

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008CONTENTSPAGE(S)

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REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of the Company for the year ended June 30, 2008.

PRINCIPAL ACTIVITY

The Company continued to engage in funds raising to support the operations of the Education Program in the People's Republic of China.

RESULTS

The results of the Company for year ended June 30, 2008 are set out in the income and expenditure account on pages 5 and 6.

PROPERTY, PLANT AND EQUIPMENT

Details of the Company's acquisition and other movements of property, plant and equipment during the year are set out in note 6 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Au Ho (Chairman)	(resigned and re-appointed on September 30, 2007)
Chan Kin Kan	(resigned and re-appointed on September 30, 2007)
Choi Shiu Ming (Vice Chairman)	(appointed on September 30, 2007)
Li Suet Ping, Vickie (Vice Chairman)	(appointed on September 30, 2007)
Cheung Kwan Hing	(appointed on September 30, 2007)
Leung Yuk Kit	(appointed on September 30, 2007)
Ng Kwok Keung	(appointed on September 30, 2007)
Cheung Sui Lam	
Liu Kwok Kau	(resigned on September 30, 2007)
To Yung Sing, Herman (Vice Chairmen)	(resigned on October 16, 2007)
Leung Kin Wah	(appointed on September 30, 2007 and resigned on October 16, 2007)

In accordance with Article 44(b) of the Company's Articles of Association, Mr. Cheung Sui Lam will retire but eligible for re-election.

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## AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as the honorary auditor of the Company.

On behalf of the Board



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DIRECTOR

September 3, 2008



## REPORT OF THE HONORARY AUDITOR

### TO THE MEMBERS OF SOWERS ACTION

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We have audited the financial statements of Sowers Action (the "Company") set out on pages 5 to 24, which comprise the balance sheet as at June 30, 2008, and the income and expenditure account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity'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 statements.

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

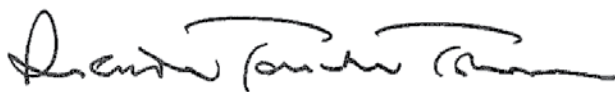
**REPORT OF THE HONORARY AUDITOR****TO THE MEMBERS OF SOWERS ACTION** - continued

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**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at June 30, 2008 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
September 3, 2008



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INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>2008</u> HK\$	<u>2007</u> HK\$
<b>INCOME</b>		
Contribution from Ancient Tea Horse Route	2,744,984	12,974,802
Contribution from Challenging 12 Hours Project	2,717,348	2,395,541
Contribution from Charity Golf Tournament	440,354	595,619
Contribution from Long March for Education Project - 2006 Sichuan	-	1,146,390
Contribution from Long March for Education Project - 2007 Guizhou	1,247,484	33,999
Contribution from Long March for Education Project - 2008 Gansu	49,800	-
Contribution from SA Cup Project	-	71,416
Contribution from Walk to Guangzhou Project	2,182,201	3,218,511
Contribution for 512 Sichuan Earthquake Relief Education Fund	11,760,374	-
Contribution from Spring Walk for Education - 2008 Beijing	1,713,680	-
Donations	30,043,848	21,080,995
Interest income	2,291,007	2,047,997
Subscription fees	110,992	161,661
Changes in fair value of investments held for trading	47,494	45,009
Exchange gain	3,203,614	2,129,521
	<u>58,553,180</u>	<u>45,901,461</u>
<b>EXPENDITURE ON EDUCATION PROGRAM</b>		
Contribution to Education Program		
- General	41,482,492	15,168,100
- Long March for Education Project	2,102,794	6,339,561
- 512 Sichuan Earthquake Relief Education Fund	6,965,200	-
	<u>50,550,486</u>	<u>21,507,661</u>
Traveling subsidies to work group	194,436	176,555
<b>TOTAL EXPENDITURE ON EDUCATION PROGRAM</b>	<u>50,744,922</u>	<u>21,684,216</u>
<b>PROMOTIONAL EXPENDITURE</b>		
Promotion	134,636	303,533
<b>ADMINISTRATIVE EXPENDITURE</b>		
Auditor's remuneration	-	-
Bank charges	36,161	24,750
Computer accessories	198,801	73,876
Contribution to retirement benefit scheme	93,397	80,401
Depreciation of property, plant and equipment	81,379	14,126
Directors' remuneration	-	-
Office expenses	1,142,622	586,786
Other staff costs	2,075,461	1,383,636
Postage	130,087	110,432
Printing and stationery	218,537	287,802
Sundries	57,945	62,270
Telephone and facsimile	10,700	11,501
Travelling	20,612	5,049
<b>TOTAL ADMINISTRATIVE EXPENDITURE</b>	<u>4,065,702</u>	<u>2,640,629</u>

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	<u>2008</u> HK\$	<u>2007</u> HK\$
OTHER EXPENSES		
Sponsoring expenses	-	1,213,454
Loss on disposal of investments held for trading	5,205	-
	<u>5,205</u>	<u>1,213,454</u>
FINANCE COSTS		
Interest on a finance lease	1,931	2,397
TOTAL EXPENDITURE	<u>54,952,396</u>	<u>25,844,229</u>
SURPLUS FOR THE YEAR	<u>3,600,784</u>	<u>20,057,232</u>
TRANSFER TO (FROM)		
Chinese Education Fund		
- General	(2,272,046)	23,653,023
- Long March for Education Project	(805,510)	(5,159,172)
	(3,077,556)	18,493,851
Administration Fund	(170,131)	(53,202)
Development Fund	2,073,462	1,684,363
Administration Fund for Non-Recurring Projects	(20,165)	(67,780)
512 Sichuan Earthquake Relief Education Fund	4,795,174	-
	<u>3,600,784</u>	<u>20,057,232</u>

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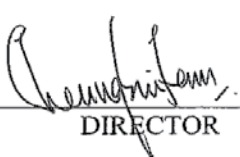
BALANCE SHEETAT JUNE 30, 2008

	<u>NOTES</u>	<u>2008</u> HK\$	<u>2007</u> HK\$
Non-current asset			
Property, plant and equipment	6	342,081	46,865
Current assets			
Other receivables, prepayments and deposits		1,111,741	770,960
Investments held for trading	7	2,212,132	3,729,444
Fixed deposits	8	71,646,690	67,599,851
Bank balances and cash	8	17,872,893	17,563,533
		<u>92,843,456</u>	<u>89,663,788</u>
Current liabilities			
Other payables and accrued charges		5,224,337	1,162,303
Deferred income		820,069	5,003,178
Obligations under a finance lease - current	9	5,340	4,825
		<u>6,049,746</u>	<u>6,170,306</u>
Net current assets		<u>86,793,710</u>	<u>83,493,482</u>
Total assets less current liabilities		87,135,791	83,540,347
Non-current liability			
Obligations under a finance lease - non-current	9	10,954	16,294
		<u>87,124,837</u>	<u>83,524,053</u>
Reserves		<u>87,124,837</u>	<u>83,524,053</u>

The financial statements on pages 4 to 24 were approved and authorised for issue by the Board of Directors on September 3, 2008 and are signed on its behalf by:



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DIRECTOR



\_\_\_\_\_  
DIRECTOR



SOWERS ACTION

## 苗圃行動

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STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Chinese Education Fund</u>							
	<u>General</u>	<u>Long March</u>	<u>Sub-</u>	<u>Administration</u>	<u>Development</u>	<u>Administration</u>	<u>512 Sichuan</u>	
	<u>HK\$</u>	<u>for Education</u>	<u>total</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund for</u>	<u>Earthquake</u>	<u>Total</u>
		<u>Project</u>	<u>HK\$</u>	<u>HK\$</u>	<u>HK\$</u>	<u>Non-Recurring</u>	<u>Relief</u>	
		<u>HK\$</u>				<u>Projects</u>	<u>Education Fund</u>	
						<u>HK\$</u>	<u>HK\$</u>	<u>HK\$</u>
At July 1, 2006	33,510,128	18,518,419	52,028,547	4,274,738	5,947,914	1,215,622	-	63,466,821
Transfer from (to)								
surplus for the year	23,653,023	(5,159,172)	18,493,851	(53,202)	1,684,363	(67,780)	-	20,057,232
At June 30, 2007	57,163,151	13,359,247	70,522,398	4,221,536	7,632,277	1,147,842	-	83,524,053
Transfer from (to)								
surplus for the year	(2,272,046)	(805,510)	(3,077,556)	(170,131)	2,073,462	(20,165)	4,795,174	3,600,784
Transfer from (to)								
the fund for the year	(3,000,000)	-	(3,000,000)	-	(8,700,000)	-	11,700,000	-
At June 30, 2008	51,891,105	12,553,737	64,444,842	4,051,405	1,005,739	1,127,677	16,495,174	87,124,837

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CASH FLOW STATEMENTFOR THE YEAR ENDED JUNE 30, 2008

	<u>2008</u> HK\$	<u>2007</u> HK\$
<b>OPERATING ACTIVITIES</b>		
Surplus for the year	3,600,784	20,057,232
Adjustments for:		
Depreciation of property, plant and equipment	81,379	14,126
Interest on a finance lease	1,931	2,397
Loss on disposal of investments held for trading	5,205	-
Changes in fair value of investments held for trading	(47,494)	(45,009)
Interest income	(2,291,007)	(2,047,997)
Operating cash flows before movements in working capital	1,350,798	17,980,749
(Decrease) increase in deferred income	(4,183,109)	3,791,180
Increase in other payables and accrued charges	4,062,034	1,149,820
(Increase) decrease in other receivables, prepayments and deposits	(340,781)	43,926
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<u>888,942</u>	<u>22,965,675</u>
<b>INVESTING ACTIVITIES</b>		
Decrease (increase) in fixed deposits with more than three months to maturity when raised	12,940,255	(6,199,773)
Interest income received	2,291,007	2,047,997
Proceeds from disposal of investments held for trading	1,559,601	300,000
Purchase of property, plant and equipment	(376,595)	(5,580)
<b>NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>	<u>16,414,268</u>	<u>(3,857,356)</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of obligations under a finance lease	(4,825)	(4,359)
Interest on a finance lease	(1,931)	(2,397)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(6,756)</u>	<u>(6,756)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	17,296,454	19,101,563
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<u>53,348,157</u>	<u>34,246,594</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<u>70,644,611</u>	<u>53,348,157</u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Fixed and call deposits	71,646,690	67,599,851
Bank balances and cash	17,872,893	17,563,533
	89,519,583	85,163,384
Less: Fixed deposits with more than three months to maturity when raised	(18,874,972)	(31,815,227)
	<u>70,644,611</u>	<u>53,348,157</u>

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NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED JUNE 30, 2008

## 1. GENERAL

The Company is incorporated in Hong Kong with limited liability by guarantee. The address of the registered office and principal place of business of the Company is Unit no. 101, 1/F Sunbeam Plaza, 1155 Canton Road, Kowloon, Hong Kong.

The Company continued to engage in funds raising to support the operations of the Education Program in the People's Republic of China (the "PRC").

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Company has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Company's financial year beginning on or after June 1, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of embedded derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) - Int 11	HKFRS 2: Group and Treasury Share Transactions

Except for the changes in disclosures as set out below, the adoption of those new HKFRSs has no material impact on the Company's results and financial position for current or prior years, and does not result in any significant changes in the accounting policies of the Company.

The Company has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Company has not early applied the following new and revised standards, amendment and interpretations that have been issued but are not yet effective.

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## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") - continued

The Company has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>2</sup>
HKFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>1</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HKFRIC 12	Service Concession Arrangements <sup>3</sup>
HKFRIC 13	Customer Loyalty Programmes <sup>4</sup>
HKFRIC 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>3</sup>
HKFRIC 15	Agreements for the Construction of Real Estate <sup>1</sup>
HKFRIC 16	Hedges of a Net Investment in a Foreign Operation <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2009

<sup>2</sup> Effective for annual periods beginning on or after July 1, 2009

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2008

<sup>4</sup> Effective for annual periods beginning on or after July 1, 2008

<sup>5</sup> Effective for annual periods beginning on or after October 1, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Company.



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## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and include applicable disclosures required by the Hong Kong Companies Ordinance.

Income and expenditure

Income and expenditure is accounted for on an accrual basis, except for donations which are accounted for on a cash basis.

Interest income from a financial asset including financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or carrying amount of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income and expenditure account in the year in which the item is derecognised.

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## 3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Company as lessee*

Assets held under finance leases are recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income and expenditure account.

Rentals payable under operating leases are charged to income and expenditure account on a straight-line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease terms on a straight-line basis.

Retirement benefit cost

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Foreign currencies

Transactions in currencies other than the functional currency of the Company (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the Company operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income and expenditure account in the period in which they arises.

Borrowing costs

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

Taxation

The Company is exempted under Section 88 of the Inland Revenue Ordinance from any tax levied in Hong Kong by reason of being a charitable institution or trust of a public character.



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## 3. SIGNIFICANT ACCOUNTING POLICIES - continued

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income and expenditure account.

**Financial assets**

The Company's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

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## 3. SIGNIFICANT ACCOUNTING POLICIES - continued

**Financial instruments** - continued**Financial assets** - continued*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (other receivables, fixed deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income and expenditure account in the period in which they arise.

**Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

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**3. SIGNIFICANT ACCOUNTING POLICIES - continued****Financial instruments - continued****Impairment of financial assets - continued**

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis

***Financial liabilities***

Financial liabilities including other payables and obligations under a finance method lease are subsequently measured at amortised cost, using the effective interest method.

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the income and expenditure account.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable or receivable is recognised in the income and expenditure account.



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## 3. SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred income

Contribution (not including donations for education) received prior to the commencement and completion of a project is deferred. Upon completion of the project, the contribution net of related expenses incurred for the project is credited/charged to income and expenditure account.

Long March for Education Project is an activity jointly hosted by the Company and China Youth Development Foundation. The surplus or deficit arising from contribution for administrative expenditure and the related administrative expenses incurred prior to the completion of this activity is deferred and will be recognised to funds designated by the board of directors when the activity is completed.

Chinese Education Fund

The purpose of the Chinese Education Fund is to support and finance the development of the Education Program in the PRC.

Administration Fund

The purpose of the Administration Fund is to finance the administrative expenditure of the Company.

Development Fund

The purpose of the Development Fund is to finance the development of the Education Program in the PRC and the administrative expenditure of the Company.

Administration Fund for Non-Recurring Projects

The purpose of the Administration Fund for Non-Recurring Projects is to provide funding for the pre-operating administrative expenses incurred for non-recurring projects of the Company. The fund was established on January 1, 2006.

512 Sichuan Earthquake Relief Education Fund

The purposes of the 512 Sichuan Earthquake Relief Education Fund are to rebuild schools, to provide basic living necessities to children and to install temporary schooling facilities in the disaster areas.

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## 4. FINANCIAL INSTRUMENTS

## (a) Categories of financial instruments

	<u>2008</u> HK\$	<u>2007</u> HK\$
<b>Financial assets</b>		
<i>Financial asset at fair value through profit and loss</i>		
Investments held for trading	2,212,132	3,729,444
<i>Loans and receivables</i>		
Other receivables	878,148	693,967
Fixed deposits	71,646,690	67,599,851
Bank balances and cash	17,872,893	17,563,533
	<u>90,397,731</u>	<u>85,857,351</u>
<b>Financial liabilities</b>		
<i>Financial liabilities stated at amortised cost</i>		
Other payables	5,118,813	1,145,728
Deferred income	820,069	5,003,178
Obligations under a finance lease	16,294	21,119
	<u>5,955,176</u>	<u>6,170,075</u>

## (b) Financial risk management objectives and policies

The Company's major financial instruments include other receivables, fixed deposits, investments held for trading, bank balances, other payables, deferred income and obligations under a finance leases. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Company's overall policies remain unchanged from prior year.

## (i) Market risks

(i) Interest rate risk

The Company is exposed to fair value interest rate risk in relation to fixed-rate bank deposits.

The Company also exposed to cash flow interest rate risk in relation to variable-rate bank balances. It is the Company's policy to keep fixed-rate deposits so as to minimise cash flow interest rate risk.

No sensitivity analysis in the exposure to interest rate of its variable rate bank balance was prepared since the amount involved is not significant.

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## 4. FINANCIAL INSTRUMENTS - continued

## (b) Financial risk management objectives and policies - continued

## (i) Market risks - continued

(ii) Currency risk

The Company operates in Hong Kong with most of the transactions denominated and settled in Hong Kong dollars ("HKD").

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	HK\$	HK\$	HK\$	HK\$
US dollars	3,853,837	3,874,587	-	-
Renminbi	<u>57,342,602</u>	<u>26,751,903</u>	<u>4,328,459</u>	<u>1,018,141</u>

The Company is mainly exposed to the Renminbi ("RMB").

As HKD is pegged with United States Dollar ("USD"), the Company's currency risk in relation to the monetary assets/liabilities denominated in USD is expected to be minimal.

The following table details the Company sensitivity to a 5% increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items other than the items denominated in USD as the directors consider that the Company's exposure to USD is insignificant on the ground that HKD is pegged to USD. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in surplus where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the surplus.

	<u>RMB</u>	
	<u>2008</u>	<u>2007</u>
	HK\$	HK\$
Surplus (deficit) for the year	<u>2,650,707</u>	<u>1,496,760</u>



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## 4. FINANCIAL INSTRUMENTS - continued

## (b) Financial risk management objectives and policies - continued

## (ii) Credit risk

As at June 30, 2008, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the balance sheet.

The credit risk on liquid funds is limited because the counterparties are banks with high-credit ratings assigned by international credit-rating agencies.

## (iii) Liquidity risk

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Company's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	On demand HK\$	1-3 months HK\$	3 months to 1 year HK\$	1-2 years HK\$	2-5 years HK\$	More than 5 years HK\$	Total undiscounted cash flows HK\$	Total carrying amount HK\$
<b>2008</b>									
Other payables	-	5,118,813	-	-	-	-	-	5,118,813	5,118,813
Deferred income	-	820,069	-	-	-	-	-	820,069	820,069
Obligations under a finance - current	10.19	425	948	4,468	6,512	6,426	-	18,779	16,294
		<u>5,939,307</u>	<u>948</u>	<u>4,468</u>	<u>6,512</u>	<u>6,426</u>	<u>-</u>	<u>5,957,661</u>	<u>5,995,176</u>
<b>2007</b>									
Other payables	-	1,145,728	-	-	-	-	-	1,145,728	1,145,728
Deferred income	-	5,003,178	-	-	-	-	-	5,003,178	5,003,178
Obligations under a finance - current	10.19	384	856	4,037	5,884	14,374	-	25,535	21,119
		<u>2,149,380</u>	<u>856</u>	<u>4,037</u>	<u>5,884</u>	<u>14,374</u>	<u>-</u>	<u>6,174,441</u>	<u>6,170,025</u>

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## 4. FINANCIAL INSTRUMENTS - continued

## (c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input.

The fair value of investments held for trading with standard terms and conditions and traded on active liquid markets are determined with reference to the published price quotations.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in financial statements approximate their fair values.

## 5. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made in the financial statements of the Company as the Company is an approved charitable institution. It is exempted from payment of tax by virtue of Section 88 of the Inland Revenue Ordinance.

## 6. PROPERTY, PLANT AND EQUIPMENT

	<u>Furniture and equipment</u> HK\$
<b>COST</b>	
At July 1, 2006	59,480
Additions	5,580
At June 30, 2007	65,060
Additions	376,595
At June 30, 2008	441,655
<b>DEPRECIATION</b>	
At July 1, 2006	(4,069)
Provided for the year	(14,126)
At June 30, 2007	(18,195)
Provided for the year	(81,379)
At June 30, 2008	(99,574)
<b>CARRYING VALUES</b>	
At June 30, 2008	342,081
At June 30, 2007	46,865

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## 6. PROPERTY, PLANT AND EQUIPMENT - continued

The above items are depreciated on a straight-line basis ranged from rate of 20% to 25% per annum.

At June 30, 2008, the carrying value of furniture and equipment included an amount of HK\$14,575 (2007: HK\$19,875) in respect of an asset held under a finance lease.

## 7. INVESTMENTS HELD FOR TRADING

Investments held for trading comprise:

	<u>2008</u> HK\$	<u>2007</u> HK\$
Listed debt investments, current:		
Debt securities listed in Hong Kong	647,090	2,203,008
Debt securities listed outside Hong Kong	1,565,042	1,526,436
	<u>2,212,132</u>	<u>3,729,444</u>

At June 30, 2008 and 2007, all investments held for trading are stated at fair values. Fair values of the investments have been determined by reference to bid prices quoted in active markets.

## 8. FIXED DEPOSITS/BANK BALANCES

Fixed deposits and bank balances includes short-term bank deposits with an original maturity of twelve months or less. The deposits carry interest at prevailing market rate ranging from 0.8% to 3.78% (2007: 0.72% to 4.00%) per annum.

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## 9. OBLIGATIONS UNDER A FINANCE LEASE

It is the Company's policy to lease certain of its furniture and equipment under finance leases. The lease term is 5 years. Interest rate underlying obligations under a finance lease is fixed at 10.19%. No arrangements have been entered into for contingent rental payments.

	<u>Minimum lease payments</u>		<u>Present value of minimum lease payments</u>	
	<u>2008</u> HK\$	<u>2007</u> HK\$	<u>2008</u> HK\$	<u>2007</u> HK\$
Amounts payable under a finance lease				
Within one year	6,756	6,756	5,340	4,825
In more than one year but not more than two years	6,756	6,756	5,910	5,340
In more than two years but not more than three years	5,267	6,756	5,044	5,910
In more than three years but not more than four years	-	5,267	-	5,044
	<u>18,779</u>	<u>25,535</u>		
Less: future finance charges	<u>(2,485)</u>	<u>(4,416)</u>		
Present value of lease obligations	<u>16,294</u>	<u>21,119</u>	16,294	21,119
Less: Amount due for settlement within 12 months (shown under current liabilities)			<u>(5,340)</u>	<u>(4,825)</u>
Amount due for settlement after 12 months			<u>10,954</u>	<u>16,294</u>

The Company's obligations under a finance lease are secured by the lessor's charge over the leased asset.

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## 10. OPERATING LEASE COMMITMENT

The minimum lease payments under operating leases in respect of the office premises during the year amounting to HK\$300,624 (2007: HK\$125,200).

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>2008</u> HK\$	<u>2007</u> HK\$
Within one year	288,288	45,000
In the second to fifth year inclusive	24,024	-
	<u>312,312</u>	<u>45,000</u>

Operating lease payments represent rentals payable by the Company for its office premises. Leases are negotiated and fixed for an average term of two years.

## 11. OTHER COMMITMENTS

	<u>2008</u> HK\$	<u>2007</u> HK\$
Commitments to contribute funds to the Foundation Education Program in the PRC:		
Contracted but not provided for	26,851,645	12,911,673
Authorised but not contracted for	25,999,759	20,155,956
	<u>52,851,404</u>	<u>33,067,629</u>

## 12. RELATED PARTY TRANSACTIONS

- (a) The directors do not aware of any related party transactions for both years.
- (b) No compensation has been paid to the key management personnels for both years.



