



XIAOXIAO EDUCATION LIMITED

ACN 140 573 762

242 Angas Street | Adelaide SA 5000 | Australia

26 October 2015

Ms Luxmy Wigneswaran
Principal Adviser, Listings Compliance (Sydney)
ASX Compliance Pty Ltd
20 Bridge Street
Sydney NSW 2000

**Re: Continuous Disclosure Matters - Xiaoxiao Education Limited
(ASX: XXL)**

Dear Ms Wigneswaran

Please find attach an ASX Announcement regarding Xiaoxiao Education Limited, for immediate release.

Yours Sincerely

Rita Wang
Company Secretary
Xiaoxiao Education limited



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FOR IMMEDIATE RELEASE

Taking into account the best available current information, I advise the following market updates on a number of matters concerning Xiaoxiao Education Limited (ASX:XXL).

Termination of Agreement relating to the acquisition of XXL shares by Mr Xu Zi and change of nature of business

I refer to previous announcements during 2012, 2013 and 2014 regarding the possible acquisition of a majority of ordinary shares in Xiaoxiao Education Limited (XXL) by Mr Xu Zi and companies associated with him, specifically, all of the issued ordinary shares in Xiaoxiao Education Limited held by its Executive Chairman, Madam Yongrong Tong.

Mr Xu is the Managing Director and owner of Australia China Mining Limited, which through a subsidiary, controls Qijiang Pingdong Mining Company Limited (PRC), a China based company. Mr Xu indicated that it was his intention to enter into iron ore mining production in the Chongqing province of the Peoples Republic of China (PRC). Mr Xu was then to enter into an agreement with Madam Tong for her to buy the China based educational assets of the Company.

Even though XXL shareholders passed all resolutions at a General Meeting to give effect to the Xu transaction, the acquisition has not been concluded. In the time since the Meeting, and in particular more recently, a number of attempts to contact Mr Xu and his associates have been made without success.

Consequently, in accordance with the Implementation Agreement signed by the parties, XXL's legal representatives have written to Mr Xu and advised that XXL was withdrawing from, and has terminated, the proposed transaction. The Company therefore remains an educational business and no changes have been made to the composition of the existing XXL Board.

On 11 March 2014, the Company applied for, and was granted, voluntary suspension from the ASX. That suspension remains in place. The Company has paid all of its current ASX Listing Fees and ASIC fees.

Current Situation of Xiaoxiao's Executive Chairman, Madam Yongrong Tong and the status of the Xiaoxiao China based educational assets

I refer to the previous announcement dated 8 January 2015, regarding unconfirmed information that the Executive Chairman of Xiaoxiao Education Limited, Madam Yongrong Tong was the subject of allegations in China that she was "suspected of taking public deposits". That announcement also stated that there was no confirmation of the allegations.

During recent meetings in China with senior Hangzhou (PRC) Government officials and, separately with Madam Tong's legal adviser, confirmation was received that charges had been laid against Madam Tong and that she is currently being detained by the relevant Chinese authorities. No direct contact was able to be made with Madam Tong. Further advice was also received that the charges were expected to be heard in the appropriate court, probably during the first half of 2016.

Confirmation was also received from the Government authorities, that the charges were directed at Madam Tong personally for matters concerning her alleged personal activities, and that no action was being contemplated against the Company.

However, it is alleged that, among other matters, Madam Tong had diverted funds, which would normally be used to fund the Xiaoxiao pre-school network in China. As a consequence of the alleged diversion of these funds, the Hangzhou Government have stepped in to ensure that the pre-schools and the thousands of children that are enrolled in them, have certainty of continuity, with the Government providing and underwriting short-term funding and assuming management of the pre-schools. At no time was the XXL Board asked to step in and offer the continuity guarantees that could, and would, have been given by XXL.

It is understood that the short-term funding of the pre-schools, which was provided by the Government, has been recovered and the pre-schools are now self-funding and any profits are currently being retained by the Government

It should be stated that there has been no conviction of Madam Tong regarding the charges against her, nor has the case been concluded. As a result, a presumption of innocence must be assumed and the process of natural justice will be followed. At this time, Madam Tong remains the major shareholder and Chairman of the Company, although the Board will further consider this at the appropriate time.

In the discussions with the Hangzhou Government officials, the ownership of the pre-schools through structured contracts, by the ASX listed Xiaoxiao Education Limited was raised, and a request made for the management of the pre-schools to be returned to XXL or a nominee acceptable to the Government. Significant documentation to prove the XXL ownership was provided.

While the Government acknowledged the XXL ownership claim, because of the nature of the management of the pre-schools, where pre-schools were run under a long-term Government granted licence to a China based company associated with Madam Tong, which had then entered into a structured contracts arrangement with XXL upon its listing on the ASX, the Government officials advised that the Government is not prepared to hand the management of the pre-schools over to any party until the legal matters concerning Madam Tong have been completed.

Sale of Breakfast Point Childcare Centre

To ensure the payment of its Australian creditors, Xiaoxiao Education Limited has been in discussions for the sale of the Breakfast Point Childcare Centre located in Concord NSW. The sale has now been agreed and settled. The Centre has been sold to the Waterwood Group Pty Ltd for a consideration of \$180,000.

The sale proceeds will allow the Company to pay Australian creditors, including the ATO and staff entitlements.

Current XXL position

With the termination of the proposed transaction with Mr Xu, and the current position with regard to the Hangzhou Government's attitude to the XXL China based educational assets, and the sale of the Breakfast Point Childcare Centre, the XXL Board is reviewing the Company's current position. Despite being up-to-date with its listing fees, and shortly, its Australian creditors, the Board is conscious that it has to take significant steps towards the Company being re-listed before the end of 2015, otherwise it faces removal from the Official List of the ASX

The Board is considering the Company's current position and is examining a number of possibilities to obtain funding to take the Company forward.

Further updates regarding the Xiaoxiao Education Limited will be provided when available.

Roger Smeed
Deputy Chairman