

VEGETABLE MARKETING ORGANIZATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2016

**INDEPENDENT AUDITOR'S REPORT
TO THE DIRECTOR OF MARKETING**

(Vegetable Marketing Organization is established under the authority vested in the Director of Marketing by the Agricultural Products (Marketing) Ordinance, Chapter 277)

We have audited the financial statements of Vegetable Marketing Organization (the "Organization") set out on pages 3 to 41, which comprise the balance sheet as at 31 March 2016, the statement of comprehensive income, the statement of changes in funds and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Marketing's Responsibility for the Financial Statements

The Agricultural Products (Marketing) Ordinance, Chapter 277, requires the Director of Marketing to keep proper accounts. The Director of Marketing is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the Director of Marketing determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**INDEPENDENT AUDITOR'S REPORT
TO THE DIRECTOR OF MARKETING (CONTINUED)**

(Vegetable Marketing Organization is established under the authority vested in the Director of Marketing by the Agricultural Products (Marketing) Ordinance, Chapter 277)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Organization as at 31 March 2016, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2016

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

BALANCE SHEET

	Note	As at 31 March		As of 1 April
		2016	2015 (restated)	2014 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	5	16,612,220	16,108,512	17,139,748
Assets under defined benefit plan	17(a)	5,119,000	8,315,000	8,530,000
Vegetable Marketing Organization (“VMO”) Loans	6(a)	-	76,200	-
		<u>21,731,220</u>	<u>24,499,712</u>	<u>25,669,748</u>
Current assets				
Inventories	9(a)	629,512	633,192	631,068
Biological assets	9(b)	52,177	71,570	70,767
VMO Loans	6(a)	1,739,116	1,874,829	1,651,492
Trade and other receivables	10	9,362,280	9,852,206	10,110,710
Bank deposits with original maturities over three months	11	282,068,214	303,706,385	326,600,678
Cash and cash equivalents	12	33,062,398	30,389,275	28,401,913
		<u>326,913,697</u>	<u>346,527,457</u>	<u>367,466,628</u>
Total assets		<u>348,644,917</u>	<u>371,027,169</u>	<u>393,136,376</u>
FUNDS				
VMO General Fund				
Accumulated surplus	13	236,681,918	218,066,302	203,400,642
Specific funds				
VMO Loan Fund	6(a)	12,445,603	12,326,198	12,206,175
VMO Agricultural Development Fund	7	64,726,972	104,612,502	144,761,054
Funds provided from external sources for capital expenditure	14	1,764,104	1,764,104	1,764,104
Total funds		<u>315,618,597</u>	<u>336,769,106</u>	<u>362,131,975</u>
LIABILITIES				
Non-current liabilities				
Provisions for other liabilities	16	1,084,338	1,826,002	1,575,029
Long service payments obligations	17(b)	9,754,733	11,430,439	8,858,883
		<u>10,839,071</u>	<u>13,256,441</u>	<u>10,433,912</u>
Current liabilities				
Trade and other payables	15	12,612,463	11,916,637	11,778,154
Provisions for other liabilities	16	1,704,058	1,961,686	1,744,552
Long service payments obligations	17(b)	585,196	224,580	387,153
Vegetable buyers’ deposits		7,285,532	6,898,719	6,660,630
		<u>22,187,249</u>	<u>21,001,622</u>	<u>20,570,489</u>
Total liabilities		<u>33,026,320</u>	<u>34,258,063</u>	<u>31,004,401</u>
Total funds and liabilities		<u>348,644,917</u>	<u>371,027,169</u>	<u>393,136,376</u>

The notes on pages 8 to 41 are an integral part of these financial statements.

The financial statements on pages 3 to 41 were approved by the Director of Marketing on 29 August 2016.

LEUNG Siu-fai

Director of Marketing

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 March	
		2016	2015 (restated)
INCOME			
Operating income			
Commission		99,214,186	94,047,895
Rebates		(34,618,570)	(32,787,004)
		<u>64,595,616</u>	<u>61,260,891</u>
Net income from sales of premium vegetables	18	<u>8,381,360</u>	<u>8,944,237</u>
Other operating income		<u>1,979,284</u>	<u>1,786,986</u>
Non-trading income			
Interest income on bank deposits		1,585,151	1,980,957
Other income		51,405	800
Gain on disposals of property, plant and equipment	27(b)	-	63,367
		<u>1,636,556</u>	<u>2,045,124</u>
Total income		<u>76,592,816</u>	<u>74,037,238</u>
EXPENDITURE			
Operating expenditure			
Employee benefit expenditure	19(a)	<u>(39,820,488)</u>	<u>(39,434,282)</u>
General working expenses			
Rent, rates and permit fees	20	(2,448,354)	(2,350,383)
Printing and stationery		(481,783)	(502,377)
Utility services		(1,094,041)	(1,029,625)
Maintenance and minor improvements		(2,743,932)	(3,389,550)
Vegetable baskets		(6,550)	(13,330)
Stores and equipment		(744,398)	(858,572)
Miscellaneous expenses		(325,815)	(238,866)
Staff welfare		(344,058)	(357,298)
Staff training		(6,818)	(22,091)
Travelling expenses		(126,932)	(151,133)
Protective clothing and uniforms		(46,727)	(66,024)
Insurance		(1,367,449)	(1,602,664)
Auditor's remuneration		(354,400)	(341,400)
Market security		(649,051)	(615,482)
		<u>(10,740,308)</u>	<u>(11,538,795)</u>
Balance carried forward		<u>(10,740,308)</u>	<u>(11,538,795)</u>

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Note	Year ended 31 March	
		2016	2015 (restated)
Operating expenditure (Continued)			
General working expenses (Continued)			
Balance brought forward		(10,740,308)	(11,538,795)
Transportation expenses		(2,771,789)	(3,070,927)
Depreciation - markets and depots	5	(1,678,030)	(1,667,160)
Subsidy to federation and co-operative societies		(1,024,084)	(982,800)
Grants-in-aid		(30,000)	(491,529)
Provision for impairment of trade receivables	10	(113,157)	-
Publication and publicity		(5,323)	(6,385)
Legal fee		(47,000)	-
Bank charges		(12,631)	(9,613)
		<u>(16,422,322)</u>	<u>(17,767,209)</u>
Total operating expenditure		<u>(56,242,810)</u>	<u>(57,201,491)</u>
Other expenditure			
Loss on disposals of property, plant and equipment	27(b)	(21,350)	-
Total expenditure		<u>(56,264,160)</u>	<u>(57,201,491)</u>
Operating surplus for the year		<u>20,328,656</u>	<u>16,835,747</u>
Net surplus/(deficit) from:			
- VMO Agricultural Development Fund	21	(39,923,728)	(40,030,882)
- VMO Loan Fund	22	119,405	120,023
		<u>(39,804,323)</u>	<u>(39,910,859)</u>
Deficit for the year		<u>(19,475,667)</u>	<u>(23,075,112)</u>
Other comprehensive income for the year			
<u>Items that will not be reclassified subsequently to surplus or deficit</u>			
Remeasurements for defined benefit plan	17(a)	(3,412,000)	(37,000)
Remeasurements for long service payments obligations			
- VMO General Fund		1,698,960	(2,133,087)
- VMO Agricultural Development Fund		38,198	(117,670)
	17(b)	<u>1,737,158</u>	<u>(2,250,757)</u>
Total comprehensive loss for the year		<u>(21,150,509)</u>	<u>(25,362,869)</u>

The notes on pages 8 to 41 are an integral part of these financial statements.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

STATEMENT OF CHANGES IN FUNDS

	Note	<u>Total funds</u>
Balance at 1 April 2014, as previously reported		362,911,648
Prior year adjustment	2.1(c)	(779,673)
		<hr/>
Balance at 1 April 2014, as restated		362,131,975
		<hr/>
Deficit for the year		(23,075,112)
Other comprehensive loss		
- Remeasurements for		
- Defined benefit plan	17(a)	(37,000)
- Long service payments obligations	17(b)	
- VMO General Fund		(2,133,087)
- VMO Agricultural Development Fund		(117,670)
		<hr/>
Total comprehensive loss		(25,362,869)
		<hr/>
Balance at 31 March 2015, as restated		336,769,106
		<hr/> <hr/>
Balance at 1 April 2015, as previously reported		339,235,367
Prior year adjustment	2.1(c)	(2,466,261)
		<hr/>
Balance at 1 April 2015, as restated		336,769,106
		<hr/>
Deficit for the year		(19,475,667)
Other comprehensive income/(loss)		
- Remeasurements for		
- Defined benefit plan	17(a)	(3,412,000)
- Long service payments obligations	17(b)	
- VMO General Fund		1,698,960
- VMO Agricultural Development Fund		38,198
		<hr/>
Total comprehensive loss		(21,150,509)
		<hr/>
Balance at 31 March 2016		315,618,597
		<hr/> <hr/>

The notes on pages 8 to 41 are an integral part of these financial statements.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

STATEMENT OF CASH FLOWS

		<u>Year ended 31 March</u>	
	Note	2016	2015
Cash flows from operating activities			
Net cash used in operations	27(a)	(16,396,604)	(22,361,273)
VMO Loans interest received		8,655	3,112
		<u> </u>	<u> </u>
Net cash used in operating activities		(16,387,949)	(22,358,161)
		<u> </u>	<u> </u>
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(5,130,776)	(1,945,660)
Proceeds from disposals of property, plant and equipment	27(b)	95,400	103,900
Net uplift of bank deposits with original maturities over three months		21,638,171	22,894,293
Bank interest received		2,458,277	3,292,990
		<u> </u>	<u> </u>
Net cash generated from investing activities		19,061,072	24,345,523
		<u> </u>	<u> </u>
Net increase in cash and cash equivalents		2,673,123	1,987,362
Cash and cash equivalents at beginning of the year		30,389,275	28,401,913
		<u> </u>	<u> </u>
Cash and cash equivalents at end of the year	12	<u>33,062,398</u>	<u>30,389,275</u>

The notes on pages 8 to 14 are an integral part of these financial statements.

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The Vegetable Marketing Organization (the “Organization”) is established under the authority vested in the Director of Marketing by the Agricultural Products (Marketing) Ordinance, Chapter 277), which requires that, in the Kowloon Area and in the New Territories Area, vegetables be bought or sold wholesale at the wholesale vegetable market operated by the Organization. A vegetable seller shall pay to the Organization, for the services provided in respect of such sale, a commission at the rate of ten per cent of the price for which the vegetables are sold.

The principal activity of the Organization is to provide services to the vegetable sellers in return of commission calculated based on the price of the vegetable concluded in the Organization’s market.

The amount of commission income accruing to the Organization therefore depends significantly on:

- the degree of the vegetable sellers’ compliance with the Agricultural Products (Marketing) Ordinance by bringing their products into the Organization’s market for sale; and
- the conditions prevailing in the market which influence the selling prices of the vegetables.

The address of the Organization is 757 Lai Chi Kok Road, Cheung Sha Wan Wholesale Vegetable Market, Cheung Sha Wan, Kowloon.

These financial statements are presented in Hong Kong dollars unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Organization have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and under the historical cost convention, except for biological assets, which have been measured at fair value less costs to sell.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Organization’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

- (a) New standards, amendments and interpretations to existing HKFRS (collectively, the “Amendments”) effective for the Organization’s financial year commencing on 1 April 2015

The following Amendments have been adopted by the Organization for the first time for the financial year commencing on 1 April 2015:

Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans. The Amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits. The Amendment did not have a significant effect on the financial statements.

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

- (a) New standards, amendments and interpretations to existing HKFRS (collectively, the “Amendments”) effective for the Organization’s financial year commencing on 1 April 2015 (Continued)

Amendments from annual improvements to HKFRSs - 2010 - 2012 Cycle on HKAS 16 ‘Property, plant and equipment’ and HKAS 24 ‘Related party disclosures’. The Amendments did not have a significant effect on the financial statements.

Amendments from annual improvements to HKAS and HKFRS - 2011 - 2013 Cycle on HKFRS 13 ‘Fair value measurement’. The Amendments did not have a significant effect on the financial statements.

Other Amendments which are effective for the Organization’s financial year commencing on 1 April 2015 are not material to the Organization.

- (b) Amendments that are not yet effective and have not been early adopted by the Organization

Certain Amendments have been published that are mandatory for the Organization’s accounting periods commencing on or after 1 April 2016 and they have not been early adopted in these financial statements. None of these is expected to have a significant impact on the financial statements of the Organization, except the following set out below:

Annual improvement 2014	Improvements to HKAS and HKFRS ¹
HKAS 1 Amendments	Disclosure initiative ¹
HKASs 16 and 38 Amendments	Clarification of acceptable methods of depreciation and amortisation ¹
HKFRS 9	Financial instruments - Financial liabilities ²
HKFRS 15	Revenue from contracts with customers ²
HKFRS 16	Leases ³

Notes:

- (1) Effective for the Organization’s financial period beginning on or after 1 April 2016
(2) Effective for the Organization’s financial period beginning on or after 1 April 2018
(3) Effective for the Organization’s financial period beginning on or after 1 April 2019

The Organization will apply these Amendments in the year of initial application. The Organization is currently assessing the impact of the adoption of the Amendments and is not yet in a position to state whether they would have a significant impact on the Organization’s results of operations and financial position.

- (c) Restatement of long service payments obligations

In previous years, the Organization recognised long service payments obligations in accordance with HKAS 37 “Provisions, contingent liabilities and contingent assets”. All changes in long service payments obligations including remeasurements arising from experience adjustments and changes in assumptions were charged or credited to surplus or deficit for the year.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(c) Restatement of long service payments obligations (Continued)

However, during the year, the Organization considers that it is more appropriate to recognise the long service payments obligations in accordance with HKAS 19 “Employee benefits” of which remeasurements arising from experience adjustments and changes in assumptions are charged or credited to other comprehensive income. The Organization determined that prior year adjustments should be made in these financial statements in order to present these figures fairly. The effects of these adjustments are as below:

	At 31 March 2015	At 1 April 2014
Increase/(decrease) in long service payments obligations		
– VMO General Fund		
- Non-current portion	2,689,126	1,164,647
- Current portion	(101,518)	(76,198)
– VMO Agricultural Development Fund		
- Non-current portion	(103,834)	(305,908)
- Current portion	(17,513)	(2,868)
(Decrease)/increase in accumulated surplus		
– VMO General Fund	(2,587,608)	(1,088,449)
– VMO Agricultural Development Fund	121,347	308,776
	<u> </u>	<u> </u>
		Year ended 31 March 2015
Decrease/(increase) in operating expenditure		
– VMO General Fund		633,928
– VMO Agricultural Development Fund		(69,759)
Increase in other comprehensive loss		
– VMO General Fund		(2,133,087)
– VMO Agricultural Development Fund		(117,670)
		<u> </u>

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Organization are measured using the currency of the primary economic environment in which the Organization operates (“the functional currency”). The financial statements are presented in Hong Kong dollars, which is the Organization’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions and valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.3 Property, plant and equipment

Land and buildings comprise mainly offices and market buildings. Leasehold land classified as a finance lease and all other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items, and contingent price, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Organization and that cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on all other property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	Over the unexpired period of the lease
Leasehold improvements	Shorter of the lease period and the useful lives of 10 years
Buildings	
- Cheung Sha Wan Vegetable Market	20 years
- Buildings at depots	10 years
Furniture, fixtures and computer equipment	5 to 10 years
Motor vehicles	5 years
Machinery and others	5 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.4).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.4 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

2.5 Inventories

Inventories comprise seeds and vegetables and are stated at the lower of cost and net realisable value. Cost, determined using the first-in first-out method, mainly comprises invoiced cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.6 Biological assets

Biological assets are living plants managed by the Organization which are involved in the agricultural activity of the transformation of biological assets into hydroponic vegetable produce for sales.

Biological assets are measured at their fair values less costs to sell, where the fair values are based on their market prices with similar size and species. The fair values less costs to sell of biological assets at the time of harvest are deemed as the cost of hydroponic vegetable produce for sales.

Management reviews the progress of biological assets on an ongoing basis and should these be deemed to be unsuitable for further planting, full provision for impairment losses is made at that time.

Gains or losses arising from initial recognition of biological assets at fair values less costs to sell and from a change in fair values less costs to sell of biological assets are included in the statement of comprehensive income in the period in which it arises.

2.7 Financial assets

The Organization's financial assets comprise mainly loans and receivables. The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Organization's loans and receivables comprise those financial assets that are detailed in note 8.

2.8 VMO Loans and trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

VMO Loans and trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Organization or the counterparty.

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets carried at amortised cost

The Organization assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank deposits with original maturities of three months or less.

2.12 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and service providers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by the employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.13 Employee benefits (Continued)

(b) Retirement plan obligations

The Organization operates a defined benefit plan, a defined contribution plan and a mandatory provident fund scheme (“MPF scheme”) in Hong Kong, the assets of which are held in separate trustee-administered funds. All three retirement plans are funded by payments from employees and by the Organization. For the defined benefit plan, payments are made after taking into account the recommendations of independent qualified actuary.

Defined contribution plan and MPF scheme

The Organization’s contributions to the defined contribution plan and MPF scheme are based on a certain percentage of the employees’ income. The Organization’s contributions to both the defined contribution plan and the MPF scheme are expensed as incurred.

The Organization’s contributions to the defined contribution plan are reduced by contributions forfeited by those employees who leave the defined contribution plan prior to vesting fully in the contributions. The Organization has no further payment obligations once the contributions to both the defined contribution plan and the MPF scheme have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit plan

A defined benefit plan is a retirement plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset recognised in the balance sheet in respect of defined benefit plan is the fair value of plan assets less the present value of the defined benefit obligation at each balance sheet date. The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds or government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

The current service cost of the defined benefit plan, recognised in the statement of comprehensive income in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past service costs are charged immediately to the statement of comprehensive income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. The cost is included in employee benefit expense in the statement of comprehensive income.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.13 Employee benefits (Continued)

(c) Long service payments obligations

The Organization recognises long service payments obligations liable to its employees in accordance with the Employment Ordinance (Cap. 57) upon the termination of the employment, or retirement when the employees fulfil certain conditions and the termination meets the required circumstances. The obligations are calculated based on the long service payments that are required to be made to the employees by the Organization in respect of their services up to the year-end date as reduced by certain benefits arising from the Organization's retirement plans.

The expected costs of these obligations are accrued over the period of employment using the same accounting methodology as used for defined benefit plan. Remeasurements arising from experience adjustments and changes in assumptions are charged or credited directly to other comprehensive income in the period in which they arise. These obligations are valued annually by an independent qualified actuary.

2.14 Provisions

Provisions are recognised when the Organization has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.15 Revenue and other income recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Organization's activities. Revenue and other income are recognised as follows:

- (a) Commission income relating to the provision of services to the vegetable sellers is recognised based on the price of the vegetable transactions concluded in the Organization's market on an accruals basis, and is reduced by rebates which are recognised at a rate of 3.5% based on the price of the same vegetable transactions.
- (b) Sales of vegetables is recognised upon delivery of vegetables to the customer, who has accepted the vegetables and collectability of the related receivables is reasonably assured.
- (c) Commission income relating to the sales of premium vegetables is recognised when the relevant sales transactions have been concluded.
- (d) Interest income on bank deposits and VMO Loans are recognised on a time proportion basis using the effective interest method.
- (e) FarmFest income, other income and other operating income are recognised on an accruals basis.

2.16 VMO Loan Fund and VMO Agricultural Development Fund ("Funds")

The VMO Loan Fund was set up for making loans to farmers for productive purposes.

The VMO Agricultural Development Fund was set up for promoting local agriculture.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.16 VMO Loan Fund and VMO Agricultural Development Fund (“Funds”) (Continued)

The income and expenditure relating to these Funds are dealt with as a single line item in the statement of comprehensive income of the Organization and the details are disclosed in notes 21 and 22. Any net surplus or deficit relating to these Funds is transferred from VMO General Fund to the respective Funds.

2.17 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

3 Financial and fund risks management

3.1 Financial risk factors

The Organization’s activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Organization’s overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Organization’s financial performance.

(a) Foreign exchange risk

Foreign exchange risk arises where future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Organization’s functional currency. In the opinion of the Director of Marketing, the Organization has minimal exposure to foreign exchange risk as its transactions are mainly denominated in Hong Kong dollars and no sensitivity analysis is performed accordingly.

(b) Credit risk

The Organization has policies in place for the control and monitoring of its credit risk. The credit risk of the Organization is primarily attributable to the VMO Loans, trade and other receivables and deposits and balances placed with banks.

In respect of VMO Loans, individual evaluations are performed on all borrowers. For each loan granting, the Organization has policies to assess the eligibility of the granting to farmers and request each borrower to provide third party personal guarantee for the loan. Besides, the Organization will make specific provision for those balances which cannot be recovered.

In respect of trade and other receivables, which are arisen from the sales of vegetables and the commission receivables from credit customers, the Organization has policies in place to ensure they are with appropriate credit history and to limit the amount of credit exposure to credit customers so as to minimise credit risk resulting from counterparties default. The Organization will also make specific provision for those balances which cannot be recovered. The Organization does not hold any collateral from credit customers.

The credit risk on bank deposits and cash and cash equivalents is limited because the counterparties are reputable and creditworthy banks.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. In the opinion of the Director of Marketing, the Organization’s overall credit risk is considered to be low.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

3 Financial and fund risks management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient bank deposits and bank balances. Cash flows are prepared daily and closely monitored by the Organization to ensure that it has sufficient cash to meet operational needs. In the opinion of the Director of Marketing, the Organization does not have any significant liquidity risk.

The table below analyses the Organization's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

As at 31 March 2016 and 2015, the maturity analysis of the financial liabilities is as follows:

	2016	2015
Less than one year		
Trade and other payables (note 15)	12,455,146	11,698,625
Vegetable buyers' deposits	7,285,532	6,898,719
	<u>19,740,678</u>	<u>18,597,344</u>

(d) Cash flow and fair value interest rate risk

The Organization's cash flow and fair value interest rate risk is primarily arisen from bank deposits. Other than that, the Organization has no other significant interest-bearing assets or liabilities.

As at 31 March 2016, if interest rates on the bank deposits had been 11 basis points (2015: 12 basis points) higher/lower with all other variables held constant, deficit for the year would have been approximately \$314,000 (2015: \$371,000) lower/higher, as a result of higher/lower interest income on the bank deposits.

3.2 Fund risk management

The Organization's objectives when managing funds are to safeguard the Organization's ability to continue as a going concern and to have sufficient funding for future operations. The Organization's overall strategy remains unchanged from prior year.

The total funds of the Organization comprises VMO General Fund, VMO Loan Fund, VMO Agricultural Development Fund and Funds provided from external sources for capital expenditure.

3.3 Fair value estimation

Fair value measurement by level of hierarchy is not disclosed as the Organization has no financial instruments that are measured at fair value on the three-level hierarchy basis in the balance sheet.

The carrying value less impairment provision of loans and receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Organization for similar financial instruments.

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

3 Financial and fund risks management (Continued)

3.4 Offsetting financial assets and financial liabilities

No disclosure of the offsetting of financial assets and financial liabilities is made as there are no netting arrangements in place during the year.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Organization makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of VMO Loans

The Organization makes provision for impairment of VMO Loans based on an assessment of the recoverability of the VMO Loans. Provisions are applied to VMO Loans where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of VMO Loans requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of VMO Loans and impairment of VMO Loans is recognised in the year in which such estimates have been changed.

(b) Defined benefit plan and long service payments obligations

The present value of the defined benefit and long service payments obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for defined benefit plan and long service payments obligations include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit and long service payments obligations.

The actuary, Mercer (Hong Kong) Limited, determines the appropriate discount rate at the end of the year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit and long service payments obligations. In determining the appropriate discount rate, the actuary considers the interest rates of high-quality corporate bonds or government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related defined benefit liability and long service payments obligations.

Other key assumptions for defined benefit and long service payments obligations are based in part on current market conditions. Additional information is disclosed in note 17.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

5 Property, plant and equipment

	Markets and depots					VMO Agricultural Development Fund (note 7)					Total
	Land and buildings	Furniture, fixtures and computer equipment	Motor vehicles	Machinery and others	Subtotal	Leasehold improvements	Furniture, fixtures and computer equipment	Machinery and others (note)	Subtotal		
At 1 April 2014											
Cost	4,446,130	27,472,025	7,371,537	23,278	39,312,970	4,126,083	7,704,924	7,050,015	18,881,022	58,193,992	
Accumulated depreciation	(3,861,390)	(22,276,602)	(6,528,355)	(18,786)	(32,685,133)	(2,955,869)	(4,425,607)	(987,635)	(8,369,111)	(41,054,244)	
Net book amount	<u>584,740</u>	<u>5,195,423</u>	<u>843,182</u>	<u>4,492</u>	<u>6,627,837</u>	<u>1,170,214</u>	<u>3,279,317</u>	<u>6,062,380</u>	<u>10,511,911</u>	<u>17,139,748</u>	
Year ended 31 March 2015											
Opening net book amount	584,740	5,195,423	843,182	4,492	6,627,837	1,170,214	3,279,317	6,062,380	10,511,911	17,139,748	
Additions	-	1,154,049	369,000	2,420	1,525,469	-	373,341	746,475	1,119,816	2,645,285	
Disposals (note 27(b))	-	(40,533)	-	-	(40,533)	-	(23,648)	-	(23,648)	(64,181)	
- Cost	-	(218,177)	(524,924)	(240)	(743,341)	-	(186,884)	-	(186,884)	(930,225)	
- Accumulated depreciation	-	177,644	524,924	240	702,808	-	163,236	-	163,236	866,044	
Depreciation	(17,630)	(1,277,090)	(370,190)	(2,250)	(1,667,160)	(412,609)	(755,902)	(776,669)	(1,945,180)	(3,612,340)	
Closing net book amount	<u>567,110</u>	<u>5,031,849</u>	<u>841,992</u>	<u>4,662</u>	<u>6,445,613</u>	<u>757,605</u>	<u>2,873,108</u>	<u>6,032,186</u>	<u>9,662,899</u>	<u>16,108,512</u>	
At 31 March 2015											
Cost	4,446,130	28,407,897	7,215,613	25,458	40,095,098	4,126,083	7,891,381	7,796,490	19,813,954	59,909,052	
Accumulated depreciation	(3,879,020)	(23,376,048)	(6,373,621)	(20,796)	(33,649,485)	(3,368,478)	(5,018,273)	(1,764,304)	(10,151,055)	(43,800,540)	
Net book amount	<u>567,110</u>	<u>5,031,849</u>	<u>841,992</u>	<u>4,662</u>	<u>6,445,613</u>	<u>757,605</u>	<u>2,873,108</u>	<u>6,032,186</u>	<u>9,662,899</u>	<u>16,108,512</u>	

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

5 Property, plant and equipment (Continued)

	Markets and depots					VMO Agricultural Development Fund (note 7)				
	Land and buildings	Furniture, fixtures and computer equipment	Motor vehicles	Machinery and others	Subtotal	Leasehold improvements	Furniture, fixtures and computer equipment	Machinery and others (note)	Subtotal	Total
Year ended 31 March 2016										
Opening net book amount	567,110	5,031,849	841,992	4,662	6,445,613	757,605	2,873,108	6,032,186	9,662,899	16,108,512
Additions	-	1,176,769	507,073	-	1,683,842	-	3,288,489	158,445	3,446,934	5,130,776
Disposals (note 27(b))	-	(116,750)	-	-	(116,750)	-	(27,894)	-	(27,894)	(144,644)
- Cost	-	(1,628,604)	(518,489)	(3,345)	(2,150,438)	-	(77,789)	-	(77,789)	(2,228,227)
- Accumulated depreciation	-	1,511,854	518,489	3,345	2,033,688	-	49,895	-	49,895	2,083,583
Adjustments (note 16)	-	-	-	-	-	-	-	(543,808)	(543,808)	(543,808)
- Cost	-	-	-	-	-	-	-	(679,760)	(679,760)	(679,760)
- Accumulated depreciation	-	-	-	-	-	-	-	135,952	135,952	135,952
Depreciation	(17,630)	(1,239,789)	(419,069)	(1,542)	(1,678,030)	(412,608)	(1,063,993)	(783,985)	(2,260,586)	(3,938,616)
Closing net book amount	549,480	4,852,079	929,996	3,120	6,334,675	344,997	5,069,710	4,862,838	10,277,545	16,612,220
At 31 March 2016										
Cost	4,446,130	27,956,062	7,204,197	22,113	39,628,502	4,126,083	11,102,081	7,275,175	22,503,339	62,131,841
Accumulated depreciation	(3,896,650)	(23,103,983)	(6,274,201)	(18,993)	(33,293,827)	(3,781,086)	(6,032,371)	(2,412,337)	(12,225,794)	(45,519,621)
Net book amount	549,480	4,852,079	929,996	3,120	6,334,675	344,997	5,069,710	4,862,838	10,277,545	16,612,220

Note: The additions for the year of \$158,445 (2015: \$746,475) include the contingent price of Equipment of \$Nil (2015: \$699,625) for Controlled Environment Hydroponic Research and Development Project as described in note 16.

Depreciation expenses of \$1,678,030 and \$2,260,586 (2015: \$1,667,160 and \$1,945,180) have been charged in the operating expenditure and net deficit from VMO Agricultural Development Fund respectively on page 5 and note 21, respectively. The Organization's leasehold land and buildings are situated in Hong Kong and the leasehold land classified as finance lease is held under a medium term lease of between 10 to 50 years.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

6 VMO Loan Fund

(a) Balance sheet

The VMO Loan Fund is represented by the following assets and liabilities which have been included in the assets and liabilities of the Organization in the balance sheet on page 3:

	Note	2016	2015
ASSETS			
Non-current assets			
VMO Loans			
- Loans to farmers		1,849,740	2,118,140
- Interest receivable		56,448	60,920
		<u>1,906,188</u>	<u>2,179,060</u>
Less: Provision for impairment of VMO Loans		(80,116)	(126,479)
		<u>1,826,072</u>	<u>2,052,581</u>
Less: Accumulated amortisation at 1 April		(101,552)	(82,575)
Premium/(discount) on amortisation of VMO Loans	22	14,596	(18,977)
Accumulated amortisation at 31 March		<u>(86,956)</u>	<u>(101,552)</u>
VMO Loans – net		1,739,116	1,951,029
Less: Current portion		(1,739,116)	(1,874,829)
Non-current portion		-	76,200
Current assets			
Current portion of VMO Loans		1,739,116	1,874,829
Other receivables		6,935	8,701
Bank deposits with original maturities over three months	11	7,094,930	4,450,136
Cash and cash equivalents	12	3,604,622	5,916,332
		<u>12,445,603</u>	<u>12,249,998</u>
Total assets		<u>12,445,603</u>	<u>12,326,198</u>
FUNDS			
Capital account transferred from VMO General Fund		2,608,000	2,608,000
Accumulated surplus at 1 April		9,718,198	9,598,175
Net surplus for the year transferred from VMO General Fund	13&22	119,405	120,023
Accumulated surplus at 31 March		<u>9,837,603</u>	<u>9,718,198</u>
Total funds		<u>12,445,603</u>	<u>12,326,198</u>
LIABILITIES			
Current and total liabilities		-	-
Total funds and liabilities		<u>12,445,603</u>	<u>12,326,198</u>

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

6 VMO Loan Fund (Continued)

(b) VMO Loans

The VMO Loan Fund was set up for making loans to farmers for productive purposes.

The VMO Loans bear interests at rates from 0.005% to 1.917% (2015: 0.005% to 1.917%) per annum and are repayable within one year (2015: one to two years) with third party personal guarantees. As at 31 March 2016, the weighted average effective interest rate of the VMO Loans is 0.011% (2015: 0.025%) per annum.

As at 31 March 2016, VMO Loans of \$80,116 (2015: \$126,479) were past due and impaired and full provisions have been made. The individually impaired receivables mainly related to borrowers, which were in unexpectedly difficult economic situations. The ageing of these VMO Loans is as follows:

	2016	2015
<u>Past due by:</u>		
Up to 30 days	2,000	10,000
31 to 60 days	2,000	-
61 to 90 day	2,000	-
Over 90 days	74,116	116,479
	<u>80,116</u>	<u>126,479</u>

The remaining balances of VMO Loans were not past due or impaired.

Movement on provision for impairment of VMO Loans is as follows:

	Note	2016	2015
At 1 April		126,479	173,445
Credited to the statement of comprehensive income			
- Reversal of provision for impairment of receivables	22	(46,363)	(46,966)
At 31 March		<u>80,116</u>	<u>126,479</u>

The creation and release of provisions for impaired VMO Loans have been included in the net surplus from VMO Loan Fund in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the balance sheet date is the carrying values of the VMO Loans. The carrying values of VMO Loans approximate their fair values at 31 March 2016 and 2015 and are denominated in Hong Kong dollars.

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

7 VMO Agricultural Development Fund

The VMO Agricultural Development Fund is represented by the following assets and liabilities which have been included in the assets and liabilities of the Organization in the balance sheet on page 3:

	Note	2016	2015 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	5	10,277,545	9,662,899
Current assets			
Inventories	9(a)	389,560	398,854
Biological assets	9(b)	52,177	71,570
Trade and other receivables		1,093,678	1,476,047
Bank deposits with original maturities over three months	11	54,850,000	96,755,000
Cash and cash equivalents	12	913,122	376,575
		57,298,537	99,078,046
Total assets		67,576,082	108,740,945
FUNDS			
Capital account			
At 1 April and 31 March		350,000,000	350,000,000
Accumulated deficit at 1 April		(245,387,498)	(205,238,946)
Net deficit for the year transferred from VMO General Fund	13&21	(39,885,530)	(40,148,552)
Accumulated deficit at 31 March		(285,273,028)	(245,387,498)
Total funds		64,726,972	104,612,502
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities		1,084,338	1,826,002
Long service payments obligations		443,034	493,746
		1,527,372	2,319,748
Current liabilities			
Other payables		714,257	1,089,407
Provisions for other liabilities		513,702	719,288
Long service payments obligations		93,779	-
		1,321,738	1,808,695
Total liabilities		2,849,110	4,128,443
Total funds and liabilities		67,576,082	108,740,945

The VMO Agricultural Development Fund was set up for promoting local agriculture through financing or subsidising various agricultural research and development projects, agricultural land rehabilitation scheme, construction and improvement of communal agricultural facilities, vocational training for farmers and agricultural workers, introduction of new agricultural technique, exhibitions and other publicity means to promote agriculture.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

8 Financial instruments by category

The Organization's financial instruments include the following:

	Note	2016	2015
Financial assets - loans and receivables			
VMO Loans	6	1,739,116	1,951,029
Trade and other receivables	10	6,285,793	6,482,974
Bank deposits with original maturities over three months	11	282,068,214	303,706,385
Cash and cash equivalents	12	33,062,398	30,389,275
		<u>323,155,521</u>	<u>342,529,663</u>
Financial liabilities - other financial liabilities at amortised cost			
Trade and other payables	15	12,455,146	11,698,625
Vegetable buyers' deposits		7,285,532	6,898,719
		<u>19,740,678</u>	<u>18,597,344</u>

9 Inventories and biological assets

(a) Inventories

	2016	2015
Premium vegetables	139,678	114,675
Others	489,903	518,587
	<u>629,581</u>	<u>633,262</u>
Less: Provision for impairment of inventories	(69)	(70)
	<u>629,512</u>	<u>633,192</u>
Represented by:		
- General fund	239,952	234,338
- VMO Agricultural Development Fund (note 7)	389,560	398,854
	<u>629,512</u>	<u>633,192</u>

(b) Biological assets

	2016	2015
At 1 April	71,570	70,767
Additions	1,572,436	2,109,893
Harvested hydroponic vegetable produce	(1,349,860)	(1,850,818)
Write off (note 26)	(241,969)	(258,272)
	<u>52,177</u>	<u>71,570</u>
At 31 March	<u>52,177</u>	<u>71,570</u>
<u>Analysis of biological assets</u>		
Mature	-	-
Immature	52,177	71,570
	<u>52,177</u>	<u>71,570</u>

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

9 Inventories and biological assets

(b) Biological assets (Continued)

As at 31 March 2016, the Organization had 129 (2015: 359) kilogram of biological assets. During the year, the quantity of hydroponic vegetable produce harvested for sales is 4 575 (2015: 9 432) kilogram.

10 Trade and other receivables

	2016	2015
Trade receivables	5,442,803	4,851,820
Less: Provision for impairment of trade receivables	(113,157)	-
	<hr/>	<hr/>
Trade receivables, net	5,329,646	4,851,820
Interest receivables	493,631	762,952
Other receivables	462,516	868,202
	<hr/>	<hr/>
Financial assets	6,285,793	6,482,974
Prepayments for:		
- Insurance expense	1,339,404	1,974,525
- Other operating expenses	1,737,083	1,394,707
	<hr/>	<hr/>
Total	<u>9,362,280</u>	<u>9,852,206</u>

As at 31 March 2016, trade receivables of \$269,351 (2015: \$256,805) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The Organization does not hold any collateral over these balances and the ageing analysis of these trade receivables is as follows:

	2016	2015
<u>Past due by:</u>		
Up to 30 days	268,912	246,473
31 to 60 days	-	932
61 to 90 days	439	1,750
Over 90 days	-	7,650
	<hr/>	<hr/>
	<u>269,351</u>	<u>256,805</u>

As at 31 March 2016, trade receivables of \$113,157 (2015: Nil) were impaired and provision has been made. The impaired receivables mainly related a customer, which is in unexpectedly difficult economic situations. The ageing of these trade receivables is as follows:

	2016	2015
<u>Past due by:</u>		
31 to 60 days	15,846	-
61 to 90 days	22,744	-
Over 90 days	74,567	-
	<hr/>	<hr/>
	<u>113,157</u>	<u>-</u>

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

10 Trade and other receivables (Continued)

Movement on the provision for impairment of trade receivables is as follows:

	2016	2015
At 1 April	-	-
Provision for impairment of receivables	113,157	-
	<hr/>	<hr/>
At 31 March	113,157	-
	<hr/> <hr/>	<hr/> <hr/>

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivables mentioned above. The carrying values of trade and other receivables approximate their fair values at 31 March 2016 and 2015 and are denominated in Hong Kong dollars.

11 Bank deposits with original maturities over three months

	Note	2016	2015
VMO General Fund		220,123,284	202,501,249
VMO Loan Fund	6	7,094,930	4,450,136
VMO Agricultural Development Fund	7	54,850,000	96,755,000
		<hr/>	<hr/>
Maximum exposure to credit risk		282,068,214	303,706,385
		<hr/> <hr/>	<hr/> <hr/>

The carrying values of bank deposits are denominated in Hong Kong dollars.

12 Cash and cash equivalents

	Note	2016	2015
<u>VMO General Fund</u>			
Cash at banks and in hand		28,544,654	24,096,368
		-----	-----
<u>VMO Loan Fund</u>			
Cash at banks		204,622	216,332
Bank deposits with original maturities of three months or less		3,400,000	5,700,000
		<hr/>	<hr/>
	6	3,604,622	5,916,332
		-----	-----
<u>VMO Agricultural Development Fund</u>			
Cash at banks and in hand	7	913,122	376,575
		<hr/>	<hr/>
Total		33,062,398	30,389,275
		<hr/> <hr/>	<hr/> <hr/>
Maximum exposure to credit risk		31,696,331	28,851,186
		<hr/> <hr/>	<hr/> <hr/>

The carrying values of cash and cash equivalents are denominated in Hong Kong dollars.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

13 VMO General Fund

	Note	Accumulated surplus
Balance at 1 April 2014, as previously reported		204,489,091
Prior year adjustment	2.1(c)	(1,088,449)
Balance at 1 April 2014, as restated		<u>203,400,642</u>
Deficit for the year		(23,075,112)
Loss on remeasurements for		
- Defined benefit plan	17	(37,000)
- Long service payments obligations		
- VMO General Fund	17	(2,133,087)
- VMO Agricultural Development Fund	17	(117,670)
Net surplus transferred to VMO Loan Fund	6(a)	(120,023)
Net deficit transferred to VMO Agricultural Development Fund	7	40,148,552
Balance at 31 March 2015, as restated		<u><u>218,066,302</u></u>
Balance at 1 April 2015, as previously reported		220,653,910
Prior year adjustment	2.1(c)	(2,587,608)
Balance at 1 April 2015, as restated		<u>218,066,302</u>
Deficit for the year		(19,475,667)
(Loss)/income on remeasurements for		
- Defined benefit plan	17	(3,412,000)
- Long service payments obligations		
- VMO General Fund	17	1,698,960
- VMO Agricultural Development Fund	17	38,198
Net surplus transferred to VMO Loan Fund	6(a)	(119,405)
Net deficit transferred to VMO Agricultural Development Fund	7	39,885,530
Balance at 31 March 2016		<u><u>236,681,918</u></u>

14 Funds provided from external sources for capital expenditure

	2016	2015
Colonial Development Welfare Fund Grants		
- Scheme D994-Village agricultural depots	144,000	144,000
- Scheme D1066-Purchase of lorries	150,000	150,000
- Scheme D5250-Cheung Sha Wan Vegetable Market	1,470,104	1,470,104
At 1 April and 31 March	<u><u>1,764,104</u></u>	<u><u>1,764,104</u></u>

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

15 Trade and other payables

	2016	2015
Trade payables	9,489,474	7,660,327
Other payables	2,175,737	3,017,843
Vegetable sellers' and other deposits	789,935	1,020,455
	<u>12,455,146</u>	<u>11,698,625</u>
Financial liabilities	12,455,146	11,698,625
Receipts in advance	157,317	218,012
	<u>12,612,463</u>	<u>11,916,637</u>

The carrying values of trade and other payables approximate their fair values at 31 March 2016 and 2015 and are denominated in Hong Kong dollars.

16 Provisions for other liabilities

	Unused annual leave	Contingent price of equipment (note)	Total
At 1 April 2014	1,417,668	1,901,913	3,319,581
Payments for the year	(122,814)	-	(122,814)
	<u>1,294,854</u>	<u>1,901,913</u>	<u>3,196,767</u>
(Reversal of provision for)/provision for the year			
- General Fund (note 19(a))	197,394	-	197,394
- Agricultural Development Fund	62,430	(368,528)	(306,098)
- Property, plant and equipment (note 5)	-	699,625	699,625
	<u>259,824</u>	<u>331,097</u>	<u>590,921</u>
At 31 March 2015 and 1 April 2015	1,554,678	2,233,010	3,787,688
Payments for the year	(182,668)	-	(182,668)
	<u>1,372,010</u>	<u>2,233,010</u>	<u>3,605,020</u>
(Reversal of provision for)/provision for the year			
- General Fund (note 19(a))	80,620	-	80,620
- Agricultural Development Fund	54,045	(271,529)	(217,484)
- Property, plant and equipment (note 5)	-	(679,760)	(679,760)
	<u>134,665</u>	<u>(951,289)</u>	<u>(816,624)</u>
At 31 March 2016	<u>1,506,675</u>	<u>1,281,721</u>	<u>2,788,396</u>

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

16 Provisions for other liabilities (Continued)

Analysis of total provisions:

At 31 March 2016

Non-current	-	1,084,338	1,084,338
Current	1,506,675	197,383	1,704,058
	<u>1,506,675</u>	<u>1,281,721</u>	<u>2,788,396</u>

At 31 March 2015

Non-current	-	1,826,002	1,826,002
Current	1,554,678	407,008	1,961,686
	<u>1,554,678</u>	<u>2,233,010</u>	<u>3,787,688</u>

Note:

During the year ended 31 March 2013, the Organization entered into an agreement (the “Agreement”) with an independent third party (the “Third Party”) to set up and operate a factory for growing hydroponic vegetable produce (the “Vegetable Factory”) in Hong Kong. The duration of the Agreement is five years. In accordance with the Agreement,

- (i) the Organization and the Third Party have to share their respective costs of the equipment of the Vegetable Factory (“Equipment”), amounting to \$4,696,350 and \$1,565,450 respectively;
- (ii) the Organization is responsible for operating the Vegetable Factory and bears all the relevant operating costs;
- (iii) during the duration of the Agreement, the Third Party guarantees the production output per day (“Guarantee Output”) and the Organization has to grant to the Third Party a pre-agreed percentage of the daily production output of the Vegetable Factory free of charge (“Free Hydroponic Vegetables”); and
- (iv) at the end of the duration of the Agreement, the Organization can opt to pay a pre-agreed amount (“Continuous Consideration”) to the Third Party to continue to operate the Vegetable Factory.

On 30 October 2015, the Organization entered into a supplementary agreement (the “Supplementary Agreement”) with the Third Party in relation to the operation of the Vegetable Factory, whereby the clause of Guarantee Output was abandoned. The duration of the Supplementary Agreement is five years from 1 November 2015. The daily production output of hydroponic vegetables was reduced because of more research activities were undertaken. Due to reassessment of the contingent price of the Equipment at 31 March 2016, a downward adjustment on the cost and the related depreciation of \$679,760 and \$135,952 respectively (note 5) is resulted.

As at 31 March 2016, a provision is recognised for the present value of costs of Free Hydroponic Vegetables and the Continuous Consideration (collectively, the “contingent price of equipment”), totaling \$1,281,721 (2015: \$2,233,010). It is expected that \$197,383 (2015: \$407,008) will be utilised next year and \$1,084,338 (2015: \$1,826,002) will be utilised or paid during the remaining duration of the Agreement.

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations

	Note	2016	2015 (restated)
Balance sheet assets for:			
- Defined benefit plan	(a)	<u>5,119,000</u>	<u>8,315,000</u>
Balance sheet obligations for:			
- Long service payments obligations			
- Non-current portion		(9,754,733)	(11,430,439)
- Current portion		(585,196)	(224,580)
	(b)	<u>(10,339,929)</u>	<u>(11,655,019)</u>
Statement of comprehensive income charged for:			
- Defined benefit plan	19(a)	234,000	178,000
- Long service payments obligations			
- VMO General Fund	19(a)	728,707	536,084
- VMO Agricultural Development Fund	19(b)	100,489	65,628
		<u>1,063,196</u>	<u>779,712</u>
Remeasurements for:			
- Defined benefit plan	(a)	<u>3,412,000</u>	<u>37,000</u>
- Long service payments obligations			
- VMO General Fund		(1,698,960)	2,133,087
- VMO Agricultural Development Fund		(38,198)	117,670
	(b)	<u>(1,737,158)</u>	<u>2,250,757</u>
		<u>1,674,842</u>	<u>2,287,757</u>

(a) Defined benefit plan

The Organization's defined benefit plan is a final salary defined benefit plan. The assets of the funded plan are held independently of the Organization's assets in separate trustee administered funds. The Organization's plan is valued by a qualified actuary annually using the project unit cost method. The following details are based on the valuations as at 31 March 2016 and 2015 carried out by Mercer (Hong Kong) Limited, who holds a recognised professional qualification.

The amounts recognised in the balance sheet are determined as follows:

	2016	2015
Present value of the funded obligations	(19,397,000)	(19,507,000)
Fair value of plan assets	<u>24,516,000</u>	<u>27,822,000</u>
Assets in the balance sheet	<u>5,119,000</u>	<u>8,315,000</u>

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations (Continued)

(a) Defined benefit plan (Continued)

The movements in assets under defined benefit plan and present value of defined benefit obligations over the year are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 April 2014	(20,735,000)	29,265,000	8,530,000
Current service costs	(324,000)	-	(324,000)
Interest (expense)/income	(355,000)	511,000	156,000
	<u>(21,414,000)</u>	<u>29,776,000</u>	<u>8,362,000</u>
<u>Remeasurements:</u>			
- Return on plan assets (excluding interest income)	-	1,795,000	1,795,000
- Loss from change in financial assumption changes	(586,000)	-	(586,000)
- Experience losses	(1,246,000)	-	(1,246,000)
	<u>(1,832,000)</u>	<u>1,795,000</u>	<u>(37,000)</u>
Plan participants contributions	(258,000)	258,000	-
Benefit payments	3,997,000	(3,997,000)	-
Administrative cost	-	(10,000)	(10,000)
	<u>3,739,000</u>	<u>(3,749,000)</u>	<u>(10,000)</u>
At 31 March 2015	<u>(19,507,000)</u>	<u>27,822,000</u>	<u>8,315,000</u>

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations (Continued)

(a) Defined benefit plan (Continued)

The movements in assets under defined benefit plan and present value of defined benefit obligations over the year are as follows: (Continued)

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 April 2015	(19,507,000)	27,822,000	8,315,000
Current service costs	(322,000)	-	(322,000)
Interest (expense)/income	(225,000)	329,000	104,000
	<u>(20,054,000)</u>	<u>28,151,000</u>	<u>8,097,000</u>
Remeasurements:			
- Return on plan assets (excluding interest income)	-	(3,197,000)	(3,197,000)
- Gain from change in financial assumption changes	230,000	-	230,000
- Experience losses	(445,000)	-	(445,000)
	<u>(215,000)</u>	<u>(3,197,000)</u>	<u>(3,412,000)</u>
Plan participants contributions	(250,000)	250,000	-
Employer contributions	-	450,000	450,000
Benefit payments	1,122,000	(1,122,000)	-
Administrative cost	-	(16,000)	(16,000)
	<u>872,000</u>	<u>(438,000)</u>	<u>434,000</u>
At 31 March 2016	<u><u>(19,397,000)</u></u>	<u><u>24,516,000</u></u>	<u><u>5,119,000</u></u>

The plan assets at the balance sheet date are held in the following forms:

	2016 %	2015 %
Equities	76	81
Bonds	18	16
Money instruments	6	3
	<u>100</u>	<u>100</u>

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations (Continued)

(b) Long service payments obligations

The long service payments as prescribed under the Hong Kong Employment Ordinance are payable to employees, upon the termination of their employment, subject to completion of five years of continuous service and meeting certain qualifying conditions. The benefit is based on final wages and years of service at the time the employment is terminated.

The Organization has statutory obligation to pay such long service payments, which may be reduced by the employee's entitlements to retirement benefits under the Organization's other retirement plans registered under the Occupational Retirement Schemes Ordinance or MPF scheme, where appropriate.

The movements in liabilities recognised in the balance sheet over the year are as follows:

	Present value of long service payments obligations
At 1 April 2014	9,246,036
Current service costs	370,689
Interest expense	231,023
	<hr/>
	9,847,748
	<hr/>
<u>Remeasurements:</u>	
- Loss from change in financial assumption changes	2,435,875
- Experience gains	(185,118)
	<hr/>
	2,250,757
	<hr/>
Benefit payments	(443,486)
	<hr/>
At 31 March 2015	11,655,019
	<hr/>
At 1 April 2015	11,655,019
Current service costs	643,027
Interest expense	186,169
	<hr/>
	12,484,215
	<hr/>
<u>Remeasurements:</u>	
- Gain from change in financial assumption changes	(1,082,281)
- Experience gains	(654,877)
	<hr/>
	(1,737,158)
	<hr/>
Benefit payments	(407,128)
	<hr/>
At 31 March 2016	10,339,929
	<hr/>

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations (Continued)

(c) The principal actuarial assumptions used as follows:

	<u>Defined benefit obligation</u>		<u>Long service payments obligations</u>	
	2016 %	2015 %	2016 %	2015 %
Discount rate	0.9	1.2	1.7	1.6
Expected rate of future salary increases	3.5	4.0	3.5	4.0

(d) The sensitivity of the defined benefit and long service payments obligations to changes in the weighted principal assumptions is:

	Change in assumption	<u>Impact on defined benefit obligation</u>		<u>Impact on long service payments obligations</u>	
		Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 2.3%	Increase by 2.4%	Decrease by 11%	Increase by 13%
Salary growth rate	0.5%	Increase by 2.6%	Decrease by 2.5%	Increase by 8%	Decrease by 7%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit and long service payments obligations to significant actuarial assumptions, the same method (present value of the defined benefit and long service payments obligations calculated with the projected unit credit method at the balance sheet date) has been applied as when calculating the liability recognised within the balance sheet.

(e) The expected contributions by the Organization and by the employees for the year ending 31 March 2017:

	<u>Defined benefit obligation</u>	<u>Long service payments obligations</u>
Expected contributions by:		
- Organization	437,000	-
- Employees	177,000	-

(f) The weighted average duration of the defined benefit obligation and long service payments obligations is around 4.7 years and 12.5 years, respectively.

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations (Continued)

- (g) The expected maturity analysis of undiscounted benefit payments over the next 10 years is as follows:

	<u>Defined benefit obligation</u>		<u>Long service payments obligations</u>	
	2016	2015	2016	2015
Less than 1 year	4,555,000	1,524,000	547,000	39,000
Between 1 and 2 years	1,678,000	4,054,000	124,000	778,000
Between 2 and 5 years	5,918,000	6,601,000	1,618,000	1,314,000
Next 5 years	7,008,000	5,515,000	3,217,000	2,918,000
	<u>19,159,000</u>	<u>17,694,000</u>	<u>5,506,000</u>	<u>5,049,000</u>

18 Net income from sales of premium vegetables

The income and expenditure on the sales of premium vegetables for the year are as follows:

	2016	2015
Sales of premium vegetables	31,127,083	31,761,742
Cost of inventories sold	(23,776,692)	(23,796,421)
Gross profit	<u>7,350,391</u>	<u>7,965,321</u>
Commission income	1,080,800	1,024,223
Direct operating expenses		
Rebates	(645)	(3,961)
Sales commission	(6,918)	(13,169)
Sundry expenses	(42,268)	(28,177)
	<u>(49,831)</u>	<u>(45,307)</u>
Net income for the year	<u><u>8,381,360</u></u>	<u><u>8,944,237</u></u>

The cost of inventories sold includes inventory written-off of \$1,580,049 (2015: \$1,716,049).

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

19 Employee benefit expenditure

(a) Employee benefit expenditure in the VMO General Fund is analysed as below:

	Note	2016	2015
Salaries and wages		36,791,381	36,583,513
Provision for unused annual leave	16	80,620	197,394
Retirement benefit costs			
- Defined contribution plan and MPF scheme		1,985,780	1,939,291
- Defined benefit plan	17	234,000	178,000
- Long services payments obligations	17	728,707	536,084
		<u>39,820,488</u>	<u>39,434,282</u>

(b) In addition to the above, employee benefit expenditure amounting to \$14,643,125 (2015: \$14,240,197) as listed below has been included in various expenditure items in the VMO Agricultural Development Fund in note 21.

	Note	2016	2015
Salaries and wages		13,811,209	13,451,326
Provision for unused annual leave	16	54,045	62,430
Retirement benefit costs			
- MPF scheme		677,382	660,813
- Long services payments obligations	17	100,489	65,628
		<u>14,643,125</u>	<u>14,240,197</u>

20 Rent, rates and permit fees

Included in the amount, \$687,083 (2015: \$630,500) represents operating lease rentals for market premises.

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

21 Net deficit from VMO Agricultural Development Fund

The income and expenditure of VMO Agricultural Development Fund for the year are as follows:

	Note	2016	2015 (restated)
Income			
FarmFest income		4,380,090	3,734,045
Interest income on bank deposits		549,467	1,180,799
Other income		77,134	260,402
		<u>5,006,691</u>	<u>5,175,246</u>
Expenditure			
Land rehabilitation scheme			
- Repairs and maintenance		(89,872)	(168,448)
- Depreciation		(127,004)	(105,291)
- Recreational Farming		(668,311)	(846,457)
- Miscellaneous expenditure		(55,317)	(40,508)
Construction and improvement of communal agriculture facilities		(74,700)	-
Crop Development Programmes Promotion			
- Depreciation		(16,623)	(14,603)
- Net deficit from sales of accredited local vegetables	24	(213,921)	(157,481)
- Grants to a third party organization		(2,742,000)	(3,002,000)
- Other expenses		(3,668,368)	(3,585,705)
Controlled Environment Greenhouse Production			
- Depreciation		(2,392)	(2,392)
- Purchase of tools		-	(2,313,924)
- Other expenses		(3,232,804)	(3,516,753)
Promotion of Organic Farming			
- Depreciation		(28,994)	(23,433)
- Net deficit from sales of organic vegetables	25	(1,090,949)	(648,548)
- Grants to third party organisations		(12,702,621)	(11,877,131)
- Other expenses		(5,652,305)	(5,806,611)
Voluntary Registration Scheme of Local Vegetable Farms			
- Depreciation		(16,117)	(13,684)
- Other expenses		(2,738,154)	(2,790,964)
Promotion of Local Agricultural and Fisheries Products			
- FarmFest expenses		(6,184,980)	(5,403,491)
Improvement to VMO's wholesale marketing facilities and services			
- Depreciation		(1,283,711)	(1,007,348)
- Other expenses		(2,015,693)	(1,602,440)
Controlled Environments Hydroponic Research and Development Centre Production for sales			
- Depreciation		(289,274)	(292,448)
- Net deficit from sales of hydroponic vegetables	26	(1,383,786)	(1,545,648)
- Gain on disposal of property, plant and equipment		135,952	-
- Other expenses		(597,441)	(414,118)
Research activities		(159,769)	-
Loss on disposals of property, plant and equipment	27(b)	(27,894)	(23,648)
Miscellaneous expenses		(3,371)	(3,054)
		<u>(44,930,419)</u>	<u>(45,206,128)</u>
Deficit for the year		<u>(39,923,728)</u>	<u>(40,030,882)</u>
Remeasurements for long service payments obligations	17	38,198	(117,670)
Net deficit for the year	7	<u>(39,885,530)</u>	<u>(40,148,552)</u>

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NOTES TO THE FINANCIAL STATEMENTS

22 Net surplus from VMO Loan Fund

	Note	2016	2015
Income			
Interest on bank deposits		54,338	89,709
Interest on VMO Loans		4,183	2,460
Premium on amortisation of VMO Loans	6(a)	14,596	-
Reversal of provision for impairment of VMO Loans	6(b)	46,363	46,966
		<u>119,480</u>	<u>139,135</u>
Expenditure			
Bank charges		(75)	(135)
Discount on amortisation of VMO Loans	6(a)	-	(18,977)
		<u>(75)</u>	<u>(19,112)</u>
Net surplus for the year		<u><u>119,405</u></u>	<u><u>120,023</u></u>

23 Taxation

No Hong Kong profits tax has been provided as the Organization is exempted under Section 87 of the Inland Revenue Ordinance, Cap 112 from any tax chargeable under the Ordinance.

24 Crop Development Programmes Promotion

The income and expenditure on the sales of accredited local vegetables for the year are as follows:

	Note	2016	2015 (restated)
Sales of accredited local vegetables			
Cost of inventories sold		322,064 (123,363)	233,860 (89,915)
Gross profit		<u>198,701</u>	<u>143,945</u>
Direct operating expenses			
Employee benefit expenditure		(272,373)	(191,759)
Sales commission		(96,619)	(70,158)
Transportation charges		(7,153)	(8,327)
Stores and equipment		(6,870)	(21,136)
Miscellaneous expenses		(29,607)	(10,046)
		<u>(412,622)</u>	<u>(301,426)</u>
Net deficit for the year	21	<u><u>(213,921)</u></u>	<u><u>(157,481)</u></u>

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

25 Promotion of Organic Farming

The income and expenditure on the sales of organic vegetables for the year are as follows:

	Note	2016	2015 (restated)
Sales of organic vegetables		3,980,952	4,413,283
Cost of inventories sold		(1,427,136)	(1,706,056)
Gross profit		<u>2,553,816</u>	<u>2,707,227</u>
Direct operating expenses			
Employee benefit expenditure		(2,196,239)	(1,896,486)
Sales commission		(874,118)	(980,676)
Transportation charges		(19,579)	(34,420)
Stores and equipment		(225,218)	(165,020)
Miscellaneous expenses		(327,851)	(277,413)
Depreciation		(1,760)	(1,760)
		<u>(3,644,765)</u>	<u>(3,355,775)</u>
Net deficit for the year	21	<u>(1,090,949)</u>	<u>(648,548)</u>

26 Controlled Environment Hydroponic Research and Development Project

The income and expenditure on the sales of hydroponic vegetables for the year are as follows:

	Note	2016	2015 (restated)
Sales of hydroponic vegetables		558,011	823,281
Cost of hydroponic vegetables sold		(1,237,393)	(1,683,686)
Gross loss		<u>(679,382)</u>	<u>(860,405)</u>
Other income		<u>4,135</u>	<u>1,963</u>
Direct operating expenses			
Publication and publicity		(268,877)	(216,800)
Packing materials		(96,562)	(124,287)
Employee benefit expenditure		(159,210)	(182,403)
Miscellaneous expenses		(183,890)	(163,716)
		<u>(708,539)</u>	<u>(687,206)</u>
Net deficit for the year	21	<u>(1,383,786)</u>	<u>(1,545,648)</u>

The cost of hydroponic vegetables sold includes biological assets written off of \$241,969 (2015: \$258,272), inventories written off of \$306,124 (2015: \$601,549), reversal of provision for impairment of inventories of \$1 (2015: \$976) and depreciation of \$464,486 (2015: \$484,221).

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

27 Notes to the statement of cash flows

(a) Net cash used in operations

	2016	2015 (restated)
Deficit for the year	(19,475,667)	(23,075,112)
Adjustments for:		
- Interest income on bank deposits	(2,188,956)	(3,251,465)
- Interest income on VMO Loans	(4,183)	(2,460)
- Depreciation (note 5)	3,938,616	3,612,340
- Inventories written off (notes 18 and 26)	1,886,173	2,317,598
- Biological assets written off (notes 9(b) and 26)	241,969	258,272
- Reversal of provision for impairment of inventories (note 9(a))	(1)	(976)
- Provision for impairment of trade receivables (note 10)	113,157	-
- Reversal of provision for impairment of VMO Loans (note 22)	(46,363)	(46,966)
- Loss/(gain) on disposals of property, plant and equipment (note (b) below)	49,244	(39,719)
- Gain on reversal of property, plant and equipment (note 21)	(135,952)	-
- (Premium)/discount on amortisation of VMO Loans (note 22)	(14,596)	18,977
- Provision for unused annual leave (note 16)	134,665	259,824
- Reversal of provision of produce to the Third Party (note 16)	(271,529)	(368,528)
- Retirement benefit costs for defined benefit plan	234,000	178,000
- Retirement benefit costs for long service payments	829,196	601,712
	<u>(14,710,227)</u>	<u>(19,538,503)</u>
Changes in working capital:		
- Inventories	(1,882,492)	(2,318,746)
- Biological assets	(222,576)	(259,075)
- VMO Loans	268,400	(272,200)
- Trade and other receivables	107,448	216,979
- Trade and other payables	695,826	138,483
- Provisions for other liabilities	(182,668)	(122,814)
- Vegetable buyers' deposits	386,813	238,089
- Defined benefit plan	(450,000)	-
- Long service payments obligations	(407,128)	(443,486)
	<u>(16,396,604)</u>	<u>(22,361,273)</u>
Net cash used in operations	<u>(16,396,604)</u>	<u>(22,361,273)</u>

VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

27 Notes to the statement of cash flows (Continued)

- (b) In the statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	Note	2016	2015
Net book amount	5	144,644	64,181
(Loss)/gain on disposals of property, plant and equipment recognised in:			
- (Other expenditure)/non-trading income	pages 4&5	(21,350)	63,367
- Net deficit from VMO Agricultural Development Fund	21	(27,894)	(23,648)
		<u>(49,244)</u>	<u>39,719</u>
Proceeds from disposals of property, plant and equipment		<u>95,400</u>	<u>103,900</u>

28 Operating lease commitment

The future aggregate minimum lease payments under non-cancellable operating lease in respect of market premises are as follows:

	2016	2015
No later than one year	<u>174,600</u>	<u>157,625</u>

29 Key management compensation

	2016	2015
Salaries and other short-term employee benefits	<u>562,847</u>	<u>487,474</u>