

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, 2009

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, 2009

<u>CONTENTS</u>	<u>PAGE(S)</u>
REPORT OF THE DIRECTORS	1 & 2
REPORT OF THE HONORARY AUDITOR	3 & 4
INCOME AND EXPENDITURE ACCOUNT	5 & 6
BALANCE SHEET	7
STATEMENT OF CHANGES IN EQUITY	8
CASH FLOW STATEMENT	9
NOTES TO THE FINANCIAL STATEMENTS	10 - 24

## SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

## REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of the Company for the year ended June 30, 2009.

### PRINCIPAL ACTIVITY

The Company continued to engage in funds raising to support the operations of the Education Program in the People's Republic of China.

### RESULTS

The results of the Company for year ended June 30, 2009 are set out in the income and expenditure account on pages 5 and 6.

### PROPERTY, PLANT AND EQUIPMENT

Details of the Company's acquisition and other movements of property, plant and equipment during the year are set out in note 6 to the financial statements.

### DIRECTORS

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

Lui Wing On (Chairman)	(appointed on October 5, 2008)
Li Suet Ping, Vickie (Vice Chairman)	
Au Ho (Vice Chairman)	
Cheung Kwan Hing	
Leung Yuk Kit	
Ng Kwok Keung	
Cheung Sui Lam	
Mo Sik Keung	(appointed on October 5, 2008)
Yau Chi Keung	(appointed on October 5, 2008)
Chan Kin Kan	(resigned on October 5, 2008)
Choi Shiu Ming	(resigned on October 5, 2008)

In accordance with Article 44(b) of the Company's Articles of Association, Ms. Li Suet Ping, Vickie, Cheung Kwan Hing, Leung Yuk Kit and Ng Kwok Keung will retire but eligible for re-election.

SOWERS ACTION

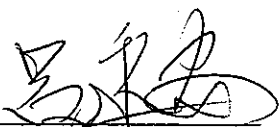
苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

AUDITOR

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

On behalf of the Board



DIRECTOR

August 31, 2009

## REPORT OF THE HONORARY AUDITOR

### TO THE MEMBERS OF SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

We have audited the financial statements of Sowers Action (the "Company") set out on pages 5 to 24, which comprise the balance sheet as at June 30, 2009, and the income and expenditure account, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

REPORT OF THE HONORARY AUDITOR

TO THE MEMBERS OF SOWERS ACTION - continued

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at June 30, 2009 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
August 31, 2009

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2009

	<u>2009</u> HK\$	<u>2008</u> HK\$
<b>INCOME</b>		
Contribution from Ancient Tea Horse Route	-	2,744,984
Contribution from Challenging 12 Hours Project	1,742,938	2,717,348
Contribution from Charity Golf Tournament	608,113	440,354
Contribution from Long March for Education Project - 2007 Guizhou	-	1,247,484
Contribution from Long March for Education Project - 2008 Gansu	557,795	49,800
Contribution from Long March for Education Project - 2009 Yunnan	28,130	-
Contribution from Walk to Guangzhou Project	2,932,223	2,182,201
Contribution from 512 Walker Project	2,336,174	-
Contribution for 512 Sichuan Earthquake Relief Education Fund	30,914,709	11,760,374
Contribution from Spring Walk for Education - 2008 Beijing	-	1,713,680
Donations	29,071,413	30,043,848
Interest income	2,422,228	2,291,007
Subscription fees	96,780	110,992
Changes in fair value of investments held for trading	-	47,494
Gain on disposal of property, plant and equipment	1,753	-
Exchange gain	1,041,620	3,203,614
	<u>71,753,876</u>	<u>58,553,180</u>
<b>EXPENDITURE ON EDUCATION PROGRAM</b>		
Contribution to Education Program		
- General	27,965,382	41,482,492
- Long March for Education Project	3,084,755	2,102,794
- 512 Sichuan Earthquake Relief Education Fund	9,158,294	6,965,200
	<u>40,208,431</u>	<u>50,550,486</u>
Traveling subsidies to work group	283,813	194,436
<b>TOTAL EXPENDITURE ON EDUCATION PROGRAM</b>	<u>40,492,244</u>	<u>50,744,922</u>
<b>PROMOTIONAL EXPENDITURE</b>		
Promotion	3,416	134,636
<b>ADMINISTRATIVE EXPENDITURE</b>		
Auditor's remuneration	-	-
Bank charges	28,215	36,161
Computer accessories	256,118	198,801
Contribution to retirement benefit scheme	110,056	93,397
Depreciation of property, plant and equipment	106,292	81,379
Directors' remuneration	-	-
Office expenses	1,232,243	1,142,622
Other staff costs	2,562,590	2,075,461
Postage	94,911	130,087
Printing and stationery	180,215	218,537
Sundries	70,865	57,945
Telephone and facsimile	22,505	10,700
Travelling	9,574	20,612
<b>TOTAL ADMINISTRATIVE EXPENDITURE</b>	<u>4,673,584</u>	<u>4,065,702</u>

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

	<u>2009</u> HK\$	<u>2008</u> HK\$
OTHER EXPENSES		
Loss on disposal of investments held for trading	11,812	5,205
FINANCE COSTS		
Interest on a finance lease	1,005	1,931
TOTAL EXPENDITURE	<u>45,182,061</u>	<u>54,952,396</u>
SURPLUS FOR THE YEAR	<u>26,571,815</u>	<u>3,600,784</u>
TRANSFER (FROM) TO		
Chinese Education Fund	(1,031,325)	(3,077,556)
Administration Fund	1,271,111	(170,131)
Development Fund	2,227,187	2,073,462
Administration Fund for Non-Recurring Projects	12,252	(20,165)
512 Sichuan Earthquake Relief Education Fund	24,092,590	4,795,174
	<u>26,571,815</u>	<u>3,600,784</u>

---



**SOWERS ACTION**

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

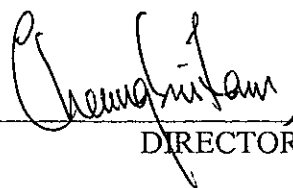
**BALANCE SHEET****AT JUNE 30, 2009**

	<u>NOTES</u>	<u>2009</u> HK\$	<u>2008</u> HK\$
Non-current asset			
Property, plant and equipment	6	224,747	342,081
Current assets			
Other receivables, prepayments and deposits		1,638,383	1,111,741
Investments held for trading	7	-	2,212,132
Fixed deposits	8	93,026,936	71,646,690
Bank balances and cash	8	27,906,155	17,872,893
		<u>122,571,474</u>	<u>92,843,456</u>
Current liabilities			
Other payables and accrued charges		6,995,505	5,224,337
Deferred income		2,104,064	820,069
Obligations under a finance lease - due within one year	9	-	5,340
		<u>9,099,569</u>	<u>6,049,746</u>
Net current assets		<u>113,471,905</u>	<u>86,793,710</u>
Total assets less current liabilities		<u>113,696,652</u>	<u>87,135,791</u>
Non-current liability			
Obligations under a finance lease - due over one year	9	-	10,954
		<u>113,696,652</u>	<u>87,124,837</u>
Reserves		<u>113,696,652</u>	<u>87,124,837</u>

The financial statements on pages 5 to 24 were approved and authorised for issue by the Board of Directors on August 31, 2009 and are signed on its behalf by:



DIRECTOR



DIRECTOR

**SOWERS ACTION**

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2009**

	Chinese Education Fund HK\$	Administration Fund HK\$	Development Fund HK\$	Administration Fund for Non-Recurring Projects HK\$	512 Sichuan Earthquake Relief Education Fund HK\$	Total HK\$
At July 1, 2007	70,522,398	4,221,536	7,632,277	1,147,842	-	83,524,053
Transfer (to) from surplus for the year	(3,077,556)	(170,131)	2,073,462	(20,165)	4,795,174	3,600,784
Transfer (to) from the fund for the year	(3,000,000)	-	(8,700,000)	-	11,700,000	-
At June 30, 2008	64,444,842	4,051,405	1,005,739	1,127,677	16,495,174	87,124,837
Transfer (to) from surplus for the year	(1,031,325)	1,271,111	2,227,187	12,252	24,092,590	26,571,815
At June 30, 2009	<u>63,413,517</u>	<u>5,322,516</u>	<u>3,232,926</u>	<u>1,139,929</u>	<u>40,587,764</u>	<u>113,696,652</u>

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2009

	<u>2009</u> HK\$	<u>2008</u> HK\$
<b>OPERATING ACTIVITIES</b>		
Surplus for the year	26,571,815	3,600,784
Adjustments for:		
Depreciation of property, plant and equipment	106,292	81,379
Interest on a finance lease	1,005	1,931
Gain on disposal of property, plant and equipment	(1,753)	-
Interest income	(2,422,228)	(2,291,007)
Operating cash flows before movements in working capital	24,255,131	1,393,087
Increase in other receivables, prepayments and deposits	(526,642)	(340,781)
Decrease in investments held for trading	2,212,132	1,517,312
Increase in other payables and accrued charges	1,771,168	4,062,034
Increase (decrease) in deferred income	1,283,995	(4,183,109)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>28,995,784</u>	<u>2,448,543</u>
<b>INVESTING ACTIVITIES</b>		
(Increase) decrease in fixed deposits with more than three months to maturity when raised	(16,090,655)	12,940,255
Interest income received	2,422,228	2,291,007
Purchase of property, plant and equipment	-	(376,595)
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<u>(13,668,427)</u>	<u>14,854,667</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of obligations under a finance lease	(3,499)	(4,825)
Interest on a finance lease	(1,005)	(1,931)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(4,504)</u>	<u>(6,756)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	15,322,853	17,296,454
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<u>70,644,611</u>	<u>53,348,157</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<u>85,967,464</u>	<u>70,644,611</u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Fixed deposits	93,026,936	71,646,690
Bank balances and cash	27,906,155	17,872,893
	120,933,091	89,519,583
Less: Fixed deposits with more than three months to maturity when raised	(34,965,627)	(18,874,972)
	<u>85,967,464</u>	<u>70,644,611</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, 2009

---

#### 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 continued to engage in funds raising to support the operations of the Education Program in the People's Republic of China (the "PRC").

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

#### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company has applied, the following amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are or have been effective:

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 13	Customer Loyalty Programmes
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

## SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS - continued

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

HKFRSs (Amendments)	Improvements to HKFRSs <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>3</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>3</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>4</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>3</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>4</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>3</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>3</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>5</sup>
HKFRS 3 (Revised)	Business Combinations <sup>4</sup>
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments <sup>3</sup>
HKFRS 8	Operating Segments <sup>3</sup>
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives <sup>6</sup>
HK(IFRIC) - Int 13	Customer Loyalty Programmes <sup>7</sup>
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate <sup>3</sup>
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation <sup>8</sup>
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners <sup>4</sup>
HK(IFRIC) - Int 18	Transfers of Assets from Customers <sup>9</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after July 1, 2009

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2009, July 1, 2009 and January 1, 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2009

<sup>4</sup> Effective for annual periods beginning on or after July 1, 2009

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2010

<sup>6</sup> Effective for annual periods ending on or after June 30, 2009

<sup>7</sup> Effective for annual periods beginning on or after July 1, 2008

<sup>8</sup> Effective for annual periods beginning on or after October 1, 2008

<sup>9</sup> Effective for transfers on or after July 1, 2009

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Company.

## SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and include applicable disclosures required by the Hong Kong Companies Ordinance.

#### Income and expenditure

Income and expenditure is accounted for on an accrual basis, except for donations which are accounted for on a cash basis.

Interest income from a financial asset including financial assets at fair value through profit or loss 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.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or carrying amount of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

An item of property, 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income and expenditure account in the year in which the item is derecognised.

## SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

### 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 lessee*

Assets held under finance leases are recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income and expenditure account.

Rentals payable under operating leases are charged to income and expenditure account on a straight line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease terms on a straight line basis.

#### Foreign currencies

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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

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

#### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

#### Taxation

The Company is exempted under Section 88 of the Inland Revenue Ordinance from any tax levied in Hong Kong by reason of being a charitable institution or trust of a public character.

## SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### Impairment losses

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income and expenditure account.

#### **Financial assets**

The Company's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on 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, where appropriate, a shorter period.

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



## 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

##### *Financial assets at fair value through profit or loss*

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in income and expenditure account in the period in which they arise.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (other receivables, fixed deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

##### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For financial assets, objective evidence of impairment could include:

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

## SOWERS ACTION

### 苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### Financial instruments - continued

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

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

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

##### **Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

##### *Financial liabilities*

Financial liabilities including other payables and obligations under a finance lease are subsequently measured at amortised cost, using the effective interest method.

##### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivables and the cumulative gain or loss that had been recognised directly in equity is recognised in the income and expenditure account.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income and expenditure account.

## SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### 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 income and expenditure account.

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 income and expenditure accounts when the activity is completed.

#### Chinese Education Fund

The purpose of the Chinese Education Fund is to support and finance the development of the Education Program in the PRC.

#### Administration Fund

The purpose of the Administration Fund is to finance the administrative expenditure of the Company.

#### Development Fund

The purpose of the Development Fund is to finance the development of the Education Program in the PRC and the administrative expenditure of the Company.

#### Administration Fund for Non-Recurring Projects

The purpose of the Administration Fund for Non-Recurring Projects is to provide funding for the pre-operating administrative expenses incurred for non-recurring projects of the Company. The fund was established on January 1, 2006.

#### 512 Sichuan Earthquake Relief Education Fund

The purposes of the 512 Sichuan Earthquake Relief Education Fund are to rebuild schools, to provide basic living necessities to children and to install temporary schooling facilities in the disaster areas.

**SOWERS ACTION**

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

## 4. FINANCIAL INSTRUMENTS

## (a) Categories of financial instruments

	<u>2009</u> HK\$	<u>2008</u> HK\$
<b>Financial assets</b>		
<i>Financial assets at fair value through profit and loss</i>		
Investments held for trading	-	2,212,132
<i>Loans and receivables</i>		
Other receivables	1,485,003	878,148
Fixed deposits	93,026,936	71,646,690
Bank balances	27,865,010	17,852,574
	<u>122,376,949</u>	<u>90,377,412</u>
<b>Financial liabilities</b>		
<i>Financial liabilities stated at amortised cost</i>		
Other payables	<u>6,973,087</u>	<u>5,118,813</u>

## (b) Financial risk management objectives and policies

The Company's major financial instruments include other receivables, investments held for trading, fixed deposits, bank balances, other payables and obligations under a finance lease. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Company's overall policies remain unchanged from prior year.

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

4. 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 Hong Kong dollars ("HKD").

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2009</u> HK\$	<u>2008</u> HK\$	<u>2009</u> HK\$	<u>2008</u> HK\$
United States dollars	-	3,853,837	-	-
Renminbi	<u>81,218,293</u>	<u>57,342,602</u>	<u>6,945,009</u>	<u>4,328,459</u>

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

As HKD is pegged with United States dollars ("USD"), the Company's currency risk in relation to the monetary assets/liabilities denominated in USD is expected to be minimal.

The following table details the Company sensitivity to a 5% increase and decrease in RMB against the relevant foreign currency. 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 other than the items denominated in USD as the directors consider that the Company's exposure to USD is insignificant on the ground that HKD is pegged to USD. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in surplus where RMB strengthen 5% against HKD. For a 5% weakening of RMB against HKD, there would be an equal and opposite impact on the surplus.

	<u>RMB</u>	
	<u>2009</u> HK\$	<u>2008</u> HK\$
Surplus for the year	<u>3,713,664</u>	<u>2,650,707</u>

SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

4. 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 fair value interest rate risk.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. For variable-rate bank deposits, the analysis is prepared assuming the amount of assets outstanding at the balance sheet date was outstanding for the whole year. A 50 basis points (2008: 50 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 50 basis points (2008: 50 basis points) higher/lower and all other variables were held constant, the Company's surplus for the year ended June 30, 2009 would increase/decrease by HK\$136,955 (2008: HK\$89,364). 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, 2009, 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 balance sheet.

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.

## SOWERS ACTION

### 苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

#### 4. 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 the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Company's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	On demand HK\$	1-3 months HK\$	3 months to 1 year HK\$	1-2 years HK\$	2-5 years HK\$	Total undiscounted cash flows HK\$	Total carrying amount HK\$
2009								
Other payables	-	6,973,087	-	-	-	-	6,973,087	6,973,087
	Weighted average effective interest rate %	On demand HK\$	1-3 months HK\$	3 months to 1 year HK\$	1-2 years HK\$	2-5 years HK\$	Total undiscounted cash flows HK\$	Total carrying amount HK\$
2008								
Other payables	-	5,118,813	-	-	-	-	5,118,813	5,118,813
Obligations under a finance - current	10.19	425	948	4,468	6,512	6,426	18,779	16,294
		5,119,238	948	4,468	6,512	6,426	5,137,592	5,135,107

##### (c) Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input.

The fair value of investments held for trading with standard terms and conditions and traded on active liquid markets are determined with reference to the published price quotations.

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

#### 5. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made in the financial statements of the Company as the Company is an approved charitable institution. It is exempted from payment of tax by virtue of Section 88 of the Inland Revenue Ordinance.

**SOWERS ACTION**

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

## 6. PROPERTY, PLANT AND EQUIPMENT

	<u>Leasehold improvements</u> HK\$	<u>Furniture and equipment</u> HK\$	<u>Total</u> HK\$
<b>COST</b>			
At July 1, 2007	-	65,060	65,060
Additions	<u>302,147</u>	<u>74,448</u>	<u>376,595</u>
At June 30, 2008	302,147	139,508	441,655
Disposals	<u>-</u>	<u>(26,500)</u>	<u>(26,500)</u>
At June 30, 2009	<u>302,147</u>	<u>113,008</u>	<u>415,155</u>
<b>DEPRECIATION</b>			
At July 1, 2007	-	18,195	18,195
Provided for the year	<u>56,652</u>	<u>24,727</u>	<u>81,379</u>
At June 30, 2009	56,652	42,922	99,574
Provided for the year	<u>75,537</u>	<u>30,755</u>	<u>106,292</u>
Elimination on disposals	<u>-</u>	<u>(15,458)</u>	<u>(15,458)</u>
At June 30, 2009	<u>132,189</u>	<u>58,219</u>	<u>190,408</u>
<b>CARRYING VALUES</b>			
At June 30, 2009	<u>169,958</u>	<u>54,789</u>	<u>224,747</u>
At June 30, 2008	<u>245,495</u>	<u>96,586</u>	<u>342,081</u>

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

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

At June 30, 2008, the carrying value of furniture and equipment included an amount of HK\$14,575 in respect of an asset held under a finance lease. The Company had early terminated the finance lease in current year and therefore no asset was held under a finance lease at June 30, 2009.



## SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

### 7. INVESTMENTS HELD FOR TRADING

Investments held for trading comprise:

	<u>2009</u> HK\$	<u>2008</u> HK\$
Listed debt investments, current:		
Debt securities listed in Hong Kong	-	647,090
Debt securities listed outside Hong Kong	-	1,565,042
	<u>-</u>	<u>2,212,132</u>

At June 30, 2008, all investments held for trading were stated at fair values. Fair values of the investments had been determined by reference to bid prices quoted in active markets.

### 8. FIXED DEPOSITS/BANK BALANCES

Fixed deposits and bank balances includes short-term bank deposits with an original maturity of twelve months or less. The deposits carry interest at prevailing market rate ranging from 0.01% to 1.98% (2008: 0.8% to 3.78%) per annum.

### 9. OBLIGATIONS UNDER A FINANCE LEASE

It is the Company's policy to lease certain of its furniture and equipment under finance leases. The lease term is 5 years. Interest rate underlying obligations under a finance lease is fixed at 10.19%. No arrangements have been entered into for contingent rental payments.

	<u>Minimum</u> <u>lease payments</u>		<u>Present value of</u> <u>minimum lease payments</u>	
	<u>2009</u> HK\$	<u>2008</u> HK\$	<u>2009</u> HK\$	<u>2008</u> HK\$
Amounts payable under a finance lease				
Within one year	-	6,756	-	5,340
In more than one year but not more than two years	-	6,756	-	5,910
In more than two years but not more than three years	-	5,267	-	5,044
	<u>-</u>	<u>18,779</u>		
Less: future finance charges	-	(2,485)		
Present value of lease obligations	<u>-</u>	<u>16,294</u>	-	16,294
Less: Amount due for settlement within 12 months (shown under current liabilities)			-	(5,340)
Amount due for settlement after 12 months			<u>-</u>	<u>10,954</u>

The Company's obligations under a finance lease were secured by the lessor's charge over the leased asset. The Company had early termination of the finance lease in current year, leading to no obligation under finance lease as at June 30, 2009.

## SOWERS ACTION

苗圃行動

(incorporated in Hong Kong with limited liability by guarantee)

### 10. OPERATING LEASE COMMITMENT

The minimum lease payments under operating leases in respect of the office premises and photocopier during the year amounting to HK\$302,668 (2008: HK\$300,624).

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>2009</u> HK\$	<u>2008</u> HK\$
Within one year	58,224	288,288
In the second to fifth year inclusive	94,050	24,024
	<u>152,274</u>	<u>312,312</u>

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

### 11. OTHER COMMITMENTS

	<u>2009</u> HK\$	<u>2008</u> HK\$
Commitments to contribute funds to the Foundation Education Program in the PRC:		
Contracted but not provided for	31,638,370	26,851,645
Authorised but not contracted for	45,881,769	25,999,759
	<u>77,520,139</u>	<u>52,851,404</u>

### 12. RELATED PARTY TRANSACTIONS

- (a) The directors are not aware of any related party transactions for both years.
- (b) The remuneration of key management personnels during the year was as follows:

	<u>2009</u> HK\$	<u>2008</u> HK\$
Short-term benefits	148,929	-
Post - employment benefits	6,000	-
	<u>154,929</u>	<u>-</u>

No compensation has been paid to the key management personnels for 2008.