

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, 2019

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, 2019

<u>CONTENTS</u>	<u>PAGE(S)</u>
DIRECTORS' REPORT	1 - 4
INDEPENDENT AUDITOR'S REPORT	5 - 7
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	8
STATEMENT OF FINANCIAL POSITION	9
STATEMENT OF CHANGES IN FUNDS	10
STATEMENT OF CASH FLOWS	11
NOTES TO THE FINANCIAL STATEMENTS	12 - 35

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company for the year ended June 30, 2019.

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, 2019 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:

Chan Pui Yee

Cheung Hon Fan, Alex

Ching Shuk Ying, Vanessa (Vice Chairman)

Ho Ngai Leung (Chairman)

Cheung Man Kwong

(appointed on October 14, 2018)

Lee Lap Kuen

(appointed on October 14, 2018)

Lee Yan Kit (Vice Chairman)

(retired and reappointed on October 14, 2018)

Mo Sik Keung

(retired and reappointed on October 14, 2018)

Pak Paul (Vice Chairman)

(retired and reappointed on October 14, 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, Chan Pui Yee, Cheung Hon Fan, Alex and Ho Ngai Leung 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

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

BUSINESS REVIEW

From China to Overseas, from Education to General Livelihoods

As the effects of charity governance, global order and climate changes become more visible, it is essential for us to review our work and look forward, and adopt new ways to reduce impact on our charity business model.

As a charity mainly with work in education in China, we find ourselves in a challenging cross road. As global populations and poverty continue to grow, so too does the need for new forms of donation project coverages.

On June 23, 2019, an Extraordinary General Meeting was held and members approved the initiative to amend the Articles of Association (Articles) to further our work for education and children welfare to cover general livelihoods which will include basic infrastructures and sponsorship work without limits on ages of beneficiaries nor the types of projects. Despite these amendments to the Articles, for our work in both poverty and education aids, we will still firmly abide to our original intention to turn population burden to intellectual resources. Promoting education and children welfares will still be our prime focus. However, if these also requiring associated work for other poverty and infrastructure aids, they will not be precluded within our capabilities and our ultimate care such that we can shape a better future for those in need.

Below are our main projects, fundraising and financial situation in year 2018 - 2019.

Projects

Our work in China remain as long as it is viable without compromising our basic core values and commitments to our donors. We will based on the experience gained with the work we have in China for working overseas.

Children's homes continue to be our main category of work in China, we look for opportunity to extend these work to other areas in Yunnan while maintaining our current children's homes whenever possible. A new home at Shangrila was opened in August 2018.

Myanmar is our first focal point for overseas projects and then followed with Northern Thailand. These projects further developed to create an impact to the local education and charity environment. We will aim not to compete with what other charity organizations are working on but to focus on projects with greater impacts on sustainability and educational environment in Myanmar.

Fundraising

We have initiated and completed the first ever volunteers participated hands-on construction project: Building Better Children's Home - Construction of Gabion Wall for protection of river bank over which is the Dove Children's Home in Tachileik. The project involved manual moving 98 tonnes of rock and placement of the larger rock forming a protection barrier for dissipation of river current while those smaller rock were placed in gabion baskets to form a slope protection facing on the river bank. The total number of volunteers participated in the project was 41.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

BUSINESS REVIEW - continued

Fundraising - continued

Following the above, we seized such opportunity for gathering support from the general public in Hong Kong to participate in hands on light manual work. Hence, the installation of Solar Lighting System for schools in Myanmar as second wave of improving the education environment for the students - Building Better Children's Homes - Light Up Myanmar Schools. In these programmes, we have completed the installation of about 300 sets of solar lighting system for over 80 schools in Magway, Ayeyarwady. And we have successfully obtained sponsorship of these 300 sets of solar lighting system.

Other volunteers participated hands on fund raising project was the distribution of 23,000 warm jackets to the students in China, northern part Myanmar and light jacket in the southern part.

With these successful examples, we will make extra effort in formulating corporate and volunteers hands on participation projects for fund raising.

To cope with the expansion of our overseas project, our new fundraising event "Borderless Education Walk in Northern Thailand" was introduced and "Ancient Tea Horse Route Expedition" was extended to Myanmar. These events allowed our volunteers and donors to understand more the culture and needs of our new project sites.

Regarding the children's homes project, we have monthly donors from both Hong Kong and China to support the daily and study expenses of the children. "Long March for Education" 2018 and 2019 are also aim at raising fund for the children's homes.

Financial

Though there's unstable global economic environment, we are thankful to receive continuous donations to support our educational and operational expenditures in this financial year. In particular, we raised 30 million for education programmes, representing a slight increase of about HK\$0.5 million as compared with the previous financial year.

The operational expenditure was decreased with the effort of our team and recorded HK\$4.19M, which could be covered by our corresponding income HK\$4.43M. However, there was exchange loss of 6.9 million. The loss mainly included unrealized loss arising from unfavorable exchange rate in RMB.

Details of the fund-raising activity approved by the Social Welfare Department during the reporting period is as follows:

<u>Permit Number</u>	<u>Nature</u>	<u>Period</u>	<u>Proceed</u> HK\$	<u>Cost</u> HK\$	<u>Net Proceeds</u> HK\$	<u>Usage</u>
<u>Year 2018 - 2019</u>						
2018/197/1	Public subscription	7 Sep 2018 to 9 Sep 2018	3,221.5	-	3,221.5	Education aid
Total Net Proceed					<u>3,221.5</u>	
<u>Year 2017 - 2018</u>						
2017/176/1	Public Subscription	28 Jul 2017	70.0	-	70.0	Operational expenditure for education aid in Hong Kong
Total Net Proceed					<u>70.0</u>	

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

BUSINESS REVIEW - continued

Looking ahead

i) Local and China

For Hong Kong service, we will keep effort on the present projects and explore new service area for the underprivileged group. With the continuing improvement in Chinese government's funding conditions to the local communities, the projects in China will be reducing further, however, we will try our best to look for new projects as well as keeping working on our existing projects as long as it is possible.

ii) Overseas

Myanmar is our first stop in our bid to further of work overseas. And it will still be our focus in the medium term. In order to have a greater impact on Myanmar's road for development, we will not be competing with what the local NGOs are doing but we will supplement and explore greater beneficiaries orientated projects such as drinking, domestic and irrigation water supply projects in the Dry Zone in Myanmar, making use of solar power system for eco operation of deep submersible water pump and providing a new means for education to student and adults in connecting more advanced wireless education programme, medical, hygiene and other skill training programme. Construction of new schools in otherwise prohibited areas and operating of new children's homes are also high on our list. When time is ripe, building of resettlement villages for the IDPs (internally displaced persons) will also benefit Myanmar's advancement.

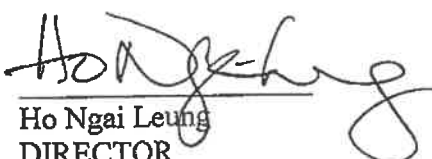
For fundraising, we will formulate innovative activities as well as new areas for general public and volunteers participate hands on in our projects.

We are also aiming to become an iNGO. As such we will look for extending our work to other areas in need. Sri Lanka and Madagascar are the potential areas where we have contacts for working in these two countries. Stay tune for our next report.

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 24, 2019

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

Opinion

We have audited the financial statements of Sowers Action (the "Company") set out on pages 8 to 35, which comprise the statement of financial position as at June 30, 2019, 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, 2019, 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 of the Company 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

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors of the Company 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 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

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 24, 2019

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>NOTE</u>	<u>2019</u> HK\$	<u>2018</u> HK\$
INCOME			
Donations for Education Programs		30,076,495	29,575,998
Donations and Contributions towards Operational Costs		3,760,486	3,148,538
Subscription Fees		75,990	57,400
Interest Income		2,573,541	2,844,462
Other Income		590,188	239,731
Exchange Gain, net		-	3,916,643
TOTAL INCOME		<u>37,076,700</u>	<u>39,782,772</u>
EXPENDITURE			
Expenditure on Education Programs:			
Subsidies for School Constructions and Facilities		20,117,481	8,732,548
Teachers Training and Student Sponsorships		13,720,245	22,558,698
Program Implementation Costs		709,021	963,161
		<u>34,546,747</u>	<u>32,254,407</u>
Fund Raising Costs		1,454,783	1,625,239
Administration Costs		2,026,917	2,100,247
Exchange Loss, net		6,904,098	-
TOTAL EXPENDITURE		<u>44,932,545</u>	<u>35,979,893</u>
NET (LOSS) INCOME FOR THE YEAR	5	<u>(7,855,845)</u>	<u>3,802,879</u>

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2019

	NOTES	2019 HK\$	2018 HK\$
Non-current assets			
Investment property	6	1	1
Plant and equipment	7	107,185	149,298
		<u>107,186</u>	<u>149,299</u>
Current assets			
Other receivables, prepayments and deposits		1,414,954	1,632,305
Fixed deposits	8	63,572,134	74,832,518
Bank balances and cash	8	20,110,492	16,114,278
		<u>85,097,580</u>	<u>92,579,101</u>
Current liabilities			
Other payables and accrued charges		70,550	126,772
Deferred income		1,583,713	1,195,280
		<u>1,654,263</u>	<u>1,322,052</u>
Net current assets		<u>83,443,317</u>	<u>91,257,049</u>
Total assets less current liabilities		<u>83,550,503</u>	<u>91,406,348</u>
Funds		<u>83,550,503</u>	<u>91,406,348</u>

The financial statements on pages 8 to 35 were approved and authorised for issue by the Board of Directors on September 24, 2019 and are signed on its behalf by:


Ho Ngai Leung
DIRECTOR


Pak Paul
DIRECTOR

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

**STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	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, 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
Net (expenditure) income for the year	(16,314,256)	(542,188)	1,710,125	(979,290)	-	(263,086)	8,638,464	(104,900)	(714)	(7,855,845)
Transfer to/from the fund (note)	-	2,000,000	(2,000,000)	-	-	-	-	-	-	-
At June 30, 2019	31,311,186	7,582,605	11,288,838	8,256,227	8,523,018	3,541,093	11,624,030	1,412,971	10,535	83,550,503

Note: Upon directors' approval on 21 December 2018, HK\$2,000,000 development fund was transferred to the administration fund at the same date.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u> HK\$	<u>2018</u> HK\$
OPERATING ACTIVITIES		
Net (loss) income for the year	(7,855,845)	3,802,879
Adjustments for:		
Depreciation of plant and equipment	51,603	27,813
Interest income	(2,573,541)	(2,844,462)
Operating cash flows before movements in working capital	(10,377,783)	986,230
Decrease in other receivables, prepayments and deposits	217,351	3,647,885
Decrease in other payables and accrued charges	(56,222)	(87,228)
Increase (decrease) in deferred income	388,433	(451,177)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(9,828,221)</u>	<u>4,095,710</u>
INVESTING ACTIVITIES		
Interest income received	2,573,541	2,844,462
Purchase of plant and equipment	(9,490)	(138,599)
NET CASH FROM INVESTING ACTIVITIES	<u>2,564,051</u>	<u>2,705,863</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(7,264,170)</u>	<u>6,801,573</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>90,946,796</u>	<u>84,145,223</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>83,682,626</u></u>	<u><u>90,946,796</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Fixed deposits	63,572,134	74,832,518
Bank balances and cash	20,110,492	16,114,278
	<u><u>83,682,626</u></u>	<u><u>90,946,796</u></u>

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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 is the same as the functional currency of the Company.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Company has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs and the interpretation in the current year has had no material impact on the Company's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

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

HKFRS 9 "Financial Instruments" and the related amendments

In the current year, the Company has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Company has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at July 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at July 1, 2018. The difference between carrying amounts as at June 30, 2018 and the carrying amounts as at July 1, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Impairment under ECL model

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Loss allowances for financial assets at amortised cost mainly comprise of amount due from a subsidiary and bank balances are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition. In the opinion of the directors of the Company, the ECL on these financial assets are insignificant on July 1, 2018.

Details of ECL assessment are disclosed in note 11.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

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 and an interpretation that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle ¹

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

² Effective for annual periods beginning on or after a date to be determined

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

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020

⁵ Effective for annual periods beginning on or after January 1, 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and the interpretation will have no material impact on the financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

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

HKFRS 16 "Leases" - continued

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Company currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Company.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at June 30, 2019, the Company has non-cancellable operating lease commitments of HK\$225,502 as disclosed in note 9.

In addition, the application of new requirements may result changes in measurement, presentation and disclosures as indicated above.

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 at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Plant and equipment - continued

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.

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.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Impairment losses on tangible 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.

The recoverable amount of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment losses on tangible assets - continued

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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.

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.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 in the PRC or elsewhere.

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.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

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 on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since July 1, 2018. 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.

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) - continued

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss, except that at the date of initial application/initial recognition of a financial asset the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

The Company recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including other receivables, fixed deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) - continued

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For all financial assets, the Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether the credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) - continued

(i) Significant increase in credit risk - continued

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collaterals held by the Company).

Irrespective of the above, the Company considers that default has occurred when the instrument is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have been occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer of the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probably that the borrower will enter bankruptcy or other financial reorganisation.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) - continued

(iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice when appropriate. A write-off constitutes a derecognition event. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the effective interest rate determined at initial recognition.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) - continued

(v) Measurement and recognition of ECL - continued

The grouping is regularly reviewed by the directors of the Company to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on July 1, 2018)

Financial assets are classified as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, fixed deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on July 1, 2018)

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, 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; or
- 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.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (before application of HKFRS 9 on July 1, 2018) - continued

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of 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 assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

Derecognition of financial assets

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity - continued

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

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

Derecognition

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. 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 (LOSS) INCOME FOR THE YEAR

	<u>2019</u> HK\$	<u>2018</u> HK\$
Net (loss) income for the year was arrived at after charging (crediting):		
Directors' remuneration	-	-
Other staff costs	2,929,910	2,913,536
Retirement benefit scheme contributions, excluding contributions for directors	269,562	229,134
Total staff costs	3,199,472	3,142,670
Auditor's remuneration - audit services	80,000	80,000
Depreciation of plant and equipment	51,603	27,813
Gross rental income from an investment property	(84,000)	(84,000)
Less: direct operating expenses incurred for an investment property that garnered rental income during the year	2,655	2,403
	<u>(81,345)</u>	<u>(81,597)</u>

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

6. INVESTMENT PROPERTY

	HK\$
COST	
At July 1, 2017, June 30, 2018 and June 30, 2019	<u>1</u>
ACCUMULATED DEPRECIATION	
At July 1, 2017, June 30, 2018 and June 30, 2019	<u>-</u>
CARRYING VALUES	
At June 30, 2019	<u>1</u>
At June 30, 2018	<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, 2019 was HK\$3,500,000 (2018: HK\$3,630,000). 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 6.30.2019 and 2018 HK\$	Level 3	
		Fair value as at 6.30.2019 HK\$	Fair value as at 6.30.2018 HK\$
1/F, 204 Hang Tau, North, New Territories, Hong Kong	<u>1</u>	<u>3,500,000</u>	<u>3,630,000</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.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

7. PLANT AND EQUIPMENT

	<u>Leasehold improvements</u> HK\$	<u>Furniture and equipment</u> HK\$	<u>Total</u> HK\$
COST			
At July 1, 2017	302,147	590,430	892,577
Additions	-	138,599	138,599
At June 30, 2018	302,147	729,029	1,031,176
Additions	-	9,490	9,490
At June 30, 2019	302,147	738,519	1,040,666
DEPRECIATION			
At July 1, 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
Provided for the year	-	51,603	51,603
At June 30, 2019	302,147	631,334	933,481
CARRYING VALUES			
At June 30, 2019	-	107,185	107,185
At June 30, 2018	-	149,298	149,298

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% (2018: 0.01% to 4.39%) per annum.

Details of impairment assessment for the year ended June 30, 2019 are set out in note 11.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

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\$421,335 (2018: HK\$420,253).

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>2019</u> HK\$	<u>2018</u> HK\$
Within one year	104,175	392,298
In the second to fifth year inclusive	121,327	30,625
	<u>225,502</u>	<u>422,923</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 (2018: 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 (2018: HK\$84,000).

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

	<u>2019</u> HK\$	<u>2018</u> HK\$
Within one year	56,000	84,000
In the second to fifth year inclusive	-	56,000
	<u>56,000</u>	<u>140,000</u>

10. OTHER COMMITMENTS

	<u>2019</u> HK\$	<u>2018</u> HK\$
Commitments to contribute funds to the Education Programs		
Contracted for but not provided in the financial statements	<u>18,844,821</u>	<u>29,013,970</u>

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

11. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>2019</u> HK\$	<u>2018</u> HK\$
Financial assets		
<i>Financial assets at amortised cost</i>		
Other receivables	1,186,483	N/A
Fixed deposits	63,572,134	N/A
Bank balances	20,110,492	N/A
<i>Loans and receivables</i>		
Other receivables	N/A	1,427,467
Fixed deposits	N/A	74,832,518
Bank balances	N/A	16,114,278
	<u>84,869,109</u>	<u>92,374,263</u>
Financial liabilities		
<i>Financial liabilities at amortised cost</i>		
Other payables	<u>14,000</u>	<u>21,772</u>

Financial risk management objectives and policies

The Company's major financial instruments include other receivables, fixed deposits, bank balances and cash, and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The functional currency of the Company is HK\$ in which most of their transactions are denominated. The Company has foreign currency denominated certain bank balances at the end of the reporting period and details. The Company mainly exposed to currency risk of Renminbi ("RMB").

The sensitivity analysis below has been determined based on a 5% (2018: 5%) possible appreciation or depreciation in RMB against HK\$. The Company currently does not have any foreign currency hedging policy and will consider hedging its foreign currency exposure should the need arise. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust its translation at the end of the reporting period for a 5% (2018: 5%) change in the foreign currency rates. The sensitivity rate used is the rate when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

11. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Currency risk - continued

If the RMB appreciates 5% (2018: 5%) against HK\$ and all other variables were held constant, the Company's income for the year ended June 30, 2019 would increase by HK\$3,219,585 (2018: HK\$4,108,285). There would be an equal and opposite impact on income for the year if RMB depreciates 5% (2018: 5%) against HK\$.

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

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.

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 (2018: 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 (2018: 10 basis points) higher/lower and all other variables were held constant, the Company's income for the year ended June 30, 2019 would increase/decrease by HK\$14,686 (2018: HK\$9,282). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank deposits.

Credit risk and impairment assessment

As at June 30, 2019, the carrying amounts of the financial assets best represent 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.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

11. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Other receivables

The Company assessed 12m ECL on other receivables upon the initial application of HKFRS 9. The Company had limited credit risk on amount due from a subsidiary as at June 30, 2019 and July 1, 2018. The directors consider the counterparty with good credit worthiness based on its past repayment history and subsequent settlement. In the opinion of the directors, the risk of default by the counterparty is not significant and the Company assessed that the ECL on these balances are insignificant upon the application of HKFRS 9 on July 1, 2018 and thus no loss allowance provision was recognised.

Bank balances and fixed deposits

The Company recognised 12m ECL on bank balances and fixed deposits upon the initial application of HKFRS 9.

The credit risk on bank balances and fixed deposits of the Company is limited because the counterparty is a bank with high credit rating assigned by international credit-rating agencies. No loss allowance provision for bank balances and fixed deposits was recognised upon application of HKFRS 9.

There were no significant increase in credit risk on these financial assets since initial recognition and credit-impaired financial assets as at July 1, 2018 and June 30, 2019.

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.

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.

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.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

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>2019</u> HK\$	<u>2018</u> HK\$
Short-term benefits	1,080,920	1,025,870
Post-employment benefits	<u>36,000</u>	<u>36,000</u>
	<u>1,116,920</u>	<u>1,061,870</u>
