2010.

Xiaoxiao operates a highly successful childhood education business in China with over 4,000 enrolled students and in excess of 4,000 additional children attending extra-curricular programs out of school hours and during holiday periods. In addition, Xiaoxiao has approximately 6,570 students attending short courses at its Hangzhou Binjiang Art Training School. The Xiaoxiao Group employs over 500 staff.

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

### DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Xiaoxiao Education Limited and its controlled entities at the end of the financial year ended 31 December 2011.

In this report, Xiaoxiao Education Limited and its controlled entities are referred to as the "the Group" or the "the Consolidated Group". The parent entity, Xiaoxiao Education Limited, is referred to as "the Company".

### SUMMARY OF RESULTS

The Company experienced an Operating Loss of \$611,753 and a Net Loss of \$7,423,368. This loss includes a One-Off Impairment of Intangibles of (\$6,026,530) and Depreciation and Amortisation non-cash expenses of (\$785,085). The major causes for the Operating Loss were: PRC Government intervention in the hours that children were allowed to be able to participate in discretionary subjects thereby reducing the quantum of extra fees able to be received by the Company; Rising costs in China resulting in higher costs of food and consumables; A change in the economic environment that allows the Company to continue its proposed acquisition program; and on average, strengthening \$AUD and a weaker RMB in 2011, compared to the previous year



## DIRECTORS

The names and details of the Company's Directors in the office during the financial period and until the date of this Report are as follows. Directors were in office for this entire period unless other stated.

### **Names, Qualifications, Experience and Special Responsibilities**

#### **Madam Tong Yongrong – EMBA (Zhejiang University)**

*Executive Chairman*

Madam Tong is the founder and Chairman of the Xiaoxiao Group, which was the first private pre-school in the Zhejiang province. She holds an EMBA from the prestigious Zhejiang University in China. A passionate and leading pre-school teacher, principal and career educator, Madam Tong was named 'The Excellent Principal' in 2002 by the Department of Education of Hangzhou City and has lead the Xiaoxiao Group to establish an excellent reputation throughout China. She is also the recipient of numerous awards from local and national government bodies, as well as the pre-school industry in China.

Madam Tong is the Vice-President of the Chinese Association of Privately-Run Education and the Chinese Association of Privately-Run Education in Zhejiang Province. She is active in international exchanges, in particular with Australia and Canada. She is a member of Xiaoshan District Political Consultative Committee in Hangzhou City, Zhejiang Province, and has been appointed as an education advisor to the Western Region of China.

Madam Tong is the Executive Chairman and Managing Director of the Xiaoxiao Group and is responsible for all its day-to-day activities. Her strong education and management skills and her relationships with government and academia ensure that the group is well positioned to achieve its mission of becoming the preeminent pre-school education group in China.

#### **Roger Smeed – FACID FAIM JP**

*Independent, Non-Executive Deputy Chairman*

Mr Smeed is an experienced Company Director with over 25 years experience at chief executive and Board level with both publicly listed and private companies. He provides corporate management and governance advice to Australian and Chinese companies.

Mr Smeed is the Chairman of four Australian based companies. In addition, he is also on the Board of four China based companies (including Xiaoxiao Education), all of which are ASX listed. Mr Smeed is a fellow of both the Australian Institute of Company Directors (FAICD) and Australian Institute of Management (FAIM).

Roger is also director of Rongtai International Group Holdings Limited, Treyo Leisure and Entertainment Limited.

#### **Ernest Kwok Wong – Bcomm LLB (Macquarie University)**

*Independent, Non-Executive Director*

Mr Wong is a practicing solicitor in New South Wales. He is also a member of the Burwood City Council and is the former Mayor of Burwood, New South Wales. Mr. Wong was appointed as the citizenship advisor to the Premier of New South Wales in 2009, and he is a community relations advisor to the New South Wales Labour Party. In addition, Mr. Wong has been the member of the Board of Directors of Westmead Medical Research Foundation since 2003, and honorary president and advisor to numerous associations and charitable organizations.



**Hao Zhang** – MBA (Ren Min University)

*Executive Director*

With over thirteen years of experience in corporate management and over five years of experience in corporate consulting services, Mr Zhang has managed the portfolios of clients across a diverse range of industries, including SORs, Joint Ventures, and WFOEs in the tourism, automotive, environmental protection and educational sectors.

With extensive experience in corporate strategic planning, investment analysis, M&A restructuring and market research, Mr. Zhang heads up the Company's Beijing R&D facility and is also targeting new business opportunities and acquisitions.

**Yinong Ye** – Diploma of Pre-school Education (Chongqing Pre-school Education Normal School)

*Executive Director*

Ms Ye is the Chief Operating Officer of the Xiaoxiao Group. She has over 11 years senior management experience in the education sector and holds a Diploma of Preschool Education from the Chongqing City Preschool Education Institute. Ms Ye has worked at Xiaoxiao since its inception in 1996 and understands the business intimately.

**Xuhua Li** – Bachelor of Pre-school Education (Zhejiang University)

*Executive Director*

Ms Li is the Chief Education Officer of the Xiaoxiao Group and has over 17 years of pre-school education experience. She holds a Bachelor of Pre-school Education from Zhejiang Normal University. Her wealth of pre-school education experience and teaching supervisory expertise has been highly regarded in China. Ms Li is responsible for developing the curriculum of the Xiaoxiao pre-schools and teaching supervision.

**Hongxia Lu** – EMBA (Zhejiang University)

*Executive Director*

Ms Lu is the Director of Corporate Development of the Xiaoxiao Group. She holds an EMBA from Zhejiang University. Ms Lu has vast expertise in market development and pre-school integration and mergers and acquisitions. Ms Lu is responsible for the creation of the Xiaoxiao China acquisition strategy and leading screening, execution and integration of pre-school acquisitions.

**COMPANY SECRETARY**

**Rita Wang** – Bachelor of International Studies (UNSW)

*Company Secretary*

Ms Wang holds a Bachelor of International Studies from the University of New South Wales and has also studied business, language and politics on a scholarship program at the prestigious Tsinghua University in Beijing, China. Ms. Wang is fluent in both English and Mandarin.



## INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

Directors	Ordinary Shares	Options over Ordinary Shares
Yongrong Tong (*) (***)	120,000,000	-
Roger Smeed (**)(***)	100,000	-
Ernest Wong	-	-
Hao Zhang	-	-
Yinong Ye	-	-
Xuhua Li	-	-
Hongxia Lu	-	-
<b>Total</b>	<b>120,100,000</b>	<b>-</b>

(\*) Shares held by Sunflower Investment in which Madam Tong has a beneficial interest.

(\*\*) Shares held by Roger Smeed and Associates Pty Ltd (as trustee for the RF Investment Trust) in which Roger Smeed has a beneficial interest.

(\*\*\*) Voluntary Escrow Deeds entered into by these Directors ended on 19 November 2011.

### Remuneration of Directors and senior management

Information about the remuneration of Directors and senior management is set out in the Remuneration Report section of this Directors' Report.

## CORPORATE INFORMATION

### Corporate Structure

Xiaoxiao Education Limited is a Company limited by shares and is incorporated and domiciled in Australia.

### Nature of Operations and Principal Activities

The consolidated entity's principal continuing activities during the financial year is the provision of premium pre-school educational services in the province of Zhejiang, Chongqing and Beijing in China. It has also established two education research centres in both Beijing and Chongqing, China.

The Group has also started operating pre-school education services in Australia through acquisition of a childcare centre, Breakfast Point Childcare Centre on 14 March 2011.

Other than the above, there were no significant changes in the nature of the consolidated group's principal activities during the financial year.

## DIVIDENDS

The Board has not recommended the payment of dividends for the period ended 31 December 2011.



## **SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

Xiaoxiao has received an Offer from representatives of Mr Xu Zi who, have been advised, 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 mining production.

The Offer states that Mr Xu *“wishes to offer to purchase all of the issued ordinary shares in the capital of Xiaoxiao Education Ltd (‘XXL’) held by Madam Tong”*.

The offer further states that *“subject to the approval of the minority shareholders, Mr Xu intends to change the business nature of XXL to involvement in the Chinese and Australian mining sector, delivering assets in that sector to the company, and to consequently dispose of the existing education assets.”*

In consideration for the abovementioned, Mr Xu offers the assets being the Datong Daluo iron ore mine (Datong) situated in the Chongqing Province, PRC. A valuation report of Datong prepared by Australian based Salva Resources dated March 2012 described the preferred selected valuation figure of \$USD 8.1 million.

The Offer is incomplete in that it does not contain a number of details, which the Board requires to make an informed recommendation to Shareholders. The Xiaoxiao Board has appointed BDO as Independent Expert to advise the Board on the Offer and to provide Shareholders with their opinion on the benefits or otherwise of the Offer. At the date of this report, no formal agreements have been signed.

## **FUTURE DEVELOPMENTS**

If the Offer from Mr Xu Zi, as outlined above, is not accepted by XXL shareholders, the Company will continue to explore expansion opportunities through acquisition of existing and new pre-schools and to drive efficiencies by overhead cost management.





## DIRECTORS' MEETINGS

The number of Directors' meetings and number of meetings attended by each director of the company during the financial year are:

	<b>Directors' Meetings</b>
<b>Total Number of Meetings Held</b>	12
<b>Directors</b>	<b>Number of meeting attended</b>
Yongrong Tong	12
Roger Smeed	12
Ernest Wong	12
Hao Zhang	12
Yinong Ye	12
Xuhua Li	12
Hongxia Lu	12

## Committee Membership

The Audit and Risk Committee and the Nomination and Remuneration Committee were established in November 2009.

Members acting on the Committees of the Board at the date of this Report and their attendance were as follows:

	<b>Audit and Risk Committee</b>
<b>Total Number of Meetings Held</b>	2
<b>Members</b>	<b>Number of meeting attended</b>
Roger Smeed (Chair)	2
Yongrong Tong	2
Ernest Wong	2
	<b>Nomination and Remuneration Committee</b>
<b>Total Number of Meetings Held</b>	1
<b>Members</b>	<b>Number of meeting attended</b>
Yongrong Tong (Chair)	1
Roger Smeed	1
Ernest Wong	1



## REMUNERATION REPORT (AUDITED)

The Remuneration Report outlines the Director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Acts 2001 and its Regulations. For the purpose of this Report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company, and includes the five executives of the Group receiving the highest remuneration.

For the purposes of this Report, the term 'executive' encompasses the Chief Executive, senior executives, general managers and secretaries of the Company and the Group.

### Details of Key Management Personnel including the five senior executives of the Company and the Group.

<b>Directors</b>	<b>Position</b>	<b>Date Appointed</b>
Yongrong Tong	Chair (Executive)	16 Nov 2009
Roger Smeed	Director (Independent, Non-Executive)	16 Nov 2009
Ernest Wong	Director (Independent, Non-Executive)	4 May 2009
Hao Zhang	Director (Executive)	13 Aug 2010
Yinong Ye	Director (Executive)	16 Nov 2009
Xuhua Li	Director (Executive)	16 Nov 2009
Hongxia Lu	Director (Executive)	16 Nov 2009
<b>Executives</b>		
Yinong Ye	Chief Financial Officer	1 Apr 2010
Bo Peng	General Manager of Marketing	1 Jun 2010
Jierong Zhu	Education Administration Officer	16 Nov 2009
Rita Wang	Company Secretary	1 Jun 2010

### Remuneration Policy

The remuneration policy of Xiaoxiao Education Limited has been designed to align key management personnel objectives with Shareholders and business objectives by providing a fixed remuneration component and offering specific short-term incentives based on key performance areas affecting the Group's financial results. The Board of Xiaoxiao Education Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group as well as create goal congruence between Directors, executives and Shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- All key management personnel receive a base salary (which is based on factors such as length of services and experience) and performance incentives.
- The Nomination and Remuneration Committee intends to review key management personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.



## REMUNERATION REPORT (AUDITED)

All remuneration paid to key management personnel is valued at the cost to the Consolidated Group and expensed. Shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by the key management personnel.

### Non-Executive Remuneration

The Board policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Nomination and Remuneration Committee will seek advice when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by Shareholders at an Annual General Meeting. The maximum aggregate remuneration of the Non-Executives is presently fixed at \$200,000. Fees for Non-Executive Directors are not linked to the performance of the Group.

### Performance-based remuneration

No element of key management personnel remuneration contain a performance based component.

### Company performance, Shareholder wealth and Director executive remuneration

The remuneration policy has been tailored to increase goal congruence between Shareholders, Directors and executives. To assist in the realization of this objective options are issued to the majority of Directors and executives to encourage the alignment of personal and Shareholder interests.

### Key Management Personnel Remuneration Policy

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Group. The standard Chinese Government three year contracts for service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future.

The employment conditions of the executive Director and key management personnel are formalised in standard Chinese Government contracts of employment. With the exception of Roger Smeed, Ernest Wong and the Company Secretary, Rita Wang, all key management personnel are permanent employees of Hangzhou Yong-rong Education Consulting Co., Limited employed under a fixed term three year contract, from the date of appointment, as shown in the "Details of key management personnel" above. The employees can terminate the contract without cause by 90 days notice to the Company. The Company may terminate the contract if (i) the employee engages in wilful misconduct which results in a material breach or substantial failure to perform his services under the contract, or (ii) if the employee is grossly negligent in the performance of his duties, or (iii) if the employee is no longer able to perform his service for a consecutive period due to illness, incapacity or accident.



## REMUNERATION REPORT (AUDITED)

### Key Management Personnel Remuneration

2011	Short term benefit Cash, salary and commissions \$	Equity based remuneration \$	Total \$	Equity based percentage %
<b>Directors</b>				
Yongrong Tong	93,413	-	93,413	-
Roger Smeed	66,250	-	66,250	-
Yinong Ye	64,670	-	64,670	-
Xuhua Li	64,670	-	64,670	-
Hongxia Lu	64,670	-	64,670	-
Ernest Wong	45,458	-	45,458	-
Hao Zhang	64,670	-	64,670	-
<b>Executives</b>				
Jierong Zhu	55,688	-	55,688	-
Rita Yuan Wang	30,000	-	30,000	-
Bo Peng	66,467	-	66,467	-
	<b>615,958</b>	<b>-</b>	<b>615,958</b>	<b>-</b>

2010	Short term benefit Cash, salary and commissions \$	Equity based remuneration \$	Total \$	Equity based percentage %
<b>Directors</b>				
Yongrong Tong	100,283	-	100,283	-
Roger Smeed	60,000	-	60,000	-
Warren Jacobson*	3,889	-	3,889	-
Yinong Ye	69,427	-	69,427	-
Xuhua Li	69,427	-	69,427	-
Hongxia Lu	69,427	-	69,427	-
Ernest Wong	29,167	-	29,167	-
Lei Xu*	40,499	-	40,499	-
Hao Zhang	28,928	-	28,928	-
<b>Executives</b>				
Daling Lou*	24,910	-	24,910	-
Jierong Zhu	59,784	-	59,784	-
Rita Yuan Wang	30,000	-	30,000	-
Bo Peng	71,355	-	71,355	-
Jo-Anne Dal Santo*	10,200	-	10,200	-
	<b>712,134</b>	<b>-</b>	<b>712,134</b>	<b>-</b>

\*Directors and executives resigned during the year.



## **REMUNERATION REPORT (AUDITED)**

### **Directors and Executives Options Plan**

The Company has no options plan for the Directors and Executives.

### **Remuneration, election and continuation in office of Directors**

Directors are subject to retirement by rotation and election Shareholders at general meetings. No Directors other than the Managing Director, Madam Tong Yongrong, may remain on the Board for more than three years without re-election. Where a Director is appointed during the year, the Directors will hold office until the next General Annual Meeting and then be eligible for election.

Three Directors will retire themselves at the General Annual Meeting in April 2012, and will offer themselves for re-election.

### **INDEMNIFICATION**

The Company has entered into Deeds of Indemnity with each of the current Directors and paid insurance premiums to insure each of past, present and future Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Group, other than conduct involving a wilful breach of duty in relation to the Group.



## **ENVIRONMENTAL ISSUES**

The Group's operations are not subject to any significant environmental regulation under the law of the Chinese Government or any Australian Commonwealth or State Government.

## **PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## **AUDITOR**

Grant Thornton Audit Pty Ltd continues in office to act as auditor for Xiaoxiao Education Limited.

## **NON-AUDIT SERVICES**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company is beneficial.

In these events the Board of Directors will consider the position and seek advice from the Audit Committee that it is satisfied that the provision of the non-audit services are compatible with the general standard of independence of auditors imposed by the Corporations Acts 2001. The Directors will wish to be satisfied that the provision of non-audit services by the auditor, will not compromise the auditor independence requirements of the Corporations Acts 2001 for the following reasons:

- All non-audit services will have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services will undermine the general principles relating to auditor's independence as set out in APES 110 "Codes of Ethics for Professional Accountants".

Details of the amounts paid to the auditor of the Company, Grant Thornton, and its related practices for audit and non-audit services provided during the year are set out in Note 16 in the notes to the financial statements. In addition, amounts paid to other auditors for the statutory audit have been disclosed. There were no amounts paid in 2011 for non-audit services.



## AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the period ended 31 December 2011 has been received and can be found on page 15 of the annual report.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

**Madam Yongrong Tong**  
Executive Chairman

**Roger Smeed**  
Deputy Chairman

**Dated 30 March 2012**



Grant Thornton

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**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF XIAOXIAO EDUCATION LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Xiaoxiao Education Limited for the year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

*Grant Thornton*

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

  
S J Gray  
Director – Audit & Assurance Services

Adelaide, 30 March 2012

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## **CORPORATE GOVERNANCE STATEMENT**

The Directors are responsible to the Shareholders for the performance of the Company in both the short and the longer term and seek to balance these objectives in the best interests of all stakeholders in the Company.

Xiaoxiao is committed to maintaining high standards of corporate governance appropriate to the size and nature of operations of the Company and the Company complies with all Australian Securities Exchange (“ASX”) Corporate Governance Council Best Practice Recommendations (‘ASX Recommendations’), unless otherwise stated. This statement incorporates the required recommendations of the ASX Corporate Governance Council issued in August 2007 and amendments published in June 2010. All corporate governance documents noted in this Statement are available on the Company’s website [www.xiaoxiao.com.au](http://www.xiaoxiao.com.au).

The Board of Xiaoxiao Education Ltd and its senior management team delegate the daily management of the Group’s affairs and the implementation of its corporate strategies and policy initiatives.

The Company will implement the following policies and practices and procedures to the extent required:

- Risk Management Policy;
- Corporate Governance Policy – Continuous Disclosure;
- Shareholder Communication Policy;
- Codes of Conduct – Directors and Key Officers; and
- Code of Conduct – Company’s Obligations to Stakeholders.

### **PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

The Board is responsible for the overall corporate governance of the Company including its strategic direction, establishing goals and responsibilities of the Managing Director and monitoring the achievement of these goals. An Audit and Risk Committee and a Nomination and Remuneration Committee have been established by the Board to assist in the execution of these responsibilities.

Whilst there is ongoing interaction between the Board and Management, the Board functions independently of management to establish the policy framework of the Company from which management works to perform the daily functions of the business.

The role of management is to support the Managing Director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.



## The Board's Responsibilities

The Board is responsible for:

- Setting the criteria for Board membership and reviewing the composition of the Board;
- Establishing the long term goals of the Company, and working with management to develop strategic and business plans to achieve those goals;
- Monitoring the implementation of the Company's strategic and business plans and its financial performance;
- Appointing, and assessing the performance of the Managing Director and the Chief Operating Officer, ensuring a clear relationship between performance and executive remuneration;
- Ensuring there is an effective internal control environment and appropriate monitoring activities in place to identify and manage any significant risks facing the Company;
- Approving major corporate initiatives;
- Approving the Company's annual and half year financial reports;
- Enhancing and protecting the reputation of the organization;
- Reporting to Shareholders and the market; and
- Conducting an annual review of the Board Charter.

Inclusive in the aforementioned charter are the following:

- The review process of the Group's performance;
- The procedure for Directors to seek independent professional advice at the Company's expense;
- The Chair's Managing Director's and Company Secretary's responsibilities.

## Management's Responsibilities

The Executive Chairman/Managing Director is responsible for running the affairs of the Company under delegated authority from the Board and for implementing the policies and strategies set by the Board. In carrying out his responsibilities, the Managing Director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial position and operational results. Clear lines of communication between the Board and the Managing Director are established and the Managing Director consults with the Board, in the first place, on matters that are sensitive, extraordinary or of a strategic nature.

The role of the senior management team is to support the Executive Chairman/Managing Director and implement the running of the general operations and financial business of the Company in accordance with the delegated authority of the Board.



## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

### The Board

The Board's aim is to ensure the Company has an appropriate mix of executive and Non-Executive Directors with relevant expertise and experience to enable the Board to perform its duties with an effective understanding of the business and the operating environment. Currently the Board comprises five executive Directors, one of which is the Managing Director and Executive Chairman and two independent Non-Executive Directors, one of which is the Deputy Chair.

It is the Board's policy to consider the appointment and retirement of Non-Executive Directors on a case-by-case basis.

In doing so, the Board will take into account the requirements of the ASX Listing Rules and the *Corporations Acts 2001*. The Board strives to appoint Directors that cover any skills gaps and/or experience deemed lacking in the Board.

The Corporate Governance Principles and Recommendations include the appointment of an independent Chair. Madam Yongrong Tong is not considered independent, as she is also the Managing Director of the Company. The Board has determined that given the appointment of an independent Deputy Chairman and the size of the Board, it is not unreasonable for the Managing Director to Chair the Board.

Whilst the composition of the Board does not comply with the Corporate Governance Principles and Recommendations, the Board believes that its composition has been appropriate to enable it to discharge its duties in the best interests of Shareholders and the Company, particularly given the expertise, skills and experience that the non-executive Directors bring to the Board. The skills, experience and expertise of each of the members of the Board are set out in the Directors' Report. When determining whether a non-executive Director is independent the Director must not fail any of the following materiality thresholds:

- Less than 10% of Company shares are held by the Director and any entity or individual directly or indirectly associated with the Director;
- No sales are made to or purchase made from any entity or individual directly or indirectly associated with the Director and
- None of the Directors' income or the income of an individual or entity directly or indirectly associated with the Director is derived from a contract with any member of the economic entity other than income derived as a Director of the entity.

Currently, all Directors other than the Managing Director are required to be re-elected by Shareholders at least every three years and at least one-third of such Directors must retire at each annual general meeting. Due to the requirement for the Shareholder re-election, Directors are not appointed for a fixed term.

Details regarding the period in office of each Director, the Director's qualifications, the number of meetings held and attendance at those meetings are contained in the Directors' report.



## Board Meetings

Formal meetings are conducted at least 10 times a year, with additional meetings held when required. In the course of the year, meetings are also held to review and approve the strategic direction and financial goals of the Company for the coming financial year.

Each Director must also declare any potential conflict of interest in relation to any matter for Board consideration, and must not participate in discussions or resolutions pertaining to any matter in which that Director has a material personal interest.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee, established in November 2009, currently consists of the following Directors of the Company:

- Madam Yongrong Tong – Chair (Executive Director)
- Mr Roger Smeed (Independent, Non-Executive Director)
- Mr Ernest Wong (Independent, Non-Executive Director)

Details regarding the Directors' qualifications, the number of meetings held and attendance at those meetings are contained on pages 6 – 8, and 10 of the Directors Report.

## Induction and Education

Each incoming Director undertakes a Director Induction Program which includes and overview of:

- The inherent values and ethics of the Company;
- Meeting schedules and attendance information; and
- The interaction between members of the Board, the Company's senior executives and other stakeholders

Developments of strategic importance within the Company, the industry and the environment of Directorship are evaluated on an ongoing basis. The results of these evaluations are then related to the Directors for their information.

## Performance Evaluation

A performance evaluation of the Directors is scheduled to be conducted in 2012.

## Access to Information

Directors are encouraged to access members of senior management at any time to request relevant information in their role as Director.

In fulfilling their duties, each Director and each Committee of the Board may obtain independent professional advice at the Company's expense on matters relating to their role as Director, subject to prior written approval of the Chair of the Company.



## **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

### **Integrity and Accountability**

Since listing on the ASX in February 2010, the Company has adopted a Code of Conduct which sets out principles and practices to promote the integrity and accountability, as well as to document the underlying values of the Group which apply to all its business dealings. In addition, the Company has adopted a set of core values which serves as a constant reference point for assessing the way in which individuals and the Company operate.

Due to its close knit and compliance-focused culture, the Company has also been able to promote integrity in its dealings and accountability of individuals for reporting unethical practices through the ability of its Board, the Managing Director and the senior management team to oversee the Company's operations. The Company has an ongoing commitment to promoting its Codes of Conduct by:

- Providing ongoing guidance on the Company's principles and practices;
- Outlining the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
- Confirming the Board and Senior Executive's commitment to the Code, and;
- Providing assistance to employees to understand and comply with the Code.

The Code applies to all employees, Directors and officers of Xiaoxiao and its subsidiary company and references other Xiaoxiao policies and procedures to provide further guidance where necessary.

The Board endeavours to ensure that the Directors, officers and employees of the Company act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. The Company's ethical standards and expected ethical behaviour are discussed in the Codes of Conduct, and cover the following general areas:

- Compliance with and respect of applicable laws;
- Respectful treatment of others;
- Honesty, fairness and integrity in dealings with others;
- Confidentiality of information;
- Inside information;
- Personal accountability for actions and their consequences;
- Conflicts of interest; and
- Gifts and Benefits.

### **Trading In Company Securities**

Under the Company's share trading policies, Directors, officers and employees may trade in the Company's securities one month after the announcement of half-year and annual profit results.



Furthermore, all Directors and employees must satisfy themselves that they are not in possession of any price sensitive information, which is not generally available to the public prior to trading in securities during the aforementioned trading windows.

The Company's existing securities dealing policy was updated and adopted in accordance to ASX guidelines on 30 December 2011.

### **Diversity**

Diversity, including but not limited to gender, age, ethnicity and cultural background, is actively supported and promoted throughout the Company and its businesses. This core value has always been a part of the Company's values, as the Company believes that it promotes the achievement of its corporate and strategic goals.

While a formal policy is not in place, a diversity policy will be formulated and adopted in 2012.

## **PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

### **Financial Reports**

The Chief Finance Officer ensures that the Company's financial reports are prepared in accordance with relevant accounting standards and that the monthly financial reports are distributed to the Board.

The Audit and Risk Committee review the annual and half-yearly financial reports, and any other financial reports due for release to the market, prior to their adoption by the Board.

All annual and half-yearly financial reports presented to the Board have been reviewed by the Managing Director and Chief Finance Officer who confirm in writing to the Board that the relevant report represents a true and fair view of the Company's financial position in all material respects and is in order for adoption by the Board.

### **Audit and Risk Committee**

The Audit and Risk Committee, established in November 2009, currently consists of the following Directors of the Company:

- Mr Roger Smeed – Chair (Independent, Non-Executive Director)
- Madam Yongrong (Executive Director)
- Mr Ernest Wong (Independent, Non-Executive Director)

Details regarding the Directors qualifications, the number of meetings held and attendance at those meetings are contained on page 6 – 8 and 10 of the Directors' Report.

The composition of the Audit and Risk Committee does not strictly comply with Recommendation 4.2 in that it comprises two independent Directors and one Executive Director. The Committee is chaired by an Independent Director.



Although there was not a strict compliance with the Corporate Governance Principles and Recommendations, the Board considers that given the composition of the Board, and qualifications and availability of Board members, the existing Audit and Risk Committee has the best and most suitable composition to effectively carry out its functions. The Board regularly reviews this situation.

The main responsibilities of the Audit and Risk Committee include:

- Review and report to the Board on the annual and half-year financial report and all other financial information published by the Company or released to the market;
- Consider the appropriateness of the Company's accounting policies and principles and any changes and methods of application;
- Assist the Board in reviewing the effectiveness of the organization's internal control environment and oversee the operation of the risk management system;
- Recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and the auditor's independence;
- Review the level of non-audit services provided by the external auditors and ensure that it does not adversely impact on auditor independence;
- Review policies on risk oversight and management;
- Provision of advice to the Board on risk management and the establishment of a risk management system and risk management profile;
- Referring matters of significant concern to the Board; and
- Conducting a regular review of the Committee Charter.

The Committee Charter also includes details of:

- Committee composition;
- Meetings;
- Role and Objectives; and
- Reporting to the Board.

In fulfilling its responsibilities, the Audit and Risk Committee receives regular reports from management and the external auditors. It also meets with the external auditors at least twice a year, or more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chair of the Audit and Risk Committee or the Chair of the Board.

The Audit and Risk Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Committee also receives technical input and experience from the Chief Finance Officer who attends all meetings by invitation.



## **PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

### **Continuous Disclosure**

As a company listed on the ASX, the Company is a disclosing entity under the *Corporations Acts 2011*. As such, it has regular reporting and disclosure obligations to the ASX. IN particular, the Company is required to disclose to the ASX information of which it is or becomes aware which concerns the Company and which a reasonable person would expect to have a material effect on the price or value of securities of the Company, unless certain exceptions apply.

Through an internal review process, the Company ensures that ASX company announcements are presented in a factual and balanced manner to keep the market fully informed. The disclosure of financial results is usually accompanied by a commentary, which provides further detail to assist investors.

As part of the corporate governance review the Company is in the process of establishing a Continuous Disclosure Policy which will apply to all employees and which will comprise policies and procedures and an audit system.

The policy will outline:

- The Company's continuous disclosure obligations under the ASX Listing Rules;
- A procedure for the notification of potential disclosure information to the Continuous Disclosure Officer (Company Secretary);
- Authorized persons to handle media and Shareholder enquiries; and
- The accountabilities of employees, executives, senior management and the Continuous Disclosure Manager and Officer.

In addition, the Board determines whether there is a disclosure requirement in respect of each item of business considered at Board and Committee meetings.

## **PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

### **Communications Strategy**

The Company is committed to providing Shareholders and the market with relevant and timely information concerning its operations with a view to assisting Shareholders assess the Company's performance and encouraging their effective participation at general meetings. It does this by:

- Continuously reporting developments through the companies' announcements platform of the ASX;
- Reporting through the Annual Report;
- Releasing appropriate information on its website;
- Providing Shareholders with opportunity to correspond by phone, in writing, as well as over the Internet; and





- Requesting the attendance of a representative from the Company's external auditor at the Annual General Meeting to answer questions about the audit and the preparation and content of the auditor's report.

A summary of this communications strategy is provided on the Company's website. The Company plans to enhance its website to facilitate further electronic Shareholder communication and to this end will make Annual Reports to Shareholders available electronically. Hard copy reports will continue to be distributed to Shareholders who elect to receive them.

### **General Meetings**

Xiaoxiao holds its AGM in April/May of each year. Shareholders are encouraged to participate in general meetings. The Company's auditor is required to attend each AGM and be available to answer questions about the conduct of the audit and the preparation and contents of the auditor's report.

An Explanatory Memorandum accompanies each Notice of General Meeting. The Explanatory Memorandum seeks to explain the nature of business of the meeting in a clear and accurate manner. The full Notice of General Meeting and Explanatory Memorandum is placed on the Xiaoxiao website - [www.xiaoxiao.com.au](http://www.xiaoxiao.com.au).

All holders of fully paid ordinary shares are able to vote on all resolutions unless specifically stated otherwise in the Notice of Meeting. Shareholders who are unable to attend a General Meeting in person are encouraged to vote on the proposed motions by appointing a proxy.

## **PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

### **Risk Assessment and Management**

Risk management is an integral part of good business practice and the Board is committed to appropriate standards of risk management. The Board is responsible for monitoring areas of significant business risks, with assistance from management.

Internal control measures to be implemented over time include:

- A documented risk management system and the adoption of a Risk Management Policy;
- Notification, recording and monitoring of complaints and exceptions;
- Regular reporting to the Board in respect of operations and the Company's financial position, with a monthly comparison of actual results against budget; and
- Reports to the Board by appropriate members of the senior management team, the external auditors and/or independent advisers, outlining the nature of particular risks.

The Board will ensure that any identified risks are properly assessed and that action is taken to implement any required enhancements to the internal control environment.



## Financial Reporting

At the time of confirming the integrity of financial reports to the Board in compliance with the Corporate Governance Principles and Recommendations, the Managing Director and Chief Finance Officer confirm in writing that the reports are founded on a sound system of risk management, internal compliance and control which implements the policies adopted by the Board. In addition, they confirm in writing that the Company's risk management and control system is operating efficiently and effectively in all material aspects.

The Managing Director and the Chief Finance Officer have submitted written confirmation that the 2011 reports are founded on a sound system of risk management, internal compliance and control, to the Board.

Written confirmation that the Company's risk management and control system is operating efficiently and effectively in all material aspects has been submitted to the Board by the Managing Director and the Chief Finance Officer.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee currently consists of the following Directors:

- Madam Yongrong Tong – Chair (Executive Director)
- Mr. Roger Smeed (Independent, Non- Executive Director)
- Mr. Ernest Wong (Independent, Non-Executive Director)

Details regarding the Director's qualifications, the number of meetings held and attendance at those meetings are contained on pages 6 – 8 and 10 of the Directors' Report.

The Nomination and Remuneration Committee advises the Board on remuneration policies and practices generally. It makes specific recommendations on the remuneration packages and other terms of employment for non-executive Directors, the Executive Chairman/Managing Director and senior executives, having regard to an individual's performance, relevant comparative information, and if appropriate, independent expert advice. As well as a base salary, remuneration packages may include retirement and termination entitlements, performance-related incentives and fringe benefits.

The Nomination and Remuneration Committee's terms of reference include responsibility for reviewing any transactions between the Company and the Directors, or any interest associated with the Directors, to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed.

The Board has adopted a Nomination and Remuneration Committee Charter, which outlines the roles and responsibilities, composition, authorities and operation of the Committee.



## **Executive Remuneration**

The Nomination and Remuneration Committee sets quantitative and qualitative objectives to be achieved by the Managing Director and the senior executives. The aims of these objectives are to assist successful delivery on the Company's strategic objectives and are linked to the at-risk component of the executives' remuneration. The Committee is responsible for assessing the performance of the Executive Chairman/Managing Director and senior executives against predetermined quantitative and qualitative objectives. The Nomination and Remuneration Committee to be reviewed annually whether the remuneration structure has been successful in achieving its aim and takes this into account in setting objectives.

Further information on the Board and Executive Management remuneration is contained in the Remuneration Report.

The Remuneration Committee is also responsible for making recommendations to the Board in relation to the terms of any issue of equity-based remuneration to employees as a part of their individual package or a wider staff incentive and retention scheme and for ensuring that any such issue is made in accordance with the ASX Listing Rules.

## **Non-Executive Director Remuneration**

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by the Shareholders from time to time.

## **Other Information**

Further information relating to the Company's corporate governance practices and policies has been made publicly available on the Company's web site at [www.xiaoxiao.com.au](http://www.xiaoxiao.com.au)



## FINANCIAL STATEMENTS

### Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2011

	Notes	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Revenue from school fees		5,730,602	5,681,126
Other Income		1,518	17,920
		<b>5,732,120</b>	<b>5,699,046</b>
School catering and consumables		(1,063,824)	(976,718)
Depreciation and amortisation expenses		(785,085)	(701,490)
Impairment of Intangibles		(6,026,530)	-
Employee benefits expenses		(3,717,993)	(3,537,714)
Finance costs	2	(60,185)	(83,316)
IPO costs		-	(1,782,350)
Other expenses	2	(1,501,871)	(1,395,312)
<b>(Loss) before tax</b>		<b>(7,423,368)</b>	<b>(2,777,854)</b>
Income tax expenses	11	-	-
<b>Profit (loss) for the year</b>		<b>(7,423,368)</b>	<b>(2,777,854)</b>
<b>Other comprehensive income</b>			
Exchange difference on translation of foreign operations		(101,708)	(817,539)
<b>Total comprehensive income for the year</b>		<b>(7,525,076)</b>	<b>(3,595,393)</b>
(Loss) attributable to:			
Owners of Xiaoxiao Education Limited		(7,423,368)	(2,777,854)
Non-controlling interest		-	-
		<b>(7,423,368)</b>	<b>(2,777,854)</b>
Total comprehensive income is attributable to:			
Parent entity Xiaoxiao Education Limited		(7,525,076)	(3,595,393)
Non-controlling interest		-	-
		<b>(7,525,076)</b>	<b>(3,595,393)</b>
<b>Earnings per share attributable to ordinary equity holders</b>			
Basic (cents)		<b>(5.01)</b>	<b>(1.93)</b>
Diluted (cents)		<b>(5.01)</b>	<b>(1.93)</b>

The accompanying notes form part of these financial statements.



**Consolidated Statement of Financial Position  
As at 31 December 2011**

	Note	Consolidated Group 2011 \$	Consolidated Group 2010 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	136,784	156,973
Other receivables	5	2,235,363	3,874,095
<b>Total current assets</b>		<b>2,372,147</b>	<b>4,031,068</b>
<b>Non-current Assets</b>			
Property, plant and equipment	6	3,053,389	3,163,014
Intangible assets	10	3,572,381	9,888,198
<b>Total non-current assets</b>		<b>6,625,770</b>	<b>13,051,212</b>
<b>Total Assets</b>		<b>8,997,917</b>	<b>17,082,280</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	7	344,233	903,044
Unearned income	8	511,246	481,536
Borrowings	9	1,235,200	-
<b>Total current liabilities</b>		<b>2,090,679</b>	<b>1,384,580</b>
<b>Non-current Liabilities</b>			
Borrowings		-	1,265,386
<b>Total non-current liabilities</b>		<b>-</b>	<b>1,265,386</b>
<b>Total Liabilities</b>		<b>2,090,679</b>	<b>2,649,966</b>
<b>Net Assets</b>		<b>6,907,238</b>	<b>14,432,314</b>
<b>EQUITY</b>			
Issued capital	12	15,801,789	15,801,789
Retained profits/(losses)		(10,220,551)	(2,797,183)
Foreign exchange translation reserves		(1,223,707)	(1,121,999)
Capital and reserves attributable to members		4,357,531	11,882,607
Non-controlling interest	15	2,549,707	2,549,707
<b>Total Equity</b>		<b>6,907,238</b>	<b>14,432,314</b>

The accompanying notes form part of these financial statements.



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

**Consolidated**

	Note	Share Capital \$	Retained Profits \$	Foreign Currency Translation Reserve \$	Non- Controlling Interest \$	Total Equity \$
<b>Balance as at 1 January 2010</b>		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		6,250,309	-	-	-	6,250,309
Loss for the year		-	(2,777,854)	-	-	(2,777,854)
Exchange differences on translation of foreign operations		-	-	(817,539)	-	(817,539)
<b>Balance as at 31 December 2010</b>		<b>15,801,789</b>	<b>(2,797,183)</b>	<b>(1,121,999)</b>	<b>2,549,707</b>	<b>14,432,314</b>
<b>Balance at 1 January 2011</b>		<b>15,801,789</b>	<b>(2,797,183)</b>	<b>(1,121,999)</b>	<b>2,549,707</b>	<b>14,432,314</b>
Loss for the year		-	(7,423,368)	-	-	(7,423,368)
Exchange differences on translation of foreign operations		-	-	(101,708)	-	(101,708)
<b>Balance as at 31 December 2011</b>		<b>15,801,789</b>	<b>(10,220,551)</b>	<b>(1,223,707)</b>	<b>2,549,707</b>	<b>6,907,238</b>

The accompanying notes form part of these financial statements.



**Consolidated Statement of Cash Flows  
For the Year Ended 31 December 2011**

	Consolidated 2011 \$	Consolidated 2010 \$
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	5,752,932	5,628,559
Payments to suppliers and employees	(6,189,913)	(8,744,111)
Interest received/(paid)	1,518	(83,132)
<b>Net cash outflow from operating activities</b>	<b>(435,463)</b>	<b>(3,198,684)</b>
	24	
<b>Cash Flows from Investing Activities</b>		
Payment for acquisition of business, net of cash acquired	(262,224)	(877,066)
Refund/(Payment) of deposits for business acquisitions	1,847,080	(2,263,706)
Payment for acquisition of property, plant and equipment	(30,177)	(324,124)
Loans to related party	(785,140)	-
<b>Net cash outflow/ inflow from investing activities</b>	<b>769,539</b>	<b>(3,464,896)</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from issues of shares	-	6,250,309
Repayment of borrowings from a director	(74,112)	-
<b>Net cash inflow from financing activities</b>	<b>(74,112)</b>	<b>6,250,309</b>
<b>Net decrease/increase in cash and cash equivalents</b>	<b>259,964</b>	<b>(413,271)</b>
Cash and cash equivalents brought forward	156,973	624,127
Effects of exchange rate changes	(280,153)	(53,883)
<b>Cash and cash equivalents at 31 December 2011</b>	<b>136,784</b>	<b>156,973</b>
	4	

The accompanying notes form part of these financial statements.



## Notes to the Financial Statements

This financial report includes the consolidated financial statements and notes of Xiaoxiao Education Limited and controlled entities ('Consolidated Group' or 'Group').

The financial statement shows the result of the Group and the Company from 1 January 2011 to 31 December 2011.

### NOTE 1. Statement of Significant Accounting Policies

#### Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Acts 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### a. Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.





## Notes to the Financial Statements

### b. Principles of Consolidation

A controlled entity is any entity over which the Parent has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 14 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered/ (left) the consolidated group during the year, their operating results have been included/ (excluded) from the date control was obtained/ (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

### c. Non-controlling interest

The group has entered into Structure Contracts with 12 kindergartens and an art training school (refer Note 14 for list of schools). Pursuant to the Structure Contracts, the group has the ability to govern/ control the financial and operating policies, and receive substantially all the profits for an initial period of 20 years.

In accordance with group's accounting policies on consolidation (Note 1b), controlled entities are all those entities over which the group has the power to govern the financial and operating policies.

Whilst the group has the ability to govern those operations under the Structure Contracts, the ultimate ownership of assets in each of the entities remains with the existing owner.

### d. Intangible asset – Structure Contracts

Pursuant to the Structure Contracts, the Group has the ability to govern the financial and operating policies, and receive substantially all the profits for an initial period of 20 years. The Structure Contracts are recognised at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of Structure Contracts over their estimated useful life (20 years).

### e. Income Tax

The income tax expense/ (revenue) for the year comprises current income tax expense/ (income) and deferred tax expense/ (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities/ (assets) are therefore measured at the amounts expected to be paid to / (recovered from) the relevant taxation authority.



## Notes to the Financial Statements

### e. Income Tax (continued)

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense/ (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

### f. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less any accumulated depreciation and impairment losses.

Property (including buildings and land-use-rights), plant and equipment are measured on the cost basis.



## Notes to the Financial Statements

### f. Property, Plant and Equipment (continued)

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

#### Depreciation

The depreciable amount of all fixed assets including buildings and land-use rights is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

The depreciation rates used for each class of depreciable assets are:

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>
Buildings	5.0%
Land-use-rights	2.2%
Plant and equipment	12.5% to 20%
Motor Vehicle	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

### g. Financial Instruments

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.



## Notes to the Financial Statements

### g. Financial Instruments (continued)

#### Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries as being subject to the requirements of accounting standards specifically applicable to financial instruments.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

#### Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

#### Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

#### Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.



## Notes to the Financial Statements

### g. Financial Instruments (continued)

#### Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

### h. Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### i. Foreign Currency Transactions and Balances

#### Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

#### Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income.

#### Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- equity is translated at the exchange rates prevailing at the date of the transaction.



## Notes to the Financial Statements

### i. Foreign Currency Transactions and Balances (continued)

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

### j. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

### k. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

### l. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and notes receivables.

### m. Revenue

Revenue recognition relating to the provision of pre-school education services is determined with reference to the stage of completion of services being provided.

School fees for a semester are received at the beginning of the semester. School fees received in advance and not yet earned are recognised as a liability – unearned income.

### n. Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

### o. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds.

### p. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease.



## Notes to the Financial Statements

### q. Goods and Services Tax (GST) and Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of GST or VAT, except where the amount of GST or VAT incurred is not recoverable from the Tax Office. In these circumstances the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST or VAT.

Cash flows are presented in the statement of cash flow on a gross basis, except for the GST or VAT component of investing and financing activities, which are disclosed as operating cash flows.

### r. New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards.

### s. Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

#### Key estimates

##### (i) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the management's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provision and expense in the period in which such determination is made.

##### (ii) Structure contracts

The following key assumptions were utilised by the Directors in the determination of the fair value of the Structure Contracts:

- Financial performance for the twelve months ended 31 December 2011 is representative of future operating performance and cash flows.
- Original life of contracts of 20 years.
- No growth in revenues and profits.
- No material capital expenditure.
- A risk-adjusted discount rate of 23% was applied to future cash flows. The discount rate was determined upon consideration of the following risks: country (China), business, key personnel, currency (RMB) and risk free rate of 4% based on the 10-year bond rate in China.



## Notes to the Financial Statements

### t. Changes in Accounting Policies

The Group has adopted the following revisions and amendments to AASB's issued by the Australian Accounting Standards Board and IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 July 2013.

- Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project – AASB 2009-5
- Improvement to IFRSs – AASB 2010-03

#### *Adoption of improvements to IFRSs 2009 – AASB 2009-5*

The Improvements to IFRSs 2009 (issued as AASB 2009-5 further amendments to Australian Accounting Standards arising from the Annual Improvements Project) made several minor amendments to IFRSs. The only amendment relevant to the Group relates to AASB 117 Leases. The amendment did not have a material impact on the Group's financial statements.

#### *Adoption of Improvements to IFRSs 2010 - AASB 2010-3*

The IASB has issued Improvements to IFRS 2010 (2010 Improvements) which was issued in Australia as AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvement Project. Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of AASB 3, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The 2010 Improvements did not have a material impact on the Group's financial statements.

### NOTE 2. Profit before taxation

Profit for the year includes the following expenses

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Finance cost		
Interest paid to related parties	59,880	83,132
Bank charge	305	-
Other expenses		
Rental expenses	754,451	650,698
Audit fees	120,000	120,000

### NOTE 3. Earnings per share

	2011 \$	2010 \$
Loss attributable to members of the parent entity	(7,423,368)	(2,777,854)





## Notes to the Financial Statements

	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	-	-
	<b>148,096,037</b>	143,644,179
Basic earnings per share (cents)	(5.01)	(1.93)
Diluted earnings per share (cents)	(5.01)	(1.93)

### NOTE 4. Cash and cash equivalents

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Cash in hand and at bank	136,784	156,973

### NOTE 5. Other receivables

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
GST receivable	31,368	40,704
Rental deposit	34,391	28,281
Deposits paid for purchase of kindergartens	2,084,400	3,805,110
Loan to a director (Madam Tong)	85,204	-
	<b>2,235,363</b>	<b>3,874,095</b>



## Notes to the Financial Statements

### NOTE 6. Property, plant and equipment

	Plant & Office Equipment	Motor Vehicles	Land	Buildings	Total
	\$	\$	\$	\$	\$
<b>2011</b>					
<b>Cost</b>					
Balance at the beginning of the year	548,121	41,478	376,261	3,134,247	4,100,107
Additions	30,176	-	-	-	30,176
Foreign currency translation movement	17,136	1,440	13,061	108,801	140,438
Balance at the end of the year	<b>595,433</b>	<b>42,918</b>	<b>389,322</b>	<b>3,243,048</b>	<b>4,270,721</b>
<b>Accumulated Depreciation</b>					
Balance at the beginning of the year	(180,228)	(39,404)	(40,413)	(677,048)	(937,093)
Depreciation expense	(82,725)	-	(8,388)	(149,445)	(240,559)
Foreign currency translation movement	(8,451)	(1,368)	(1,666)	(28,195)	(39,680)
Balance at the end of the year	<b>(271,404)</b>	<b>(40,772)</b>	<b>(50,467)</b>	<b>(854,688)</b>	<b>(1,217,332)</b>
<b>Net Carrying value</b>	<b>324,029</b>	<b>2,146</b>	<b>338,854</b>	<b>2,388,360</b>	<b>3,053,389</b>
<b>2010</b>					
<b>Cost</b>					
Balance at the beginning of the year	211,566	45,399	441,824	3,429,803	4,128,592
Additions	355,452	-	-	-	355,452
Foreign currency translation movement	(18,897)	(3,921)	(65,563)	(295,556)	(383,937)
Balance at the end of the year	<b>548,121</b>	<b>41,478</b>	<b>376,261</b>	<b>3,134,247</b>	<b>4,100,107</b>
<b>Accumulated Depreciation</b>					
Balance at the beginning of the year	(139,301)	(43,129)	(35,073)	(577,801)	(795,304)
Depreciation expense	(53,143)	-	(8,361)	(148,966)	(210,470)
Foreign currency translation movement	12,216	3,725	3,021	49,719	68,681
Balance at the end of the year	<b>(180,228)</b>	<b>(39,404)</b>	<b>(40,413)</b>	<b>(677,048)</b>	<b>(937,093)</b>
<b>Net Carrying value</b>	<b>367,893</b>	<b>2,074</b>	<b>335,848</b>	<b>2,457,199</b>	<b>3,163,014</b>



## Notes to the Financial Statements

### NOTE 7. Trade and other payables

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Amount due to a director (Madam Tong)*	-	633,077
Other payables	344,233	269,967
	<b>344,233</b>	<b>903,044</b>

\* Net receivable from Madam Tong at 31 December 2011, refer Note 5

### NOTE 8. Unearned income

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
School fees received in advance	511,246	481,536

School fees received in advance relate to fees received but not yet earned. Refer Note 1m.

### NOTE 9. Borrowings

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Current loan from a director (Madam Tong)	1,235,200	-
Non-current loan from a director (Madam Tong)	-	1,265,386
	<b>1,235,200</b>	<b>1,265,386</b>

On 19 November 2009, Yong-rong Education, Xiaoxiao Kindergarten and Madam Tong entered into a standstill agreement. Under the Standstill Agreement, Madam Tong agreed to not require repayment of the principal of loans made by her to Yong-rong Education and Xiaoxiao Kindergarten for at least 3 years. Yong-rong Education and Xiaoxiao Kindergarten are required to pay interest at commercial banking rate of 5.00% (2010: 6.10%) on the Loans from Madam Tong.

As the loan can be called upon after 19 November 2012, the loan is classified as current at 31 December 2011.



## Notes to the Financial Statements

### NOTE 10. Intangible assets – structure contracts

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Fair value of structure contracts	10,434,120	9,500,000
Additional structure contracts with new kindergartens signed during the year	-	902,781
Less: Impairment	(6,026,529)	-
Less: Accumulated amortisation	(1,059,110)	(514,583)
Less: Foreign exchange difference	(18,514)	-
	<b>3,329,967</b>	<b>9,888,198</b>
Goodwill – acquisition of Breakfast Point	242,414	-
Net carrying amount	<b>3,572,381</b>	<b>9,888,198</b>

At each reporting date, the carrying values of its intangible assets are reviewed by the Group to determine whether there is any indication that those assets have been impaired. The directors have reviewed the carrying values of the structure contracts with regards to current market conditions in China, historical and forecast performance of the underlying kindergartens. Based on this information the Group has recognised an impairment loss of \$6,026,529.

The following assumptions were used in the value-in-use calculations:

- Financial performance for the twelve months ended 31 December 2011 is representative of future operating performance and cash flows.
- Original life of contracts of 20 years.
- No growth in revenues and profits.
- No material capital expenditure.
- A risk-adjusted discount rate of 23% was applied to future cash flows. The discount rate was determined upon consideration of the following risks: country (China), business, key personnel, currency (RMB) and risk free rate of 4% based on the 10-year bond rate in China.

The entities controlled by structure contracts are detailed in Note 14, and 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).



## Notes to the Financial Statements

### NOTE 10. Intangible assets – structure contracts (continued)

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;
- 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.



## Notes to the Financial Statements

### NOTE 11. Taxation

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Current year taxation	-	-

The prima facie tax on “profit before income tax” is reconciled to the income tax as followings:

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Profit/(loss) before tax	(7,423,368)	(2,777,854)
Prima facie tax on “profit before income tax” at local tax rate	(2,188,456)	(772,596)
Tax effect of amounts which are not deductible/(taxable)		
- Depreciation and amortisation	221,742	475,000
- Impairment	1,807,959	-
- Exempted income	(1,348,839)	(1,794,345)
Tax effect of unrecognised temporary differences	1,507,594	2,091,941
Income tax expense	-	-

Corporate tax rates in Australia, China and Hong Kong are 30%, 25% and 17.5%.

The Kindergartens in China are exempted from income tax per tax ruling 540 of the Provisional Regulation of the People’s Republic of China issued on 5 November 2008.

No deferred tax asset has been recognised on the tax losses as the directors are uncertain that taxable profit will be available in foreseeable future against which the tax losses can be utilised.

### NOTE 12. Issued Capital

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



## Notes to the Financial Statements

### NOTE 12. 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
05/08/2010 – 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	<b>148,096,037</b>	<b>15,801,789</b>	<b>148,096,037</b>	<b>15,801,789</b>

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

### NOTE 13. Capital management

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide shareholders with adequate returns and to ensure that the group can fund its operations and continue as a going concern.

Management monitors the capital on the basis of gearing ratio. Gearing ratio is calculated as net debt (Total liabilities in statement of financial position less cash and cash equivalents) divided by total equity (Total equity in statement of financial position). Management assesses the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These include distributions to shareholders, share issues and repayment of director loan.

The group does not have externally imposed capital requirements.



## Notes to the Financial Statements

### NOTE 13. Capital management (continued)

The group's strategy with respect to capital management is to maintain a gearing ratio of less than 1. The gearing ratios were as follows:

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Total liabilities	2,090,679	2,649,966
Less cash and cash equivalents	(136,784)	(156,973)
Net debt	<b>1,953,895</b>	<b>2,492,993</b>
Total equity	<b>6,907,238</b>	<b>14,432,314</b>
Gearing ratio	<b>0.28</b>	<b>0.17</b>

### NOTE 14, Investment in Subsidiaries

Subsidiary of Xiaoxiao Education Limited is:

Name	Country of incorporation	Percentage of equity held 2011	Principal activities
Happy Elegant International Limited	Hong Kong	100%	Investment holding company
Breakfast Point Child Care Pty Ltd	Australia	100%	Provision of child care services

Subsidiary of Happy Elegant International limited is:

Name	Country of incorporation	Percentage of equity held 2011	Principal activities
Hangzhou Yong-Rong Education Consulting Co., Ltd	China	100%	Management company





## Notes to the Financial Statements

### NOTE 14. 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 Kindergarten	China	*	Pre-school education provider

\* Entities are controlled by Structure contracts as detailed in Note 10.

### NOTE 15. Non-controlling interest

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

### NOTE 16. Auditor remuneration

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Grant Thornton Audit Pty Ltd		
- Review and Audit of financial report	120,000	120,000



## Notes to the Financial Statements

### NOTE 17. Commitments

#### Operating Lease Commitments

Non-cancellable operating leases contracted for:

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Payable – minimum lease payments:		
- not later than 12 months	651,455	519,677
- between 12 months and five years	1,858,654	1,806,218
- greater than five years	284,714	525,256
	<b>2,794,823</b>	<b>2,851,151</b>

### NOTE 18. Contingent assets and contingent liabilities

#### Literacy Circle Product licence agreement

	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Payable – minimum lease payments:		
- not later than 12 months	-	27,874
- between 12 months and five years	-	-
- greater than five years	-	-
	<b>-</b>	<b>27,874</b>

The contingent liability in relation to the Literacy Circle Product Licence Agreement has been resolved during the year. The licence agreement has been terminated through a settlement payment of \$17,500 to Literacy Circle.

The consolidated group has no contingent assets or contingent liabilities as at 31 December 2011.

### NOTE 19. Financial risk management

#### Financial risk management policies

The Group's financial instruments consist mainly of deposits with banks, receivables, payables and borrowings.

Executive directors and senior management meet on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The committee's overall risk management strategy seeks to assist the group in meeting its financial targets, whilst minimizing potential adverse effects on the financial performance.



## Notes to the Financial Statements

### NOTE 19. Financial risk management (continued)

#### Specific financial risk exposures and management

The group's activities are exposed to market risk (being interest rate risk), credit risk and liquidity risk.

##### Interest rate risk

The group interest rate risk relates to borrowings from a director of \$1,235,200 as a result of a standstill agreement between the group and the director (see Note 9).

At 31 December 2011 if interest rate had changed by +/-10 basis points from the year-end rates with all other variables held constant, the group's post tax losses would have been \$1,235 more/less mainly as a result of higher interest expenses from borrowings.

The group's financial instruments, maturity and weighted effective interest rate are:

2011	Weighted Average Effective Interest Rate %	Floating Interest Maturing Within 1 Year \$	Floating Interest Maturing Within 2-3 Year \$	Non- interest Bearing \$	Total \$
<b>Financial Assets</b>					
Cash and cash equivalents	3.15%	-	-	136,784	136,784
Receivables	-	-	-	31,368	31,368
<b>Total Financial Assets</b>		<b>-</b>	<b>-</b>	<b>168,152</b>	<b>168,152</b>
<b>Financial Liabilities</b>					
Payables	-	-	-	344,233	344,233
Borrowings	5.00%	1,235,200	-	-	1,235,200
<b>Total Financial Liabilities</b>		<b>1,235,200</b>	<b>-</b>	<b>344,233</b>	<b>1,579,433</b>
<b>2010</b>					
2010	Weighted Average Effective Interest Rate %	Floating Interest Maturing Within 1 Year \$	Floating Interest Maturing Within 2-3 Year \$	Non- interest Bearing \$	Total \$
<b>Financial Assets</b>					
Cash and cash equivalents	3.15%	-	-	156,973	156,973
Receivables	-	-	-	40,704	40,704
<b>Total Financial Assets</b>		<b>-</b>	<b>-</b>	<b>197,677</b>	<b>197,677</b>
<b>Financial Liabilities</b>					
Payables	-	-	-	903,044	903,044
Borrowings	6.10%	-	1,265,386	-	1,265,386
<b>Total Financial Liabilities</b>		<b>-</b>	<b>1,265,386</b>	<b>903,044</b>	<b>2,168,430</b>



## Notes to the Financial Statements

### NOTE 19. Financial risk management (continued)

#### Credit risk

Exposure to credit risk arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group. The credit risk on financial assets recognised on the statement of financial position, is the carrying amount of the financial assets, net of any provisions for doubtful debts.

The Group's credit risk exposures are the balances held with banks of \$136,784 and outstanding receivables of \$31,368.

No significant concentration of credit risk is placed with any single counterparty. Cash and cash equivalents are deposited with licensed and reputable banks and financial institutions. The receivables relates to GST credit.

The directors are of view that the group is not significantly exposed to other market risks (being foreign exchange risk and price risk) and liquidity risk.

#### Foreign exchange risk

The group does not hold assets or liabilities denominated in currencies other than the functional currency of the respective entities. The group current policy is not to trade in forex derivatives or to hedge its currency position.

#### Price risk

The group's financial instruments are not subject to changes in market prices.

#### Liquidity risk

The group main's financial liabilities relates to payables to a director under a standstill agreement totalling \$1,235,200 repayable on November 2012.

### **Fair values**

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

#### Cash and bank deposits, other receivables, other payables and amount due to a director

The carrying amounts of these balances approximate fair value due to their short term nature.

#### Borrowings from a director

The carrying values of borrowings approximate fair values as they bear interest which approximate the current commercial borrowing rates for similar types of lending and borrowing arrangements.



## Notes to the Financial Statements

### NOTE 20. Business Combination

Pursuant to acquisition of Breakfast Point Childcare Pty Limited during the year. Details of purchase combination and net assets acquired are as follows:

	\$
Cash Paid	290,000

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value
	\$
Property, plant and equipment	47,586
Fair value of net assets acquired	47,586
Goodwill at acquisition	242,414

### NOTE 21. Operating segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The group is managed primarily on a country level since each country has notably different risk profiles. Operating segments are therefore determined on the same basis. The reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

The reportable segments are:

- China: This segment consists of all the kindergartens
- Australia: This segment consists of the holding company which manages all ASX related corporate activities.

The segment information provided to the board of directors is as follows:

2011	China \$	Australia \$	Total \$
Segment assets	5,597,144	3,400,773	8,997,917
Includes:			
Addition to non-current assets	-	30,176	30,176
Segment liabilities	388,976	1,701,703	2,090,679
Total segment revenue	5,395,357	335,245	5,730,602
Segment loss before tax	(771,095)	(6,652,273)	(7,423,368)



## Notes to the Financial Statements

### NOTE 21. Operating segments (continued)

2010	China	Australia	Total
	\$	\$	\$
Segment assets	7,976,226	9,106,054	17,082,280
<i>Includes:</i>			
<i>Addition to non-current assets</i>	1,258,233	-	1,258,233
Segment liabilities	1,993,757	656,209	2,649,966
Total segment revenue	5,681,126	-	5,681,126
Segment loss before tax	(1,215,894)	(1,561,960)	(2,777,854)

No single customer accounted for more than 10% of total revenue.

#### Basis for accounting for purposes of operating segments

Unless stated otherwise, all amounts reported to the Executive Directors as chief decision makers with respect to operating segments are determined in accordance with accounting policies that are consistent with those disclosed in Note 1.

### NOTE 22. Events after balance date

Xiaoxiao has received an Offer from representatives of Mr Xu Zi who, we are advised, 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 PRC.

The Offer states that Mr Xu: *“wishes to offer to purchase all of the issued ordinary shares in the capital of Xiaoxiao Education Ltd (‘XXL’) held by Madam Tong”*.

The offer further states that:

*subject to the approval of the minority shareholders, Mr Xu intends to change the business nature of XXL to involvement in the Chinese and Australian mining sector, delivering assets in that sector to the company, and to consequently dispose of the existing education assets.*

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

Datong is an iron ore mine that, despite historical production (by a company other than Qijiang Pingdong Mining Company Limited (PRC)), is not currently in production.

The disposal of the Xiaoxiao educational assets and the acquisition of the Datong Mine would be subject to the Listing Rules, in particular Listing Rule 10.1 and Chapter 11.



## Notes to the Financial Statements

### NOTE 22. Events after balance date (continued)

Xiaoxiao has received an Offer from representatives of Mr Xu Zi who, have been advised, 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 mining production.

The Offer states that Mr Xu “wishes to offer to purchase all of the issued ordinary shares in the capital of Xiaoxiao Education Ltd (‘XXL’) held by Madam Tong”.

The offer further states that “subject to the approval of the minority shareholders, Mr Xu intends to change the business nature of XXL to involvement in the Chinese and Australian mining sector, delivering assets in that sector to the company, and to consequently dispose of the existing education assets.”

In consideration for the abovementioned, Mr Xu offers the assets being the Datong Daluo iron ore mine (Datong) situated in the Chongqing Province, PRC. A valuation report of Datong prepared by Australian based Salva Resources dated March 2012 described the preferred selected valuation figure of \$USD 8.1 million.

The Offer is incomplete in that it does not contain a number of details, which the Board requires to make an informed recommendation to Shareholders. The Xiaoxiao Board has appointed BDO as Independent Expert to advise the Board on the Offer and to provide Shareholders with their opinion on the benefits or otherwise of the Offer. At the date of this report, no formal agreements have been signed.

Other than the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group.

### NOTE 23. Interest of key management personnel (KMP)

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group’s key management personnel for year ended 31 December 2011.

Total remuneration paid to KMP during the year is as follows:

	<b>Consolidated Group 2011 \$</b>	<b>Consolidated Group 2010 \$</b>
Short-term employee benefits	615,958	712,134
Share based payments	-	-
	<b>615,958</b>	<b>712,134</b>



## Notes to the Financial Statements

### NOTE 23. Interest of key management personnel (KMP) (continued)

#### KMP Shareholdings

<b>2011</b>	<b>Balance 1 Jan 2011</b>	<b>Received as compensation</b>	<b>Resigned as director</b>	<b>Balance 31 Dec 2011</b>
Yongrong Tong	120,000,000	-	-	120,000,000
Roger Smeed	100,000	-	-	100,000
	<b>120,100,000</b>	<b>-</b>	<b>-</b>	<b>120,100,000</b>
<b>2010</b>	<b>Balance 16 Nov 2009*</b>	<b>Received as compensation</b>	<b>Resigned as director</b>	<b>Balance 31 Dec 2010</b>
Yongrong Tong	120,000,000	-	-	120,000,000
Roger Smeed	100,000	-	-	100,000
Warren Jacobson	100,000	-	(100,000)	-
	<b>120,200,000</b>	<b>-</b>	<b>(100,000)</b>	<b>120,100,000</b>

\* Date of incorporation of Xiaoxiao Education Limited.

#### KMP option holding

No options were held by key management personnel during the year ended 31 December 2011 and 31 December 2010.

#### Related parties transactions

There have been no other transactions with KMP or KMP related parties during the year.

#### Related parties balances

For details of balances with KMP or KMP related parties, refer to Note 7 Trade and other payables and Note 9 Borrowings.





## Notes to the Financial Statements

### NOTE 24. Cash Flow Information

Reconciliation of profit after tax to net cash flow from operating activities

	<b>Consolidated Group 2011 \$</b>	<b>Consolidated Group 2010 \$</b>
Net loss after tax for the period	(7,423,368)	(2,777,854)
Depreciation and amortisation	785,085	701,490
Impairment	6,026,530	-
Movement in payables	74,266	(1,051,833)
Movement in receivables and other assets	9,336	(14,303)
Movement in unearned income	12,998	(56,184)
Fixed asset < \$300 written off	19,810	-
Movement in borrowings	59,880	-
<b>Net cash flow from operating activities</b>	<b>(435,463)</b>	<b>(3,198,684)</b>

### NOTE 25. Parent Company Information

<b>Parent Entity</b>	<b>2011 \$</b>	<b>2010 \$</b>
<b>Asset</b>		
Current assets	6,100,655	6,087,034
Non-current assets	3,318,596	9,037,499
<b>Total assets</b>	<b>9,419,251</b>	<b>15,124,533</b>
<b>Liabilities</b>		
Current liabilities	1,953,181	1,006,189
<b>Total liabilities</b>	<b>1,953,181</b>	<b>1,006,189</b>
<b>Equity</b>		
Issued capital	15,801,789	15,801,789
Retained earnings	(8,335,719)	(1,683,445)
<b>Total equity</b>	<b>7,466,070</b>	<b>14,118,344</b>



## Notes to the Financial Statements

### NOTE 25. Parent Company Information (continued)

Parent Entity	2011 \$	2010 \$
<b>Financial performance</b>		
Loss for the year	(6,652,273)	(1,561,959)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(6,652,273)</b>	<b>(1,561,959)</b>

The parent company has no contractual commitments or contingent liabilities at 31 December 2011.

### NOTE 26. 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**

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



## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 27 to 57 are in accordance with the Corporations Acts 2001 and;
  - a. comply with Accounting Standards; and
  - b. give a true and fair view of the financial position as at 31 December 2011 and of the performance for the period ended on that date of the Consolidated Group; and
  - c. are in accordance with International Financial Reporting Standards.
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
  - a. the financial records of the Company for the financial period have been properly maintained in accordance with section 286 of the Corporations Acts 2001;
  - b. the financial statements and notes for the financial period comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial period give a true and fair view;
3. in the director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Roger Smeed  
Director

Dated 30 March 2012

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XIAOXIAO EDUCATION LIMITED**

### **Report on the financial report**

We have audited the accompanying financial report of Xiaoxiao Education Limited (the "Company"), which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

#### **Auditor's opinion**

In our opinion:

- a the financial report of Xiaoxiao Education Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

#### **Report on the remuneration report**

We have audited the remuneration report included in pages 9 to 12 of the directors' report for the year ended 31 December 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.



**Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of Xiaoxiao Education Limited for the year ended 31 December 2011, complies with section 300A of the Corporations Act 2001.

*Grant Thornton*

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

A handwritten signature in blue ink, appearing to read "SJ Gray".

SJ Gray  
Director – Audit & Assurance Services

Adelaide, 30 March 2012



## ADDITIONAL ASX INFORMATION

Additional information required by the Australia Stock Exchange Ltd and not shown elsewhere in this Report is as follows. This information is current as at 30 March 2012.

### a. Distribution of equity securities

148,096,037 fully paid ordinary shares are held by 594 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

The number of shareholders, by size of holding, in each class of share is:

	<b>Fully Paid ordinary shares</b>
1 – 1,000	1
1,001 – 5,000	2,439
5,001 – 10,000	3,958,600
10,001 – 100,000	3,004,761
100,001 – 10,000,000	21,130,236
10,000,001 +	120,000,000
	<b>148,096,037</b>

Holdings less than a marketable parcel NIL

### b. Escrowed securities

	<b>Number of shares</b>
Sunflower (China Investments) Limited	120,000,000
Jacobson Family Holdings Pty Ltd <The Jacobson Family Trust>	100,000
Roger Smeed & Associates Pty Ltd <RF Investment Trust>	100,000

The above shareholders have entered into a Voluntary Escrow Deed dated 19 November 2009 with the Company whereby they have agreed not to sell their shares for a period of 24 months.

### c. Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	<b>Listed ordinary shares</b>	
	<b>Number of shares</b>	<b>Percentage of ordinary shares</b>
Sunflower (China Investments) Limited	120,000,000	81.03%
McNeil Nominees Pty Limited	7,284,000	4.92%
Citicorp Nominees Pty Limited	4,663,002	3.15%



d. Twenty largest shareholders

Rank	Name	Number of shares	Percentage of ordinary shares
1.	SUNFLOWER (CHINA INVESTMENTS)	120,000,000	81.03%
2.	MCNEIL NOMINEES PTY LIMITED	7,284,000	4.92%
3.	CITICORP NOMINEES PTY LIMITED	4,663,002	3.15%
4.	MR ZHIGE ZHANG	3,200,000	2.16%
5.	ABN AMRO CLEARING SYDNEY	3,182,000	2.15%
6.	MR WILLIAM EDWARD HOLMES	1,300,000	0.88%
7.	EXWERE INVESTMENTS PTY LTD	500,000	0.34%
8.	MRS MAURA ELIZABETH	306,001	0.21%
9.	JP MORGAN NOMINEES AUSTRALIA	250,233	0.17%
10.	MRS LEANNE NOLA FRASER	250,000	0.17%
11.	MR WALTER MELVILLE DOWER	195,000	0.13%
12.	MR WILLIAM EDMUND BRENT	100,000	0.07%
13.	MR LEIGH HAROLD HISCOCK &	100,000	0.07%
14.	JACOBSON FAMILY HOLDINGS PTY	100,000	0.07%
15.	JOYLENE FRASER SUPER	100,000	0.07%
16.	MR ANTHONY DAVID PURSER	100,000	0.07%
17.	ROGER SMEED & ASSOCIATES PTY	100,000	0.07%
18.	STROUD NOMINEES PTY LTD	97,500	0.07%
19.	MR ANDREW JOHN CAMERON	85,000	0.06%
20.	MR ANDREW PETER OCIPKA	80,000	0.05%