

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, 2017

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, 2017

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## SOWERS ACTION

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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, 2017.

### 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, 2017 are set out in the statement of profit or loss and other comprehensive income on page 8.

### 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)	(retired and reappointed on October 9, 2016)
Mo Sik Keung (Vice Chairman)	
Pak Paul (Vice Chairman)	(retired and reappointed on October 9, 2016)
Cheung Hon Fan, Alex	
Mok Yi Tan	(appointed on October 9, 2016)
Sun Tin Fung, David	(appointed on October 9, 2016)
Lee Yan Kit	(appointed on October 9, 2016)
Cheung Siu Wan (Vice Chairman)	(resigned on October 9, 2016)

In accordance with Article 44(b) of the Company's Articles of Association, Ho Ngai Leung, Mo Sik Keung and Cheung Hon Fan, Alex 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.

## SOWERS ACTION

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## BUSINESS REVIEW

### **Review for 2016-2017 and Outlook**

Sowers Action has turn 25 this year. We have seen and been through a lot of ups and downs in this past quarter of a century. Although a milestone year for us, we are faced with the same level of challenges (if not more) on all fronts as usual such as fundraising, statutory limitations, not to mention the latest decision from the Board of Directors and Executive Committee to expand the scope of services. Nonetheless, same as any other year, we are always ready to ride the waves.

### **Financial Highlights**

Fund-raising has been a big challenge in this past year. With a slight cool off in terms of external supports and the issues surrounding the NGO registrations, this year we received donations designated for education program totaling HK\$30.38 million, a drop by HK\$3.77 million compared with the previous fiscal year.

On the other hand, rising demands for projects and policy changes brought about increasing operational cost. We separately raised close to HK\$4.52 million to cover our operation needs for the year. Whilst operational expenditure for the year stood at HK\$4.75 million, an overall deficit of nearly HK\$230,000 was recorded after nominal loss in exchange rate.

Expenditure on education program was reduced to 26.33 million due to a combination of reasons including the delay of the works for the children's home as well as the registration works for Sowers as an overseas NGO in China, hindering the transfer of funding into Kunming

### **Projects funding**

In terms of funding projects, the increase of the central and municipal government's provision for education has generally changed the demand profiles for our works. We have therefore consequentially made adjustments to our projects and deepened some of our works. For example, as a first attempt, we have selected 50 under-privileged but outstanding students from Shuifu County First High School to form a "Sowers Class". In addition to funding their three years of study and living expenses, personal development training and counseling are also provided for these students.

Following Shuifu Sowers Children's Home project which is fully on its track after 4 years of operations, the second children's home at Yongshan County has just been put into operation in September last year. Similar to Shuifu, this will take some time to adjust and stabilize for its long term operations. Nonetheless the good news is the two children's homes now take care of 138 children in total, including 11 of them requiring special needs.

Nanning Sowers Action Huaguang Girl's High School (Huaguang) has in the past years suffered from lack of resources, teacher's instability and was relocated three times between rented premises. Despite all that, this year we finally see a ray of light – we have agreed with the original owner of the school premises to rent the new teaching building to 2028. We are gratified with such news and look forwards to making longer-term development plan for Huaguang.

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BUSINESS REVIEW - continued

### **Projects funding - continued**

This past year did not go without less up beating news. With regards to Huadanjiancuo Orphan School, it was unlicensed by the government, with this it also means that students would have no formal schooling status, making it difficult to further their education into public school after graduation. For this reason we have made the painful decision to stop new student recruitments and proceed onto a 5 years plan to relocate the students, and gradually, though reluctantly, fade out of this project.

### **Communications and fundraising**

Sowers Action launched nine major fund-raising events last year, namely Walk to Guangzhou, Long March For Education, Ancient Teahorse Route Expedition, Cycling for Education, Challenging 12 Hours, Sending Love, Charity Golf Tournament, Walk for Children and Sowers Action 25th Anniversary Charity Concert. We hope the diversified activities can attract a wider audience to support our works and purposes. Our Communications and Fundraising Department has also strategically divided and channeled the fund raised from the various activities into different uses to avoid skewing to particular areas.

### **Sustainability**

In addition to general waste paper recycling, we published our full annual report as online version with only a simplified A3 printed version to reduce paper use as a sustainability measure.

### **Looking ahead**

Since September last year, two newly enacted Chinese legislations for the management of NGO and charities, namely the "Charity Law" and the "Administration of Activities of Overseas Non-Governmental Organizations within the Territory of China" has been implemented. To this end, Sowers Action has established Guangzhou Sowers Action Charity Foundation to meet the challenges ahead, and target to obtain license for the public fundraising in the coming 3 years.

Our "Yunnan Project Office" has also renewed its registration as Overseas Non-Governmental Organizations at the beginning of the year. We are still awaiting the approval of the renewed registration. However, even if the registration was completed, it would still take some time to streamline the actual implementation of the projects along side with other fundraising issues. In the face of the challenges and policy changes, to fully make use of the 25-years experiences in the public service realm, Sowers Action proposes expanding the scope of service to global children's welfare and education, with Chinese-language education as the starting points. This is currently to be vetted by the members attending the Annual General Meeting. This new chapter pending approval will also bring more flexibility to our works to help more children in need and bring in new ideas in our fund-raising activities.

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BUSINESS REVIEW - continued

**Looking forward** - continued

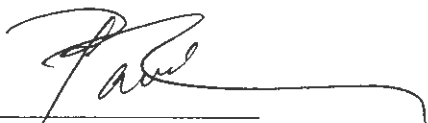
As said in the opening, this year marks our Silver Jubilee. For that our volunteers have redesigned a commemorative trademark, composed a new organization anthem, and revamped our webpage with the outlook and hopes for reaching new attitude.

Finally, and most importantly, on behalf of Sowers Action, we would like to offer our deepest gratitude to every donors, partners, volunteers - thank you for walking our path through the 25 years and we look forward to continuing on this path with you for many years to come!

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



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Pak Paul

DIRECTOR

August 31, 2017

## INDEPENDENT AUDITOR'S REPORT

### TO THE BOARD OF DIRECTORS OF SOWERS ACTION

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#### **Opinion**

We have audited the financial statements of Sowers Action (the "Company") set out on pages 8 to 27, which comprise the statement of financial position as at June 30, 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at June 30, 2017, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

#### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF SOWERS ACTION - continued

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### **Responsibilities of Directors and Those Charged with Governance 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 HKFRSs issued by the HKICPA 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



## INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF SOWERS ACTION - continued

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### **Auditor's Responsibilities for the Audit of the Financial Statements** - continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
August 31, 2017

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>NOTE</u>	<u>2017</u> HK\$	<u>2016</u> HK\$
<b>INCOME</b>			
Donations for Education Programs in China		28,470,727	31,933,625
Donations and Contributions towards Operational Costs		4,048,862	4,822,378
Subscription Fees		85,720	57,360
Interest Income		2,037,856	2,343,015
Other Income		258,073	128,403
<b>TOTAL INCOME</b>		<u>34,901,237</u>	<u>39,284,781</u>
<b>EXPENDITURE</b>			
Expenditure on Education Programs in China:			
Subsidies for School Constructions and Facilities		8,992,041	20,205,712
Teachers Training and Student Sponsorships		17,344,520	16,683,062
Program Implementation Costs		858,269	916,255
		<u>27,194,830</u>	<u>37,805,029</u>
Fund Raising Costs		1,881,219	2,120,548
Administration Costs		2,012,183	1,896,375
Exchange Loss		1,911,472	4,605,450
<b>TOTAL EXPENDITURE</b>		<u>32,999,704</u>	<u>46,427,402</u>
<b>NET INCOME (EXPENDITURE) FOR THE YEAR</b>	<b>5</b>	<u>1,901,533</u>	<u>(7,142,621)</u>

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STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2017

	<u>NOTES</u>	<u>2017</u> HK\$	<u>2016</u> HK\$
Non-current assets			
Investment property	6	1	1
Plant and equipment	7	38,512	40,872
		<u>38,513</u>	<u>40,873</u>
Current assets			
Other receivables, prepayments and deposits		5,280,190	2,306,058
Fixed deposits	8	59,509,961	66,206,542
Bank balances and cash	8	24,635,262	20,503,681
		<u>89,425,413</u>	<u>89,016,281</u>
Current liabilities			
Other payables and accrued charges		214,000	338,626
Deferred income		1,646,457	3,016,592
		<u>1,860,457</u>	<u>3,355,218</u>
Net current assets		<u>87,564,956</u>	<u>85,661,063</u>
Total assets less current liabilities		<u>87,603,469</u>	<u>85,701,936</u>
Funds		<u>87,603,469</u>	<u>85,701,936</u>

The financial statements on pages 8 to 27 were approved and authorised for issue by the Board of Directors on August 31, 2017 and are signed on its behalf by:

  
Ho Ngai Leung  
DIRECTOR

  
Pak Paul  
DIRECTOR

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STATEMENT OF CHANGES IN FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	Chinese Education Fund HK\$	Administration Fund HK\$	Development Fund HK\$	Children and Youth Welfare Fund HK\$	Disaster Relief Fund HK\$	Perpetual Education Aid Fund HK\$	Perpetual Operation Fund HK\$	Total Fund HK\$
At July 1, 2015	66,062,659	5,129,754	12,071,120	-	8,170,959	1,399,685	10,380	92,844,557
Net income (expenditure) for the year	(7,223,317)	204,113	2,177,979	924,500	(3,261,780)	35,622	262	(7,142,621)
Transfers	(354,061)	-	-	1,459,061	(1,105,000)	-	-	-
At June 30, 2016	58,485,281	5,333,867	14,249,099	2,383,561	3,804,179	1,435,307	10,642	85,701,936
Net income (expenditure) for the year	(3,936,738)	(2,088,126)	1,821,111	6,070,203	-	34,829	253	1,901,533
At June 30, 2017	54,548,543	3,245,741	16,070,210	8,435,765	3,804,179	1,470,136	10,895	87,603,469

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STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u> HK\$	<u>2016</u> HK\$
OPERATING ACTIVITIES		
Net income (expenditure) for the year	1,901,533	(7,142,621)
Adjustments for:		
Depreciation of plant and equipment	23,175	21,370
Interest income	(2,037,853)	(2,343,015)
Operating cash flows before movements in working capital	(113,145)	(9,464,266)
Increase in other receivables, prepayments and deposits	(2,974,132)	(952,980)
(Decrease) increase in other payables and accrued charges	(124,626)	64,052
(Decrease) increase in deferred income	(1,370,135)	2,116,299
NET CASH USED IN OPERATING ACTIVITIES	<u>(4,582,038)</u>	<u>(8,236,895)</u>
INVESTING ACTIVITIES		
Interest income received	2,037,853	2,343,015
Purchase of plant and equipment	(20,815)	(38,299)
NET CASH FROM INVESTING ACTIVITIES	<u>2,017,038</u>	<u>2,304,716</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,565,000)	(5,932,179)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>86,710,223</u>	<u>92,642,402</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>84,145,223</u></u>	<u><u>86,710,223</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Fixed deposits	59,509,961	66,206,542
Bank balances and cash	24,635,262	20,503,681
	<u><u>84,145,223</u></u>	<u><u>86,710,223</u></u>

## SOWERS ACTION

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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#### 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 ("HKD"), which are the same as the functional currency of the Company.

#### 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Company has applied, for the first time, the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"):

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

The application of these amendments to HKFRSs in the current year has had no material effect on the Company's financial performance and positions for the current and prior years and/or on the disclosures set out in the financial statements.

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

#### *New and amendments to HKFRSs in issue but not yet effective*

The Company has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration <sup>2</sup>
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments <sup>3</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>2</sup>
Amendments to HKFRS 4	Apply HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 - 2016 Cycle except for amendments to HKFRS 12 <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2017.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2018.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2019.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2017 or January 1, 2018, as appropriate.

The directors of the Company anticipate that the application of the new and amendments to HKFRSs 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 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.

#### 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.



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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 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.

#### 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.

## SOWERS ACTION

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### 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.

#### 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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### 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.

#### 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.

#### 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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### 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.

#### *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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### Financial instruments - continued

##### **Financial assets** - continued

##### *Impairment of financial assets* - continued

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.

##### *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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

#### **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. 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.

### 5. NET INCOME (EXPENDITURE) FOR THE YEAR

	<u>2017</u>	<u>2016</u>
	HK\$	HK\$
Net income (expenditure) for the year was arrived at after charging (crediting):		
Directors' remuneration	-	-
Other staff costs	3,701,434	3,271,615
Retirement benefit scheme contributions, excluding contributions for directors	<u>215,473</u>	<u>206,762</u>
Total staff costs	3,916,907	3,478,377
Auditor's remuneration - audit services	80,000	80,000
Depreciation of plant and equipment	23,175	21,370
Rental income from an investment property, net of negligible outgoing	<u>(80,000)</u>	<u>(78,000)</u>

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6. INVESTMENT PROPERTY

	HK\$
COST	
At July 1, 2015, June 30, 2016 and June 30, 2017	<u>1</u>
ACCUMULATED DEPRECIATION	
At July 1, 2015, June 30, 2016 and June 30, 2017	<u>-</u>
CARRYING VALUES	
At June 30, 2017	<u>1</u>
At June 30, 2016	<u>1</u>

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, 2017 was HK\$4,000,000 (2016: HK\$3,350,000). 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.

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

	Carrying value as at 6.30.2017 and 2016 <u>HK\$</u>	<u>Level 3</u>	
		Fair value as at <u>6.30.2017</u> <u>HK\$</u>	Fair value as at <u>6.30.2016</u> <u>HK\$</u>
1/F, 204 Hang Tau, North, New Territories, Hong Kong	<u>1</u>	<u>4,000,000</u>	<u>3,350,000</u>

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.

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### 7. PLANT AND EQUIPMENT

	<u>Leasehold improvements</u> HK\$	<u>Furniture and equipment</u> HK\$	<u>Total</u> HK\$
<b>COST</b>			
At July 1, 2015	302,147	531,316	833,463
Additions	-	38,299	38,299
	<hr/>	<hr/>	<hr/>
At June 30, 2016	302,147	569,615	871,762
Additions	-	20,815	20,815
	<hr/>	<hr/>	<hr/>
At June 30, 2017	302,147	590,430	892,577
	<hr/>	<hr/>	<hr/>
<b>DEPRECIATION</b>			
At July 1, 2015	302,147	507,373	809,520
Provided for the year	-	21,370	21,370
	<hr/>	<hr/>	<hr/>
At June 30, 2016	302,147	528,743	830,890
Provided for the year	-	23,175	23,175
	<hr/>	<hr/>	<hr/>
At June 30, 2017	302,147	551,918	854,065
	<hr/>	<hr/>	<hr/>
<b>CARRYING VALUES</b>			
At June 30, 2017	-	38,512	38,512
	<hr/>	<hr/>	<hr/>
At June 30, 2016	-	40,872	40,872
	<hr/>	<hr/>	<hr/>

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%

### 8. 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% (2016: 0.01% to 5%) per annum.



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### 9. 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\$468,049 (2016: HK\$464,276).

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>2017</u> HK\$	<u>2016</u> HK\$
Within one year	485,972	464,934
In the second to fifth year inclusive	466,733	136,825
	<u>952,705</u>	<u>601,759</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\$80,000 (2016: HK\$78,000).

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

	<u>2017</u> HK\$	<u>2016</u> HK\$
Within one year	84,000	52,000
In the second to fifth year inclusive	140,000	-
	<u>224,000</u>	<u>52,000</u>

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## 10. OTHER COMMITMENTS

	<u>2017</u> HK\$	<u>2016</u> HK\$
Commitments to contribute funds to the Education Programs in the PRC:		
Contracted but not provided for in the financial statements	<u>31,010,414</u>	<u>31,694,307</u>

## 11. FINANCIAL INSTRUMENTS

## (a) Categories of financial instruments

	<u>2017</u> HK\$	<u>2016</u> HK\$
<b>Financial assets</b>		
<i>Loans and receivables</i>		
Other receivables	3,369,316	1,959,881
Fixed deposits	59,509,961	66,206,542
Bank balances	<u>24,635,262</u>	<u>20,503,681</u>
	<u>87,514,539</u>	<u>88,670,104</u>
<b>Financial liabilities</b>		
<i>Financial liabilities stated at amortised cost</i>		
Other payables	<u>134,000</u>	<u>253,000</u>

## (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.

## SOWERS ACTION

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### 11. FINANCIAL INSTRUMENTS - continued

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

##### (i) Market risk

##### (i) Currency risk

The Company operates in Hong Kong with most of the transactions denominated and settled in 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>2017</u> HK\$	<u>2016</u> HK\$
RMB	<u>66,860,509</u>	<u>76,388,561</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 where RMB strengthen 5% against HKD. For a 5% weakening of RMB against HKD, there would be an equal and opposite impact on the expenditure/income.

	<u>2017</u> HK\$	<u>RMB</u> <u>2016</u> HK\$
Net income (expenditure) for the year	<u>3,343,025</u>	<u>3,819,428</u>

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### 11. FINANCIAL INSTRUMENTS - continued

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

##### (i) Market risk - continued

###### (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 (2016: 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 (2016: 10 basis points) higher/lower and all other variables were held constant, the Company's income for the year ended June 30, 2017 would increase/decrease by HK\$22,811 (2016: expenditure would decrease/increase by HK\$19,164). 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, 2017, 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.

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### 11. FINANCIAL INSTRUMENTS - continued

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

##### (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 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.

### 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>2017</u>	<u>2016</u>
	HK\$	HK\$
Short-term benefits	961,580	953,320
Post-employment benefits	36,000	36,000
	<u>997,580</u>	<u>989,320</u>