

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, 2012

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, 2012

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company for the year ended June 30, 2012.

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, 2012 are set out in the statement of comprehensive income and expenditure on page 5.

INVESTMENT PROPERTY AND PLANT AND EQUIPMENT

Details of movements in the Company's investment property and plant and equipment during the year are set out in notes 7 and 8, respectively, to the financial statements.

DIRECTORS

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

Ching Shuk Ying, Vanessa (Chairman)	(appointed on October 9, 2011)
Lui Wing On (Vice Chairman)	
Choi Shiu Ming (Vice Chairman)	
Mo Sik Keung (Vice Chairman)	
Au Ho	
Ng Kwok Keung	
Li Suet Ping, Vickie	
Yung Ha Kuk, Victor	
Yeung Tsz Kin	(appointed on October 9, 2011)
Ho Ngai Leung	(appointed on October 9, 2011)
Cheung Kwan Hing	(resigned on October 9, 2011)
Cheung Yik Him	(resigned on October 9, 2011)
Yau Chi Keung	(resigned on October 9, 2011)

In accordance with Article 44(b) of the Company's Articles of Association, Mr. Choi Shiu Ming, Mr. Liu Wing On, Ms. Li Suet Ping, Vickie and Mr. Yung Ha Kuk, Victor will retire but eligible for re-election.

SOWERS ACTION

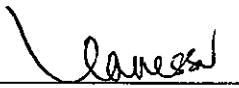
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AUDITOR

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



DIRECTOR

September 8, 2012



THE INDEPENDENT HONORARY AUDITOR'S REPORT

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 statement of financial position as at June 30, 2012, and the statement of comprehensive income and expenditure, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the financial statements that give a true and fair view 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.

THE INDEPENDENT HONORARY AUDITOR'S REPORT

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 affairs of the Company as at June 30, 2012 and of its net expenditure 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 8, 2012

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**STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>NOTE</u>	<u>2012</u> HK\$	<u>2011</u> HK\$
INCOME			
Donations for Education Programs in China		25,041,897	37,062,127
Donations and Contributions towards Operational Costs		6,705,646	7,355,580
Government Grants		3,481,473	8,798,866
Subscription Fees		140,760	136,272
Interest Income		1,861,168	1,272,131
Exchange Gain		679,083	4,922,609
Other Income		62,068	128,783
Total Income		<u>37,972,095</u>	<u>59,676,368</u>
EXPENDITURE			
Expenditure on Education Programs in China:			
Subsidies for School Constructions and Facilities		31,987,751	30,781,098
Teachers Training and Student Sponsorships		14,018,013	12,505,473
Program Implementation Costs		2,545,319	1,873,456
		<u>48,551,083</u>	<u>45,160,027</u>
Fund Raising Costs		2,668,616	2,250,402
Administration Costs		1,986,953	2,485,647
TOTAL EXPENDITURE		<u>53,206,652</u>	<u>49,896,076</u>
NET (EXPENDITURE) INCOME FOR THE YEAR	6	<u>(15,234,557)</u>	<u>9,780,292</u>

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STATEMENT OF FINANCIAL POSITION

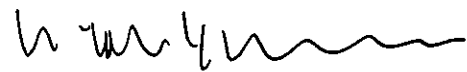
AT JUNE 30, 2012

	<u>NOTES</u>	<u>2012</u> HK\$	<u>2011</u> HK\$
Non-current assets			
Investment property	7	1	1
Plant and equipment	8	242,738	261,488
		<u>242,739</u>	<u>261,489</u>
Current assets			
Other receivables, prepayments and deposits		1,224,253	668,212
Fixed deposits	9	82,084,290	93,112,099
Bank balances and cash	9	18,697,438	24,200,948
		<u>102,005,981</u>	<u>117,981,259</u>
Current liabilities			
Other payables and accrued charges		235,193	572,182
Deferred income		2,893,546	3,316,028
		<u>3,128,739</u>	<u>3,888,210</u>
Net current assets		<u>98,877,242</u>	<u>114,093,049</u>
Total assets less current liabilities		<u>99,119,981</u>	<u>114,354,538</u>
Funds		<u>99,119,981</u>	<u>114,354,538</u>

The financial statements on pages 5 to 24 were approved and authorised for issue by the Board of Directors on September 8, 2012 and are signed on its behalf by:



DIRECTOR



DIRECTOR

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**STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Chinese Education Fund HK\$	Administration Fund HK\$	Development Fund HK\$	Disaster Relief Fund HK\$	Administration Fund for Non-Recurring Projects HK\$	512 Sichuan Earthquake Relief Education Fund HK\$	Perpetual Education Aid Fund HK\$	Perpetual Operation Fund HK\$	Total HK\$
At July 1, 2010	64,369,101	5,457,515	4,806,371	-	1,140,783	28,769,937	20,300	10,239	104,574,246
Net income (expenditure) for the year	8,575,828	1,382,518	879,736	-	13,877	(2,444,503)	1,372,695	141	9,780,292
Transfers among funds this year	11,700,000	-	-	7,000,000	-	(18,700,000)	-	-	-
At June 30, 2011	84,644,929	6,840,033	5,686,107	7,000,000	1,154,660	7,625,434	1,392,995	10,380	114,354,538
Net income (expenditure) for the year	(12,367,832)	502,027	839,322	-	18,793	(4,231,657)	4,790	-	(15,234,557)
At June 30, 2012	72,277,097	7,342,060	6,525,429	7,000,000	1,173,453	3,393,777	1,397,785	10,380	99,119,981

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>2012</u> HK\$	<u>2011</u> HK\$
OPERATING ACTIVITIES		
Net (expenditure) income for the year	(15,234,557)	9,780,292
Adjustments for:		
Depreciation of plant and equipment	122,549	128,265
Interest income	(1,861,168)	(1,272,131)
Operating cash flows before movements in working capital	(16,973,176)	8,636,426
(Increase) decrease in other receivables, prepayments and deposits	(556,041)	1,362,734
Decrease in other payables and accrued charges	(336,989)	(6,843,250)
Decrease in deferred income	(422,482)	(26,463)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(18,288,688)</u>	<u>3,129,447</u>
INVESTING ACTIVITIES		
Decrease (increase) in fixed deposits with more than three months to maturity when raised	45,263,266	(18,904,011)
Interest income received	1,861,168	1,272,131
Purchase of plant and equipment	(103,799)	(19,540)
Purchase of investment property	-	(1)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>47,020,635</u>	<u>(17,651,421)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,731,947	(14,521,974)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>72,049,781</u>	<u>86,571,755</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>100,781,728</u>	<u>72,049,781</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Fixed deposits	82,084,290	93,112,099
Bank balances and cash	18,697,438	24,200,948
	100,781,728	117,313,047
Less: Fixed deposits with more than three months to maturity when raised	-	(45,263,266)
	<u>100,781,728</u>	<u>72,049,781</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 continues to engage in fund 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 are 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 a number of new and revised standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are mandatorily effective for 2012 financial year end.

The application of the new and revised standards and interpretations in the current year has no material effect on the amounts reported in the financial statements and/or disclosures set out in these financial statements.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 - 2011 Cycle ¹
Amendments to HKFRS 1	Government Loans ¹
Amendments to HKFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
HKFRS 9	Financial Instruments ²
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁴
Amendments to HKAS 12	Deferred Tax - Recovery of Underlying Assets ³

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

HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁵
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after January 1, 2013.

² Effective for annual periods beginning on or after January 1, 2015.

³ Effective for annual periods beginning on or after January 1, 2012.

⁴ Effective for annual periods beginning on or after July 1, 2012.

⁵ Effective for annual periods beginning on or after January 1, 2014.

HKFRS 9 *Financial Instruments* issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the application of other new or revised HKFRSs will have no material impact on the financial statements.

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3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with HKFRS 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 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 on initial recognition.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of 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 the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in the income or expenditure in the period 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 lessor

Rental income from operating leases is recognised in income or expenditure on a straight line basis over the terms of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease terms.

The Company as lessee

Operating lease payments are recognised as an expense 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.

Foreign currencies

In preparing the financial statement of the Company, 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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

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.

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

Impairment losses

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. 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, but so 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.

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 statement of comprehensive income and expenditure.

Long March for Education Project is an activity jointly hosted by the Company and China Youth Development Foundation. The income or expenditure 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 statement of comprehensive income and expenditure 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 operational costs 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.

Disaster Relief Fund

The purpose of the Disaster Relief Fund is to finance the urgent needs during the natural disaster in the PRC.

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Perpetual Education Aid Fund

The purpose of the Perpetual Education Aid Fund is to accumulate and apply its investment income or interest to support and finance students in the PRC to pursue study.

Perpetual Operation Fund

The purpose of the Perpetual Operation Fund is to accumulate and apply its investment income or interest for financing any recurring or re-accruing expenditure of the Company and any other costs that are directly or indirectly required to maintain the daily operation and the existence of the Company.

Government Grants

Government grants represent the amounts received from the Hong Kong Special Administrative Region Government's Trust Fund in Support of Reconstruction in the Sichuan Earthquake Stricken Areas in respect of two projects carried out by the Company.

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in income or expenditure on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to income or expenditure over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in income or expenditure in the period in which they become receivable.

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

Operational Costs

Operational Costs represent the Program Implementation Costs; Fund Raising Costs; Administration Costs and Other Costs of the Company, which are financed by the Administration Funds.

Program Implementation Costs include the expenditure of the mainland offices and the China Service Department; traveling subsidies to work group and other program implementation costs.

Fund Raising Costs include the expenditure of the Promotion and Fund Raising Department; costs relating to fund raising events; publicity and maintenance of the Company's web page.

Administration Costs include the expenditure of the executive officers; the Finance and Administration Department; human resources and information technology support; rent and related expenses of the head office; depreciation; professional fees and other indirect costs.

Other Costs include exchange and investment losses.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position 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 or 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 statement of comprehensive income and expenditure.

Financial assets

The Company's financial assets are mainly 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.

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 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

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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. Subsequent to initial recognition, loans and receivables (including other receivables, fixed deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. 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 affected.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation;
- or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as other 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 increase in the number of delayed payment in the portfolio past the average credit period and observable changes in national or local economic conditions the correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the statement of comprehensive income and expenditure 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

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

The Company's financial liabilities are mainly other payables which 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 receivables and the cumulative gain or loss that had been recognised directly in reserve is recognised in the statement of comprehensive income and expenditure.

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 and payable is recognised in the statement of comprehensive income and expenditure.

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4. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	<u>2012</u> HK\$	<u>2011</u> HK\$
Financial assets		
<i>Loans and receivables</i>		
Other receivables	953,413	520,747
Fixed deposits	82,084,290	93,112,099
Bank balances	18,697,438	24,200,948
	<u>101,735,141</u>	<u>117,833,794</u>
Financial liabilities		
<i>Financial liabilities stated at amortised cost</i>		
Other payables	214,990	170,410
	<u>214,990</u>	<u>170,410</u>

(b) Financial risk management objectives and policies

The Company's major financial instruments include other receivables, fixed deposits, bank balances and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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 risk

(i) 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 end of the reporting period are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2012</u> HK\$	<u>2011</u> HK\$	<u>2012</u> HK\$	<u>2011</u> HK\$
Renminbi	<u>77,166,922</u>	<u>90,662,644</u>	<u>-</u>	<u>-</u>

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4. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

(i) Market risk - continued

(i) Currency risk - continued

Sensitivity analysis

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

The following table details the Company's sensitivity to a 5% increase and decrease in RMB against HKD. 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, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in expenditure or an increase in income where RMB strengthen 5% against HKD. For a 5% weakening of RMB against HKD, there would be an equal and opposite impact on the income/expenditure.

	<u>2012</u> HK\$	<u>RMB</u> <u>2011</u> HK\$
Net (expenditure) income for the year	<u>3,858,346</u>	<u>4,533,132</u>

(ii) 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 fair value interest rate risk.

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4. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

(i) Market risk - continued

(ii) Interest rate risk - continued

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments. For variable-rate bank deposits, the analysis is prepared assuming the amount of assets outstanding at the end of the reporting period was outstanding for the whole year. A 10 basis points (2011: 10 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points (2011: 10 basis points) higher/lower and all other variables were held constant, the Company's expenditure for the year ended June 30, 2012 would decrease/increase by HK\$16,093 (2011: income increase/decrease by HK\$19,896). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank deposits.

(ii) Credit risk

As at June 30, 2012, 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 statement of financial position.

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Company does not have any other significant concentration of credit risk.

(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.

All of the Company's financial liabilities are repayable on demand.

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4. FINANCIAL INSTRUMENTS - continued

(c) Fair value

The fair values 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 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. NET (EXPENDITURE) INCOME FOR THE YEAR

	<u>2012</u> HK\$	<u>2011</u> HK\$
Net (expenditure) income for the year was arrived at after charging:		
Directors' remuneration	-	-
Other staff costs	3,212,405	2,688,768
Retirement benefit scheme contributions, excluding contributions for directors	116,404	120,289
Total staff costs	3,328,809	2,809,057
Auditor's remuneration (Note)	-	120,000
Depreciation of plant and equipment	122,549	128,265

Note: Audit fee in year 2011 represented the audit fee charged on the special audit of the financial statements of projects for the reconstruction of the two schools in the Sichuan Province which was financed by the government grants.

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7. INVESTMENT PROPERTY

	HK\$
COST	
At July 1, 2010	-
Additions	1
	<hr/>
At June 30, 2011 and June 30, 2012	1
	<hr/>
ACCUMULATED DEPRECIATION	
At July 1, 2010, June 30, 2011 and June 30, 2012	-
	<hr/>
CARRYING VALUES	
At June 30, 2012	1
	<hr/>
At June 30, 2011	1
	<hr/> <hr/>

The property has been leased out to earn rental income to subsidy the daily operations of the Company.

The fair value of the investment property at June 30, 2012 was HK\$1,530,000 (2011: HK\$1,800,000). The valuation was determined by the directors with reference to recent market transactions for similar properties in the similar locations and conditions.

The above investment property is depreciated on a straight line basis over the lease terms.

The investment property is situated on land under medium-term lease in Hong Kong.

8. PLANT AND EQUIPMENT

	<u>Leasehold improvements</u> HK\$	<u>Furniture and equipment</u> HK\$	<u>Total</u> HK\$
COST			
At July 1, 2010	302,147	360,796	662,943
Additions	-	19,540	19,540
	<hr/>	<hr/>	<hr/>
At June 30, 2011	302,147	380,336	682,483
Additions	-	103,799	103,799
	<hr/>	<hr/>	<hr/>
At June 30, 2012	302,147	484,135	786,282
	<hr/>	<hr/>	<hr/>
DEPRECIATION			
At July 1, 2010	207,726	85,004	292,730
Provided for the year	75,537	52,728	128,265
	<hr/>	<hr/>	<hr/>
At June 30, 2011	283,263	137,732	420,995
Provided for the year	18,884	103,665	122,549
	<hr/>	<hr/>	<hr/>
At June 30, 2012	302,147	241,397	543,544
	<hr/>	<hr/>	<hr/>
CARRYING VALUES			
At June 30, 2012	-	242,738	242,738
	<hr/>	<hr/>	<hr/>
At June 30, 2011	18,884	242,604	261,488
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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8. PLANT AND EQUIPMENT - continued

The above items of plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	25%
Furniture and equipment	20% - 25%

9. 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 0.01% to 2.8% (2011: 0.01% to 2.46%) per annum.

10. OPERATING LEASE COMMITMENT

The Company as lessee

The minimum lease payments under operating leases in respect of the office premises and photocopier during the year amounting to HK\$369,205 (2011: HK\$313,212).

At the end of the reporting period, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>2012</u> HK\$	<u>2011</u> HK\$
Within one year	436,260	336,060
In the second to fifth year inclusive	199,771	389,023
	<u>636,031</u>	<u>725,083</u>

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

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10. OPERATING LEASE COMMITMENT - continued

The Company as lessor

Property rental income earned during the year, net of negligible outgoing, was HK\$24,200 (2011: HK\$45,000). All of the properties held have committed tenants for the next five years.

At the end of reporting period, the Company had contracted with tenants for the following future minimum lease payments:

	As at June 30,	
	<u>2012</u> HK\$	<u>2011</u> HK\$
Within one year	57,600	60,000
In the second to fifth year inclusive	38,400	17,500
	<u>96,000</u>	<u>77,500</u>

11. OTHER COMMITMENTS

	<u>2012</u> HK\$	<u>2011</u> HK\$
Commitments to contribute funds to the Education Programs in the PRC:		
Contracted but not provided for	36,064,937	21,424,593
Authorised but not contracted for	30,269,563	31,996,670
	<u>66,334,500</u>	<u>53,421,263</u>

12. RELATED PARTY TRANSACTIONS

Other than the remuneration of key management personnels during the year stated as follows, the directors are not aware of any other related party transactions for both years.

	<u>2012</u> HK\$	<u>2011</u> HK\$
Short-term benefits	412,550	372,881
Post-employment benefits	15,500	11,000
	<u>428,050</u>	<u>383,881</u>

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation; however, there is no profit and loss impact on these reclassifications.