

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, 2016

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, 2016

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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, 2016.

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, 2016 are set out in the statement of profit or loss and other comprehensive income on page 7.

DIRECTORS

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

Ho Ngai Leung (Chairman)	
Li Suet Ping, Vickie (Vice Chairman)	
Mo Sik Keung	(retired & re-appointed on October 11, 2015)
Cheung Siu Wan (Vice Chairman)	
Au Ho (Vice Chairman)	(retired on October 11, 2015)
Pak Paul	
Cheung Hon Fan, Alex	(retired & re-appointed on October 11, 2015)

In accordance with Article 44(b) of the Company's Articles of Association, Pak Paul and Li Suet Ping, Vickie will retire but eligible for re-election.

PERMITTED INDEMNITY PROVISION

During the financial year and up to the date of this Directors' Report, there was or is, permitted indemnity provision being in force for the benefit of the directors of the Company.

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BUSINESS REVIEW

Review and Prospect

This past year has been extra challenging for the works we do. Faced with Hong Kong's social unrest, global economic downturn and other factor, the Company had been challenged in multiple dimensions from number of volunteers and event participants to our fundraising effort. Despite that, though, we have still managed a marginal increase in our total funding raised. For this, we are immensely grateful to all our supporters. This also gives us the positive synergy to stay focus.

Our vision is on the future of the children, for this we must not linger around our current difficulties but to explore broader resources to forge a future with better education environment. For this reason, our resources will still be directed to improve these children's lives and learning needs in the foreseeable future.

Finance

In this past year, we received HK\$39.28 million through fund raising and donations, of which there is a slight increase for education sponsorship but a slight drop with our associated operational costs. On the expenditure side, our total expenditure for this year has increased substantially by HK\$16 million from last year, giving HK\$46.43 million in total. Out of that HK\$12.45 million were spent especially on our children welfare home projects and to expedite other existing delayed ones. These works would not be possible without our Project Funding Service Department. On the other hand, through careful monitoring, operational expenditure has been HK\$4.93 million, which administration cost is about HK\$0.3 million less than the previous year, giving us a positive operational income net of administration cost.

Fundraising

As we all know fundraising is the key income source to support our works. Thanks to our exceptionally devoted and creative fundraising committees, who added extra spins and spices to all the long running events such as "Walk to Guangzhou", "Challenging 12 Hours", "Cycling for Education", "Long March For Education", "Walk for Children" and "Charity Golf Tournament" such that they can retain long-time supporters as well as appeal to new participants. This is essential in these difficult times with a blooming culture of fundraising activities from different charities throughout the year. In November 2015, "Cycling for Education" organised their first trip outside the Mainland China, to Angkor, Cambodia. The same team then organised another event cycling through the Mongolian- Manchurian grassland in just half a year. Their enthusiasm is definitely contagious bolstering very good reception for both events! In addition to our organisation teams, we would like to thank Prof. Daniel Cheng for his long time support to us and his leading role in our golf event. This year our 20th Golf tournament at Mission Hills has set a new record in funding raised, which draw to a perfect end. Golf tournament will continue at Clearwater Bay in the years to come!

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BUSINESS REVIEW - continued

Funding Affairs

After its third year's operations, Shuifu Sowers Children's Home project is now matured. This sets a new milestone for our works in the youth welfare. On the other hand, we are sending our working team to the Huadanjiancui Orphanage School on a quarterly basis. This is mainly for following up on ongoing projects, face-to-face coordination with the principal and to streamline the financial processes. This year we also joined hands with another charity foundation in the support of various school operations. Two of the children welfare centre projects we have been working on, namely Yongshan and Daguan, will be ready to come into service by the end of the year, enabling more orphaned and disabled children to live and learn in a homely environment.

The story about Huaguang girl's high school has been one of the most inspiring and yet emotional. We have been determined to find a permanent location for the school after it was relocated three times between rented premises. Unfortunately things are yet to be finalised. Despite that, the spirit in these girls simply shine through all the difficulties and unpredictability. This year we have seen lots of good results with Yang Yingsi admitted by Hong Kong's Li Po Chun United World College; Tan Sautuan admitted to Asian University for Women; Chen Funxiang achieved first tier grade and was admitted to Guangxi Normal University. There are also 24 students who had achieved second tier grades. With the students spirited will and their ambition, the Company will keep the school running, rented or not, to provide the students their much needed opportunities

Yunnan was hit by exceptionally cold weather this year. Most areas have recorded sub-zero temperature and snowed at those higher altitude areas. Our "Sowers Sending Love 2015" has therefore timely provided warm jacket for twenty thousand children such that they do not have to break off learning due to the cold weather.

The 13th five-year plan released at the beginning of this year has included plans to deepen reform and promote the modernisation of education. Part of the plan is to extend compulsory education to 12 years. With this, and the Company's limited resources, it is important for us to carefully plan ahead in order to maximise our works' impact.

Thanks and Looking ahead

The Company will be turning 25 next year. With our works in the children's homes it is important to secure long-term funding for their stable operation. While traditional fund raising is becoming less efficient these days especially with a wide array of charity events in Hong Kong throughout the year. The Company is piloting a steeplechase/adventurous event to attract and open up new markets. For this, we are pleased to have the initial support from our donors. On the other hand, next year will also be the 10th anniversary for our "Ancient Tea Horse Route Expedition", we are sure to make this a key event to retrace the way we have come in the past decade.

Administratively, in response to the two newly enacted Chinese legislations for the management of NGO and charities, namely the "Charity Law" and the "Foreign NGO Management Law" coming into effect on September 1, 2016 and January 1, 2017, respectively, we are preparing for our registration, record-keeping, scope of activities, publicity etc to deal with the establishment of new legislation.

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BUSINESS REVIEW - continued

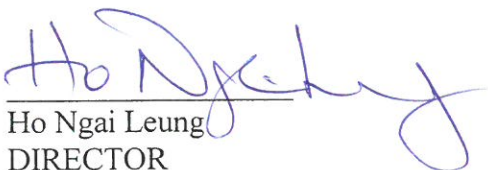
The vagaries of the coming year will be yet another year of growth and transformation for us along with our mainland counterparts and all out supports in Hong Kong. Standing by our vision, we will broaden our source of supports as well as explore new collaboration with parties with shared values and goals. This is to ensure we can garner long term and essential resources for the works. We will also at the same time plan strategically so as to provide the most needed works and services for the children in need.

Last but not least, as a volunteer based organisation, the Company must give our deepest gratitude to all our volunteers, who's been our greatest assets and best partner all the way along, coupled with the efforts from our limited staff. The Company would not have achieved so much without their selfless dedication and unreserved professional advices.

AUDITOR

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

On behalf of the Board



Ho Ngai Leung

DIRECTOR

August 19, 2016

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF SOWERS ACTION

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We have audited the financial statements of Sowers Action (the "Company") set out on pages 7 to 25, which comprise the statement of financial position as at June 30, 2016, and the statement of profit or loss and other comprehensive income, the statement of changes in funds 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 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 405 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 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.

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF SOWERS ACTION - continued

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at June 30, 2016 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

A handwritten signature in black ink, appearing to read "Deloitte Touche Tohmatsu", is written over a faint, larger version of the same text.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 19, 2016

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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>NOTE</u>	<u>2016</u> HK\$	<u>2015</u> HK\$
INCOME			
Donations for Education Programs in China		31,933,625	30,506,601
Donations and Contributions towards Operational Costs		4,822,378	5,017,968
Subscription Fees		57,360	76,230
Interest Income		2,343,015	2,094,881
Exchange Gain		-	607,796
Other Income		128,403	121,054
TOTAL INCOME		<u>39,284,781</u>	<u>38,424,530</u>
EXPENDITURE			
Expenditure on Education Programs in China:			
Subsidies for School Constructions and Facilities		20,205,712	7,956,653
Teachers Training and Student Sponsorships		16,683,062	16,481,822
Program Implementation Costs		916,255	1,931,742
		<u>37,805,029</u>	<u>26,370,217</u>
Fund Raising Costs		2,120,548	2,155,052
Administration Costs		1,896,375	2,197,291
Exchange Loss		4,605,450	-
TOTAL EXPENDITURE		<u>46,427,402</u>	<u>30,722,560</u>
NET (EXPENDITURE) INCOME FOR THE YEAR	6	<u>(7,142,621)</u>	<u>7,701,970</u>

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STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2016

	NOTES	2016 HK\$	2015 HK\$
Non-current assets			
Investment property	7	1	1
Plant and equipment	8	40,872	23,943
		<u>40,873</u>	<u>23,944</u>
Current assets			
Other receivables, prepayments and deposits		2,306,058	1,353,078
Fixed deposits	9	66,206,542	70,254,702
Bank balances and cash	9	20,503,681	22,387,700
		<u>89,016,281</u>	<u>93,995,480</u>
Current liabilities			
Other payables and accrued charges		338,626	274,574
Deferred income		3,016,592	900,293
		<u>3,355,218</u>	<u>1,174,867</u>
Net current assets		<u>85,661,063</u>	<u>92,820,613</u>
Total assets less current liabilities		<u>85,701,936</u>	<u>92,844,557</u>
Funds		<u>85,701,936</u>	<u>92,844,557</u>

The financial statements on pages 7 to 25 were approved and authorised for issue by the Board of Directors on August 19, 2016 and are signed on its behalf by:


Ho Ngai Leung
DIRECTOR


Cheung Siu Wan
DIRECTOR

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STATEMENT OF CHANGES
FOR THE YEAR ENDED

At July 1, 2014

Net income (expenditure) for

Transfers

At June 30, 2015

Net income (expenditure) for

Transfers

At June 30, 2016

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u> HK\$	<u>2015</u> HK\$
OPERATING ACTIVITIES		
Net (expenditure) income for the year	(7,142,621)	7,701,970
Adjustments for:		
Depreciation of plant and equipment	21,370	70,245
Interest income	(2,343,015)	(2,094,881)
Operating cash flows before movements in working capital	(9,464,266)	5,677,334
(Increase) decrease in other receivables, prepayments and deposits	(952,980)	(559,148)
Increase (decrease) in other payables and accrued charges	64,052	(403,645)
Increase (decrease) in deferred income	2,116,299	(109,372)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(8,236,895)	4,605,169
INVESTING ACTIVITIES		
Interest income received	2,343,015	2,094,881
Purchase of plant and equipment	(38,299)	(15,000)
NET CASH FROM INVESTING ACTIVITIES	2,304,716	2,079,881
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,932,179)	6,685,050
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	92,642,402	85,957,352
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	86,710,223	92,642,402
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Fixed deposits	66,206,542	70,254,702
Bank balances and cash	20,503,681	22,387,700
	86,710,223	92,642,402

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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 ("HKFRSs")

New and revised HKFRSs in issue but not yet effective

The Company has not early applied the following new and revised HKFRSs that have been issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") but are not yet effective:

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ⁴
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ²
Amendments to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ¹
Amendments to HKAS 27	Equity Method in Separate Financial Statements ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ¹
Amendments to HKAS 7	Disclosure Initiative ⁵
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁵

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

- ¹ Effective for annual periods beginning on or after January 1, 2016
- ² Effective for annual periods beginning on or after January 1, 2018
- ³ Effective for annual periods beginning on or after a date to be determined
- ⁴ Effective for annual periods beginning on or after January 1, 2019
- ⁵ Effective for annual periods beginning on or after January 1, 2017

The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the results and the financial position of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below.

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 recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income 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 the 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.

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment property

Investment property is a property held to earn rental and/or for capital appreciation.

Investment property is initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment property over its estimated useful life and after taking into account of its 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 profit or loss in the period in which the item is derecognised.

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 profit or loss 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 lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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 profit or loss in the period in which they arise.

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised 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.

Impairment losses (other than financial assets)

At the end of the reporting period, the Company reviews the carrying amounts of its tangible 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 the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 immediately in profit or loss.

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 profit or loss.

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 profit or loss when the activity is completed.

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Children and Youth Welfare Fund

The purpose of the Children and Youth Welfare Fund is to finance orphanage projects.

Disaster Relief Fund

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

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.

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.

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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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Company's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, 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) are measured 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 each reporting period. Financial assets are considered to be 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.

Objective evidence of impairment could include:

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

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

Debt instruments issued by the Company are classified in accordance with the substance of the contractual arrangements and the definitions of a financial liability.

The Company's financial liabilities are other payables which are subsequently measured at amortised cost, using the effective interest method.

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities - continued

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 (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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised and accumulated in reserve is recognised in profit or loss.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	<u>2016</u> HK\$	<u>2015</u> HK\$
Financial assets		
<i>Loans and receivables</i>		
Other receivables	1,959,881	625,237
Fixed deposits	66,206,542	70,254,702
Bank balances	20,503,681	22,387,700
	<u>88,670,104</u>	<u>93,267,639</u>
Financial liabilities		
<i>Financial liabilities stated at amortised cost</i>		
Other payables	<u>253,000</u>	<u>213,000</u>

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4. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies

The Company's 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"). Certain of other receivables, fixed deposits and bank balances are denominated in Renminbi ("RMB") which expose the Company to foreign currency risk. The Company currently does not enter into any derivative contracts to minimise the currency risk exposure. However, management will consider hedging significant currency risk should the need arises.

The carrying amounts of the Company's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	<u>2016</u> HK\$	<u>2015</u> HK\$
RMB	<u>76,388,561</u>	<u>79,000,546</u>

Sensitivity analysis

The following table details the Company's sensitivity to a 5% appreciation and depreciation 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 end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in income or a decrease in expenditure 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.

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4. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

(i) Market risk - continued

(i) Currency risk - continued

	<u>2016</u> HK\$	<u>RMB</u> <u>2015</u> HK\$
Net (expenditure) income for the year	<u>3,819,428</u>	<u>3,950,027</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 cash flow interest rate risk.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. 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 (2015: 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 (2015: 10 basis points) higher/lower and all other variables were held constant, the Company's expenditure for the year ended June 30, 2016 would decrease/increase by HK\$19,164 (2015: income would increase/decrease by HK\$20,287). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank deposits.

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4. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

(ii) Credit risk

As at June 30, 2016, 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.

(c) Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

5. TAXATION

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.

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6. NET (EXPENDITURE) INCOME FOR THE YEAR

	<u>2016</u> HK\$	<u>2015</u> HK\$
Net (expenditure) income for the year was arrived at after charging (crediting):		
Directors' remuneration	-	-
Other staff costs	3,271,615	3,307,918
Retirement benefit scheme contributions, excluding contributions for directors	206,762	357,558
Total staff costs	3,478,377	3,665,476
Auditor's remuneration	80,000	50,000
Depreciation of plant and equipment	21,370	70,245
Rental income from an investment property, net of negligible outgoing	(78,000)	(78,000)

7. INVESTMENT PROPERTY

	HK\$
COST	
At July 1, 2014, June 30, 2015 and June 30, 2016	1
ACCUMULATED DEPRECIATION	
At July 1, 2014, June 30, 2015 and June 30, 2016	-
CARRYING VALUES	
At June 30, 2016	1
At June 30, 2015	1

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

The fair value of the investment property at June 30, 2016 was HK\$3,350,000 (2015: HK\$2,800,000). The valuation was determined by the directors with reference to recent market transactions for similar properties in the similar locations and conditions. There has been no change of the valuation technique used in the prior year.

In estimating the fair value of the property, the highest and best use of the property is their current use.

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7. INVESTMENT PROPERTY - continued

Details of the Company's investment property and information about the fair value hierarchy are as follows:

	Carrying value as at 6.30.2016 and 2015 HK\$	Level 3	
		Fair value as at 6.30.2016 HK\$	Fair value as at 6.30.2015 HK\$
1/F, 204 Hang Tau, North, New Territories, Hong Kong	1	3,350,000	2,800,000

There were no transfers into or out of Level 3 during the year.

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

8. PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture and equipment HK\$	Total HK\$
COST			
At July 1, 2014	302,147	516,316	818,463
Additions	-	15,000	15,000
At June 30, 2015	302,147	531,316	833,463
Additions	-	38,299	38,299
At June 30, 2016	302,147	569,615	871,762
DEPRECIATION			
At July 1, 2014	302,147	437,128	739,275
Provided for the year	-	70,245	70,245
At June 30, 2015	302,147	507,373	809,520
Provided for the year	-	21,370	21,370
At June 30, 2016	302,147	528,743	830,890
CARRYING VALUES			
At June 30, 2016	-	40,872	40,872
At June 30, 2015	-	23,943	23,943

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%

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9. FIXED DEPOSITS/BANK BALANCES

Fixed deposits and bank balances include short-term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rate ranging from 0.01% to 5% (2015: 0.01% to 4.20%) per annum.

10. OPERATING LEASE COMMITMENT/ARRANGEMENT

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\$464,276 (2015: HK\$422,316).

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>2016</u> HK\$	<u>2015</u> HK\$
Within one year	464,934	73,022
In the second to fifth year inclusive	136,825	49,950
	<u>601,759</u>	<u>122,972</u>

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

The Company as lessor

Property rental income earned during the year, net of negligible outgoing, was HK\$78,000 (2015: HK\$78,000).

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

	<u>2016</u> HK\$	<u>2015</u> HK\$
Within one year	52,000	78,000
In the second to fifth year inclusive	-	52,000
	<u>52,000</u>	<u>130,000</u>

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11. OTHER COMMITMENTS

	<u>2016</u> HK\$	<u>2015</u> HK\$
Commitments to contribute funds to the Education Programs in the PRC:		
Contracted but not provided for	31,694,307	31,233,676
Authorised but not contracted for	<u>12,364,957</u>	<u>41,044,459</u>
	<u>44,059,264</u>	<u>72,278,135</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>2016</u> HK\$	<u>2015</u> HK\$
Short-term benefits	953,320	802,027
Post-employment benefits	<u>36,000</u>	<u>35,773</u>
	<u>989,320</u>	<u>837,800</u>