XIAOXIAO EDUCATION LIMITED
AND ITS CONTROLLED ENTITES

ABN 26 140 573 762

Annual Report

FOR THE YEAR ENDED
ENDED 31 DECEMBER 2010

XIAOXIAO EDUCATION LIMITED ABN 26 140 573 762
Annual Reports
For The Year Ended 31 December 2010

Contents Page

CORPORATE INFORMATION

Xiaoxiao Education Limited
ABN 26 140 573 762

Directors

Madam Yongrong Tong (Executive Chair/Managing Director)

Roger Smeed (Deputy Chair)

Ernest Wong

Bryant Hao Zhang

Yinong Ye

Xuhua Li

Hongxia Lu

Company Secretary

Rita Yuan 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

Auditors

Grant Thornton Audit Pty Ltd
Level 1, 67 Greenhill Road
Wayville South Australia 5034

Legal Advisors

Norton Rose
RACV Tower, 485 Bourke Street
Melbourne Victoria 3000

Website Address

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.

EXECUTIVE CHAIR'S REVIEW

The Board of Xiaoxiao Education Limited submits its second Annual Report to the ASX since listing on 2 February 2010.

Through this Report, the Board seeks to provide an update to its shareholders and the market on the results achieved for the 2010 financial year (ended 31 December 2010). These results have previously been advised to the market through the recent release of the Company's Appendix 4E. It should be noted that, in accordance with Chinese accounting practice, Xiaoxiao's financial year begins 1 January to 31 December each year.

The trading year 2010 saw considerable consolidation of the Chinese pre-school sector. Xiaoxiao Education has increased its strong brand recognition in the China market. The Chinese Government continues to encourage reputable and experienced private providers to increase their market share and reduce the burden on state owned facilities. As a result, there remains strong demand by Chinese parents for pre-school places for their children.

However, the increased demand brought a change in the type of services now being required by the market. The previously high demand for full-board facilities, which was provided by some Xiaoxiao pre-schools, has reduced significantly, with Chinese parents now seeking access to day-care only facilities. The Company finalised the transition of its boarding pre-school facilities to normal day-care, by the end of 2010 and is confident that Xiaoxiao will return to profitability in 2011. Regrettably however, this change in market demand has resulted in a negative impact on the 2010 full year performance, when compared to 2009.

For the full 2010 year Xiaoxiao realised revenue of $5.7 million, and a full year operating loss of $2.8 million, including one off IPO costs of $1.8 million. The Company has also suffered from a 10% increase in labour costs. This was a compulsory reform by the Chinese Government imposed on all Chinese businesses to improve the living standards of Chinese workers. This is a disappointing result to the Board and I am sure, also to you as a Xiaoxiao Shareholder.

As an investment in the Company's future, there has been a significant one-off expenditure during the year of $2.05 million to fit-out 3 new pre-schools established late in 2010. All of these new pre-schools are in new, custom built, facilities and offer day-care services in accordance with current market demand.

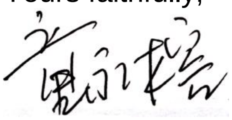
In addition, I am proud to advise that Xiaoxiao has recently received a higher educational accreditation from the Chinese Education Authorities. This new accreditation will allow the Company to receive Government subsidies for its students, facilities and curriculum. Also, the Company is in strong demand by Chinese developers to include Xiaoxiao pre-schools in their new residential complexes. This is a low cost, non-acquisition, method of increasing the Company's spread of its educational facilities throughout China.

Xiaoxiao continues to look for opportunities to expand its portfolio of pre-schools with an additional 5 – 10 pre-schools expected to be acquired or established over the next 12 months. It is anticipated that the funding of these new acquisitions will be through a mixture of self-funding and vendor finance.

With a recent forecast by the World Bank of an increase in GDP of over 8% for 2011, the Chinese economy continues to experience solid growth and is now recognised as the world's second largest and fastest growing economy.

In conclusion, 2010 has been a year of change and consolidation for Xiaoxiao Education Limited. The Company maintains strong management of operating and administration costs. While it is disappointed with the 2010 outcome, the Xiaoxiao Board is confident that the business is based on a firm commercial foundation and will be in a strong position for growth and profitability in 2011.

Yours faithfully,



Madam Tong Yongrong
Executive Chairman & Managing Director
Dated this 31 day of March 2011

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.

OPERATIONAL HIGHLIGHTS

As previously stated in the Executive Chair's Review, in the 2010 Xiaoxiao realised revenues of $5.7 million, and full year operating losses of $1.1 million (excluding the one off IPO costs).

Xiaoxiao continues to be:

- a market leader in a rapidly growing market with outstanding growth potential;
- committed to high quality and innovative education services with a long term commitment to research and development, ensuring that Xiaoxiao maintains prominence and leadership in the market; and
- committed to exploring for new opportunities through expansion and acquisition and to drive efficiencies by overhead cost management.

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Xiaoxiao Education Limited and the entities it controlled at the end of the financial year ended 31 December 2010.

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".

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 Xiaoixiao 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

Appointed – 4 May 2010

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 (Bryant) Zhang – MBA (Ren Min University)

Executive Director

Appointed – 13 August 2010

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 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.

Warren Jacobson – *MBA (Executive), B.Bus LLB (Hons), CA*
Independent, Non-Executive Director
Resigned – 29 April 2010

Mr Jacobson is currently the Managing Director of Study Group, Careers Education Division, a leader in the provision of practical and applied vocational and higher education in Australia. Previously, Warren was the CEO of Kaplan Professional in Australia, a leading provider of professional education to the financial services, tax and accounting and real estate sectors. Warren has public company directorship experience. He holds a Master of Business Administration (Executive) from the Australian Graduate School of Management. In addition he earned both a Bachelor of Business and Bachelor of Laws from the University of Technology, Sydney. He has been admitted as a Solicitor of the Supreme Court of New South Wales and is a member of the Institute of Chartered Accountants in Australia.

Lei Xu *- BEc (Jiaotong University)*
Executive Director, Director of Human Resources
Resigned – 10 August 2010

Mr Xu is the current Director of Human Resources of the Xiaoxiao Group. He holds a Bachelor of Industrial Economy (Business Administration) and a professional qualification in human resource management. Mr Xu has extensive experience in human resources. From 1999 to 2004, Mr Lei Xu worked as a specialized teacher in the business administration department of the Business Administration College of Jiangsu University. He has experience in human resource compliance structure design, job specification establishment, performance management system design, work evaluation and salary design. In addition to his human resource management expertise, Mr Xu understands the economic and regulatory environments in China.

COMPANY SECRETARY

Rita Yuan Wang – Bachelor of International Studies (UNSW)
Company Secretary
Appointed – 1 June 2010

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.

Jo-Anne Dal Santo *– B.Bus ACIS MAICD*
Company Secretary
Resigned – 1 June 2010

Ms Dal Santo has held a variety of roles in private industry in the accounting and finance field and is currently a Director of Red Consulting International Pty Ltd, an accounting and taxation support business located in Melbourne. Ms Dal Santo is an associate of the Institute of Company Secretaries Australia and a member of the Australian Institute of Company Directors. Ms Dal Santo also serves as Company Secretary to ASX listed company Treyo Leisure and Entertainment Limited (based in Hangzhou) and a number of small private businesses.

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	-	-
Total	120,100,000	-

(*) 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.
(***) These Directors have entered into Voluntary Escrow Deeds with the Company dated 19 November 2009 whereby they have agreed not to sell their shares for 24 months from the date of issue.

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.

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 2010.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There are not any matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in the future financial years.

FUTURE DEVELOPMENTS

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:

	Directors' Meetings
Total Number of Meetings Held	**10**

Directors	**Number of meeting attended**
Yongrong Tong	10
Roger Smeed	10
Warren Jacobson	5
Ernest Wong	5
Lei Xu	6
Hao Zhang	4
Yinong Ye	10
Xuhua Li	10
Hongxia Lu	10

Committee Membership

The Audit and Risk Committee and the Nomination and Remuneration Committee were established in November 2009. The number of meetings held by the Committees during the 1 January 2010 to 31 December 2010 period was 1.

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

Audit and Risk Committee	**Number of meeting attended**	**Nomination and Remuneration Committee**	**Number of meeting attended**
Roger Smeed (Chair)	1	Yongrong Tong (Chair)	1
Yongrong Tong	1	Roger Smeed	1
Ernest Wong	0	Ernest Wong	0

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.

Directors	**Position**	**Date Appointed**	**Date Resigned**
Yongrong Tong	Chair (Executive)	16 Nov 2009	-
Warren Jacobson	Director (Independent, Non-Executive)	16 Nov 2009	29 Apr 2010
Roger Smeed	Director (Independent, Non-Executive)	16 Nov 2009	-
Ernest Wong	Director (Independent, Non-Executive)	4 May 2009	-
Lei Xu	Director (Executive)	16 Nov 2009	10 Aug 2010
Hao Zhang	Director (Executive)	13 August 2010	-
Yinong Ye	Director (Executive)	16 Nov 2009	-
Xuhua Li	Director (Executive)	16 Nov 2009	-
Hongxia Lu	Director (Executive)	16 Nov 2009	-
Executives			
Yinong Ye	Chief Financial Officer	1 Apr 2010	-
Bo Peng	General Manager of Marketing	1 June 2010	-
Daling Lou	General Manager of Marketing	16 Nov 2009	1 June 2010
Jierong Zhu	Education Administration Officer	16 Nov 2009	-
Rita Yuan Wang	Company Secretary	1 June 2010	-
Jo-Anne Dal Santo	Company Secretary	18 Nov 2009	1 June 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

2010	Short term benefit Cash, salary and commissions	Equity based remuneration	Total	Equity based percentage
	$	$	$	%
Directors				
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	-
Xu Lei*	40,499	-	40,499	-
Hao Zhang	28,928	-	28,928	-
Executives				
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	
	712,134		712,134	-

*Directors and executives resigned during the year.

2009	Short term benefit Cash, salary and commissions	Equity based remuneration	Total	Equity based percentage
	$	$	$	%
Directors				
Tong Yongrong**	-	-	-	-
Warren Jacobson*	8,333	25,000	33,333	75%
Roger Smeed*	10,000	25,000	35,000	71%
Lei Xu **	-	-	-	-
Yinong Ye **	-	-	-	-
Xuhua Li **	-	-	-	-
Hongxia Lu **	-	-	-	-
Executives				
Anthony Chan**	-	-	-	-
Chui Ming Chau**	-	-	-	-
Daling Lou**	-	-	-	-
Jierong Zhu**	-	-	-	-
Jo-Anne Dal Santo*	4,523	-	4,523	-
	22,856	50,000	72,856	68%

*Salaries included in prepaid IPO cost
**Salaries of these directors and executives are considered pre-acquisition expenses and are paid by the former owner.

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 May 2011, 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 to 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 period 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 2010 for non-audit services.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the period ended 31 December 2010 has been received and can be found on page 17 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 this 31 March 2011

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

GrantThornton

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

**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 2010, 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, 31 March 2011

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

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.

As the Company listed on the ASX in February 2010, detailed review and refinement of the Company's practices relative to the best practice corporate governance as stated below will be progressively undertaken with the support and recommendation from appropriate sub-committees of the Board. In particular, 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 2011.

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 endeavors to ensure that the Directors, officers and employees of the Company act with integrity and observe the highest standards of behavior and business ethics in relation to their corporate activities. The Company's ethical standards and expected ethical behavior 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 2010.

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 2011.

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 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

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.

PRINCPLE 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 2010 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

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2010

	Notes	Consolidated Group 2010 $	Consolidated Group 2009* $
Revenue from school fees		5,681,126	508,983
Other Income		17,920	-
		5,699,046	508,983
School catering and consumables		(976,718)	(89,841)
Depreciation and amortisation expenses		(701,490)	(55,842)
Employee benefits expenses		(3,537,714)	(215,403)
Finance costs	2	(83,316)	(8,600)
IPO costs		(1,782,350)	-
Other expenses	2	(1,395,312)	(108,626)
Share based payment expenses		-	(50,000)
(Loss) before tax		(2,777,854)	(19,329)
Income tax expenses	12	-	-
Profit (loss) for the year		(2,777,854)	(19,329)
Other comprehensive income			
Exchange difference on translation of foreign operations		(817,539)	(304,460)
Total comprehensive income for the year		(3,595,393)	(323,789)
(Loss) attributable to:			
Owners of Xiaoxiao Education Limited		(2,777,854)	(19,329)
Non-controlling interest		-	-
		(2,777,854)	(19,329)
Total comprehensive income is attributable to:			
Parent entity Xiaoxiao Education Limited		(3,595,393)	(323,789)
Non-controlling interest		-	-
		(3,595,393)	(323,789)
Earnings per share attributable to ordinary equity holders			
Basic (cents)		(1.93)	(0.02)
Diluted (cents)		(1.93)	(0.02)

*** The previous period was only for six weeks.**
The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position
As at 31 December 2010

	Note	Consolidated Group 2010 $	Consolidated Group 2009* $
ASSETS			
Current Assets			
Cash and cash equivalents	4	**156,973**	624,127
Other receivables	5	**40,704**	26,401
Other assets	6	**3,833,391**	1,718,006
Total current assets		**4,031,068**	2,368,534
Non-current Assets			
Property, plant and equipment	7	**3,163,014**	3,303,290
Intangible assets	11	**9,888,198**	9,460,417
Total non-current assets		**13,051,212**	12,763,707
Total Assets		**17,082,280**	15,132,241
LIABILITIES			
Current Liabilities			
Trade and other payables	8	**903,044**	1,718,416
Unearned income	9	**481,536**	419,903
Total current liabilities		**1,384,580**	2,138,319
Non-current Liabilities			
Borrowings	10	**1,265,386**	1,385,270
Total non-current liabilities		**1,265,386**	1,385,270
Total Liabilities		**2,649,966**	3,523,589
Net Assets		**14,432,314**	11,608,652
EQUITY			
Issued capital	13	**15,801,789**	9,551,480
Retained profits/(losses)		**(2,797,183)**	(19,329)
Foreign exchange translation reserves		**(1,121,999)**	(304,460)
Capital and reserves attributable to members		**11,882,607**	9,227,691
Non-controlling interest	15	**2,549,707**	2,380,961
Total Equity		**14,432,314**	11,608,652

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2010

Consolidated

	Note	Share Capital $	Retained Profits $	Foreign Currency Translation Reserve $	Non-Controlling Interest $	Total Equity $
Balance as at 1 January 2009		-	-	-	-	-
Non-controlling interest on business combination		-	-	-	2,380,961	2,380,961
Shares issued during the period		9,551,480	-	-	-	9,551,480
Total comprehensive income		-	(19,329)	(304,460)	-	(323,789)
Balance as at 31 December 2009		9,551,480	(19,329)	(304,460)	2,380,961	11,608,652
Balance at 1 January 2010		**9,551,480**	**(19,329)**	**(304,460)**	**2,380,961**	**11,608,652**
Non-controlling interest on business combination	**20**		**-**	**-**	**168,746**	**168,746**
Shares issued during the year, net of costs		**6,250,309**	**-**	**-**	**-**	**6,250,309**
Total comprehensive income		**-**	**(2,777,854)**	**(817,539)**	**-**	**(3,595,393)**
Balance as at 31 December 2010		**15,801,789**	**(2,797,183)**	**(1,121,999)**	**2,549,707**	**14,432,314**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2010

	Note	Consolidated 2010 $	Consolidated 2009* $
Cash Flows From Operating Activities			
Receipts from customers		5,628,559	-
Payments to suppliers and employees		(8,744,111)	(1,664,978)
Interest Paid		(83,132)	-
Net cash outflow from operating activities	25	(3,198,684)	(1,664,978)
Cash Flows from Investing Activities			
Payment for acquisition of business, net of cash acquired	20	(877,066)	-
Payment of deposits for business acquisitions		(2,263,706)	-
Payment for acquisition of property, plant and equipment		(324,124)	-
Net cash acquired on business combination		-	554,063
Net cash outflow/ inflow from investing activities		(3,464,896)	554,063
Cash Flows From Financing Activities			
Proceeds from issues of shares		6,250,309	1
Proceeds from borrowings from a director		-	1,722,036
Net cash inflow from financing activities		6,250,309	1,722,037
Net decrease/increase in cash and cash equivalents		(413,271)	611,122
Cash and cash equivalents brought forward		624,127	-
Effects of exchange rate changes		(53,883)	13,005
Cash and cash equivalents at 31 December 2010	4	156,973	624,127

*** The previous period was only for six weeks.**
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 Company was incorporated on 16 November 2009 and the financial statement shows the result of the Group and the Company from 1 January 2010 to 31 December 2010.

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 there 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 15 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 9 kindergartens and an art training school (refer Note 8 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 1 b), 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:

Class of Fixed Asset	Deprecation Rate
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 are 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 cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

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. A discussion of those future requirements and their impact on the Group follows:

New/revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Impact of new standard on the financial report
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	AASB 132 Financial Instruments: Presentation	AASB 2009-10 makes amendments which clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its non-derivative equity instruments.	31 January 2011	As the entity does not have any rights, options or warrants to acquire their own equity instruments, these amendments will not have any impact on the entity's financial report.
AASB 9 Financial Instruments AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	AASB 139 Financial Instruments: Recognition and Measurement (part)	AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value. In addition, the majority of requirements from AASB 139 for the classification and measurement of financial liabilities has been carried forward unchanged, except in relation to own credit risk where an entity takes the option to measure financial liabilities at fair value. AASB 9 requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income (OCI), unless there is a accounting mismatch in the profit or loss, in which case all gains or losses are to be presented in the profit or loss. The requirements from AASB 139 related to the derecognition of financial assets and liabilities have been incorporated unchanged into AASB 9.	31 December 2013	AASB 9 amends the classification and measurement of financial assets; the effect on the entity will be that more assets are held at fair value and the need for impairment testing has been limited to assets held at amortised cost only. Minimal changes have been made in relation to the classification and measurement of financial liabilities, except 'own credit risk' instruments. The effect on the entity will be that the volatility in the profit or loss will be moved to the OCI, unless there is an accounting mismatch.

Notes to the Financial Statements

New/revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Impact of new standard on the financial report
AASB 124 Related Party Disclosures AASB 2009-12 Amendments to Australian Accounting Standards arising from AASB 124.	AASB 124 Related Party Disclosures	This revision amends the disclosure requirements for government related entities and the definition of a related party.	31 December 2011	Since the entity is not a government related entity; there is not expected to be any changes arising from this standard.
AASB 2009-13 Amendments to AASB 1 arising from Interpretation 19	Interpretation 19	This standard amends AASB 1 to allow a first-time adopter to use the transitional provisions in Interpretation 19 as identified in AASB 1048.	30 June 2011	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.
AASB 2009-14 Prepayments of a Minimum Funding Requirement (Amendments to Interpretation 14)	Interpretation 14	This amendment to Interpretation 14 addresses the unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan.	31 December 2011	As the entity does not have a defined benefit pension plan this amendment to Interpretation 14 is not expected to have any impact on the entity's financial report.
AASB 2010-01 Limited exemption from comparative AASB 7 disclosures for first time adopters (Amendments to AASB 1 and AASB 7)	AASB 1: First-time adoption of Australian Accounting Standards AASB 7 Financial instruments: Disclosures	These amendments principally give effect to extending the transition provisions of AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments to first-time adopters of Australian Accounting Standards.	30 June 2011	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.
AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	None	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e.,split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	30 June 2011	Given the number of standards amended by AASB 2010-3, an example disclosure is not included. Entities assess the impact of each of the amendments on their organisation.

Notes to the Financial Statements

New/revised pronouncement	Superseded pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Impact of new standard on the financial report
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	None	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken in account.	31 December 2011	Given the number of standards amended by AASB 2010-4, an example disclosure is not included. Entities assess the impact of each of the amendments on their organisation.
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	None	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are ‘consideration paid’ in accordance with AASB 139. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	30 June 2011	The amendments are not expected to have a significant impact on the financial statements.
AASB 2010-05 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	None	The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board.	31 December 2011	These amendments have no major impact on the requirements of the amended pronouncements
AASB 7 Financial Instruments: Disclosures (Transfers of Financial Assets)	AASB 7	The Standard amends the disclosures required,, to help users of financial statements evaluate the risk exposures relating to more complex transfers of financial assets (eg. securitisations) and the effect of those risks on an entity’s financial position.	30 June 2012	The Amendments will introduce more extensive and onerous quantitative and qualitative disclosure requirements for de-recognition of financial assets.

Notes to the Financial Statements

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:

- Historical financial performance for the nine months ended 30 September 2009 is representative of future operating performance and cash flow.
- 20 years life of the contracts.
- No growth in revenues or profits.
- No material capital expenditure.
- A risk-adjusted discount rate of 25% was applied to future cashflows. The discount rate of 25% was determined upon consideration of the following risks: country (China), business, key personnel, currency (RMB) and a risk free rate of 6% based on the 10 year bond rate.
- The group has elected to account for the Structure Contracts using the acquisition method (fair value) because it believes that in this context it provides a better reflection of asset value on a going concern basis for users of the financial information. Other methodologies such as historical cost were considered inappropriate in the circumstances.

Notes to the Financial Statements

NOTE 2 Profit before taxation

Profit for the year includes the following expenses

	Consolidated Group 2010 $	Consolidated Group 2009 $
Finance cost		
Interest paid to related parties	**83,132**	8,600
Other expenses		
Rental expenses	**650,698**	37,416

NOTE 3 Earnings per share

	2010 $	2009 $
Loss attributable to members of the parent entity	**(2,777,854)**	(19,329)
	Number of Shares	**Number of Shares**
Weighted average number of ordinary shares used as denominator in calculating basic earnings per share	143,644,179	112,186,667
Diluted earnings per share adjustment	**-**	-
	143,644,179	112,186,667
Basic earnings per share (cents)	**(1.93)**	(0.02)
Diluted earnings per share (cents)	**(1.93)**	(0.02)

NOTE 4 Cash and cash equivalents

	Consolidated Group 2010 $	Consolidated Group 2009 $
Cash in hand and at bank	**156,973**	624,127

Notes to the Financial Statements

NOTE 5 Other receivables

	Consolidated Group 2010 $	Consolidated Group 2009 $
GST receivable	**40,704**	26,401
	40,704	26,401

NOTE 6 Other assets

	Consolidated Group 2010 $	Consolidated Group 2009 $
Prepayments	**-**	24,727
Prepaid IPO expenses	**-**	1,693,279
Rental deposit	**28,281**	-
Deposits paid for purchase of kindergartens	**3,805,110**	-
	3,833,391	1,718,006

NOTE 7 Property, plant and equipment

	Plant & Office Equipment	Motor Vehicles	Land	Buildings	Total
	$	$	$	$	$
2010					
Cost					
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	**548,121**	**41,478**	**376,261**	**3,134,247**	**4,100,107**
Accumulated Depreciation					
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	**(180,228)**	**(39,404)**	**(40,413)**	**(677,048)**	**(937,093)**
Net Carrying value	**367,893**	**2,074**	**335,848**	**2,457,199**	**3,163,014**

Notes to the Financial Statements

NOTE 7 Property, plant and equipment (continued)

	Plant & Office Equipment	Motor Vehicles	Land	Buildings	Total
	$	$	$	$	$
2009					
Cost					
Balance at the beginning of the year	-	-	-	-	-
Acquired on business combination	206,701	44,355	402,355	3,350,939	4,004,349
Foreign currency translation movement	4,865	1,044	9,469	78,864	94,242
Balance at the end of the year	211,566	45,399	411,824	3,429,803	4,098,592
Accumulated Depreciation					
Balance at the beginning of the year	-	-	-	-	-
Acquired on business combination	(134,152)	(42,137)	(33,519)	(551,216)	(761,023)
Depreciation expense	(1,978)	-	(760)	(13,521)	(16,259)
Foreign currency translation movement	(3,171)	(992)	(794)	(13,064)	(18,020)
Balance at the end of the year	(139,300)	(43,129)	(35,072)	(577,801)	(795,302)
Net Carrying value	72,266	2,270	376,752	2,852,002	3,303,290

NOTE 8 Trade and other payables

	Consolidated Group 2010	Consolidated Group 2009
	$	$
Amount due to a director	**633,077**	1,395,980
Other payables	**269,967**	322,436
	903,044	1,718,416

NOTE 9 Unearned income

	Consolidated Group 2010	Consolidated Group 2009
	$	$
School fees received in advance	**481,536**	419,903

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

Notes to the Financial Statements

NOTE 10 Borrowings

	Consolidated Group 2010 $	Consolidated Group 2009 $
Loan from a director (Madam Tong)	**1,265,386**	1,385,270

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 totalling RMB$8,480,000 (equivalent to AUD $1,265,386) 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 6.10% (2009: 5.40%) on the Loans from Madam Tong.

NOTE 11 Intangible assets – structure contracts

	Consolidated Group 2010 $	Consolidated Group 2009 $
Fair value of structure contracts	**9,500,000**	9,500,000
Additional structure contracts with new kindergartens signed during the year	**902,781**	-
Less: Accumulated amortisation	**(514,583)**	(39,583)
Net carrying amount	**9,888,198**	9,460,417

The entities controlled by structure contracts as detailed in Note 7, 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).

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;

Notes to the Financial Statements

NOTE 11 Intangible assets – structure contracts (continued)

Details of the Structure Contracts (continued)

- 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 12 Taxation

	Consolidated Group 2010 $	Consolidated Group 2009 $
Current year taxation	-	-

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

	Consolidated Group 2010 $	Consolidated Group 2009 $
Profit before tax	(2,777,854)	(19,329)
Prima facie tax on "profit before income tax" at local tax rate	(772,596)	(10,907)
Tax effect of amounts which are not deductible/(taxable)		
- Depreciation and amortisation	475,000	15,000
- Share based payments	-	11,875
- Exempted income	(1,794,345)	(25,539)
Tax effect of unrecognised temporary differences	2,091,941	9,571
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. The unrecognised tax losses amounted to $4,865,014 (2009: $31,903)

Notes to the Financial Statements

NOTE 13 Issued Capital

	Consolidated Group 2010 $	Consolidated Group 2009 $
Ordinary shares	**15,801,789**	9,551,480

Movements in ordinary share capital

	Company 2010 Number of Shares	2010 $	Company 2009 Number of Shares	2009 $
Balance at the beginning of the period/year	**120,200,000**	**9,551,480**	1	1
Fair value of shares issued to existing shareholders of Happy Elegant International Limited	**-**	**-**	18,679	1,479
Fair value of shares issued for structure contracts	**-**	**-**	119,981,320	9,500,000
Fair value of shares issued to directors for services provided	**-**	**-**	200,000	50,000
11/01/2010 – allotment of ordinary fully paid shares (IPO)	**24,068,000**	**6,017,000**	-	-
05/08/201 – allotment of ordinary fully paid shares	**3,828,037**	**382,804**	-	-
Capitalisation of IPO expenses	**-**	**(149,495)**	-	-
Balance at the end of the period/year	**148,096,037**	**15,801,789**	120,200,000	9,551,480

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

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

Notes to the Financial Statements

NOTE 14 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.

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 2010 $	Consolidated Group 2009 $
Total liabilities	**2,649,966**	3,523,589
Less cash and cash equivalents	**(156,973)**	(624,127)
Net debt	**2,492,993**	2,899,462
Total equity	**14,432,314**	11,608,652
Gearing ratio	**0.17**	0.25

NOTE 15 Investment in Subsidiaries

Subsidiary of Xiaoxiao Education Limited is:

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

Subsidiary of Happy Elegant International limited is:

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

Notes to the Financial Statements

NOTE 15 Investment in Subsidiaries (continued)

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

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

* Entities are controlled by Structure contracts as detailed in Note 11.

NOTE 16 Non-controlling interest

	Consolidated Group 2010 $	Consolidated Group 2009 $
Interest in the Kindergartens & Art School		
Contribution equity	**2,132,696**	1,963,950
Retained profit	**417,011**	417,011
	2,549,707	2,380,961

NOTE 17 Auditor remuneration

	Consolidated Group 2010 $	Consolidated Group 2009 $
Grant Thornton Audit Pty Ltd		
- Review and Audit of financial report	120,000	40,000

Notes to the Financial Statements

NOTE 18 Commitments

(i) Operating Lease Commitments

Non-cancellable operating leases contracted for:

	Consolidated Group 2010 $	Consolidated Group 2009 $
Payable – minimum lease payments:		
- not later than 12 months	**519,677**	396,877
- between 12 months and five years	**1,806,218**	1,554,889
- greater than five years	**525,256**	956,568
	2,851,151	2,908,334

(ii) Issued capital requirements

In accordance with issued capital requirements of Yong-rong Education, the group will be required to top up the issued capital of Yong-rong Education to USD$84,000 within 2 years of the date of its incorporation, being 18 August 2009. As at 31 December 2010, the issued capital of Yong-rong Education is USD$16,000.

NOTE 19 Contingent liabilities and contingent assets

(i) Literacy Circle Product licence agreement

	Consolidated Group 2010 $	Consolidated Group 2009 $
Payable – minimum lease payments:		
- not later than 12 months	27,874	27,874
- between 12 months and five years	-	27,874
- greater than five years	-	-
	27,874	55,748

On 13 May 2009, the group entered into a Literacy Circle Product Licence Agreement with Learning Circle International Pty Ltd (Licence Agreement) pursuant to which Learning Circle International Pty Ltd, as Master Licensee of Literacy Circle materials. The Licence was granted for an initial term of 2 years from 15 May 2009 with 2 options to extend the term of the Licence for 3 years each. The Chinese government has not issued approvals to Xiaoxiao Education for using Learning Circles materials despite extensive representations. As a result, Xiaoxiao have requested a termination of the agreement. The proposed termination is the subject of ongoing discussions, in good faith, between the parties.

Other than the above, the directors are not aware of any other commitment that should be disclosed.

Notes to the Financial Statements

NOTE 20 Business combination

Pursuant to structure contracts signed during the year. Details of purchase consideration and net asset acquired are as follows:

	$
Cash paid	902,781

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

	Fair Value $
Cash and cash equivalents	25,715
Other receivable	248,783
Intangible assets – structure contracts	902,781
Unearned income	(117,817)
Foreign exchange translation adjustment	12,065
	1,071,527
Non-controlling interest	(168,746)
Fair value of net assets acquired	902,781

Purchase consideration – cash outflow

	$
Cash paid	902,781
Less: Cash acquired	(25,715)
	877,066

NOTE 21 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 21 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 $1,352,374 as a result of a standstill agreement between the group and the director (see Note 10).

At 31 December 2010 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 $1,352 more/less mainly as a result of higher interest expenses from borrowings.

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

2010	**Weighted Average Effective Interest Rate %**	**Floating Interest Maturing Within 1 Year $**	**Floating Interest Maturing Within 2-3 Year $**	**Non-interest Bearing $**	**Total $**
Financial Assets					
Cash and equivalents	**3.15%**	**-**	**-**	**156,973**	**156,973**
Receivables	**-**	**-**	**-**	**40,704**	**40,704**
Total Financial Assets		**-**	**-**	**197,677**	**197,677**
Financial Liabilities					
Payables	**-**	**-**	**-**	**903,044**	**903,044**
Borrowings	**6.10%**	**-**	**1,265,386**	**-**	**1,265,386**
Total Financial Liabilities		**-**	**1,265,386**	**903,044**	**2,168,430**

2009	**Weighted Average Effective Interest Rate %**	**Floating Interest Maturing Within 1 Year $**	**Floating Interest Maturing Within 2-3 Year $**	**Non-interest Bearing $**	**Total $**
Financial Assets					
Cash and equivalents	-	-	-	624,127	624,127
Receivables	-	-	-	26,401	26,401
Total Financial Assets	-	-	-	650,528	650,258
Financial Liabilities					
Payables	-	-	-	1,718,416	1,718,416
Borrowings	5.40%	-	1,385,270	-	1,385,270
Total Financial Liabilities		-	1,385,270	1,718,416	3,103,686

Notes to the Financial Statements

NOTE 21 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 $156,973 and outstanding receivables of $40,704.

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 amounting to $1,898,463, of which $1,265,386 is 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 22 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 consist of the holding company which manages all ASX related corporate activities.

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

2010	**China**	**Australia**	**Total**
	$	**$**	**$**
Segment assets	7,976,226	9,106,054	17,082,280
Includes:			
Addition to non-current assets	*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)

2009	**China**	**Australia**	**Total**
	$	**$**	**$**
Segment assets	5,267,489	9,864,752	15,132,241
Includes:			
Addition to non-current assets	*4,004,349*	*9,500,000*	*13,504,349*
Segment liabilities	(3,094,832)	(434,757)	(3,529,589)
Total segment revenue	508,983	-	508,983
Segment loss before tax	102,156	(121,485)	(19,329)

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.

Notes to the Financial Statements

NOTE 23 Events after balance date

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 24 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 2010.

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

	Consolidated Group 2010 $	Consolidated Group 2009 $
Short-term employee benefits	712,134	22,856
Share based payments	-	50,000
	712,134	72,856

KMP Shareholdings

2010	Balance 1 Jan 2010	Received as compensation	Resigned as director	Balance 31 Dec 2010
Yongrong Tong	120,000,000	-	-	120,000,000
Roger Smeed	100,000	-	-	100,000
Warren Jacobson	100,000	-	(100,000)	-
	120,200,000	-	(100,000)	120,100,000

2009	Balance 16 Nov 2009*	Received as compensation	Resigned as director	Balance 31 Dec 2010
Yongrong Tong	-	120,000,000	-	120,000,000
Roger Smeed	-	100,000	-	100,000
Warren Jacobson	-	100,000	-	100,000
	-	120,200,000	-	120,200,000

* Date of incorporation of Xiaoxiao Education Limited.

KMP option holding

No options were held by key management personnel during the year ended 31 December 2010 and 31 December 2009.

Notes to the Financial Statements

NOTE 24 Interest of key management personnel (KMP) (continued)

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 8 Trade and other payables and Note 10 Borrowings.

NOTE 25 Cash Flow Information

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

	Consolidated Group 2010 $	Consolidated Group 2009 $
Net loss after tax for the period	(2,777,854)	(19,329)
Depreciation and amortisation	701,490	55,842
Share based payments	-	50,000
Movement in payables	(1,051,833)	322,436
Movement in receivables and other assets	(14,303)	(2,073,927)
Movement in unearned income	(56,184)	-
Net cash flow from operating activities	(3,198,684)	(1,664,978)

NOTE 26 Parent Company Information

Parent Entity	**2010 $**	**2009 $**
Asset		
Current assets	6,087,034	402,856
Non-current assets	9,037,499	9,461,896
Total assets	**15,124,533**	**9,864,752**
Liabilities		
Current liabilities	1,006,189	434,757
Total liabilities	**1,006,189**	**434,757**
Equity		
Issued capital	15,801,789	9,551,480
Retained earnings	(1,683,445)	(121,485)
	14,118,344	9,429,995

Notes to the Financial Statements

NOTE 26 Parent Company Information (continued)

Parent Entity	2010 $	2009 $
Financial performance		
Loss for the year	(1,561,959)	(121,485)
Other comprehensive income	-	-
Total comprehensive income	**(1,561,959)**	**(121,485)**

The parent company has no contractual commitments or contingent liabilities at 31 December 2010.

NOTE 27 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 30 to 61 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 2010 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 the become due and payable.

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

Roger Smeed
Director

Dated this 31st March 2011

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF XIAOXIAOEDUCATION LIMITED

Grant Thornton

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

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 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report 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 and fair presentation of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that are 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.

Grant Thornton

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 2010 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 the directors' report for the year ended 31 December 2010. 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.

Grant Thornton

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Xiaoxiao Education Limited for the year ended 31 December 2010, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Director – Audit & Assurance Services

Adelaide, 31 March 2011

ADDITIONAL ASX INFORMATION

Additional information required by the Australia Stock Exchange Ltd and not shown else where in this Report is as follows. This information is current as at 22 March 2011.

a. Distribution of equity securites

144,268,000 fully paid ordinary shares are held by 520 individual shareholders.
All issued ordinary shares carry on vote per share and carry the rights to dividends.

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

	Fully Paid ordinary shares
1 – 1000	1
1,001 – 5,000	2,439
5,000 – 10,000	3,968,509
10,001 – 100,000	3,250,085
100,001 – 9,999,999	140,875,003
	148,096,037

Holdings less than a marketable parcel NIL

b. Escrowed securities

	Number of shares
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:

	Listed ordinary shares	
	Number of shares	Percentage of ordinary shares
Sunflower (China Investments) Limited	120,000,000	81.03%
Citicorp Nominees Pty Limited	15, 065, 002	10.17%
McNeil Nominees Pty Limited	3,309, 000	2.23%

d. Twenty largest shareholders

Rank	Name	Units	% of Units
1.	SUNFLOWER (CHINA INVESTMENTS) LIMITED	120,000,000	81.03
2.	CITICORP NOMINEES PTY LIMITED	15,065,002	10.17
3.	MCNEIL NOMINEES PTY LIMITED	3,309,000	2.23
4.	MR WILLIAM EDWARD HOLMES <W & H HOLMES SUPER FUND A/C>	1,250,000	0.84
5.	EXWERE INVESTMENTS PTY LTD <EXWERE SUPER FUND A/C>	500,000	0.34
6.	MRS MAURA ELIZABETH BRAITHWAITE	306,001	0.21
7.	MRS LEANNE NOLA FRASER	250,000	0.17
8.	MR WALTER MELVILLE DOWER	195,000	0.13
9.	MR WILLIAM EDMUND BRENT	100,000	0.07
10.	CARIBOU LTD	100,000	0.07
11.	MR LEIGH HAROLD HISCOCK + MRS CORAL FRANCIS HISCOCK <LECOH S/F A/C>	100,000	0.07
12.	JACOBSON FAMILY HOLDINGS PTY LIMITED <THE JACOBSON FAMILY A/C>	100,000	0.07
13.	JOYLENE FRASER SUPER MANAGEMENT PTY LTD <JOYLENE FRASER S/F A/C>	100,000	0.07
14.	MR ANDREW PETER OCIPKA	100,000	0.07
15.	MR ANTHONY DAVID PURSER <AD PURSER SUPER FUND A/C>	100,000	0.07
16.	ROGER SMEED & ASSOCIATES PTY LTD <RF INVESTMENT A/C>	100,000	0.07
17.	STROUD NOMINEES PTY LTD <BYRT SUPERANNUATION FUND A/C>	97,500	0.07
18.	MR ANDREW JOHN CAMERON	85,000	0.06
19.	AUSSIE WATER BOARES	70,000	0.05
20.	CHASE MORTGAGE PTY LTD <ROWLANDS MORTGAGE A/C>	70,000	0.05