

VEGETABLE MARKETING ORGANIZATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2013

**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 36, which comprise the balance sheet as at 31 March 2013, 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 the 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 state of affairs of the Organization as at 31 March 2013, and of its deficit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2013

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

BALANCE SHEET

		<u>As at 31 March</u>	
	Note	2013	2012
ASSETS			
Non-current assets			
Property, plant and equipment	5	18,998,167	14,173,038
Assets under defined benefit plan	17	8,568,000	7,488,000
Vegetable Marketing Organization (“VMO”) Loans	6(a)	58,958	-
		<u>27,625,125</u>	<u>21,661,038</u>
Current assets			
Inventories	9(a)	621,962	296,702
Biological assets	9(b)	69,494	-
VMO Loans	6(a)	1,633,404	1,144,549
Trade and other receivables	10	12,983,541	10,848,074
Bank deposits with maturities over three months and within one year	11	341,120,000	355,450,000
Cash and cash equivalents	12	27,540,297	27,742,934
		<u>383,968,698</u>	<u>395,482,259</u>
Total assets		<u><u>411,593,823</u></u>	<u><u>417,143,297</u></u>
FUNDS			
VMO General Fund			
Accumulated surplus	13	176,703,667	153,926,410
Specific funds			
VMO Loan Fund	6(a)	12,033,743	11,973,958
VMO Agricultural Development Fund	7	183,830,326	216,474,488
Funds provided from external sources for capital expenditure	14	1,764,104	1,764,104
Total funds		<u>374,331,840</u>	<u>384,138,960</u>
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities	16	11,895,297	10,618,915
Current liabilities			
Trade and other payables	15	16,615,062	14,736,739
Provisions for other liabilities	16	2,521,282	2,077,240
Vegetable buyers’ deposits		6,230,342	5,571,443
		<u>25,366,686</u>	<u>22,385,422</u>
Total liabilities		<u>37,261,983</u>	<u>33,004,337</u>
Total funds and liabilities		<u><u>411,593,823</u></u>	<u><u>417,143,297</u></u>

The notes on pages 8 to 36 are an integral part of these financial statements.

The financial statements on pages 3 to 36 were approved by the Director of Marketing on 23 August 2013.

WONG Chi-kong

Director of Marketing

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

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 March	
		2013	2012
INCOME			
Operating income			
Commission		100,861,041	94,513,911
Rebates		(35,175,871)	(32,946,036)
		<u>65,685,170</u>	<u>61,567,875</u>
Net income from sales of premium vegetables	18	<u>9,244,264</u>	<u>9,721,814</u>
Other operating income		<u>1,721,803</u>	<u>1,734,942</u>
Non-trading income			
Interest income on bank deposits		1,930,637	1,952,064
Other income		62,615	2,330
Gain on disposals of property, plant and equipment	27(b)	103,693	-
		<u>2,096,945</u>	<u>1,954,394</u>
Total income		<u>78,748,182</u>	<u>74,979,025</u>
EXPENDITURE			
Operating expenditure			
Employee benefit expenditure	19(a)	<u>(36,786,010)</u>	<u>(39,585,678)</u>
General working expenses			
Rent, rates and permit fees	20	(2,096,748)	(2,057,509)
Printing and stationery		(511,711)	(569,698)
Utility services		(1,155,275)	(1,064,147)
Maintenance and minor improvements		(3,406,380)	(2,450,748)
Vegetable baskets		-	(39,000)
Stores and equipment		(1,071,727)	(789,586)
Miscellaneous expenses		(230,018)	(235,043)
Staff welfare		(372,245)	(361,660)
Staff training		(26,773)	(10,120)
Travelling expenses		(131,792)	(152,333)
Protective clothing and uniforms		(34,879)	(35,312)
Insurance		(1,895,967)	(619,809)
Auditor's remuneration		(312,400)	(272,000)
Market security		(507,323)	(470,371)
		<u>(11,753,238)</u>	<u>(9,127,336)</u>
Balance carried forward		<u>(11,753,238)</u>	<u>(9,127,336)</u>

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

STATEMENT OF COMPREHENSIVE INCOME (Continued)

		<u>Year ended 31 March</u>	
	Note	2013	2012
Operating expenditure (Continued)			
General working expenses (Continued)			
Balance brought forward		(11,753,238)	(9,127,336)
Transportation expenses		(3,067,644)	(3,284,963)
Depreciation - markets and depots	5	(3,099,367)	(3,094,901)
Subsidy to federation and co-operative societies		(891,304)	(931,971)
Grants-in-aid		(335,943)	(30,000)
Publication and publicity		(28,069)	(57,598)
Trade receivables written off		-	(41,369)
Legal and professional fees		-	(16,000)
Bank charges		(3,050)	(2,250)
		<u>(19,178,615)</u>	<u>(16,586,388)</u>
Total operating expenditure		<u>(55,964,625)</u>	<u>(56,172,066)</u>
Other expenditure			
Loss on disposals of property, plant and equipment	27(b)	-	(18,611)
Miscellaneous expenses		(6,300)	(3,300)
		<u>(6,300)</u>	<u>(21,911)</u>
Total expenditure		<u>(55,970,925)</u>	<u>(56,193,977)</u>
Operating surplus for the year		<u>22,777,257</u>	<u>18,785,048</u>
Net surplus/(deficit) from:			
- VMO Agricultural Development Fund	21	(32,644,162)	(27,232,400)
- VMO Loan Fund	22	59,785	237,686
		<u>(32,584,377)</u>	<u>(26,994,714)</u>
Deficit for the year		<u>(9,807,120)</u>	<u>(8,209,666)</u>
Other comprehensive income for the year		-	-
Total comprehensive loss for the year	13	<u>(9,807,120)</u>	<u>(8,209,666)</u>

The notes on pages 8 to 36 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

	<u>Total funds</u>	
	2013	2012
Balance at 1 April	384,138,960	392,348,626
Total comprehensive income		
Deficit for the year	(9,807,120)	(8,209,666)
Other comprehensive income for the year	-	-
Balance at 31 March	<u>374,331,840</u>	<u>384,138,960</u>

The notes on pages 8 to 36 are an integral part of these financial statements.

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

STATEMENT OF CASH FLOWS

	Note	Year ended 31 March	
		2013	2012
Cash flows from operating activities			
Net cash used in operations	27(a)	(11,912,255)	(5,042,206)
VMO Loans interest received		1,416	2,085
		<u> </u>	<u> </u>
Net cash used in operating activities		(11,910,839)	(5,040,121)
		<u> </u>	<u> </u>
Cash flows from investing activities			
Purchases of property, plant and equipment		(7,146,863)	(3,749,362)
Proceeds from disposals of property, plant and equipment	27(b)	122,200	60,200
Net uplift of bank deposits with maturities over three months and within one year		14,330,000	4,540,000
Bank interest received		4,402,865	3,108,252
		<u> </u>	<u> </u>
Net cash generated from investing activities		11,708,202	3,959,090
		<u> </u>	<u> </u>
Net decrease in cash and cash equivalents		(202,637)	(1,081,031)
Cash and cash equivalents at beginning of the year		27,742,934	28,823,965
		<u> </u>	<u> </u>
Cash and cash equivalents at end of the year	12	<u>27,540,297</u>	<u>27,742,934</u>

The notes on pages 8 to 36 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. These financial statements have been approved for issue by the Director of Marketing on 23 August 2013.

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 values 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 which are effective in 2012

Hong Kong Institute of Certified Public Accountants has issued a number of new standards, amendments and interpretations to existing HKFRS (collectively, the “Amendments”) which are mandatory for the Organization’s accounting year commencing on 1 April 2012. The Amendments do not have any impact on the Organization’s financial statements since they are not relevant to the Organization’s operations.

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)

- (b) New Standards, amendments and interpretations to existing HKFRS that are not yet effective and have not been early adopted by the Organization

Certain other Amendments have been published that are mandatory for the Organization's accounting periods commencing on or after 1 April 2013

The following Amendments are relevant and applicable to the Organization; however, they have not been early adopted in these financial statements:

		Effective for the Organization's accounting periods commencing on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 April 2013
HKAS 19 (Amendment)	Employee benefits	1 April 2013
HKAS 32 (Amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 April 2014
HKFRS 7 (Amendment)	Financial instruments: Disclosure – Offsetting financial assets and financial liabilities	1 April 2013
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date and transition disclosures	1 April 2015
HKFRS 9	Financial instruments	1 April 2015
HKFRS 13	Fair value measurement	1 April 2013

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.

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 recognized 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 recognized 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 derecognized. 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 amortization from the time when the land interest becomes available for its intended use. Amortization 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 recognized in the statement of comprehensive income.

2.4 Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 to sell 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 realizable value. Cost, determined using the first-in first-out method, mainly comprises invoiced cost. Net realizable 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 asset are living plants managed by the Organization which is 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 statement of comprehensive income in the period in which it arises.

2.7 Financial assets

The Organization classifies its financial assets as loans and receivables. The classification 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

VMO Loans 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.

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 Impairment of financial assets carried at amortized 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.

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

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.9 Impairment of financial assets carried at amortized cost (Continued)

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

2.10 Cash and cash equivalents

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

2.11 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 recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.12 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognized 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 recognized until the time of leave.

(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.

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

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.12 Employee benefits (Continued)

(b) Retirement plan obligations (Continued)

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 recognized 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, together with adjustments for unrecognized actuarial gains or losses and past service costs. 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, whichever appropriate, 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 liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the fair value of plan assets or 10% of the present value of the defined benefit obligation are charged or credited to the statement of comprehensive income over the employees' expected average remaining working lives.

Past service costs are charged immediately to the statement of comprehensive income, unless the changes are conditional on the employees remaining in service for a specified period of time (the "vesting period"). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

(c) Provision for long service payments

The Organization recognizes provision for long service payments 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 provision is 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.

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 Provisions

Provisions are recognized 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 recognized 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 recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.14 Revenue 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 is recognized as follows:

- (a) Commission income relating to the provision of services to the vegetable sellers is recognized 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 recognized at a rate of 3.5% based on the price of the same vegetable transactions.
- (b) Sales of vegetables is recognized 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 recognized when the relevant sales transactions have been concluded.
- (d) Interest income on bank deposits and VMO Loans is recognized on a time proportion basis using the effective interest method.
- (e) FarmFest income, other income and other operating income are recognized on an accruals basis.

2.15 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.

The income and expenditure relating to these Funds are directly dealt with in the statement of comprehensive income of the Organization. Any net surplus or deficit relating to these Funds is transferred from VMO General Fund to the respective Funds.

2.16 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.

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

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 minimize potential adverse effects on the Organization's financial performance.

(a) Foreign exchange risk

Foreign exchange risk arises where future commercial transactions and recognized 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 policy 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 obtain collateral from credit customers.

The credit risk on liquid funds 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.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient bank deposits and bank balances. 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.

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 (Continued)

As at 31 March 2013, the maturity analysis of the financial liabilities is as follows:

	2013	2012
Less than one year		
Trade and other payables (note 15)	16,576,385	14,686,007
Vegetable buyers' deposits	6,230,342	5,571,443
	<u>22,806,727</u>	<u>20,257,450</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 2013, if interest rates on the bank deposits had been 29 basis points (2012: 24 basis points) higher/lower with all other variables held constant, deficit for the year would have been \$999,000 (2012: \$878,000) 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.

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.

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

4 Critical accounting estimates and judgements (Continued)

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) Useful lives of property, plant and equipment

The Organization's management determines the estimated useful lives of its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions or the relevant projected product life cycle, whenever appropriate. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charges where useful lives are less than the previously estimated lives, or will write-off obsolete assets that have been abandoned.

(b) 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 recognized in the year in which such estimates have been changed.

(c) Defined benefit plan

This applies where the Organization's accounting policy is to recognize any actuarial gains or losses over the average remaining working lives of employees through the statement of comprehensive income.

The present value of the defined benefit obligation 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 include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit obligation.

The actuary, HSBC Life (International) Limited, determines the appropriate discount rate at the end of each 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 obligation. In determining the appropriate discount rate, the actuary considers the interest rates of high-quality corporate bonds or government bonds, whichever appropriate, 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.

Other key assumptions for defined benefit obligation are based in part on current market conditions. Additional information is disclosed in note 17(g).

(d) Provision for long services payments

As at 31 March 2013, provision for long services payments of \$10,806,366 have been made based on best estimate that take into consideration the historical turnover rate, investment returns and projected salary increment percentage.

Where the final outcome of the above matters are different from the amounts that were initially recorded, such differences will impact the relevant expense item in the statement of comprehensive income and the corresponding provision account in the balance sheet in the year in which such estimates are changed.

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)				
	Land and buildings	Furniture, fixtures and computer equipment	Motor vehicles	Machinery and others	Subtotal	Leasehold improvements	Furniture, fixtures and computer equipment	Machinery and others	Subtotal	Total
At 1 April 2011										
Cost	4,446,130	23,839,327	6,888,756	41,163	35,215,376	4,126,083	6,277,073	-	10,403,156	45,618,532
Accumulated depreciation	(3,808,498)	(17,714,480)	(5,256,281)	(35,871)	(26,815,130)	(1,718,045)	(2,353,028)	-	(4,071,073)	(30,886,203)
Net book amount	<u>637,632</u>	<u>6,124,847</u>	<u>1,632,475</u>	<u>5,292</u>	<u>8,400,246</u>	<u>2,408,038</u>	<u>3,924,045</u>	<u>-</u>	<u>6,332,083</u>	<u>14,732,329</u>
Year ended 31 March 2012										
Opening net book amount	637,632	6,124,847	1,632,475	5,292	8,400,246	2,408,038	3,924,045	-	6,332,083	14,732,329
Additions	-	2,874,994	-	-	2,874,994	-	874,368	-	874,368	3,749,362
Disposals (note 27(b))	-	(73,811)	-	-	(73,811)	-	(24,944)	-	(24,944)	(98,755)
- Cost	-	(900,222)	-	(3,675)	(903,897)	-	(49,888)	-	(49,888)	(953,785)
- Accumulated depreciation	-	826,411	-	3,675	830,086	-	24,944	-	24,944	855,030
Depreciation	<u>(17,631)</u>	<u>(2,347,491)</u>	<u>(727,841)</u>	<u>(1,938)</u>	<u>(3,094,901)</u>	<u>(412,608)</u>	<u>(702,389)</u>	<u>-</u>	<u>(1,114,997)</u>	<u>(4,209,898)</u>
Closing net book amount	<u>620,001</u>	<u>6,578,539</u>	<u>904,634</u>	<u>3,354</u>	<u>8,106,528</u>	<u>1,995,430</u>	<u>4,071,080</u>	<u>-</u>	<u>6,066,510</u>	<u>14,173,038</u>
At 31 March 2012										
Cost	4,446,130	25,814,099	6,888,756	37,488	37,186,473	4,126,083	7,101,553	-	11,227,636	48,414,109
Accumulated depreciation	(3,826,129)	(19,235,560)	(5,984,122)	(34,134)	(29,079,945)	(2,130,653)	(3,030,473)	-	(5,161,126)	(34,241,071)
Net book amount	<u>620,001</u>	<u>6,578,539</u>	<u>904,634</u>	<u>3,354</u>	<u>8,106,528</u>	<u>1,995,430</u>	<u>4,071,080</u>	<u>-</u>	<u>6,066,510</u>	<u>14,173,038</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)					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		
Year ended											
31 March 2013											
Opening net book amount	620,001	6,578,539	904,634	3,354	8,106,528	1,995,430	4,071,080	-	6,066,510	14,173,038	
Additions	-	1,267,304	923,851	2,800	2,193,955	-	181,950	6,982,358	7,164,308	9,358,263	
Disposals (note 27(b))	-	(18,507)	-	-	(18,507)	-	(9,660)	-	(9,660)	(28,167)	
- Cost	-	(270,814)	(736,490)	(1,550)	(1,008,854)	-	(53,200)	-	(53,200)	(1,062,054)	
- Accumulated depreciation	-	252,307	736,490	1,550	990,347	-	43,540	-	43,540	1,033,887	
Depreciation	(17,630)	(2,303,960)	(775,279)	(2,498)	(3,099,367)	(412,608)	(708,563)	(284,429)	(1,405,600)	(4,504,967)	
Closing net book amount	602,371	5,523,376	1,053,206	3,656	7,182,609	1,582,822	3,534,807	6,697,929	11,815,558	18,998,167	
At 31 March 2013											
Cost	4,446,130	26,810,589	7,076,117	38,738	38,371,574	4,126,083	7,230,303	6,982,358	18,338,744	56,710,318	
Accumulated depreciation	(3,843,759)	(21,287,213)	(6,022,911)	(35,082)	(31,188,965)	(2,543,261)	(3,695,496)	(284,429)	(6,523,186)	(37,712,151)	
Net book amount	602,371	5,523,376	1,053,206	3,656	7,182,609	1,582,822	3,534,807	6,697,929	11,815,558	18,998,167	

Note: The additions for the year of \$6,982,358 (2012: nil) include the shared cost and the contingent price of equipment and used for the production of hydroponic vegetables as described in note 16.

Depreciation expenses of \$3,099,367 and \$1,405,600 (2012: \$3,094,901 and \$1,114,997) 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 which have been included in the assets of the Organization in the balance sheet on page 3:

	Note	2013	2012
ASSETS			
Non-current assets			
VMO Loans			
- Loans to farmers		2,107,890	1,508,390
- Interest receivable		99,216	88,318
		<u>2,207,106</u>	<u>1,596,708</u>
Less: Provision for impairment of VMO Loans		(427,031)	(394,912)
		<u>1,780,075</u>	<u>1,201,796</u>
Less: Accumulated amortization at 1 April (Discount)/premium on amortization of VMO Loans	22	(57,247) (30,466)	(63,529) 6,282
Accumulated amortization at 31 March		<u>(87,713)</u>	<u>(57,247)</u>
VMO Loans - net		1,692,362	1,144,549
Less: Current portion		<u>(1,633,404)</u>	<u>(1,144,549)</u>
Non-current portion		58,958	-
Current assets			
Current portion of VMO Loans		1,633,404	1,144,549
Other receivables		6,981	17,928
Bank deposits with maturities over three months and within one year	11	6,500,000	8,750,000
Cash and cash equivalents	12	3,834,400	2,061,481
		<u>11,974,785</u>	<u>11,973,958</u>
Total assets		<u>12,033,743</u>	<u>11,973,958</u>
FUNDS			
Capital account transferred from VMO General Fund		2,608,000	2,608,000
Accumulated surplus at 1 April		9,365,958	9,128,272
Net surplus for the year transferred from VMO General Fund	13&22	59,785	237,686
Accumulated surplus at 31 March		<u>9,425,743</u>	<u>9,365,958</u>
Total funds		<u>12,033,743</u>	<u>11,973,958</u>
LIABILITIES			
Current and total liabilities		-	-
Total funds and liabilities		<u>12,033,743</u>	<u>11,973,958</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 Organization does not hold any collateral over the VMO Loans.

The VMO Loans bear interests at rates from 0.007% to 1.938% (2012: 0.007% to 1.938%) per annum and are repayable within one to two years (2012: one to two years) with third party personal guarantees. As at 31st March 2013, the effective interest rate of the VMO Loans is 0.117% (2012: 0.178%) per annum.

As at 31 March 2013, VMO Loans of \$427,031 (2012: \$394,912) 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:

	2013	2012
<u>Past due by:</u>		
Up to 30 days	38,000	2,017
31 to 60 days	6,000	1,000
61 to 90 days	6,000	-
Over 90 days	377,031	391,895
	<u>427,031</u>	<u>394,912</u>

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

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

	Note	2013	2012
At 1 April		394,912	476,026
Charged/(credited) to the statement of comprehensive income			
- Provision for/(write-back of provision for) impairment	22	32,119	(81,114)
At 31 March		<u>427,031</u>	<u>394,912</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 2013 and 2012 and are denominated in Hong Kong dollars.

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

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	2013	2012
ASSETS			
Non-current assets			
Property, plant and equipment	5	11,815,558	6,066,510
Current assets			
Inventories	9(a)	376,329	85,780
Biological assets	9(b)	69,494	-
Trade and other receivables		3,334,454	2,675,672
Bank deposits with maturities over three months and within one year	11	171,600,000	200,750,000
Cash and cash equivalents	12	395,893	8,426,180
		<u>175,776,170</u>	<u>211,937,632</u>
Total assets		<u>187,591,728</u>	<u>218,004,142</u>
FUNDS			
Capital account			
At 1 April		350,000,000	300,000,000
Transfer from VMO General Fund	13	-	50,000,000
At 31 March		<u>350,000,000</u>	<u>350,000,000</u>
Accumulated deficit at 1 April		(133,525,512)	(106,293,112)
Net deficit for the year transferred from VMO General Fund	13&21	(32,644,162)	(27,232,400)
Accumulated deficit at 31 March		<u>(166,169,674)</u>	<u>(133,525,512)</u>
Total funds		<u>183,830,326</u>	<u>216,474,488</u>
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities		2,298,369	510,229
Current liabilities			
Other payables		820,465	800,147
Provisions for other liabilities		642,568	219,278
		<u>1,463,033</u>	<u>1,019,425</u>
Total liabilities		<u>3,761,402</u>	<u>1,529,654</u>
Total funds and liabilities		<u>187,591,728</u>	<u>218,004,142</u>

The VMO Agricultural Development Fund was set up for promoting local agriculture through financing or subsidizing 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	2013	2012
Financial assets - loans and receivables			
VMO Loans	6	1,692,362	1,144,549
Trade and other receivables	10	7,436,001	8,384,078
Bank deposits with maturities over three months and within one year	11	341,120,000	355,450,000
Cash and cash equivalents	12	27,540,297	27,742,934
		<u>377,788,660</u>	<u>392,721,561</u>
Financial liabilities - other financial liabilities at amortized cost			
Trade and other payables	15	16,576,385	14,686,007
Vegetable buyers' deposits		6,230,342	5,571,443
		<u>22,806,727</u>	<u>20,257,450</u>

9 Inventories and biological assets

(a) Inventories

	2013	2012
Premium vegetables	153,750	154,669
Others	492,088	142,033
	<u>645,838</u>	<u>296,702</u>
Less: provision for impairment of inventories	(23,876)	-
	<u>621,962</u>	<u>-</u>
Represented by:		
- General fund	245,633	210,922
- VMO Agricultural Development Fund	376,329	85,780
	<u>621,962</u>	<u>296,702</u>

(b) Biological assets

	2013	2012
At 1 April	-	-
Additions	877,219	-
Harvested hydroponic vegetable produce	(765,907)	-
Write off	(41,818)	-
	<u>69,494</u>	<u>-</u>
At 31 March	<u>69,494</u>	<u>-</u>
<u>Analysis of biological assets</u>		
Mature	-	-
Immature	69,494	-
	<u>69,494</u>	<u>-</u>

As at 31 March 2013, the Organization had 202 kg (2012: nil) of biological assets. During the year, the quantity of hydroponic vegetable produce harvested for sales is 1,649 kg (2012: nil).

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

10 Trade and other receivables

	2013	2012
Trade receivables	6,244,665	6,818,051
Interest receivables	878,463	1,321,459
Other receivables	312,873	244,568
	<hr/>	<hr/>
Financial assets	7,436,001	8,384,078
Prepayments for:		
- insurance expense	2,305,963	-
- other operating expenses	3,241,577	2,463,996
	<hr/>	<hr/>
Total	<u>12,983,541</u>	<u>10,848,074</u>

As at 31 March 2013, trade receivables of \$627,493 (2012: \$722,275) 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:

	2013	2012
<u>Past due by:</u>		
Up to 30 days	589,769	596,793
31 to 60 days	37,408	34,610
61 to 90 days	276	37,115
Over 90 days	40	53,757
	<hr/>	<hr/>
	<u>627,493</u>	<u>722,275</u>

No trade receivables were impaired as at 31st March 2013 and 2012. Movements on the provision for impairment of trade receivables are as follows:

	2013	2012
At 1 April	-	100,000
Receivables written off during the year as uncollectible	-	(100,000)
	<hr/>	<hr/>
At 31 March	<u>-</u>	<u>-</u>

The creation and release of provision for impaired receivables have been included in “operating expenditure” in the statement of comprehensive statement on page 5. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

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 2013 and 2012 and are denominated in Hong Kong dollars.

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

NOTES TO THE FINANCIAL STATEMENTS

11 Bank deposits with maturities over three months and within one year

	Note	2013	2012
VMO General Fund		163,020,000	145,950,000
VMO Loan Fund	6	6,500,000	8,750,000
VMO Agricultural Development Fund	7	171,600,000	200,750,000
		<u>341,120,000</u>	<u>355,450,000</u>
Maximum exposure to credit risk		<u>341,120,000</u>	<u>355,450,000</u>

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

12 Cash and cash equivalents

	Note	2013	2012
<u>VMO General Fund</u>			
Cash at banks and in hand		23,310,004	17,255,273
		<u>23,310,004</u>	<u>17,255,273</u>
<u>VMO Loan Fund</u>			
Cash at banks		484,400	261,481
Bank deposits with maturities of three months or less		3,350,000	1,800,000
		<u>3,834,400</u>	<u>2,061,481</u>
	6	<u>3,834,400</u>	<u>2,061,481</u>
<u>VMO Agricultural Development Fund</u>			
Cash at banks and in hand		395,893	26,180
Bank deposits with maturities of three months or less		-	8,400,000
		<u>395,893</u>	<u>8,426,180</u>
	7	<u>395,893</u>	<u>8,426,180</u>
Total		<u>27,540,297</u>	<u>27,742,934</u>
Maximum exposure to credit risk		<u>19,683,497</u>	<u>25,592,553</u>

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	
		2013	2012
At 1 April		153,926,410	185,141,362
Deficit for the year		(9,807,120)	(8,209,666)
Net surplus transferred to VMO Loan Fund	6(a)	(59,785)	(237,686)
Net deficit transferred to VMO Agricultural Development Fund	7	32,644,162	27,232,400
Transferred to capital account of VMO Agricultural Development Fund	7	-	(50,000,000)
At 31 March		<u>176,703,667</u>	<u>153,926,410</u>

14 Funds provided from external sources for capital expenditure

	2013	2012
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
	<u>1,764,104</u>	<u>1,764,104</u>

15 Trade and other payables

	2013	2012
Trade payables	13,088,043	10,260,383
Other payables	2,551,307	3,535,768
Vegetable sellers' and other deposits	937,035	889,856
Financial liabilities	16,576,385	14,686,007
Receipts in advance	38,677	50,732
	<u>16,615,062</u>	<u>14,736,739</u>

The carrying values of trade and other payables approximate their fair values at 31 March 2013 and 2012 and are denominated in Hong Kong dollars.

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

NOTES TO THE FINANCIAL STATEMENTS

16 Provisions for other liabilities

	Unused annual leave	Long service payments	Contingent price of equipment (note)	Total
At 1 April 2011	1,282,475	7,590,860	-	8,873,335
Payments for the year	-	(693,212)	-	(693,212)
	<u>1,282,475</u>	<u>6,897,648</u>	<u>-</u>	<u>8,180,123</u>
Additional provision for the year				
- General Fund (note 19(a))	28,945	3,968,945	-	3,997,890
- Agricultural Development Fund (note 19(b))	36,966	481,176	-	518,142
	<u>65,911</u>	<u>4,450,121</u>	<u>-</u>	<u>4,516,032</u>
At 31 March and 1 April 2012	1,348,386	11,347,769	-	12,696,155
Payments for the year	-	(838,024)	-	(838,024)
	<u>1,348,386</u>	<u>10,509,745</u>	<u>-</u>	<u>11,858,131</u>
(Write-back of)/additional provision for the year				
- General Fund (note 19(a))	12,612	320,093	-	332,705
- Agricultural Development Fund (note 19(b))	37,815	(23,472)	-	14,343
- Property, plant and equipment	-	-	2,211,400	2,211,400
	<u>50,427</u>	<u>296,621</u>	<u>2,211,400</u>	<u>2,558,448</u>
At 31 March 2013	<u>1,398,813</u>	<u>10,806,366</u>	<u>2,211,400</u>	<u>14,416,579</u>
Analysis of total provisions:				
<u>At 31 March 2013</u>				
Non-current	-	10,069,372	1,825,925	11,895,297
Current	1,398,813	736,994	385,475	2,521,282
	<u>1,398,813</u>	<u>10,806,366</u>	<u>2,211,400</u>	<u>14,416,579</u>
<u>At 31 March 2012</u>				
Non-current	-	10,618,915	-	10,618,915
Current	1,348,386	728,854	-	2,077,240
	<u>1,348,386</u>	<u>11,347,769</u>	<u>-</u>	<u>12,696,155</u>

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16 Provisions for other liabilities (Continued)

Note:

During the year, 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 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.

Accordingly, as at 31 March 2013, a provision is recognized for the present value of costs of Free Hydroponic Vegetables and the Continuous Consideration (collectively, the “contingent price of equipment”), totaling \$2,211,400 (2012: nil). It is expected that \$385,475 will be utilized next year and \$1,825,925 will be utilized or paid during the remaining duration of the Agreement.

17 Assets under defined benefit plan

	Note	2013	2012
Balance sheet assets for:			
- Defined benefit plan	(a)	<u>8,568,000</u>	<u>7,488,000</u>
Statement of comprehensive income credit for:			
- Defined benefit plan	(b)	<u>(1,080,000)</u>	<u>(2,038,000)</u>

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 2013 and 2012 carried out by HSBC Life (International) Limited.

- (a) The amounts recognized in the balance sheet are determined as follows:

	Note	2013	2012
Present value of defined benefit obligations	(d)	(26,167,000)	(27,894,000)
Fair value of plan assets	(c)	31,948,000	32,685,000
Surplus in the plan		<u>5,781,000</u>	<u>4,791,000</u>
Unrecognized actuarial losses		<u>2,787,000</u>	<u>2,697,000</u>
Assets in the balance sheet		<u>8,568,000</u>	<u>7,488,000</u>

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17 Assets under defined benefit plan (Continued)

(b) The amounts recognized in the statement of comprehensive income are as follows:

	Note	2013	2012
Current service cost		953,000	922,000
Interest cost		183,000	549,000
Expected return on plan assets		(1,866,000)	(2,876,000)
Net actuarial gains recognized during the year		-	(261,000)
Administrative cost deducted from contributions		6,000	6,000
Employees' contributions received		(356,000)	(378,000)
Total, included in employee benefit expenditure	19(a)	<u>(1,080,000)</u>	<u>(2,038,000)</u>

The actual return on plan assets was a gain of \$2,437,000 (2012: loss of \$2,285,000).

(c) The movement in the fair value of plan assets for the year is as follows:

	2013	2012
At 1 April	32,685,000	36,921,000
Expected return on plan assets	1,866,000	2,876,000
Net contributions	350,000	372,000
Benefits paid	(3,524,000)	(2,323,000)
Actuarial gains/(losses) on plan assets	571,000	(5,161,000)
At 31 March	<u>31,948,000</u>	<u>32,685,000</u>

(d) The movement in the present value of defined benefit obligations over the year is as follows:

	2013	2012
At 1 April	27,894,000	26,135,000
Current service cost	953,000	922,000
Interest cost	183,000	549,000
Benefits paid	(3,524,000)	(2,323,000)
Actuarial losses due to experience	526,000	529,000
Actuarial losses due to assumption changes	135,000	2,082,000
At 31 March	<u>26,167,000</u>	<u>27,894,000</u>

(e) Movement in the assets under defined benefit plan recognized in the balance sheet is as follows:

	Note	2013	2012
At 1 April		7,488,000	5,450,000
Income recognized in the statement of comprehensive income	(b)	<u>1,080,000</u>	<u>2,038,000</u>
At 31 March		<u>8,568,000</u>	<u>7,488,000</u>

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17 Assets under defined benefit plan (Continued)

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

	2013 %	2012 %
Equities	81	79
Bonds	17	17
Money instruments	2	4
	<u>100</u>	<u>100</u>

(g) The principal actuarial assumptions used are as follows:

	2013 %	2012 %
Discount rate	0.6	0.7
Expected rate of return on plan assets	6.0	6.0
Expected rate of future salary increases	4.0	4.0
Average expected remaining working lives (years)	<u>5.7</u>	<u>5.7</u>

A five year summary of present value of the defined benefit obligations, fair value of plan assets and surplus/(deficit) in the plan is as follows:

	2013	2012	2011	2010	2009
Present value of the defined benefit obligations	(26,167,000)	(27,894,000)	(26,135,000)	(25,917,000)	(28,494,000)
Fair value of plan assets	31,948,000	32,685,000	36,921,000	34,381,000	25,109,000
Surplus/(deficit) in the plan	<u>5,781,000</u>	<u>4,791,000</u>	<u>10,786,000</u>	<u>8,464,000</u>	<u>(3,385,000)</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:

	2013	2012
Sales of premium vegetables	32,883,361	36,326,849
Cost of inventories sold	(24,690,823)	(27,830,348)
Gross profit	<u>8,192,538</u>	<u>8,496,501</u>
Commission income	1,195,292	1,391,387
Direct operating expenses		
Rebates	(93,903)	(111,937)
Sales commission	(29,583)	(36,371)
Sundry expenses	(20,080)	(17,766)
	<u>(143,566)</u>	<u>(166,074)</u>
Net income for the year	<u>9,244,264</u>	<u>9,721,814</u>

The cost of inventories sold includes inventory written-off of \$1,645,328 (2012: \$1,994,508).

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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	2013	2012
Salaries and wages		35,787,646	35,935,765
Additional provision for unused annual leave	16	12,612	28,945
Additional provision for long service payments	16	320,093	3,968,945
Retirement benefit costs			
- defined contribution plan and MPF scheme		1,745,659	1,690,023
- defined benefit plan	17(b)	(1,080,000)	(2,038,000)
		<u>36,786,010</u>	<u>39,585,678</u>

(b) In addition to the above, employee benefit expenditure amounting to \$11,204,349 (2012: \$11,053,856) as listed below has been included in certain expenditure items in the VMO Agricultural Development Fund in note 21.

	Note	2013	2012
Salaries and wages		10,666,417	10,050,425
Provision for unused annual leave	16	37,815	36,966
(Write-back of)/additional provision for long service payments	16	(23,472)	481,176
Retirement benefit costs - MPF scheme		523,589	485,289
		<u>11,204,349</u>	<u>11,053,856</u>

20 Rent, rates and permit fees

Included in the amount, \$630,500 (2012: \$630,500) represents operating lease rentals for market premises.

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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	2013	2012
Income			
FarmFest income		2,249,175	2,344,875
Interest income on bank deposits		1,919,176	1,770,667
Other income		102,827	146,060
		4,271,178	4,261,602
Expenditure			
Land rehabilitation scheme			
- Repairs and maintenance		(281,599)	(101,581)
- Depreciation		(101,098)	(113,118)
- Recreational Farming		(653,287)	(603,917)
- Miscellaneous expenditure		(27,100)	(11,800)
Construction and improvement of communal agricultural facilities		(463,500)	(193,500)
Crop Development Programmes Promotion			
- Depreciation		(11,743)	(11,743)
- Net deficit from sales of accredited local vegetables	24	(266,277)	(235,655)
- Other expenses		(3,715,013)	(4,090,075)
Controlled Environment Greenhouse Production			
- Depreciation		(5,147)	(5,147)
- Other expenses		(2,861,261)	(2,620,112)
Promotion of Organic Farming			
- Depreciation		(12,350)	(9,670)
- Net deficit from sales of organic vegetables	25	(200,082)	(354,667)
- Other expenses		(15,058,611)	(12,755,254)
Voluntary Registration Scheme of Local Vegetable Farms			
- Depreciation		(3,275)	-
- Other expenses		(2,817,314)	(2,814,536)
Promotion of Local Agricultural and Fisheries Products			
- FarmFest expenses		(4,671,759)	(4,795,740)
Improvement to VMO's wholesale marketing facilities and services			
- Depreciation		(987,558)	(975,319)
- Other expenses		(1,469,717)	(1,781,474)
Controlled Environment Hydroponic Research and Development Project			
- Consultancy fees		(900,000)	-
- Depreciation		(91,247)	-
- Net deficit from sales of hydroponic vegetables	26	(1,331,541)	-
- Other expenses		(975,051)	-
Loss on disposals of property, plant and equipment	27(b)	(9,660)	(19,944)
Miscellaneous expenses		(1,150)	(750)
		(36,915,340)	(31,494,002)
Net deficit for the year	7	(32,644,162)	(27,232,400)

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NOTES TO THE FINANCIAL STATEMENTS

22 Net surplus from VMO Loan Fund

	Note	2013	2012
Income			
Interest on bank deposits		110,056	136,927
Interest on VMO Loans		12,314	13,363
Premium on amortization of VMO Loans	6(a)	-	6,282
Write-back of provision for impairment of VMO Loans	6(b)	-	81,114
		<u>122,370</u>	<u>237,686</u>
Expenditure			
Discount on amortization of VMO Loans	6(a)	(30,466)	-
Provision for impairment of VMO Loans	6(b)	(32,119)	-
		<u>(62,585)</u>	<u>-</u>
Net surplus for the year		<u><u>59,785</u></u>	<u><u>237,686</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	2013	2012
Sales of accredited local vegetables			
Cost of inventories sold		536,120	590,754
		<u>(273,674)</u>	<u>(275,596)</u>
Gross profit		<u>262,446</u>	<u>315,158</u>
Direct operating expenses			
Employee benefit expenditure		(322,351)	(325,329)
Sales commission		(160,836)	(177,226)
Transportation charges		(11,198)	(13,823)
Stores and equipment		(15,827)	(21,521)
Miscellaneous expenses		(18,511)	(12,914)
		<u>(528,723)</u>	<u>(550,813)</u>
Net deficit for the year	21	<u><u>(266,277)</u></u>	<u><u>(235,655)</u></u>

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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	2013	2012
Sales of organic vegetables		3,481,654	3,219,401
Cost of inventories sold		(1,306,284)	(1,096,297)
		<u>2,175,370</u>	<u>2,123,104</u>
Gross profit		2,175,370	2,123,104
Direct operating expenses			
Employee benefit expenditure		(1,233,667)	(1,399,510)
Sales commission		(735,177)	(673,411)
Transportation charges		(67,568)	(102,737)
Stores and equipment		(159,076)	(169,130)
Miscellaneous expenses		(179,964)	(132,983)
		<u>(2,375,452)</u>	<u>(2,477,771)</u>
Net deficit for the year	21	<u>(200,082)</u>	<u>(354,667)</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	2013	2012
Sales of hydroponic vegetables		33,705	-
Cost of hydroponic vegetables sold		(769,135)	-
		<u>(735,430)</u>	<u>-</u>
Gross loss		(735,430)	-
Direct operating expenses			
Publication and publicity		(488,796)	-
Packing materials		(49,700)	-
Employee benefit expenditure		(32,803)	-
Miscellaneous expenses		(24,812)	-
		<u>(596,111)</u>	<u>-</u>
Net deficit for the year	21	<u>(1,331,541)</u>	<u>-</u>

The cost of hydroponic vegetables sold includes of biological assets written off of \$41,818 (2012: nil), inventories written off of \$276,280 (2012: nil), provision for impairment of inventories of \$23,876 (2012: nil) and depreciation of \$193,182 (2012: nil).

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NOTES TO THE FINANCIAL STATEMENTS

27 Notes to the statement of cash flows

(a) Net cash used in operations

	2013	2012
Deficit for the year	(9,807,120)	(8,209,666)
Adjustments for:		
- Interest income on bank deposits	(3,959,869)	(3,859,658)
- Interest income on VMO Loans	(12,314)	(13,363)
- Depreciation (note 5)	4,504,967	4,209,898
- Inventories written off (notes 18 and 26)	1,921,608	1,994,508
- Biological assets written off (notes 9(b) and 26)	41,818	-
- Provision for impairment of inventories (note 9(a))	23,876	-
- Provision for/(write-back of provision for) impairment of VMO Loans (note 22)	32,119	(81,114)
- Loss on disposals of property, plant and equipment (note (b) below)	(94,033)	38,555
- Trade receivables written off	-	41,369
- Discount/(premium) on amortization of VMO Loans (note 22)	30,466	(6,282)
- Additional provision for unused annual leave (note 16)	50,427	65,911
- Additional provision for long service payments (note 16)	296,621	4,450,121
	<u>(6,971,434)</u>	<u>(1,369,721)</u>
Changes in working capital:		
- Inventories	(2,270,744)	(1,964,404)
- Biological assets	(111,312)	-
- VMO Loans	(599,500)	128,400
- Trade and other receivables	(2,578,463)	(995,337)
- Trade and other payables	1,878,323	2,083,939
- Provisions for other liabilities	(838,024)	(693,212)
- Vegetable buyers' deposits	658,899	(193,871)
- Assets under defined benefit plan	(1,080,000)	(2,038,000)
	<u>(11,912,255)</u>	<u>(5,042,206)</u>

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

	Note	2013	2012
Net book amount	5	28,167	98,755
		-----	-----
Gain/(loss) on disposals of property, plant and equipment recognized in:			
- non-trading income/other expenditure	pages 4&5	103,693	(18,611)
- net deficit from VMO Agricultural Development Fund	21	(9,660)	(19,944)
		<u>94,033</u>	<u>(38,555)</u>
		-----	-----
Proceeds from disposals of property, plant and equipment		<u>122,200</u>	<u>60,200</u>

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28 Operating lease commitment

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

	2013	2012
No later than one year	<u>157,625</u>	<u>157,625</u>

29 Key management compensation

	2013	2012
Salaries and other short-term employee benefits	<u>412,476</u>	<u>400,129</u>