

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, 2018

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, 2018

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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, 2018.

PRINCIPAL ACTIVITY

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

RESULTS

The results of the Company for year ended June 30, 2018 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:

Pak Paul (Vice Chairman)

Lee Yan Kit

Chan Pui Yee

(appointed on October 8, 2017)

Ching Shuk Ying, Vanessa (Vice Chairman)

(appointed on October 8, 2017)

Cheung Hon Fan, Alex

(retired and reappointed on October 8, 2017)

Ho Ngai Leung (Chairman)

(retired and reappointed on October 8, 2017)

Mo Sik Keung

(retired and reappointed on October 8, 2017)

Li Suet Ping, Vickie (Vice Chairman)

(resigned on February 1, 2018)

Mok Yi Tan

(resigned on August 3, 2018)

Sun Tin Fung, David

(resigned on July 8, 2018)

In accordance with Article 55(b) of the New Articles of Association, Pak Paul, Mo Sik Keung and Lee Yan Kit 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

Chairperson's Message

'Together we can do so much', a statement quoted by our Chairperson when he stood for re-election as Board member last year! As he has foreseen the need for collaborative efforts and support of every member of staff and volunteers to make 2017-18 a successful year. And it is now the time in this report that we share with our members some of the initiatives and results that we have achieved in this fruitful yet challenging year.

Our vision when we started in 1992 was 'To turn China's population burden into intellectual resources'. Recently due to China's one Belt one Road initiatives, our focus and works also extend to cover areas beyond China. Our vision is now changed to "no child shall be deprived of education due to poverty."

A New Development - Overseas Project

In the beginning of the 2017-18 term after amendment to our memorandum in EGM and some "on site assessment" visits, we started our services in Myanmar and implemented around 30 projects in Yangon, Ayeyarwady, Mon State, Kayin State, Lashio, Myitkyina and Tachilek. We have committed donations in these projects amounting to about US\$1.15 million resulting with 15,700 beneficiaries in schools and children hostels construction, sponsorship for children homes, improvement works to schools and children homes facilities, nutritional breakfast, donation of computers and warm jackets to remote and cold areas.

Through the "on site assessment" visits for these projects, we have acquired some brief ideas about the country. Myanmar has a very long western coast line with relatively unpolluted sea water, there are plenty of fresh sea-food and the majority of Myanmar's land form is composed of alluvial and sedimentary deposits, giving rise to abundance of fertile agricultural lands. Hence Myanmar is bestowed with rich natural resources. With a stable and responsible government willing to look for greater economic development for its people, what seems to be lacking, perhaps, is the management human resources for workforces and professionals. The situation resembles to a large extent to what we encountered when we initially started our service for education in China. The advancement of China could well be successfully turning their population burden into an intellectual resource. We trust that the same can be replicated in Myanmar. With all the experience that Sowers Action have gained previously with the development of Hong Kong and China, our involvements in Myanmar hopefully will contribute to a much faster development and advancement for the country!

Establish Strategic Partnership

Towards the third quarter of the 2017-18 term, we have entered into a strategic partnership agreement amongst Hong Kong Myanmar Chamber of Commerce ("HKMCC") and World Green Organization ("WGO"). With this agreement, we will embark on a new era of education programmes in Myanmar. We will create greater impact in education level, sustainable development and investment opportunities in Myanmar.

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BUSINESS REVIEW - continued

Establish Strategic Partnership - continued

The target of our strategic partnership is to endeavour to implement in ten years 800 projects. These will include construction of green and smart school buildings and children homes drawing on local resources and reusable construction materials as well as laying smart infrastructures. The completed works will facilitate future energy saving, sustainable development and building life cycle maintenance cost savings. These construction projects will certainly remain as a main target of our works in the years to come.

While we see the opportunities in Myanmar, we have also made "on site assessment" trips to Laos to explore the opportunities for providing our service. At the moment we are cautiously moving along at a steady pace.

Our path to extend our works in Myanmar and overseas is not alone, we also met with some organisations, such as Engineers Without Border ("EWB"), Hong Kong Chamber of Commerce in China. Incidentally, we have an opportunity to extend our services to cover northern part of Thailand. With the collaboration with these local NGOs, we will definitely look for synergy in our works to make improvements and increase effectiveness and efficiency in running projects in Myanmar and Northern Thailand.

Although we have these exciting projects and opportunities ahead of us, we will have challenges such as high travelling costs and difficulties in recruiting volunteers to join the necessary overseas working groups etc. , creating proportionally higher operating costs for these international projects . We are diligently exploring ways to improve cost effectiveness and efficiency of operating these international projects such as seeking assistance from other local NGOs in Myanmar. With the above successfully commissioned and future works in Myanmar, we are contemplating to complete the process for registration in the country as an iNGO towards the end of 2018. This will facilitate setting up our own support for running these projects locally and in the neighbouring regions.

Financial Highlights

Fund-raising remains as a big challenge to us as our service was expanded to overseas in 2017-2018. We are grateful to have stable donations to support our educational and operational expenditures in this financial year.

In particular, we raised HK\$29. 5 million for education programmes, representing an increase of approximately HK\$1. 1 million as compared with the previous financial year.

Despite an increase in the administrative and operational expenditure was HK\$4. 89 million, our corresponding income was HK\$1. 9 million, a significant increase from last financial year, thanks to the HK\$3. 9 million exchange rate gain and donations towards operation cost of HK\$3. 15 million.

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BUSINESS REVIEW - continued

Project Funding in China

Mainland China remains as our focal point and we have successfully completed our official registration process in Yunnan under the new Overseas NGO Law towards the end of 2017. Subsequently we were recommended to commence our service to Shangrila, and hence our third Children Home in Shangrila is in operation recently. We are now helping to run three children homes in Yunnan. Our services in school buildings in Jiangxi and Yunnan are also progressing smoothly as well as the running of the girls high school in Nanning. In particular, we are delighted to report that two students, one from Shuifu Children Home in Yunnan and one from Huaguang Girls High School in Nanning were admitted to Asian University of Women with top marks!

Communication and Fundraising

Returning home, with a target to improve the donations to operating and administration costs of the organisation, we have successfully completed various activities locally, such as the 25th Anniversary Charity Dinner in addition to other normal fundraising activities in Hong Kong.

Looking Ahead

We have plans for setting up our services locally, one of possibilities could be providing tutorial sessions to hearing impaired students which is likely to start towards the end of 2018. We also aim for organizing new fundraising activities and forming a new group within Sowers Action to cater for the needs for the development of teens and youths, as well as recruitment of younger members, thus providing a sustainable development environment for the organisation.

Conclusion

With unexpected incidents that occurred in 2017-18 term, we are also taking steps to look at our Corporate Governance as well as risks management of our various activities. In-house training for our staff and volunteers remains a critical issue. And we believe communication leads to better collaboration.


The report has made clear our commitment to becoming a stronger and more sustainable NGO remains as focused as ever, and that your continual support is crucial to our success.

Together we can do so much!

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
September 14, 2018

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, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in funds 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, 2018, 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 ("HKSAs") 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
September 14, 2018

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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>NOTE</u>	<u>2018</u> HK\$	<u>2017</u> HK\$
INCOME			
Donations for Education Programs		29,575,998	28,470,726
Donations and Contributions towards Operational Costs		3,148,538	4,048,862
Subscription Fees		57,400	85,720
Interest Income		2,844,462	2,037,856
Other Income		239,731	258,073
Exchange Gain, net		3,916,643	-
TOTAL INCOME		<u>39,782,772</u>	<u>34,901,237</u>
EXPENDITURE			
Expenditure on Education Programs:			
Subsidies for School Constructions and Facilities		8,732,548	8,992,041
Teachers Training and Student Sponsorships		22,558,698	17,344,520
Program Implementation Costs		963,161	858,269
		<u>32,254,407</u>	<u>27,194,830</u>
Fund Raising Costs		1,625,239	1,881,219
Administration Costs		2,100,247	2,012,183
Exchange Loss, net		-	1,911,472
TOTAL EXPENDITURE		<u>35,979,893</u>	<u>32,999,704</u>
NET INCOME FOR THE YEAR	5	<u>3,802,879</u>	<u>1,901,533</u>

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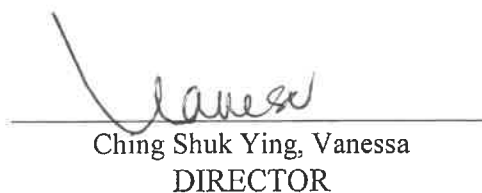
STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2018

	NOTES	2018 HK\$	2017 HK\$
Non-current assets			
Investment property	6	1	1
Plant and equipment	7	149,298	38,512
		<u>149,299</u>	<u>38,513</u>
Current assets			
Other receivables, prepayments and deposits		1,632,305	5,280,190
Fixed deposits	8	74,832,518	59,509,961
Bank balances and cash	8	16,114,278	24,635,262
		<u>92,579,101</u>	<u>89,425,413</u>
Current liabilities			
Other payables and accrued charges		126,772	214,000
Deferred income		1,195,280	1,646,457
		<u>1,322,052</u>	<u>1,860,457</u>
Net current assets		<u>91,257,049</u>	<u>87,564,956</u>
Total assets less current liabilities		<u>91,406,348</u>	<u>87,603,469</u>
Funds		<u>91,406,348</u>	<u>87,603,469</u>

The financial statements on pages 8 to 27 were approved and authorised for issue by the Board of Directors on September 14, 2018 and are signed on its behalf by:


Ho Ngai Leung
DIRECTOR


Ching Shuk Ying, Vanessa
DIRECTOR

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**STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Chinese Education Fund HK\$	Administration Fund HK\$	Development Fund HK\$	Overseas Fund HK\$	Children's Home Fund HK\$	Disaster Relief Fund HK\$	Project Fund HK\$	Perpetual Education Aid Fund HK\$	Perpetual Operation Fund HK\$	Total HK\$
At July 1, 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	254	1,901,533
At June 30, 2017	54,548,543	3,245,741	16,070,210	-	8,453,764	3,804,179	-	1,470,136	10,896	87,603,469
Net income (expenditure) for the year	(6,923,101)	2,879,052	(4,491,497)	9,235,517	69,254	-	2,985,566	47,735	353	3,802,879
At June 30, 2018	47,625,442	6,124,793	11,578,713	9,235,517	8,523,018	3,804,179	2,985,566	1,517,871	11,249	91,406,348

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u> HK\$	<u>2017</u> HK\$
OPERATING ACTIVITIES		
Net income for the year	3,802,879	1,901,533
Adjustments for:		
Depreciation of plant and equipment	27,813	23,175
Interest income	(2,844,462)	(2,037,853)
Operating cash flows before movements in working capital	986,230	(113,145)
Decrease (increase) in other receivables, prepayments and deposits	3,647,885	(2,974,132)
Decrease in other payables and accrued charges	(87,228)	(124,626)
Decrease in deferred income	(451,177)	(1,370,135)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	4,095,710	(4,582,038)
INVESTING ACTIVITIES		
Interest income received	2,844,462	2,037,853
Purchase of plant and equipment	(138,599)	(20,815)
NET CASH FROM INVESTING ACTIVITIES	2,705,863	2,017,038
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,801,573	(2,565,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	84,145,223	86,710,223
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	90,946,796	84,145,223
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Fixed deposits	74,832,518	59,509,961
Bank balances and cash	16,114,278	24,635,262
	90,946,796	84,145,223

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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 and Children Welfare in the People's Republic of China (the "PRC") or elsewhere.

The financial statements are presented in Hong Kong dollars ("HK\$"), which are the same as the functional currency of the Company.

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

The Company had applied the following amendments to HKFRSs issued by the Hong Kong Certified Public Accountants (the "HKICPA") for the first time in the current year.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle

The application of the 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 disclosures set out in these financial statements.

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

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

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ³
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014 - 2016 Cycle ¹
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle ²

¹ Effective for annual periods beginning on or after January 1, 2018

² Effective for annual periods beginning on or after January 1, 2019

³ Effective for annual periods beginning on or after January 1, 2021

⁴ Effective for annual periods beginning on or after a date to be determined

The directors of the Company anticipate that the application of these new amendments to HKFRSs and interpretations will have no material impact on the financial statements 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.

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 live 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.

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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 and Children Welfare 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 and Children Welfare Program in the PRC or elsewhere and the administrative expenditure of the Company.

Overseas Fund

The purpose of the Overseas Fund is to support and finance the development of the Education and Children Welfare Program in overseas.

Children's Home Fund

The purpose of the Children's Home 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 or elsewhere.

Project Fund

The purpose of the Project Fund is to support and finance the development of Education and Children Welfare Program.

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 or elsewhere 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 Project Funding Department; traveling subsidies to work group and other program implementation costs.

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

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

Operational Costs - continued

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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

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.

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 FOR THE YEAR

	<u>2018</u> HK\$	<u>2017</u> HK\$
Net income for the year was arrived at after charging (crediting):		
Directors' remuneration	-	-
Other staff costs	2,913,536	3,701,434
Retirement benefit scheme contributions, excluding contributions for directors	<u>229,134</u>	<u>215,473</u>
Total staff costs	3,142,670	3,916,907
Auditor's remuneration - audit services	80,000	80,000
Depreciation of plant and equipment	27,813	23,175
Rental income from an investment property, net of negligible outgoing	<u>(84,000)</u>	<u>(80,000)</u>

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6. INVESTMENT PROPERTY

	HK\$
COST	
At July 1, 2016, June 30, 2017 and June 30, 2018	<u>1</u>
ACCUMULATED DEPRECIATION	
At July 1, 2016, June 30, 2017 and June 30, 2018	<u>-</u>
CARRYING VALUES	
At June 30, 2018	<u>1</u>
At June 30, 2017	<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, 2018 was HK\$3,630,000 (2017: HK\$4,000,000). 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 6.30.2018 and 2017 HK\$	Level 3	
		Fair value as at 6.30.2018 HK\$	Fair value as at 6.30.2017 HK\$
1/F, 204 Hang Tau, North, New Territories, Hong Kong	<u>1</u>	<u>3,630,000</u>	<u>4,000,000</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\$
COST			
At July 1, 2016	302,147	569,615	871,762
Additions	-	20,815	20,815
At June 30, 2017	302,147	590,430	892,577
Additions	-	138,599	138,599
At June 30, 2018	302,147	729,029	1,031,176
DEPRECIATION			
At July 1, 2016	302,147	528,743	830,890
Provided for the year	-	23,175	23,175
At June 30, 2017	302,147	551,918	854,065
Provided for the year	-	27,813	27,813
At June 30, 2018	302,147	579,731	881,878
CARRYING VALUES			
At June 30, 2018	-	149,298	149,298
At June 30, 2017	-	38,512	38,512

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 include deposits with an original maturity of one year or less. The deposits carry interest at prevailing market rate ranging from 0.01% to 4.39% (2017: 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\$420,253 (2017: HK\$468,049).

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>2018</u> HK\$	<u>2017</u> HK\$
Within one year	392,298	485,972
In the second to fifth year inclusive	30,625	466,733
	<u>422,923</u>	<u>952,705</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\$84,000 (2017: HK\$80,000).

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

	<u>2018</u> HK\$	<u>2017</u> HK\$
Within one year	84,000	84,000
In the second to fifth year inclusive	56,000	140,000
	<u>140,000</u>	<u>224,000</u>

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10. OTHER COMMITMENTS

	<u>2018</u> HK\$	<u>2017</u> HK\$
Commitments to contribute funds to the Education Programs		
Contracted but not provided for in the financial statements	<u>29,013,970</u>	<u>31,010,414</u>

11. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	<u>2018</u> HK\$	<u>2017</u> HK\$
Financial assets		
<i>Loans and receivables</i>		
Other receivables	1,427,467	3,369,316
Fixed deposits	74,832,518	59,509,961
Bank balances	16,114,278	24,635,262
	<u>92,374,263</u>	<u>87,514,539</u>
Financial liabilities		
<i>Financial liabilities stated at amortised cost</i>		
Other payables	<u>21,772</u>	<u>134,000</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.

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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 HK\$. 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>2018</u> HK\$	<u>2017</u> HK\$
RMB	<u>82,165,700</u>	<u>66,860,509</u>

Sensitivity analysis

The following table details the Company's sensitivity to a 5% appreciation and depreciation in RMB against HK\$. 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 HK\$. For a 5% weakening of RMB against HK\$, there would be an equal and opposite impact on the income.

	<u>2018</u> HK\$	<u>2017</u> HK\$
Net income for the year	<u>4,108,285</u>	<u>3,343,025</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 (2017: 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 (2017: 10 basis points) higher/lower and all other variables were held constant, the Company's income for the year ended June 30, 2018 would increase/decrease by HK\$9,282 (2017: HK\$20,379). 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, 2018, 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>2018</u> HK\$	<u>2017</u> HK\$
Short-term benefits	1,025,870	961,580
Post-employment benefits	36,000	36,000
	<u>1,061,870</u>	<u>997,580</u>