

VEGETABLE MARKETING ORGANIZATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2017

**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)

Opinion

What we have audited

The financial statements of Vegetable Marketing Organization (the "Organization") set out on pages 4 to 42, which comprise:

- the balance sheet as at 31 March 2017;
- the statement of comprehensive income for the year ended;
- the statement of changes in funds for the year ended;
- the statement of cash flows for the year then ended;
- notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Organization as at 31 March 2017, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Organization in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the Director of Marketing 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 HKICPA, 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.

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

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**Responsibilities of the Director of Marketing for the Financial Statements
(Continued)**

In preparing the financial statements, the Director of Marketing is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Director of Marketing either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

The Director of Marketing is responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director of Marketing.

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

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Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude on the appropriateness of the Director of Marketing's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Director of Marketing regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 September 2017

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

BALANCE SHEET

	Note	As at 31 March	
		2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	14,387,120	16,612,220
Assets under defined benefit plan	17	6,902,000	5,119,000
Vegetable Marketing Organization (“VMO”) Loans	6(a)	50,817	-
		<u>21,339,937</u>	<u>21,731,220</u>
Current assets			
Inventories	9(a)	657,668	629,512
Biological assets	9(b)	45,464	52,177
VMO Loans	6(a)	2,096,245	1,739,116
Trade and other receivables	10	8,223,594	9,362,280
Bank deposits with original maturities over three months	11	257,992,517	282,068,214
Cash and cash equivalents	12	26,470,265	33,062,398
		<u>295,485,753</u>	<u>326,913,697</u>
Total assets		<u><u>316,825,690</u></u>	<u><u>348,644,917</u></u>
FUNDS			
VMO General Fund			
Accumulated surplus	13	229,589,009	236,681,918
Specific funds			
VMO Loan Fund	6(a)	12,507,869	12,445,603
VMO Agricultural Development Fund	7	47,694,375	64,726,972
Funds provided from external sources for capital expenditure	14	1,764,104	1,764,104
		<u>291,555,357</u>	<u>315,618,597</u>
Total funds		<u><u>291,555,357</u></u>	<u><u>315,618,597</u></u>
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities	16	911,876	1,084,338
Long service payment obligations	17	6,026,763	9,754,733
		<u>6,938,639</u>	<u>10,839,071</u>
Current liabilities			
Trade and other payables	15	9,640,483	12,612,463
Provisions for other liabilities	16	1,571,131	1,704,058
Long service payment obligations	17	256,097	585,196
Vegetable buyers’ deposits		6,863,983	7,285,532
		<u>18,331,694</u>	<u>22,187,249</u>
Total liabilities		<u><u>25,270,333</u></u>	<u><u>33,026,320</u></u>
Total funds and liabilities		<u><u>316,825,690</u></u>	<u><u>348,644,917</u></u>

The notes on pages 9 to 42 are an integral part of these financial statements.

The financial statements on pages 4 to 42 were approved by the Director of Marketing on 20 September 2017.

So Ping-man

Director of Marketing

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

STATEMENT OF COMPREHENSIVE INCOME

		<u>Year ended 31 March</u>	
	Note	2017	2016
INCOME			
Operating income			
Commission		78,399,796	99,214,186
Rebates		(27,358,876)	(34,618,570)
		<u>51,040,920</u>	<u>64,595,616</u>
Net income from sales of premium vegetables	18	<u>8,192,144</u>	<u>8,381,360</u>
Other operating income			
Rental income		480,858	405,378
Parking permit fee income		934,995	928,995
Other income		691,194	644,911
		<u>2,107,047</u>	<u>1,979,284</u>
Non-trading income			
Interest income on bank deposits		1,640,276	1,585,151
Other income		1,800	51,405
Gain on disposals of property, plant and equipment	27(b)	84,229	-
		<u>1,726,305</u>	<u>1,636,556</u>
Total income		<u>63,066,416</u>	<u>76,592,816</u>
EXPENDITURE			
Operating expenditure			
Employee benefit expenditure	19(a)	(39,718,690)	(39,820,488)
General working expenses			
Rent, rates and permit fees	20	(2,460,425)	(2,448,354)
Printing and stationery		(489,090)	(481,783)
Utility services		(1,099,402)	(1,094,041)
Maintenance and minor improvements		(2,397,178)	(2,743,932)
Vegetable baskets		(1,950)	(6,550)
Stores and equipment		(651,336)	(744,398)
Miscellaneous expenses		(455,813)	(325,815)
Staff welfare		(354,849)	(344,058)
Staff training		(12,350)	(6,818)
Travelling expenses		(112,104)	(126,932)
Protective clothing and uniforms		(56,979)	(46,727)
Insurance		(1,014,128)	(1,367,449)
Auditor's remuneration		(416,400)	(354,400)
Market security		(655,885)	(649,051)
Balance carried forward		<u>(10,177,889)</u>	<u>(10,740,308)</u>

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

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Note	Year ended 31 March	
		2017	2016
Operating expenditure (Continued)			
General working expenses (Continued)			
Balance brought forward		(10,177,889)	(10,740,308)
Transportation expenses		(2,817,765)	(2,771,789)
Depreciation - markets and depots	5	(1,441,847)	(1,678,030)
Subsidy to federation and co-operative societies		(994,844)	(1,024,084)
Grants-in-aid		(482,131)	(30,000)
Provision for impairment of trade receivables	10	-	(113,157)
Publication and publicity		(2,384)	(5,323)
Legal fee		(18,000)	(47,000)
Bank charges		(8,220)	(12,631)
		<u>(15,943,080)</u>	<u>(16,422,322)</u>
Total operating expenditure		<u>(55,661,770)</u>	<u>(56,242,810)</u>
Other expenditure			
Loss on disposals of property, plant and equipment	27(b)	-	(21,350)
Miscellaneous expenses		(300)	-
		<u>(300)</u>	<u>-</u>
Total expenditure		<u>(55,662,070)</u>	<u>(56,264,160)</u>
Operating surplus for the year		<u>7,404,346</u>	<u>20,328,656</u>
Net surplus/(deficit) from:			
- VMO Agricultural Development Fund	21	(37,228,441)	(39,923,728)
- VMO Loan Fund	22	62,266	119,405
		<u>(37,166,175)</u>	<u>(39,804,323)</u>
Deficit for the year		<u>(29,761,829)</u>	<u>(19,475,667)</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	1,617,000	(3,412,000)
Remeasurements for long service payment obligations			
- VMO General Fund		3,885,745	1,698,960
- VMO Agricultural Development Fund		195,844	38,198
	17	<u>4,081,589</u>	<u>1,737,158</u>
Total comprehensive loss for the year		<u>(24,063,240)</u>	<u>(21,150,509)</u>

The notes on pages 9 to 42 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	Total funds	
		2017	2016
At 1 April		315,618,597	336,769,106
Deficit for the year		(29,761,829)	(19,475,667)
Other comprehensive income/(loss)			
- Remeasurements for			
- Defined benefit plan	17	1,617,000	(3,412,000)
- Long service payment obligations	17		
- VMO General Fund		3,885,745	1,698,960
- VMO Agricultural Development Fund		195,844	38,198
Total comprehensive loss		(24,063,240)	(21,150,509)
At 31 March		291,555,357	315,618,597

The notes on pages 9 to 42 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	2017	2016
Cash flows from operating activities			
Net cash used in operations	27(a)	(31,492,326)	(16,396,604)
VMO Loans interest received		16,713	8,655
		<u> </u>	<u> </u>
Net cash used in operating activities		(31,475,613)	(16,387,949)
		<u> </u>	<u> </u>
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(1,310,001)	(5,130,776)
Proceeds from disposals of property, plant and equipment	27(b)	156,024	95,400
Net uplift of bank deposits with original maturities over three months		24,075,697	21,638,171
Bank interest received		1,961,760	2,458,277
		<u> </u>	<u> </u>
Net cash generated from investing activities		24,883,480	19,061,072
		<u> </u>	<u> </u>
Net (decrease)/increase in cash and cash equivalents		(6,592,133)	2,673,123
Cash and cash equivalents at beginning of the year		33,062,398	30,389,275
		<u> </u>	<u> </u>
Cash and cash equivalents at end of the year	12	<u>26,470,265</u>	<u>33,062,398</u>

The notes on pages 9 to 42 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”) which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standard (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong 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 2016

The following Amendments have been adopted by the Organization for the first time for the Organization’s financial year beginning on 1 April 2016:

- Clarification of acceptable methods of depreciation and amortisation - Amendments to HKAS 16;
- Annual improvements to HKFRSs 2012 – 2014 cycle; and
- Disclosure initiative – Amendments to HKAS 1.

The adoption of these Amendments did not have any impact on the current year or any prior year and is not likely to affect future years.

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) 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 beginning on or after 1 April 2017. The following Amendments are relevant and application to the Organization; however, they have not been early adopted in these financial statements:

		Effective for the Organization's financial period commencing on
Amendments to HKAS 7	Statement of cash flows	1 April 2017
HKFRS 9	Financial instruments	1 April 2018
HKFRS 15	Revenue from contracts with customers	1 April 2018
HKFRS 16	Leases	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.

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.

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.

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 (Continued)

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.

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.

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 (Continued)

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.

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.

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 (Continued)

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.

(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)

2.13 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 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.

(c) Long service payment obligations

The Organization recognises long service payment obligations liable to its employees in accordance with the Hong Kong 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 payment 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 other 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 Employee benefits (Continued)

(c) Long service payment obligations (Continued)

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.

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.

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.17 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 2017 and 2016, the maturity analysis of the financial liabilities is as follows:

	2017	2016
Less than one year		
Trade and other payables (note 15)	9,527,566	12,455,146
Vegetable buyers' deposits	6,863,983	7,285,532
	<u>16,391,549</u>	<u>19,740,678</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 2017, if interest rate on the bank deposits had been 25 basis points (2016: 11 basis points) higher/lower with all other variables held constant, deficit for the year would have been approximately \$645,000 (2016: \$314,000) 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.

Defined benefit plan and long service payment obligations

The present values of the defined benefit and long service payment obligations depend 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 payment obligations include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit and long service payment obligations.

The actuary, Milliman 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 payment 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 payment obligations.

Other key assumptions for defined benefit and long service payment 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 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>
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	<u>549,480</u>	<u>4,852,079</u>	<u>929,996</u>	<u>3,120</u>	<u>6,334,675</u>	<u>344,997</u>	<u>5,069,710</u>	<u>4,862,838</u>	<u>10,277,545</u>	<u>16,612,220</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	
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	<u>549,480</u>	<u>4,852,079</u>	<u>929,996</u>	<u>3,120</u>	<u>6,334,675</u>	<u>344,997</u>	<u>5,069,710</u>	<u>4,862,838</u>	<u>10,277,545</u>	<u>16,612,220</u>
Year ended 31 March 2017										
Opening 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
Additions	-	645,284	-	-	645,284	-	640,237	39,737	679,974	1,325,258
Disposals (note 27(b))	-	(71,795)	-	-	(71,795)	-	(95,660)	-	(95,660)	(167,455)
- Cost	-	(797,106)	(1,442,358)	-	(2,239,464)	-	(706,580)	-	(706,580)	(2,946,044)
- Accumulated depreciation	-	725,311	1,442,358	-	2,167,669	-	610,920	-	610,920	2,778,589
Depreciation	<u>(17,631)</u>	<u>(1,003,606)</u>	<u>(419,068)</u>	<u>(1,542)</u>	<u>(1,441,847)</u>	<u>(177,497)</u>	<u>(1,033,466)</u>	<u>(730,093)</u>	<u>(1,941,056)</u>	<u>(3,382,903)</u>
Closing net book amount	<u>531,849</u>	<u>4,421,962</u>	<u>510,928</u>	<u>1,578</u>	<u>5,466,317</u>	<u>167,500</u>	<u>4,580,821</u>	<u>4,172,482</u>	<u>8,920,803</u>	<u>14,387,120</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
At 31 March 2017										
Cost	4,446,130	27,804,240	5,761,839	22,113	38,034,322	4,126,083	11,035,738	7,314,912	22,476,733	60,511,055
Accumulated depreciation	(3,914,281)	(23,382,278)	(5,250,911)	(20,535)	(32,568,005)	(3,958,583)	(6,454,917)	(3,142,430)	(13,555,930)	(46,123,935)
Net book amount	<u>531,849</u>	<u>4,421,962</u>	<u>510,928</u>	<u>1,578</u>	<u>5,466,317</u>	<u>167,500</u>	<u>4,580,821</u>	<u>4,172,482</u>	<u>8,920,803</u>	<u>14,387,120</u>

Note: The additions for the year of \$39,737 (2016: \$158,445) include the contingent price of equipment of \$15,257 (2016: Nil) for Controlled Environment Hydroponic Research and Development Project as described in note 16.

Depreciation expenses of \$1,441,847 and \$1,941,056 (2016: \$1,678,030 and \$2,260,586) have been charged in the operating expenditure and net deficit from VMO Agricultural Development Fund respectively on page 6 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 4:

	Note	2017	2016
ASSETS			
Non-current assets			
VMO Loans			
- Loans to farmers		2,277,740	1,849,740
- Interest receivable		40,221	56,448
		<u>2,317,961</u>	<u>1,906,188</u>
Less: Provision for impairment of VMO Loans		(60,878)	(80,116)
		<u>2,257,083</u>	<u>1,826,072</u>
Less: Accumulated amortisation at 1 April		(86,956)	(101,552)
Amortisation of (discount)/premium on VMO Loans	22	(23,065)	14,596
Accumulated amortisation at 31 March		<u>(110,021)</u>	<u>(86,956)</u>
VMO Loans – net		<u>2,147,062</u>	<u>1,739,116</u>
Less: Current portion		(2,096,245)	(1,739,116)
Non-current portion		<u>50,817</u>	-
Current assets			
Current portion of VMO Loans		2,096,245	1,739,116
Other receivables		11,561	6,935
Bank deposits with original maturities over three months	11	10,280,517	7,094,930
Cash and cash equivalents	12	68,729	3,604,622
		<u>12,457,052</u>	<u>12,445,603</u>
Total assets		<u>12,507,869</u>	<u>12,445,603</u>
FUNDS			
Capital account transferred from VMO General Fund		2,608,000	2,608,000
Accumulated surplus at 1 April		9,837,603	9,718,198
Net surplus for the year transferred from VMO General Fund	13&22	62,266	119,405
Accumulated surplus at 31 March		<u>9,899,869</u>	<u>9,837,603</u>
Total funds		<u>12,507,869</u>	<u>12,445,603</u>
LIABILITIES			
Current and total liabilities		-	-
Total funds and liabilities		<u>12,507,869</u>	<u>12,445,603</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 0.3% (2016: 0.005% to 1.917%) per annum and are repayable within one year (2016: within one year) with third party personal guarantees. As at 31 March 2017, the weighted average effective interest rate of the VMO Loans is 0.007% (2016: 0.011%) per annum.

As at 31 March 2017, VMO Loans of \$60,878 (2016: \$80,116) 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:

	2017	2016
<u>Past due by:</u>		
Up to 30 days	8,000	2,000
31 to 60 days	7,000	2,000
61 to 90 day	2,000	2,000
Over 90 days	43,878	74,116
	<u>60,878</u>	<u>80,116</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	2017	2016
At 1 April		80,116	126,479
Credited to the statement of comprehensive income			
- Reversal of provision for impairment of receivables upon collection	22	(19,238)	(46,363)
At 31 March		<u>60,878</u>	<u>80,116</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 2017 and 2016 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 4:

	Note	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	8,920,803	10,277,545
Current assets			
Inventories	9(a)	443,326	389,560
Biological assets	9(b)	45,464	52,177
Trade and other receivables		1,494,293	1,093,678
Bank deposits with original maturities over three months	11	38,750,000	54,850,000
Cash and cash equivalents	12	511,917	913,122
		<u>41,245,000</u>	<u>57,298,537</u>
Total assets		<u>50,165,803</u>	<u>67,576,082</u>
FUNDS			
Capital account			
At 1 April		350,000,000	350,000,000
Transfer from VMO General Fund	13	20,000,000	-
At 31 March		<u>370,000,000</u>	<u>350,000,000</u>
Accumulated deficit at 1 April		(285,273,028)	(245,387,498)
Net deficit for the year transferred from VMO General Fund	13&21	(37,032,597)	(39,885,530)
Accumulated deficit at 31 March		<u>(322,305,625)</u>	<u>(285,273,028)</u>
Total funds		<u>47,694,375</u>	<u>64,726,972</u>
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities		911,876	1,084,338
Long service payment obligations		207,703	443,034
		<u>1,119,579</u>	<u>1,527,372</u>
Current liabilities			
Other payables		744,231	714,257
Provisions for other liabilities		440,529	513,702
Long service payment obligations		167,089	93,779
		<u>1,351,849</u>	<u>1,321,738</u>
Total liabilities		<u>2,471,428</u>	<u>2,849,110</u>
Total funds and liabilities		<u>50,165,803</u>	<u>67,576,082</u>

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	2017	2016
Financial assets - loans and receivables			
VMO Loans	6	2,147,062	1,739,116
Trade and other receivables	10	5,324,444	6,285,793
Bank deposits with original maturities over three months	11	257,992,517	282,068,214
Cash and cash equivalents	12	26,470,265	33,062,398
		<u>291,934,288</u>	<u>323,155,521</u>
Financial liabilities - other financial liabilities at amortised cost			
Trade and other payables	15	9,527,566	12,455,146
Vegetable buyers' deposits		6,863,983	7,285,532
		<u>16,391,549</u>	<u>19,740,678</u>

9 Inventories and biological assets

(a) Inventories

	2017	2016
Premium vegetables	128,449	139,678
Others	529,273	489,903
	<u>657,722</u>	<u>629,581</u>
Less: Provision for impairment of inventories	(54)	(69)
	<u>657,668</u>	<u>629,512</u>
Represented by:		
- General fund	214,342	239,952
- VMO Agricultural Development Fund (note 7)	443,326	389,560
	<u>657,668</u>	<u>629,512</u>

(b) Biological assets

	2017	2016
At 1 April	52,177	71,570
Additions	1,094,446	1,571,084
Harvested hydroponic vegetable produce	(1,016,359)	(1,348,508)
Write off (note 26(a))	(84,800)	(241,969)
	<u>45,464</u>	<u>52,177</u>
<u>Analysis of biological assets</u>		
Mature	-	-
Immature	45,464	52,177
	<u>45,464</u>	<u>52,177</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 2017, the Organization had 119 (2016: 129) kilogram of biological assets. During the year, the quantity of hydroponic vegetable produce harvested for sales is 3,629 (2016: 5,524) kilogram.

10 Trade and other receivables

	2017	2016
Trade receivables	4,393,625	5,442,803
Less: Provision for impairment of trade receivables	(113,157)	(113,157)
	<hr/>	<hr/>
Trade receivables, net	4,280,468	5,329,646
Interest receivables	576,185	493,631
Other receivables	467,791	462,516
	<hr/>	<hr/>
Financial assets	5,324,444	6,285,793
Prepayments for:		
- Insurance expense	1,436,019	1,339,404
- Other operating expenses	1,463,131	1,737,083
	<hr/>	<hr/>
Total	<u>8,223,594</u>	<u>9,362,280</u>

As of 31 March 2017, trade receivables of \$126,294 (2016: \$269,351) 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:

	2017	2016
<u>Past due by:</u>		
Up to 30 days	126,294	268,912
61 to 90 days	-	439
	<hr/>	<hr/>
	<u>126,294</u>	<u>269,351</u>

As of 31 March 2017, trade receivables of \$113,157 (2016: \$113,157) were impaired and provisions have 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:

	2017	2016
<u>Past due by:</u>		
31 to 60 days	-	15,846
61 to 90 days	-	22,744
Over 90 days	113,157	74,567
	<hr/>	<hr/>
	<u>113,157</u>	<u>113,157</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:

	2017	2016
At 1 April	113,157	-
Provision for impairment of receivables	-	113,157
	<hr/>	<hr/>
At 31 March	<u>113,157</u>	<u>113,157</u>

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 2017 and 2016 and are denominated in Hong Kong dollars.

11 Bank deposits with original maturities over three months

	Note	2017	2016
VMO General Fund		208,962,000	220,123,284
VMO Loan Fund	6	10,280,517	7,094,930
VMO Agricultural Development Fund	7	38,750,000	54,850,000
		<hr/>	<hr/>
Maximum exposure to credit risk		<u>257,992,517</u>	<u>282,068,214</u>

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

12 Cash and cash equivalents

	Note	2017	2016
<u>VMO General Fund</u>			
Cash at banks and in hand		25,889,619	28,544,654
		<hr/>	<hr/>
<u>VMO Loan Fund</u>			
Cash at banks		68,729	204,622
Bank deposits with original maturities of three months or less		-	3,400,000
	6	<hr/>	<hr/>
		68,729	3,604,622
		<hr/>	<hr/>
<u>VMO Agricultural Development Fund</u>			
Cash at banks and in hand	7	511,917	913,122
		<hr/>	<hr/>
Total		<u>26,470,265</u>	<u>33,062,398</u>
		<hr/>	<hr/>
Maximum exposure to credit risk		<u>25,623,956</u>	<u>31,696,331</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 – Accumulated Surplus

	Note	2017	2016
At 1 April		236,681,918	218,066,302
Deficit for the year		(29,761,829)	(19,475,667)
Surplus/(loss) on remeasurements for			
- Defined benefit plan	17	1,617,000	(3,412,000)
- Long service payment obligations			
- VMO General Fund	17	3,885,745	1,698,960
- VMO Agricultural Development Fund	17	195,844	38,198
Net surplus transferred to VMO Loan Fund	6(a)	(62,266)	(119,405)
Net deficit transferred to VMO Agricultural Development Fund	7	37,032,597	39,885,530
Transferred to capital account of VMO Agricultural Development fund	7	(20,000,000)	-
At 31 March		<u>229,589,009</u>	<u>236,681,918</u>

14 Funds provided from external sources for capital expenditure

	2017	2016
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

	2017	2016
Trade payables	6,391,153	9,489,474
Other payables	2,333,953	2,175,737
Vegetable sellers' and other deposits	802,460	789,935
	<u>9,527,566</u>	<u>12,455,146</u>
Financial liabilities	112,917	157,317
Receipts in advance		
	<u>9,640,483</u>	<u>12,612,463</u>

The carrying values of trade and other payables approximate their fair values at 31 March 2017 and 2016 and are denominated in Hong Kong dollars.

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

16 Provisions for other liabilities

	Unused annual leave	Contingent price of equipment (note)	Total
At 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
- VMO 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 and 1 April 2016	1,506,675	1,281,721	2,788,396
Payments for the year	(166,408)	-	(166,408)
	<u>1,340,267</u>	<u>1,281,721</u>	<u>2,621,988</u>
(Reversal of provision for)/provision for the year			
- General Fund (note 19(a))	29,715	-	29,715
- VMO Agricultural Development Fund	14,940	(198,893)	(183,953)
- Property, plant and equipment (note 5)	-	15,257	15,257
	<u>44,655</u>	<u>(183,636)</u>	<u>(138,981)</u>
At 31 March 2017	<u>1,384,922</u>	<u>1,098,085</u>	<u>2,483,007</u>
Analysis of total provisions:			
<u>At 31 March 2017</u>			
Non-current	-	911,876	911,876
Current	1,384,922	186,209	1,571,131
	<u>1,384,922</u>	<u>1,098,085</u>	<u>2,483,007</u>
<u>At 31 March 2016</u>			
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>

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

16 Provisions for other liabilities (Continued)

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 2017, upward adjustment on cost of \$15,257 (2016: downward adjustment of \$679,760) is resulted.

As at 31 March 2017, 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 \$1,098,085 (2016: \$1,281,721). It is expected that \$186,209 (2016: \$197,383) will be utilised next year and \$911,876 (2016: \$1,084,338) 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	2017	2016
Balance sheet assets for:			
- Defined benefit plan	(a)	<u>6,902,000</u>	<u>5,119,000</u>
Balance sheet obligations for:			
- Long service payment obligations			
- Non-current portion		(6,026,763)	(9,754,733)
- Current portion		(256,097)	(585,196)
	(b)	<u>(6,282,860)</u>	<u>(10,339,929)</u>
Statement of comprehensive income charged for:			
- Defined benefit plan	19(a)	241,000	234,000
- Long service payment obligations			
- VMO General Fund	19(a)	610,644	728,707
- VMO Agricultural Development Fund	19(b)	74,388	100,489
		<u>926,032</u>	<u>1,063,196</u>
Remeasurements for:			
- Defined benefit plan	(a)	(1,617,000)	3,412,000
- Long service payment obligations			
- VMO General Fund		(3,885,745)	(1,698,960)
- VMO Agricultural Development Fund		(195,844)	(38,198)
	(b)	<u>(4,081,589)</u>	<u>(1,737,158)</u>
		<u>(5,698,589)</u>	<u>1,674,842</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 2017 and 2016 carried out by Milliman Limited (2016: Mercer (Hong Kong) Limited), who holds a recognised professional qualification.

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

	2017	2016
Present value of the funded obligations	(17,235,000)	(19,397,000)
Fair value of plan assets	<u>24,137,000</u>	<u>24,516,000</u>
Assets in the balance sheet	<u>6,902,000</u>	<u>5,119,000</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 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>
<u>Remeasurements:</u>			
- Return on plan assets (excluding interest income)	-	(3,197,000)	(3,197,000)
- Surplus 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>

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 2016	(19,397,000)	24,516,000	5,119,000
Current service costs	(275,000)	-	(275,000)
Interest (expense)/income	(154,000)	202,000	48,000
	<u>(19,826,000)</u>	<u>24,718,000</u>	<u>4,892,000</u>
<u>Remeasurements:</u>			
- Return on plan assets (excluding interest income)	-	2,714,000	2,714,000
- Surplus from change in financial assumption changes	292,000	-	292,000
- Experience losses	(1,389,000)	-	(1,389,000)
	<u>(1,097,000)</u>	<u>2,714,000</u>	<u>1,617,000</u>
Plan participants contributions	(226,000)	226,000	-
Employer contributions	-	407,000	407,000
Benefit payments	3,914,000	(3,914,000)	-
Administrative cost	-	(14,000)	(14,000)
	<u>3,688,000</u>	<u>(3,295,000)</u>	<u>393,000</u>
At 31 March 2017	<u><u>(17,235,000)</u></u>	<u><u>24,137,000</u></u>	<u><u>6,902,000</u></u>

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

	2017 %	2016 %
Equities	74	76
Bonds	23	18
Money instruments	3	6
	<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 payment obligations

The long service payment 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 payment, 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 payment obligations
At 1 April 2015	11,655,019
Current service costs	643,027
Interest expense	186,169
	<u>12,484,215</u>
Remeasurements:	
- Surplus from change in financial assumption changes	(1,082,281)
- Experience gains	(654,877)
	<u>(1,737,158)</u>
Benefit payments	(407,128)
At 31 March 2016	<u>10,339,929</u>
At 1 April 2016	10,339,929
Current service costs	513,899
Interest expense	171,133
	<u>11,024,961</u>
Remeasurements:	
- Experience gains	(4,081,589)
Benefit payments	(660,512)
At 31 March 2017	<u>6,282,860</u>

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 obligations</u>		<u>Long service payment obligations</u>	
	2017 %	2016 %	2017 %	2016 %
Discount rate	1.3	0.9	1.7	1.7
Expected rate of future salary increases	3.5	3.5	3.5	3.5

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

	Change in assumption	<u>Impact on defined benefit obligation</u>		<u>Impact on long service payment obligations</u>	
		Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 2.0%	Increase by 2.1%	Decrease by 8.8%	Increase by 10.1%
Salary growth rate	0.5%	Increase by 2.1%	Decrease by 2.0%	Increase by 0.8%	Decrease by 1.3%

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 payment obligations to significant actuarial assumptions, the same method (present value of the defined benefit and long service payment obligations calculated using 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 2018:

	<u>Defined benefit obligation</u>	<u>Long service payment obligations</u>
Expected contributions by:		
- Organization	387,000	-
- Employees	215,000	-

(f) The weighted average duration of the defined benefit obligation and long service payment obligations is around 4.9 years and 10.8 years, respectively.

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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 payment obligations</u>	
	2017	2016	2017	2016
Less than 1 year	3,752,000	4,555,000	77,000	547,000
Between 1 and 2 years	1,512,000	1,678,000	408,000	124,000
Between 2 and 5 years	4,835,000	5,918,000	1,539,000	1,618,000
Next 5 years	7,684,000	7,008,000	2,776,000	3,217,000
	<u>17,783,000</u>	<u>19,159,000</u>	<u>4,800,000</u>	<u>5,506,000</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:

	2017	2016
Sales of premium vegetables	27,652,219	31,127,083
Cost of inventories sold	(20,331,024)	(23,776,692)
Gross profit	<u>7,321,195</u>	<u>7,350,391</u>
Commission income	908,954	1,080,800
Direct operating expenses		
Rebates	-	(645)
Sales commission	(7,353)	(6,918)
Sundry expenses	(30,652)	(42,268)
	<u>(38,005)</u>	<u>(49,831)</u>
Net income for the year	<u>8,192,144</u>	<u>8,381,360</u>

The cost of inventories sold includes inventory written-off of \$1,358,629 (2016: \$1,580,049).

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	2017	2016
Salaries and wages		36,849,666	36,791,381
Provision for unused annual leave	16	29,715	80,620
Retirement benefit costs			
- Defined contribution plan and MPF scheme		1,987,665	1,985,780
- Defined benefit plan	17	241,000	234,000
- Long services payment obligations	17	610,644	728,707
		<u>39,718,690</u>	<u>39,820,488</u>

(b) In addition to the above, employee benefit expenditure amounting to \$11,615,789 (2016: \$14,643,125) as listed below has been included in various expenditure items in the VMO Agricultural Development Fund in note 21.

	Note	2017	2016
Salaries and wages		10,993,867	13,811,209
Provision for unused annual leave	16	14,940	54,045
Retirement benefit costs			
- MPF scheme		532,594	677,382
- Long services payment obligations	17	74,388	100,489
		<u>11,615,789</u>	<u>14,643,125</u>

20 Rent, rates and permit fees

Included in the amount, \$698,400 (2016: \$687,083) 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	2017	2016
Income			
FarmFest income		4,537,876	4,380,090
Interest income on bank deposits		338,311	549,467
Other income		15,008	77,134
		4,891,195	5,006,691
Expenditure			
Land rehabilitation scheme			
- Repairs and maintenance		(11,210)	(89,872)
- Depreciation		(103,596)	(127,004)
- Recreational Farming		(542,316)	(668,311)
- Miscellaneous expenditure		(45,734)	(55,317)
Construction and improvement of communal agriculture facilities		(185,850)	(74,700)
Crop Development Programmes Promotion			
- Depreciation		(17,183)	(16,623)
- Net deficit from sales of accredited local vegetables	24	(174,109)	(213,921)
- Grants to a third party organisation		(2,428,000)	(2,742,000)
- Other expenses		(4,194,233)	(3,668,368)
Controlled Environment Greenhouse Production			
- Depreciation		(2,392)	(2,392)
- Other expenses		(1,806,174)	(3,232,804)
Promotion of Organic Farming			
- Depreciation		(29,542)	(28,994)
- Net deficit from sales of organic vegetables	25	(741,764)	(1,090,949)
- Grants to third party organisations		(14,321,766)	(12,702,621)
- Other expenses		(4,011,315)	(5,652,305)
Voluntary Registration Scheme of Local Vegetable Farms			
- Depreciation		(16,117)	(16,117)
- Other expenses		(1,832,828)	(2,738,154)
Promotion of Local Agricultural and Fisheries Products			
- FarmFest expenses		(6,446,052)	(6,184,980)
Improvement to VMO's wholesale marketing facilities and services			
- Depreciation		(1,040,373)	(1,283,711)
- Other expenses		(1,939,651)	(2,015,693)
Controlled Environments Hydroponic Research and Development Centre Production for sales			
- Depreciation		(213,304)	(289,274)
- Net deficit from sales of hydroponic vegetables	26(a)	(889,292)	(1,383,786)
- Reversal of overprovision for depreciation of property, plant and equipment		-	135,952
- Other expenses		(324,884)	(597,441)
Research activities expense	26(b)	(702,095)	(159,769)
Loss on disposals of property, plant and equipment	27(b)	(95,660)	(27,894)
Miscellaneous expenses		(4,196)	(3,371)
		(42,119,636)	(44,930,419)
Deficit for the year		(37,228,441)	(39,923,728)
Remeasurements for long service payment obligations	17	195,844	38,198
Net deficit for the year	7	(37,032,597)	(39,885,530)

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NOTES TO THE FINANCIAL STATEMENTS

22 Net surplus from VMO Loan Fund

	Note	2017	2016
Income			
Interest on bank deposits		65,727	54,338
Interest on VMO Loans		486	4,183
Amortisation of premium on VMO Loans	6(a)	-	14,596
Reversal of provision for impairment of VMO Loans	6(b)	19,238	46,363
		<u>85,451</u>	<u>119,480</u>
Expenditure			
Bank charges		(120)	(75)
Amortisation of discount on VMO Loans	6(a)	(23,065)	-
		<u>(23,185)</u>	<u>(75)</u>
Net surplus for the year		<u><u>62,266</u></u>	<u><u>119,405</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	2017	2016
Sales of accredited local vegetables			
Cost of inventories sold		341,480	322,064
		(123,954)	(123,363)
		<u>217,526</u>	<u>198,701</u>
Direct operating expenses			
Employee benefit expenditure		(291,082)	(272,373)
Sales commission		(84,265)	(96,619)
Transportation charges		(7,028)	(7,153)
Stores and equipment		-	(6,870)
Miscellaneous expenses		(9,260)	(29,607)
		<u>(391,635)</u>	<u>(412,622)</u>
Net deficit for the year	21	<u><u>(174,109)</u></u>	<u><u>(213,921)</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	2017	2016
Sales of organic vegetables		3,602,611	3,980,952
Cost of inventories sold		(1,161,709)	(1,427,136)
		<u> </u>	<u> </u>
Gross profit		2,440,902	2,553,816
		<u> </u>	<u> </u>
Direct operating expenses			
Employee benefit expenditure		(2,119,421)	(2,196,239)
Sales commission		(763,552)	(874,118)
Transportation charges		(21,086)	(19,579)
Stores and equipment		(76,995)	(225,218)
Miscellaneous expenses		(199,852)	(327,851)
Depreciation		(1,760)	(1,760)
		<u> </u>	<u> </u>
		(3,182,666)	(3,644,765)
		<u> </u>	<u> </u>
Net deficit for the year	21	<u> </u> <u> </u> (741,764)	<u> </u> <u> </u> (1,090,949)

26 Controlled Environment Hydroponic Research and Development Project

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

	Note	2017	2016
Sales of hydroponic vegetables		459,076	558,011
Cost of hydroponic vegetables sold		(824,056)	(1,237,393)
		<u> </u>	<u> </u>
Gross loss		(364,980)	(679,382)
		<u> </u>	<u> </u>
Other income		2,711	4,135
		<u> </u>	<u> </u>
Direct operating expenses			
Publication and publicity		(78,110)	(268,877)
Packing materials		(83,008)	(96,562)
Employee benefit expenditure		(162,611)	(159,210)
Miscellaneous expenses		(172,294)	(152,890)
Depreciation		(31,000)	(31,000)
		<u> </u>	<u> </u>
		(527,023)	(708,539)
		<u> </u>	<u> </u>
Net deficit for the year	21	<u> </u> <u> </u> (889,292)	<u> </u> <u> </u> (1,383,786)

The cost of hydroponic vegetables sold includes biological assets written off of \$84,800 (2016: \$241,969), inventories written off of \$186,482 (2016: \$306,124), reversal of provision for impairment of inventories of \$15 (2016: \$1) and depreciation of \$395,276 (2016: \$464,486).

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NOTES TO THE FINANCIAL STATEMENTS

**26 Controlled Environment Hydroponic Research and Development Project
(Continued)**

(b) Research activities expense for the year are as follows:

	2017	2016
Other production cost	344,251	87,445
Depreciation	121,513	30,225
Other expenses	236,331	42,099
	<u>702,095</u>	<u>159,769</u>

27 Notes to the statement of cash flows

(a) Net cash used in operations

	2017	2016
Deficit for the year	(29,761,829)	(19,475,667)
Adjustments for:		
- Interest income on bank deposits	(2,044,314)	(2,188,956)
- Interest income on VMO Loans	(486)	(4,183)
- Depreciation (note 5)	3,382,903	3,938,616
- Inventories written off (notes 18 and 26)	1,545,111	1,886,173
- Biological assets written off (notes 9(b) and 26)	84,800	241,969
- Reversal of provision for impairment of inventories (note 9(a))	(15)	(1)
- Provision for impairment of trade receivables (note 10)	-	113,157
- Reversal of provision for impairment of VMO Loans (note 22)	(19,238)	(46,363)
- Loss on disposals of property, plant and equipment (note (b) below)	11,431	49,244
- Reversal of overprovision for depreciation of property, plant and equipment (note 21)	-	(135,952)
- Discount/(premium) on amortisation on VMO Loans (note 22)	23,065	(14,596)
- Provision for unused annual leave (note 16)	44,655	134,665
- Reversal of provision of produce to the Third Party (note 16)	(198,893)	(271,529)
- Retirement benefit costs for defined benefit plan	241,000	234,000
- Retirement benefit costs for long service payment	685,032	829,196
	<u>(26,006,778)</u>	<u>(14,710,227)</u>
Changes in working capital:		
- Inventories	(1,573,252)	(1,882,492)
- Biological assets	(78,087)	(222,576)
- VMO Loans	(428,000)	268,400
- Trade and other receivables	1,221,240	107,448
- Trade and other payables	(2,971,980)	695,826
- Provisions for other liabilities	(166,408)	(182,668)
- Vegetable buyers' deposits	(421,549)	386,813
- Defined benefit plan	(407,000)	(450,000)
- Long service payment obligations	(660,512)	(407,128)
	<u>(31,492,326)</u>	<u>(16,396,604)</u>

VEGETABLE MARKETING ORGANIZATION
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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	2017	2016
Net book amount	5	167,455	144,644
Gain/(loss) on disposals of property, plant and equipment recognised in:			
- Non-trading income/(other expenditure)	pages 5&6	84,229	(21,350)
- Net deficit from VMO Agricultural Development Fund	21	(95,660)	(27,894)
		<u>(11,431)</u>	<u>(49,244)</u>
Proceeds from disposals of property, plant and equipment		<u>156,024</u>	<u>95,400</u>

28 Operating lease commitment

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

	2017	2016
No later than one year	<u>174,600</u>	<u>174,600</u>

29 Key management compensation

	2017	2016
Salaries and other employee benefits	<u>530,817</u>	<u>562,847</u>