

**VEGETABLE MARKETING ORGANIZATION**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 MARCH 2019**

**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 47, which comprise:

- the balance sheet as at 31 March 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in funds for the year then 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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.

**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)

**Responsibilities of the Director of Marketing for the Financial Statements**

The Agricultural Products (Marketing) Ordinance, Chapter 277, requires the Director of Marketing (the "Director") to keep proper accounts. The Director 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 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director 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 either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

The Director 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional 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.

**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)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director.
- Conclude on the appropriateness of the Director'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 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, - 8 OCT 2019

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


**BALANCE SHEET**

	Note	As at 31 March	
		2019	2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	10,160,722	11,658,049
Assets under defined benefit plan	17	9,162,000	11,393,000
Total non-current assets		<u>19,322,722</u>	<u>23,051,049</u>
<b>Current assets</b>			
Inventories	9(a)	375,132	648,611
Biological assets	9(b)	-	52,966
VMO Loans	6(a)	2,048,196	2,306,756
Trade and other receivables	10	10,546,458	9,986,666
Bank deposits with original maturities over three months	11	211,639,191	224,656,773
Cash and cash equivalents	12	32,212,990	39,302,477
Total current assets		<u>256,821,967</u>	<u>276,954,249</u>
<b>Total assets</b>		<u>276,144,689</u>	<u>300,005,298</u>
<b>FUNDS</b>			
VMO General Fund			
Accumulated surplus	13	216,305,087	231,561,617
Specific funds			
VMO Loan Fund	6(a)	12,637,214	12,490,969
VMO Agricultural Development Fund	7	19,669,033	27,565,383
Funds provided from external sources for capital expenditure	14	1,764,104	1,764,104
<b>Total funds</b>		<u>250,375,438</u>	<u>273,382,073</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provisions for other liabilities	16	692,273	777,640
Long service payment obligations	17	4,801,030	4,842,175
Total non-current liabilities		<u>5,493,303</u>	<u>5,619,815</u>
<b>Current liabilities</b>			
Trade and other payables	15	13,443,530	12,756,604
Provisions for other liabilities	16	1,281,691	1,438,495
Long service payment obligations	17	124,903	542,751
Vegetable buyers' deposits		5,425,824	6,265,560
Total current liabilities		<u>20,275,948</u>	<u>21,003,410</u>
<b>Total liabilities</b>		<u>25,769,251</u>	<u>26,623,225</u>
<b>Total funds and liabilities</b>		<u>276,144,689</u>	<u>300,005,298</u>

The above balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 4 to 47 were approved by the Director of Marketing on

- 8 OCT 2019

  
LEUNG Siu-fai  
Director of Marketing

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

**STATEMENT OF COMPREHENSIVE INCOME**

	Note	Year ended 31 March	
		2019	2018
<b>INCOME</b>			
<b>Operating income</b>			
Commission		70,176,039	73,235,873
Rebates		(24,490,497)	(25,563,824)
		<u>45,685,542</u>	<u>47,672,049</u>
<b>Net income from sales of premium vegetables</b>	18	<u>7,850,324</u>	<u>8,398,092</u>
<b>Other operating income</b>			
Rental income		639,341	594,846
Parking permit fee income		1,049,875	1,057,375
Other income		431,646	314,947
		<u>2,120,862</u>	<u>1,967,168</u>
<b>Non-trading income</b>			
Interest income on bank deposits		3,311,358	1,929,073
Other income		-	2,400
Gain on disposals of property, plant and equipment	27(b)	60,658	-
		<u>3,372,016</u>	<u>1,931,473</u>
<b>Total income</b>		<u>59,028,744</u>	<u>59,968,782</u>
<b>EXPENDITURE</b>			
<b>Operating expenditure</b>			
Employee benefit expenditure	19(a)	(37,628,690)	(38,477,354)
<b>General working expenses</b>			
Rent, rates and permit fees	20	(2,520,688)	(2,445,852)
Printing and stationery		(501,253)	(443,457)
Utility services		(1,180,916)	(1,154,451)
Maintenance and minor improvements		(2,371,699)	(2,395,492)
Vegetable baskets		(19,976)	(17,036)
Stores and equipment		(601,340)	(364,683)
Miscellaneous expenses		(192,157)	(406,725)
Staff welfare		(344,238)	(273,608)
Staff training		(12,130)	(5,375)
Travelling expenses		(96,292)	(103,606)
Protective clothing and uniforms		(31,857)	(13,132)
Insurance		(1,055,587)	(1,147,485)
Auditor's remuneration		(400,400)	(387,500)
Market security		(234,655)	(360,783)
		<u>(9,563,188)</u>	<u>(9,519,185)</u>
Balance carried forward			

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

**STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)**

	Note	Year ended 31 March	
		2019	2018
<b>Operating expenditure (Continued)</b>			
<b>General working expenses (Continued)</b>			
Balance brought forward		(9,563,188)	(9,519,185)
Transportation expenses		(2,850,904)	(3,013,778)
Depreciation - markets and depots	5	(1,185,764)	(1,160,036)
Subsidy to federation and co-operative societies		(1,076,119)	(1,021,098)
Grants-in-aid		(109,602)	(30,000)
Publication and publicity		(12,624)	(7,494)
Legal fee		(28,000)	(96,200)
Bank charges		(8,393)	(12,342)
		<u>(14,834,594)</u>	<u>(14,860,133)</u>
<b>Total operating expenditure</b>		<u>(52,463,284)</u>	<u>(53,337,487)</u>
<b>Other expenditure</b>			
Loss on disposals of property, plant and equipment	27(b)	-	(12,045)
Miscellaneous expenses		(300)	-
		<u>(300)</u>	<u>-</u>
<b>Total expenditure</b>		<u>(52,463,584)</u>	<u>(53,349,532)</u>
<b>Operating surplus for the year</b>		<u>6,565,160</u>	<u>6,619,250</u>
Net (deficit)/surplus from:			
- VMO Agricultural Development Fund	21	(27,802,689)	(30,426,800)
- VMO Loan Fund	22	146,245	(16,900)
		<u>(27,656,444)</u>	<u>(30,443,700)</u>
<b>Deficit for the year</b>		<u>(21,091,284)</u>	<u>(23,824,450)</u>
<b>Other comprehensive income for the year</b>			
<u>Items that will not be reclassified subsequently to surplus or deficit</u>			
Remeasurements for defined benefit plan	17(a)	(2,064,000)	4,281,000
Remeasurements for long service payment obligations			
- VMO General Fund		242,310	1,072,358
- VMO Agricultural Development Fund		(93,661)	297,808
	17(b)	<u>148,649</u>	<u>1,370,166</u>
<b>Total comprehensive loss for the year</b>		<u>(23,006,635)</u>	<u>(18,173,284)</u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

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

**STATEMENT OF CHANGES IN FUNDS**

	Note	Total funds	
		2019	2018
<b>At 1 April</b>		273,382,073	291,555,357
Deficit for the year		(21,091,284)	(23,824,450)
Other comprehensive income			
- Remeasurements for defined benefit plan	17(a)	(2,064,000)	4,281,000
- Remeasurements for long service payment obligations:	17(b)		
- VMO General Fund		242,310	1,072,358
- VMO Agricultural Development Fund		(93,661)	297,808
<b>Total comprehensive loss</b>		(23,006,635)	(18,173,284)
<b>At 31 March</b>		250,375,438	273,382,073

The above statement of changes in fund should be read in conjunction with the accompanying notes.



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

**STATEMENT OF CASH FLOWS**

		<u>Year ended 31 March</u>	
	Note	2019	2018
<b>Cash flows from operating activities</b>			
Net cash used in operations	27(a)	(22,366,439)	(22,438,267)
Interest received on VMO Loans		10,178	10,923
		<u>                    </u>	<u>                    </u>
Net cash outflow from operating activities		(22,356,261)	(22,427,344)
		<u>                    </u>	<u>                    </u>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	5	(1,165,278)	(349,353)
Proceeds from disposals of property, plant and equipment	27(b)	91,000	12,000
Net uplift of bank deposits with original maturities over three months		13,017,582	33,335,744
Bank interest received		3,323,470	2,261,165
		<u>                    </u>	<u>                    </u>
Net cash inflow from investing activities		15,266,774	35,259,556
		<u>                    </u>	<u>                    </u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(7,089,487)	12,832,212
Cash and cash equivalents at beginning of the year		39,302,477	26,470,265
		<u>                    </u>	<u>                    </u>
<b>Cash and cash equivalents at end of the year</b>	12	32,212,990	39,302,477
		<u>                    </u>	<u>                    </u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

**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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**2.1 Basis of preparation (Continued)**

- (a) New and amended standards and interpretation adopted by the Organization

The Organization has applied the following standards, amendments and interpretation for the first time for its annual reporting period commencing 1 April 2018:

Annual Improvements Project – HKFRS 1 and HKAS 28 (Amendment)	Annual Improvements 2014 - 2016 cycle
HKAS 40 (Amendment)	Transfers of Investment Property
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) 22	Foreign currency transactions and advance consideration

The adoption of these standards, amendments and interpretation did not have any material impact on the current period or any prior period and is not likely to affect future periods except for disclosure set out in note 2.2.

The Organization has not applied any new or amended standard or interpretation that is not yet effective for the current accounting period.

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

Certain new standards, amendments and interpretations to existing HKFRSs (collectively, the “Amendments”) have been published that are mandatory for the Organization’s reporting periods beginning on or after 1 April 2019. The following Amendments are relevant and applicable to the Organization; however, they have not been early adopted in these financial statements:

HKFRS 16	Leases <sup>1</sup>
HK(IFRIC) 23	Uncertainty over income tax treatments <sup>1</sup>
HKFRS 17	Insurance Contracts <sup>2</sup>
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture <sup>3</sup>

Note:

- (1) Effective for financial period beginning on 1 January 2019
- (2) Effective for financial period beginning on 1 January 2021
- (3) Effective for financial period beginning on or after a date to be determined

The Organization has already commenced an assessment of the impact of these Amendments. According to the preliminary assessment made by the Organization, no significant impact on the financial performance and position of the Organization is expected when they become effective except for HKFRS 16.

**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) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Organization (Continued)

HKFRS 16 Leases

HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to account for certain leases outside the balance sheet. Instead, all long-term leases must be recognised in the balance sheet in the form of assets (for the rights of use) and lease liabilities (for the payment obligations), both of which would carry initially at the discounted present value of the future operating lease commitments. Short-term leases with a lease term of twelve months or less and leases of low-value assets are exempt from such reporting obligations.

The new standard will therefore result in an increase in right-to-use asset and an increase in lease liability in the balance sheet. In the statement of comprehensive income, lease will be recognised in the future as depreciation and will no longer be recorded as rental expenses. Interest expense on the lease liability will be presented separately from depreciation under finance costs. As a result, the rental expenses under otherwise identical circumstances will decrease, while depreciation and the interest expense will increase. The combination of a straight-line depreciation of the right-to-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to comprehensive income in the initial year of the lease, and decreasing expenses during the latter part of the lease term.

As at 31 March 2019, the Organization had aggregate minimum lease payments, which are not reflected in the balance sheet, under non-cancellable operating leases amounting to HK\$194,000 as set out in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Organization will recognise a right-to-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirement may result in changes in measurement, presentation and disclosure as indicated above.

The new standard is not expected to be applied by the Organization until the financial period ending 31 March 2020.

**2.2 Changes in accounting policies**

The Organization has adopted HKFRS 9 “Financial Instruments” and HKFRS 15 “Revenue from Contracts with Customers” from 1 April 2018. There was no impact to the Organization as a result of the adoption of the new standards.

HKFRS 9 “Financial instruments”

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 April 2018 resulted in changes in accounting policies. The new accounting policies are set out in note 2.8 below. In accordance with the transitional provisions in HKFRS 9 (paragraph 7.2.15 and 7.2.26), comparative figures have not been restated and any adjustments to carrying amounts of financial assets or liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**2.2 Changes in accounting policies (Continued)**

HKFRS 9 “Financial instruments” (Continued)

The Organization considers that there is no impact on the Organization’s opening accumulated surplus as at 1 April 2018 as a result of the adoption of HKFRS 9.

On 1 April 2018 (the date of initial application of HKFRS 9), the Organization’s management assessed which business models apply to the financial assets and liabilities held by the Organization and has classified its financial instruments into the appropriate HKFRS 9 categories.

The changes on the classification and measurement models introduced by HKFRS 9 do not have material impact on the Organization’s existing financial assets and liabilities, as they are mainly comprised of loans and receivables and financial liabilities at amortised costs as determined under HKAS 39, which are similar to the financial assets and liabilities measured at amortised cost under HKFRS 9, and are expected to continuously be initially recognised at fair value and subsequently measured at amortised cost.

The new forward-looking expected credit loss model, which replaces the incurred loss impairment model, has not resulted in a material change to the Organization’s impairment provisions.

The Organization does not have any hedging instruments.

HKFRS 15 “Revenue from Contracts with Customers”

The Organization has adopted HKFRS 15 “Revenue from Contracts with Customers” from 1 April 2018 which resulted in changes in accounting policies. The Organization considers the change in revenue recognition does not have material impact on the amounts recognised in the financial statements as at 1 April 2018.

**2.3 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 profit or loss.

**2.4 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**2.4 Property, plant and equipment (Continued)**

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 the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount. These are included in profit or loss.

**2.5 Impairment of non-financial assets**

Non-financial 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 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 which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.6 Inventories**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**2.7 Biological assets**

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

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

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

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

**2.8 Investments and other financial assets**

(a) Classification

From 1 April 2018, the Organization classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value either through other comprehensive income (“OCI”) or through profit or loss, and
- those to be measured at amortised cost

The classification depends on the Organization’s business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Organization has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”).

The Organization reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Organization commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Organization has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Organization measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**2.8 Investments and other financial assets (Continued)**

(c) Measurement (Continued)

Subsequent measurement of debt instruments depends on the Organization's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Organization classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income/(expenditure), net using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenditure), net together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income/(expenditure), net. Interest income from these financial assets is included in other income/(expenditure), net using the effective interest rate method. Foreign exchange gains and losses are presented in general working expenses and impairment expenses are presented as separate line item in the statement of comprehensive income.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income/(expenditure), net in the period in which it arises.

(d) Impairment

From 1 April 2018, the Organization assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and VMO Loans, the Organization applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For impairment of other financial assets at amortised cost, they are measured as either the 12 month expected credit loss or the lifetime expected credit loss depending on whether there has been a significant increase in credit risk since initial recognition.

(e) Accounting policies applied until 31 March 2018

The Organization has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Organization's previous accounting policy.

Until 31 March 2018, the Organization classifies its financial assets as loans and receivables.



## VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Summary of significant accounting policies (Continued)

#### 2.8 Investments and other financial assets (Continued)

##### (e) Accounting policies applied until 31 March 2018 (Continued)

##### (i) Subsequent measurement

The measurement at initial recognition did not change on adoption of HKFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables were subsequently carried at amortised cost using the effective interest method.

##### (ii) Impairment of assets carried at amortised cost

The Organization assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

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

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could 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 was recognised in profit or loss.

#### 2.9 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.

Vegetable Marketing Organization Loans ("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.

#### 2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Organization currently has 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 Organization has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**2.11 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.

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.

**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 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.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**2 Summary of significant accounting policies (Continued)**

**2.14 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 at a point in time based on a percentage of the price of the vegetable transactions concluded in the Organization's market when the transactions are completed, 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 premium vegetables is recognised at a point in time 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 at a point in time when the relevant sales transactions have been concluded.
- (d) Management service income relating to production of hydroponic vegetables and the service income relating to research activities are recognised over time when the related services are rendered and the Government receives and uses the benefits simultaneously.
- (e) Interest income on bank deposits and VMO Loans are recognised on a time proportion basis using the effective interest method.
- (f) FarmFest income, other income and parking permit fee income are recognised at a point in time when the services are rendered.
- (g) Rental income is recognised on a straight line basis over the period of the relevant lease agreement.

**2.16 Leases**

- (a) Operating lease - as a lessee

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Organization as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

- (b) Operating lease - as a lessor

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of asset. Lease income is recognised over the term of the lease on a straight-line basis.

## **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 VMO Loan Fund and VMO Agricultural Development Fund**

The Vegetable Marketing Organization Loan Fund (“VMO Loan Fund”) was set up for making loans to farmers for productive purposes.

The Vegetable Marketing Organization Agricultural Development Fund (“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 Vegetable Marketing Organization General Fund (“VMO General Fund”) to the respective funds.

#### **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 risks. 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 placed with banks.

The Organization’s financial assets are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial as they are mainly deposited in reputable banks in Hong Kong.

The Organization applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and VMO Loans.

In respect of trade and other receivables, which are arisen from the sales of vegetables and the commission receivables from customers, the Organization has policies in place to ensure they are with appropriate credit history and to limit the amount of credit exposure to customers so as to minimise credit risk resulting from counterparties default. In respect of VMO Loans, individual evaluations are performed on all borrowers. For each loan granted, 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. 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 expected loss rates are based on the payment profiles of sales/loans and the corresponding historical credit losses experienced over a period of past 12 months. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the end customers and farmers to settle the receivables.

**VEGETABLE MARKETING ORGANIZATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and fund risks management (Continued)**

**3.1 Financial risk factors (Continued)**

(b) Credit risk (Continued)

On that basis, the loss allowance as at 31 March 2019 was determined as follows for trade and receivables and VMO Loans:

	Current	Past due 1 to 60 days	61 to 90 days past due	More than 90 days past due	Total
<b>31 March 2019</b>					
Expected loss rate	0.20%	8.33%	100%	100%	
Gross carrying amount – trade receivables	5,091,169	659,449	-	113,157	5,863,775
Gross carrying amount – VMO loans	2,165,435	59,907	20,003	87,890	2,333,235
<b>Provision for impairment</b>	14,829	59,907	20,003	201,047	295,786
<b>1 April 2018</b>					
Expected loss rate	0%	2.21%	100%	99.82%	
Gross carrying amount – trade receivables	5,177,798	353,587	-	113,557	5,644,942
Gross carrying amount – VMO loans	2,422,109	8,000	29,013	111,882	2,571,004
<b>Provision for impairment</b>	-	8,000	29,013	225,039	262,052

The closing loss allowance for trade receivables and VMO Loans as at 31 March 2019 is reconciled to the opening loss allowance as follows:

<b>At 31 March 2018 – calculated under HKAS 39</b>	262,052
Amounts restated through opening retained earnings*	-
Opening loss allowance as at 1 April 2018 – calculated under HKFRS 9	262,052
Increase in loss allowance recognised in profit or loss during the year	33,734
<b>At 31 March 2019</b>	<u>295,786</u>

\* The restatement on transition to HKFRS 9 as a result of applying the expected credit loss model was immaterial.

Trade receivables and VMO Loans are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Organization, and a failure to make contractual payments for a period of greater than 90 days past due.

**VEGETABLE MARKETING ORGANIZATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and fund risks management (Continued)**

**3.1 Financial risk factors (Continued)**

(b) Credit risk (Continued)

For other financial assets at amortised cost, the Organization applies the HKFRS 9 general approach to measuring expected credit losses, no loss allowance provision was determined for these financial assets as at 31 March 2019 as the Organization considered that the expected credit loss was immaterial.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Impairment losses on debtors are presented as general working expenses in the statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade and other receivables

In prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Organization considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 90 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

(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 2019 and 2018, the maturity analysis of the financial liabilities is as follows:

	2019	2018
<b>Less than one year</b>		
Trade and other payables (note 15)	13,407,813	12,674,195
Vegetable buyers' deposits	5,425,824	6,265,560
	<u>18,833,637</u>	<u>18,939,755</u>

**VEGETABLE MARKETING ORGANIZATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**3 Financial and fund risks management (Continued)**

**3.1 Financial risk factors (Continued)**

(d) Cash flow and fair value interest rate risks

The Organization's cash flow and fair value interest rate risk is primarily arisen from bank deposits which carry interest at prevailing market interest rates and VMO Loans which carry interests at fixed rates. Other than these, the Organization has no other significant interest-bearing assets or liabilities.

As at 31 March 2019, if interest rate on the bank deposits had been 25 basis points (2018: 25 basis points) higher/lower with all other variables held constant, deficit for the year would have been approximately HK\$529,000 (2018: HK\$573,000) lower/higher, as a result of higher/lower interest income on the bank deposits.

In respect of the VMO Loans, the fair value interest rate risk is considered to be low due to the short maturity period.

**3.2 Funds 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.

**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.



**VEGETABLE MARKETING ORGANIZATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**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					Vegetable Marketing Organisation 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
<b>At 1 April 2017</b>										
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>
<b>Year ended 31 March 2018</b>										
Opening net book amount	531,849	4,421,962	510,928	1,578	5,466,317	167,500	4,580,821	4,172,482	8,920,803	14,387,120
Additions	-	124,050	-	-	124,050	-	206,305	18,998	225,303	349,353
Disposals (note 27(b))	-	(24,045)	-	-	(24,045)	-	(23,399)	-	(23,399)	(47,444)
- Cost	-	(95,550)	-	(1,135)	(96,685)	-	(319,098)	-	(319,098)	(415,783)
- Accumulated depreciation	-	71,505	-	1,135	72,640	-	295,699	-	295,699	368,339
Adjustments (note 16)	-	-	-	-	-	-	-	(37,267)	(37,267)	(37,267)
- Cost	-	-	-	-	-	-	-	(62,598)	(62,598)	(62,598)
- Accumulated depreciation	-	-	-	-	-	-	-	25,331	25,331	25,331
Depreciation	(17,630)	(907,013)	(234,299)	(1,094)	(1,160,036)	(163,000)	(938,970)	(731,707)	(1,833,677)	(2,993,713)
Closing net book amount	<u>514,219</u>	<u>3,614,954</u>	<u>276,629</u>	<u>484</u>	<u>4,406,286</u>	<u>4,500</u>	<u>3,824,757</u>	<u>3,422,506</u>	<u>7,251,763</u>	<u>11,658,049</u>
<b>At 31 March 2018</b>										
Cost	4,446,130	27,832,740	5,761,839	20,978	38,061,687	4,126,083	10,922,945	7,271,312	22,320,340	60,382,027
Accumulated depreciation	(3,931,911)	(24,217,786)	(5,485,210)	(20,494)	(33,655,401)	(4,121,583)	(7,098,188)	(3,848,806)	(15,068,577)	(48,723,978)
Net book amount	<u>514,219</u>	<u>3,614,954</u>	<u>276,629</u>	<u>484</u>	<u>4,406,286</u>	<u>4,500</u>	<u>3,824,757</u>	<u>3,422,506</u>	<u>7,251,763</u>	<u>11,658,049</u>

**VEGETABLE MARKETING ORGANIZATION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**5 Property, plant and equipment (Continued)**

	<u>Markets and depots</u>					<u>Vegetable Marketing Organisation Agricultural Development Fund (note 7)</u>				
	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
<b>Year ended 31 March 2019</b>										
Opening net book amount	514,219	3,614,954	276,629	484	4,406,286	4,500	3,824,757	3,422,506	7,251,763	11,658,049
Additions	-	1,065,912	-	-	1,065,912	-	54,898	44,468	99,366	1,165,278
Disposals (note 27(b))	-	(30,221)	-	(121)	(30,342)	-	(12,600)	(68,735)	(81,335)	(111,677)
- Cost	-	(1,328,986)	(311,675)	(2,880)	(1,643,541)	-	(42,000)	(149,967)	(191,967)	(1,835,508)
- Accumulated depreciation	-	1,298,765	311,675	2,759	1,613,199	-	29,400	81,232	110,632	1,723,831
Adjustments (note 16)	-	-	-	-	-	-	-	(14,845)	(14,845)	(14,845)
- Cost	-	-	-	-	-	-	-	(41,428)	(41,428)	(41,428)
- Accumulated depreciation	-	-	-	-	-	-	-	26,583	26,583	26,583
Depreciation	(17,630)	(992,556)	(175,215)	(363)	(1,185,764)	(4,500)	(631,466)	(714,353)	(1,350,319)	(2,536,083)
Closing net book amount	496,589	3,658,089	101,414	-	4,256,092	-	3,235,589	2,669,041	5,904,630	10,160,722
<b>At 31 March 2019</b>										
Cost	4,446,130	27,569,666	5,450,164	18,098	37,484,058	4,126,083	10,935,843	7,124,385	22,186,311	59,670,369
Accumulated depreciation	(3,949,541)	(23,911,577)	(5,348,750)	(18,098)	(33,227,966)	(4,126,083)	(7,700,254)	(4,455,344)	(16,281,681)	(49,509,647)
Net book amount	496,589	3,658,089	101,414	-	4,256,092	-	3,235,589	2,669,041	5,904,630	10,160,722

Note: The additions for the year of HK\$44,468 (2018: HK\$18,998) include the contingent price of equipment of HK\$Nil (2018: HK\$Nil) for Controlled Environment Hydroponic Research and Development Project as described in note 16.

Depreciation expenses of HK\$1,185,764 and HK\$1,350,319 (2018: HK\$1,160,036 and HK\$1,833,677) 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**  
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**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	2019	2018
<b>ASSETS</b>			
<b>Current assets</b>			
VMO Loans			
- Loans to farmers		2,313,640	2,541,540
- Interest receivable		19,595	29,464
		<u>2,333,235</u>	<u>2,571,004</u>
Less: Provision for impairment of VMO Loans		(182,629)	(148,895)
		<u>2,150,606</u>	<u>2,422,109</u>
Less: Accumulated amortisation at 1 April		(115,353)	(110,021)
Amortisation of premium on VMO Loans	22	12,943	-
Amortisation of discount on VMO Loans	22	-	(5,332)
		<u>(102,410)</u>	<u>(115,353)</u>
VMO Loans – net		2,048,196	2,306,756
Other receivables		25,970	10,818
Bank deposits with original maturities over three months	11	10,500,000	6,501,848
Cash and cash equivalents	12	63,048	3,671,547
		<u>12,637,214</u>	<u>12,490,969</u>
<b>Total assets</b>		<u>12,637,214</u>	<u>12,490,969</u>
<b>FUNDS</b>			
Capital account transferred from VMO General Fund			
		2,608,000	2,608,000
Accumulated surplus at 1 April		9,882,969	9,899,869
Net surplus/(deficit) for the year transferred from VMO General Fund	13 & 22	146,245	(16,900)
		<u>10,029,214</u>	<u>9,882,969</u>
Accumulated surplus at 31 March		10,029,214	9,882,969
		<u>12,637,214</u>	<u>12,490,969</u>
<b>Total funds</b>		<u>12,637,214</u>	<u>12,490,969</u>
<b>LIABILITIES</b>			
Current and total liabilities			
		-	-
<b>Total funds and liabilities</b>		<u>12,637,214</u>	<u>12,490,969</u>

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**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 0.007% to 0.3% (2018: 0.005% to 0.3%) per annum and are repayable within one year (2018: within one year) with third party personal guarantees. As at 31 March 2019, the weighted average effective interest rate of the VMO Loans is 0.006% (2018: 0.007%) per annum.

The Organization does not hold any collateral as security. The Organization applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for VMO Loans. To measure the expected credit losses, VMO Loans have been grouped based on shared credit risk characteristics and the days past due. On that basis, a loss allowance of HK\$33,734 (2018: HK\$88,017) was made for the year ended 31 March 2019 and disclosed in note 3.1(b).

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 2019 and 2018 and are denominated in Hong Kong dollars.

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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	2019	2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	5,904,630	7,251,763
<b>Current assets</b>			
Inventories	9(a)	91,871	401,044
Biological assets	9(b)	-	52,966
Trade and other receivables		1,903,498	2,294,857
Bank deposits with original maturities over three months	11	12,611,280	17,954,611
Cash and cash equivalents	12	960,201	1,599,100
Total current assets		15,566,850	22,302,578
<b>Total assets</b>		<b>21,471,480</b>	<b>29,554,341</b>
<b>FUNDS</b>			
Capital account			
At 1 April		380,000,000	370,000,000
Transfer from VMO General Fund	13	20,000,000	10,000,000
At 31 March		400,000,000	380,000,000
Accumulated deficit at 1 April		(352,434,617)	(322,305,625)
Net deficit for the year transferred from VMO General Fund	13 & 21	(27,896,350)	(30,128,992)
Accumulated deficit at 31 March		(380,330,967)	(352,434,617)
<b>Total funds</b>		<b>19,669,033</b>	<b>27,565,383</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provisions for other liabilities		692,273	777,640
Long service payment obligations		154,908	113,425
Total non-current liabilities		847,181	891,065
<b>Current liabilities</b>			
Other payables		734,341	794,274
Provisions for other liabilities		220,925	303,619
Total current liabilities		955,266	1,097,893
<b>Total liabilities</b>		<b>1,802,447</b>	<b>1,988,958</b>
<b>Total funds and liabilities</b>		<b>21,471,480</b>	<b>29,554,341</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

**7 VMO Agricultural Development Fund (Continued)**

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.

**8 Financial instruments by category**

The Organization's financial instruments include the following:

	Note	2019	2018
<b>Financial assets at amortised cost</b>			
VMO Loans	6(a)	2,048,196	2,306,756
Trade and other receivables	10	7,888,334	6,971,121
Bank deposits with original maturities over three months	11	211,639,191	224,656,773
Cash and cash equivalents	12	32,212,990	39,302,477
		<u>253,788,711</u>	<u>273,237,127</u>
<b>Financial liabilities at amortised cost</b>			
Trade and other payables	15	13,407,813	12,674,195
Vegetable buyers' deposits		5,425,824	6,265,560
		<u>18,833,637</u>	<u>18,939,755</u>

**9 Inventories and biological assets**

(a) Inventories

	2019	2018
Premium vegetables	150,163	137,644
Others	224,969	511,005
	<u>375,132</u>	<u>648,649</u>
Less: Provision for impairment of inventories	-	(38)
	<u>375,132</u>	<u>648,611</u>
Represented by:		
- VMO General Fund	283,261	247,567
- VMO Agricultural Development Fund (note 7)	91,871	401,044
	<u>375,132</u>	<u>648,611</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**9 Inventories and biological assets (Continued)**

(b) Biological assets

	2019	2018
At 1 April	52,966	45,464
Additions	1,056,070	1,046,898
Harvested hydroponic vegetable produce	(1,109,036)	(951,898)
Write off (note 26(a))	-	(87,498)
	<u>                    </u>	<u>                    </u>
At 31 March	-	52,966
	<u>                    </u>	<u>                    </u>
<u>Analysis of biological assets</u>		
Immature	-	52,966
	<u>                    </u>	<u>                    </u>

As at 31 March 2019, the Organization had nil (2018: 109) kilogram of biological assets. During the year, the quantity of hydroponic vegetable produce harvested for sales is 1,664 (2018: 3,852) kilogram.

**10 Trade and other receivables**

	2019	2018
Trade receivables	5,863,775	5,644,942
Less: Provision for impairment of trade receivables	(113,157)	(113,157)
	<u>                    </u>	<u>                    </u>
Trade receivables, net	5,750,618	5,531,785
Interest receivables	1,030,302	555,656
Other receivables	1,107,414	883,680
	<u>                    </u>	<u>                    </u>
Financial assets	7,888,334	6,971,121
Prepayments for:		
- Insurance expense	1,248,579	1,269,142
- Other operating expenses	1,409,545	1,746,403
	<u>                    </u>	<u>                    </u>
Total	<u>10,546,458</u>	<u>9,986,666</u>

The Organization does not hold any collateral as security. The Organization applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis, a loss allowance of HK\$Nil (2018: HK\$Nil) was made for the year ended 31 March 2019 and disclosed in note 3.1(b).

As at 31 March 2019, the Organization considered that the expected credit loss for other receivables and deposits was immaterial thus no loss allowance was made (2018: Nil).

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 2019 and 2018 and are denominated in Hong Kong dollars.



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**NOTES TO THE FINANCIAL STATEMENTS**

**11 Bank deposits with original maturities over three months**

	Note	2019	2018
VMO General Fund		188,527,911	200,200,314
VMO Loan Fund	6(a)	10,500,000	6,501,848
VMO Agricultural Development Fund	7	12,611,280	17,954,611
Maximum exposure to credit risk		211,639,191	224,656,773

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

**12 Cash and cash equivalents**

	Note	2019	2018
<u>VMO General Fund</u>			
Cash at banks and in hand		31,189,741	34,031,830
<u>VMO Loan Fund</u>			
Cash at banks		63,048	171,547
Bank deposits with original maturities of three months or less		-	3,500,000
	6(a)	63,048	3,671,547
<u>VMO Agricultural Development Fund</u>			
Cash at banks and in hand		960,201	599,100
Bank deposits with original maturities of three months or less		-	1,000,000
	7	960,201	1,599,100
Total		32,212,990	39,302,477
Maximum exposure to credit risk		30,242,022	36,426,005

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

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**NOTES TO THE FINANCIAL STATEMENTS**

**13 VMO General Fund - Accumulated Surplus**

	Note	2019	2018
<b>At 1 April</b>		231,561,617	229,589,009
Deficit for the year		(21,091,284)	(23,824,450)
(Deficit)/surplus on remeasurements for:			
- Defined benefit plan	17	(2,064,000)	4,281,000
- Long service payment obligations			
- VMO General Fund	17	242,310	1,072,358
- VMO Agricultural Development Fund	17	(93,661)	297,808
Net (surplus)/deficit transferred to VMO Loan Fund	6(a)	(146,245)	16,900
Net deficit transferred to VMO Agricultural Development Fund	7	27,896,350	30,128,992
Transferred to capital account of VMO Agricultural Development fund	7	(20,000,000)	(10,000,000)
<b>At 31 March</b>		<u>216,305,087</u>	<u>231,561,617</u>

**14 Funds provided from external sources for capital expenditure**

	2019	2018
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**

	2019	2018
Trade payables	10,497,044	9,592,212
Other payables	2,047,514	2,291,750
Vegetable sellers' and other deposits	863,255	790,233
	<u>13,407,813</u>	<u>12,674,195</u>
Financial liabilities	35,717	82,409
Receipts in advance		
	<u>13,443,530</u>	<u>12,756,604</u>

The carrying values of trade and other payables approximate their fair values at 31 March 2019 and 2018 and are denominated in Hong Kong dollars.

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**NOTES TO THE FINANCIAL STATEMENTS**

**16 Provisions for other liabilities**

	Unused annual leave	Contingent price of equipment (note)	Total
<b>At 1 April 2017</b>	1,384,922	1,098,085	2,483,007
Payments for the year	(170,512)	-	(170,512)
	<u>1,214,410</u>	<u>1,098,085</u>	<u>2,312,495</u>
(Reversal of provision)/provision for the year			
- VMO General Fund (note 19(a))	89,964	-	89,964
- VMO Agricultural Development Fund	13,160	(136,886)	(123,726)
- Property, plant and equipment (note 5)	-	(62,598)	(62,598)
	<u>103,124</u>	<u>(199,484)</u>	<u>(96,360)</u>
<b>At 31 March 2018 and 1 April 2018</b>	1,317,534	898,601	2,216,135
Payments for the year	(137,154)	-	(137,154)
	<u>1,180,380</u>	<u>898,601</u>	<u>2,078,981</u>
(Reversal of provision)/provision for the year			
- VMO General Fund (note 19(a))	22,667	-	22,667
- VMO Agricultural Development Fund	(13,886)	(72,370)	(86,256)
- Property, plant and equipment (note 5)	-	(41,428)	(41,428)
	<u>8,781</u>	<u>(113,798)</u>	<u>(105,017)</u>
<b>At 31 March 2019</b>	<u>1,189,161</u>	<u>784,803</u>	<u>1,973,964</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**16 Provisions for other liabilities (Continued)**

Analysis of total provisions:

	Unused annual leave	Contingent price of equipment (note)	Total
<u>At 31 March 2019</u>			
Non-current	-	692,273	692,273
Current	1,189,161	92,530	1,281,691
	<u>1,189,161</u>	<u>784,803</u>	<u>1,973,964</u>
<u>At 31 March 2018</u>			
Non-current	-	777,640	777,640
Current	1,317,534	120,961	1,438,495
	<u>1,317,534</u>	<u>898,601</u>	<u>2,216,135</u>

Note:

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

- (i) the Organization and the Third Party have to share their respective costs of the equipment of the Vegetable Factory ("Equipment"), amounting to HK\$4,696,350 and HK\$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 present value of costs of Free Hydroponic Vegetables and the Continuous Consideration (collectively, the "contingent price of equipment") at 31 March 2019, downward adjustment on cost of HK\$41,428 (2018: HK\$62,598) is resulted.

As at 31 March 2019, a provision is recognised for the contingent price of equipment, totaling HK\$784,803 (2018: HK\$898,601). It is expected that HK\$92,530 (2018: HK\$120,961) will be utilised next year and HK\$692,273 (2018: HK\$777,640) will be utilised or paid during the remaining duration of the Agreement.

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**NOTES TO THE FINANCIAL STATEMENTS**

**17 Retirement benefit obligations**

	Note	2019	2018
<b>Balance sheet assets for:</b>			
- Defined benefit plan	(a)	<u>9,162,000</u>	<u>11,393,000</u>
<b>Balance sheet obligations for:</b>			
- Long service payment obligations			
- Non-current portion		(4,801,030)	(4,842,175)
- Current portion		(124,903)	(542,751)
	(b)	<u>(4,925,933)</u>	<u>(5,384,926)</u>
<b>Statement of comprehensive income charged for:</b>			
- Defined benefit plan	19(a)	167,000	135,000
- Long service payment obligations			
- VMO General Fund	19(a)	357,182	543,509
- VMO Agricultural Development Fund	19(b)	17,370	54,983
		<u>541,552</u>	<u>733,492</u>
<b>Remeasurements for:</b>			
- Defined benefit plan	(a)	<u>2,064,000</u>	<u>(4,281,000)</u>
- Long service payment obligations			
- VMO General Fund		(242,310)	(1,072,358)
- VMO Agricultural Development Fund		93,661	(297,808)
	(b)	<u>(148,649)</u>	<u>(1,370,166)</u>
		<u>1,915,351</u>	<u>(5,651,166)</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 2019 and 2018 carried out by Milliman Limited, who holds a recognised professional qualification.

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

	2019	2018
Present value of the funded obligations	(11,194,000)	(13,765,000)
Fair value of plan assets	<u>20,356,000</u>	<u>25,158,000</u>
Assets in the balance sheet	<u>9,162,000</u>	<u>11,393,000</u>

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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 2017	(17,235,000)	24,137,000	6,902,000
Current service costs	(239,000)	-	(239,000)
Interest (expense)/income	(200,000)	317,000	117,000
	<u>(17,674,000)</u>	<u>24,454,000</u>	<u>6,780,000</u>
<b>Remeasurements:</b>			
- Return on plan assets (excluding interest income)	-	3,932,000	3,932,000
- Surplus from change in financial assumption changes	274,000	-	274,000
- Experience gains	75,000	-	75,000
	<u>349,000</u>	<u>3,932,000</u>	<u>4,281,000</u>
Plan participants contributions	(192,000)	192,000	-
Employer contributions	-	345,000	345,000
Benefit payments	3,752,000	(3,752,000)	-
Administrative cost	-	(13,000)	(13,000)
	<u>3,560,000</u>	<u>(3,228,000)</u>	<u>332,000</u>
At 31 March 2018	<u>(13,765,000)</u>	<u>25,158,000</u>	<u>11,393,000</u>
At 1 April 2018	(13,765,000)	25,158,000	11,393,000
Current service costs	(364,000)	-	(364,000)
Interest (expense)/income	(231,000)	435,000	204,000
	<u>(14,360,000)</u>	<u>25,593,000</u>	<u>11,233,000</u>
<b>Remeasurements:</b>			
- Return on plan assets (excluding interest income)	-	(1,771,000)	(1,771,000)
- Deficit from change in financial assumption changes	(131,000)	-	(131,000)
- Experience losses	(162,000)	-	(162,000)
	<u>(293,000)</u>	<u>(1,771,000)</u>	<u>(2,064,000)</u>
Plan participants contributions	(164,000)	164,000	-
Employer contributions	-	-	-
Benefit payments	3,623,000	(3,623,000)	-
Administrative cost	-	(7,000)	(7,000)
	<u>3,459,000</u>	<u>(3,466,000)</u>	<u>(7,000)</u>
At 31 March 2019	<u>(11,194,000)</u>	<u>20,356,000</u>	<u>9,162,000</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**17 Retirement benefit obligations (Continued)**

(a) Defined benefit plan (Continued)

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

	2019 %	2018 %
Equities	60	76
Bonds	34	20
Money instruments	6	4
	<u>100</u>	<u>100</u>

(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 2017	6,282,860
Current service costs	492,343
Interest expense	106,149
	<u>6,881,352</u>
Remeasurements:	
- Experience gains	(1,370,166)
Benefit payments	(126,260)
	<u>5,384,926</u>
At 31 March 2018	<u>5,384,926</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**17 Retirement benefit obligations (Continued)**

(b) Long service payment obligations (Continued)

	Present value of long service payment obligations
At 1 April 2018	5,384,926
Current service costs	282,556
Interest expense	91,996
	<u>5,759,478</u>
Remeasurements:	
- Experience gains	(148,649)
Benefit payments	(684,896)
	<u>4,925,933</u>
At 31 March 2019	<u>4,925,933</u>

(c) The principal actuarial assumptions used as follows:

	<u>Defined benefit obligations</u>		<u>Long service payment obligations</u>	
	2019 %	2018 %	2019 %	2018 %
Discount rate	1.5	1.75	1.5	1.75
Expected rate of future salary increases	<u>3.5</u>	<u>3.5</u>	<u>3.5</u>	<u>3.5</u>

(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 obligations</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 2.3%	Increase by 2.4%	Decrease by 4.4%	Increase by 4.7%
Salary growth rate	0.5% Increase by 2.4%	Decrease by 2.3%	Increase by 2.0%	Decrease by 1.9%

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.



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**17 Retirement benefit obligations (Continued)**

- (e) The expected contributions by the Organization and by the employees for the year ending 31 March 2019:

	<u>Defined benefit obligations</u>		<u>Long service payment obligations</u>	
	2019	2018	2019	2018
Expected contributions by:				
- Organization	-	310,000	-	-
- Employees	136,000	172,000	-	-
	<u>136,000</u>	<u>172,000</u>	<u>-</u>	<u>-</u>

- (f) The weighted average duration of the defined benefit obligations and long service payment obligations is around 5.2 years and 9 years (2018: 5.2 years and 9 years), respectively.

- (g) The expected maturity analysis without taking into consideration of early retirement of undiscounted benefit payments over the next 10 years is as follows:

	<u>Defined benefit obligations</u>		<u>Long service payment obligations</u>	
	2019	2018	2019	2018
Less than 1 year	1,553,000	1,507,000	134,000	256,000
Between 1 and 2 years	902,000	3,465,000	682,000	437,000
Between 2 and 5 years	1,728,000	2,460,000	2,844,000	1,289,000
Next 5 years	6,623,000	6,622,000	7,021,000	1,854,000
	<u>10,806,000</u>	<u>14,054,000</u>	<u>10,681,000</u>	<u>3,836,000</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:

	2019	2018
Sales of premium vegetables	29,909,715	29,844,402
Cost of inventories sold	(23,033,457)	(22,402,832)
<b>Gross profit</b>	<u>6,876,258</u>	<u>7,441,570</u>
Commission income relating to sales of premium vegetables	1,031,876	1,004,955
<b>Direct operating expenses</b>		
Sales commission	(6,856)	(6,792)
Sundry expenses	(50,954)	(41,641)
	<u>(57,810)</u>	<u>(48,433)</u>
<b>Net income for the year</b>	<u>7,850,324</u>	<u>8,398,092</u>

The cost of inventories sold includes inventory written-off of HK\$1,908,082 (2018: HK\$1,638,875).

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**19 Employee benefit expenditure**

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

	Note	2019	2018
Salaries and wages		35,160,562	35,755,810
Provision for unused annual leave	16	22,667	89,964
Retirement benefit costs			
- Defined contribution plan and MPF scheme		1,921,279	1,953,071
- Defined benefit plan	17	167,000	135,000
- Long services payment obligations	17	357,182	543,509
		<u>37,628,690</u>	<u>38,477,354</u>

(b) In addition to the above, employee benefit expenditure amounting to HK\$6,455,367 (2018: HK\$8,199,106) as listed below has been included in various expenditure items in the VMO Agricultural Development Fund in note 21.

	Note	2019	2018
Salaries and wages		6,152,125	7,754,945
Provision for unused annual leave	16	(13,886)	13,160
Retirement benefit costs			
- MPF scheme		299,758	376,018
- Long services payment obligations	17	17,370	54,983
		<u>6,455,367</u>	<u>8,199,106</u>

**20 Rent, rates and permit fees**

Included in the amount, HK\$763,067 (2018: HK\$698,400) represents operating lease rentals for market premises.

**21 Net deficit from VMO Agricultural Development Fund**

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

	2019	2018
<b>Income</b>		
FarmFest income	4,454,098	4,290,708
Interest income on bank deposits	319,655	235,131
Other income	13,739	45,266
	<u>4,787,492</u>	<u>4,571,105</u>

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**21 Net deficit from VMO Agricultural Development Fund (Continued)**

	Note	2019	2018
<b>Expenditure</b>			
Land rehabilitation scheme			
- Repairs and maintenance		-	(8,760)
- Depreciation		(86,135)	(86,135)
- Recreational Farming		-	(28,800)
- Miscellaneous expenditure		(5,597)	(7,249)
Construction and improvement of communal agriculture facilities		(148,500)	(171,000)
Crop Development Programmes Promotion			
- Depreciation		(17,182)	(17,183)
- Net deficit from sales of accredited local vegetables	24	(183,083)	(161,345)
- Grants to a third party organisation		(2,478,800)	(2,208,000)
- Other expenses		(2,450,430)	(2,934,065)
Controlled Environment Greenhouse Production			
- Depreciation		(3,272)	(3,272)
- Other expenses		(728,440)	(875,558)
Promotion of Organic Farming			
- Depreciation		(34,433)	(28,942)
- Net deficit from sales of organic vegetables	25	(677,340)	(758,278)
- Grants to third party organisations		(13,609,955)	(14,218,338)
- Loss on disposals of property, plant and equipment	27(b)	-	(1,799)
- Other expenses		(1,123,204)	(1,756,480)
Voluntary Registration Scheme of Local Vegetable Farms			
- Depreciation		(16,117)	(16,117)
- Other expenses		(996,708)	(1,445,210)
Promotion of Local Agricultural and Fisheries Products			
- FarmFest expenses		(6,214,896)	(6,040,615)
Improvement to VMO's wholesale marketing facilities and services			
- Depreciation		(477,067)	(948,561)
- Loss on disposals of property, plant and equipment	27(b)	(12,600)	(21,600)
- Other expenses		(1,571,305)	(1,206,598)
Controlled Environments Hydroponic Research and Development Centre Production for sales			
- Depreciation		-	(213,370)
- Net deficit from the production of hydroponic vegetables in the Centre	26(a)	(1,269,223)	(931,069)
- Net deficit from research activities in the Centre	26(b)	(438,447)	(648,734)
- Reversal of overprovision for depreciation of property, plant and equipment		26,583	25,331
- Loss on disposals of property, plant and equipment	27(b)	(68,735)	-
- Other expenses		-	(279,994)
Miscellaneous expenses		(5,295)	(6,164)
		<u>(32,590,181)</u>	<u>(34,997,905)</u>
<b>Deficit for the year</b>		<u>(27,802,689)</u>	<u>(30,426,800)</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**21 Net deficit from VMO Agricultural Development Fund (Continued)**

	Note	2019	2018
Remeasurements for long service payment obligations	17	(93,661)	297,808
<b>Net deficit for the year</b>	7	<u>(27,896,350)</u>	<u>(30,128,992)</u>

**22 Net surplus/(deficit) from VMO Loan Fund**

	Note	2019	2018
<b>Income</b>			
Interest on bank deposits		167,103	76,432
Interest on VMO Loans		309	166
Amortisation of premium on VMO Loans	6(a)	12,943	-
		<u>180,355</u>	<u>76,598</u>
<b>Expenditure</b>			
Bank charges		(376)	(149)
Amortisation of discount on VMO Loans	6(a)	-	(5,332)
Provision for impairment of VMO Loans	3.1(b)	(33,734)	(88,017)
		<u>(34,110)</u>	<u>(93,498)</u>
<b>Net surplus/(deficit) for the year</b>		<u>146,245</u>	<u>(16,900)</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.

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**NOTES TO THE FINANCIAL STATEMENTS**

**24 Crop Development Programmes Promotion**

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

	Note	2019	2018
<b>Sales of accredited local vegetables</b>		238,610	208,459
Cost of inventories sold		(103,965)	(76,677)
<b>Gross profit</b>		<u>134,645</u>	<u>131,782</u>
<b>Direct operating expenses</b>			
Employee benefit expenditure		(218,795)	(212,685)
Sales commission		(70,567)	(54,044)
Transportation charges		(9,401)	(7,826)
Miscellaneous expenses		(18,965)	(18,572)
		<u>(317,728)</u>	<u>(293,127)</u>
<b>Net deficit for the year</b>	21	<u>(183,083)</u>	<u>(161,345)</u>

**25 Promotion of Organic Farming**

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

	Note	2019	2018
<b>Sales of organic vegetables</b>		4,044,144	3,738,564
Cost of inventories sold		(1,378,227)	(1,252,504)
<b>Gross profit</b>		<u>2,665,917</u>	<u>2,486,060</u>
<b>Direct operating expenses</b>			
Employee benefit expenditure		(2,013,126)	(2,008,867)
Sales commission		(878,803)	(790,105)
Transportation charges		(28,205)	(23,476)
Stores and equipment		(147,910)	(133,295)
Miscellaneous expenses		(273,453)	(286,835)
Depreciation		(1,760)	(1,760)
		<u>(3,343,257)</u>	<u>(3,244,338)</u>
<b>Net deficit for the year</b>	21	<u>(677,340)</u>	<u>(758,278)</u>

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**26 Controlled Environment Hydroponic Research and Development Project**

The Organization carries out researches of hydroponic vegetables in the Controlled Environments Hydroponic Research and Development Centre (the "Centre"). Before 1 April 2018, the Organization also engaged in the trading of hydroponic vegetables produced by the Centre. Such trading operation ceased on 1 April 2018 and the Organization now provides management service to the Government for the production of hydroponic vegetables in the Centre. In addition, the Organization receives service income from the Government for the research activities carried out in the Centre starting from 1 April 2018.

- (a) The income and expenditure in relation to the production of hydroponic vegetables for the year are as follows:

	Note	2019	2018
Management service income, recognised over time		636,322	-
Sales of hydroponic vegetables		-	359,001
Cost of hydroponic vegetables sold		-	(830,344)
<b>Gross profit/(loss)</b>		<u>636,322</u>	<u>(471,343)</u>
<b>Other income</b>		<u>16,268</u>	<u>1,745</u>
<b>Direct operating expenses</b>			
Publication and publicity		(17,800)	-
Packing materials		(160,300)	(71,150)
Employee benefit expenditure		(432,953)	(253,830)
Miscellaneous expenses		(721,678)	(105,491)
Depreciation		(589,082)	(31,000)
		<u>(1,921,813)</u>	<u>(461,471)</u>
<b>Net deficit for the year</b>	21	<u>(1,269,223)</u>	<u>(931,069)</u>

During the year ended 31 March 2018, the cost of hydroponic vegetables sold includes biological assets written off of HK\$87,498, inventories written off of HK\$272,397, reversal of provision for impairment of inventories of HK\$16 and depreciation of HK\$382,689.

- (b) The income and expenditure from the research activities for the year are as follows:

	2019	2018
Service income, recognised over time	<u>327,581</u>	-
Other production cost	(482,064)	(295,574)
Depreciation	(125,271)	(122,449)
Other expenses	(158,693)	(230,711)
Total expenses	<u>(766,028)</u>	<u>(648,734)</u>
Net deficit from research activities	<u>(438,447)</u>	<u>(648,734)</u>

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**27 Cash flows information**

(a) Cash used in operations

	2019	2018
Deficit for the year	(21,091,284)	(23,824,450)
Adjustments for:		
- Interest income on bank deposits	(3,798,116)	(2,240,636)
- Interest income on VMO Loans	(309)	(166)
- Depreciation (note 5)	2,536,083	2,993,713
- Inventories written off (notes 18 and 26(a))	1,908,082	1,911,272
- Biological assets written off (notes 9(b) and 26(a))	-	87,498
- Reversal of provision for impairment of inventories (note 9(a) and 26(a))	-	(16)
- Provision for impairment of VMO Loans (note 3(b))	33,734	88,017
- Loss on disposals of property, plant and equipment (note (b) below)	20,677	35,444
- Reversal of overprovision for depreciation of property, plant and equipment (note 21)	(26,583)	(25,331)
- (Premium)/Discount on amortisation on VMO Loans (note 22)	(12,943)	5,332
- Provision for unused annual leave (note 16)	8,781	103,124
- Reversal of provision of produce to the third party (note 16)	(72,370)	(136,886)
- Retirement benefit costs for defined benefit plan (note 17(a))	167,000	135,000
- Retirement benefit costs for long service payment (note 17(b))	374,552	598,492
	<u>(19,952,696)</u>	<u>(20,269,593)</u>
Changes in working capital:		
- Inventories	(1,634,603)	(1,902,199)
- Biological assets	52,966	(95,000)
- VMO Loans	227,900	(263,800)
- Trade and other receivables	(85,146)	(1,783,601)
- Trade and other payables	686,926	3,116,121
- Provisions for other liabilities	(137,154)	(170,512)
- Vegetable buyers' deposits	(839,736)	(598,423)
- Defined benefit plan	-	(345,000)
- Long service payment obligations	(684,896)	(126,260)
	<u>(22,366,439)</u>	<u>(22,438,267)</u>
Net cash used in operations	<u><u>(22,366,439)</u></u>	<u><u>(22,438,267)</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**27 Cash flows information (Continued)**

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

	Note	2019	2018
Net book amount	5	111,677	47,444
Gain/(loss) on disposals of property, plant and equipment recognised in:			
- (Other expenditure)/non-trading income		60,658	(12,045)
- Net deficit from VMO Agricultural Development Fund	21	(81,335)	(23,399)
		(20,677)	(35,444)
Proceeds from disposals of property, plant and equipment		91,000	12,000

- (c) Reconciliation of liabilities arising from financing activities was not presented as there was no change in liabilities arising from financing activities during the year.

**28 Non-cancellable operating lease commitments**

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

	2019	2018
No later than one year	194,000	174,600

**29 Key management compensation**

	2019	2018
Salaries and other employee benefits	583,176	1,033,626