

VEGETABLE MARKETING ORGANIZATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MARCH 2020

**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 52, which comprise:

- the balance sheet as at 31 March 2020;
- 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; and
- 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 2020, 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 ("HKSAs") 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 HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

**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.

A blue ink signature, likely of a PwC representative, written over the PricewaterhouseCoopers name and title.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 SEP 2020

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

BALANCE SHEET

		As at 31 March	
	Note	2020	2019
ASSETS			
Non-current assets			
Property, plant and equipment	5	11,597,651	10,160,722
Right-of-use assets	6	1,201,448	-
Assets under defined benefit plan	20	6,573,314	9,162,000
Total non-current assets		<u>19,372,413</u>	<u>19,322,722</u>
Current assets			
Inventories	10(a)	282,993	375,132
Biological assets	10(b)	-	-
VMO Loans	7(a)	1,466,487	2,048,196
Trade and other receivables	11	7,918,842	10,546,458
Bank deposits with original maturities over three months	12	203,876,907	211,639,191
Cash and cash equivalents	13	30,610,513	32,212,990
Total current assets		<u>244,155,742</u>	<u>256,821,967</u>
Total assets		<u>263,528,155</u>	<u>276,144,689</u>
FUNDS			
VMO General Fund			
Accumulated surplus	14	204,615,134	216,305,087
Specific funds			
VMO Loan Fund	7(a)	12,891,304	12,637,214
VMO Agricultural Development Fund	8	16,243,291	19,669,033
Funds provided from external sources for capital expenditure	15	1,764,104	1,764,104
Total funds		<u>235,513,833</u>	<u>250,375,438</u>


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

BALANCE SHEET (CONTINUED)

		As at 31 March	
	Note	2020	2019
LIABILITIES			
Non-current liabilities			
Lease liabilities	17	128,529	-
Provisions for other liabilities	18	639,225	692,273
Long service payment obligations	20	6,361,035	4,801,030
Deferred income	19	3,396,594	-
Total non-current liabilities		<u>10,525,383</u>	<u>5,493,303</u>
Current liabilities			
Trade and other payables	16	8,984,886	13,443,530
Lease liabilities	17	749,130	-
Provisions for other liabilities	18	1,187,437	1,281,691
Long service payment obligations	20	615,895	124,903
Deferred income	19	371,092	-
Vegetable buyers' deposits		<u>5,580,499</u>	<u>5,425,824</u>
Total current liabilities		<u>17,488,939</u>	<u>20,275,948</u>
Total liabilities		<u>28,014,322</u>	<u>25,769,251</u>
Total funds and liabilities		<u>263,528,155</u>	<u>276,144,689</u>

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

The financial statements on pages 4 to 52 were approved by the Director of Marketing on 10 SEP 2020


LEUNG Siu-fai
Director of Marketing

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

STATEMENT OF COMPREHENSIVE INCOME

		<u>Year ended 31 March</u>	
	Note	2020	2019
INCOME			
Operating income			
Commission		64,088,257	70,176,039
Rebates		(22,365,651)	(24,490,497)
		<u>41,722,606</u>	<u>45,685,542</u>
Net income from sales of premium vegetables	21	<u>6,954,869</u>	<u>7,850,324</u>
Other operating income			
Rental income		785,510	639,341
Parking permit fee income		1,027,625	1,049,875
Other income		643,768	431,646
		<u>2,456,903</u>	<u>2,120,862</u>
Non-trading income			
Interest income on bank deposits		4,033,497	3,311,358
Gain on disposals of property, plant and equipment	30(b)	-	60,658
		<u>4,033,497</u>	<u>3,372,016</u>
Total income		<u>55,167,875</u>	<u>59,028,744</u>
EXPENDITURE			
Operating expenditure			
Employee benefit expenditure	22(a)	(37,678,661)	(37,628,690)
General working expenses			
Rent, rates and permit fees	23	(1,821,969)	(2,520,688)
Printing and stationery		(491,745)	(501,253)
Utility services		(1,294,730)	(1,180,916)
Maintenance and minor improvements		(2,480,148)	(2,371,699)
Vegetable baskets		(17,416)	(19,976)
Stores and equipment		(428,397)	(601,340)
Miscellaneous expenses		(282,325)	(192,157)
Staff welfare		(290,109)	(344,238)
Staff training		(2,210)	(12,130)
Travelling expenses		(96,893)	(96,292)
Protective clothing and uniforms		(19,351)	(31,857)
Insurance		(1,145,861)	(1,055,587)
Auditor's remuneration		(403,900)	(400,400)
Market security		(236,061)	(234,655)
Transportation expenses		(2,931,441)	(2,850,904)
Depreciation of			
- Markets and depots	5	(1,116,543)	(1,185,764)
- Right-of-use assets	6	(694,267)	-
Balance carried forward		<u>(13,753,366)</u>	<u>(13,599,856)</u>

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		<u>Year ended 31 March</u>	
	Note	2020	2019
Operating expenditure (Continued)			
General working expenses (Continued)			
Balance brought forward		(13,753,366)	(13,599,856)
Subsidy to federation and co-operative societies		(1,124,650)	(1,076,119)
Grants-in-aid		-	(109,602)
Publication and publicity		(25,526)	(12,624)
Legal fee		-	(28,000)
Bank charges		(10,579)	(8,393)
Interest expense		(60,534)	-
		<u>(14,974,655)</u>	<u>(14,834,594)</u>
Total operating expenditure		<u>(52,653,316)</u>	<u>(52,463,284)</u>
Other expenditure			
Loss on disposals of property, plant and equipment	30(b)	(38,530)	-
Miscellaneous expenses		-	(300)
		<u>-</u>	<u>(300)</u>
Total expenditure		<u>(52,691,846)</u>	<u>(52,463,584)</u>
Operating surplus for the year		<u>2,476,029</u>	<u>6,565,160</u>
Net (deficit)/surplus from:			
- VMO Agricultural Development Fund	24	(13,205,353)	(27,802,689)
- VMO Loan Fund	25	254,090	146,245
		<u>(12,951,263)</u>	<u>(27,656,444)</u>
Deficit for the year		<u>(10,475,234)</u>	<u>(21,091,284)</u>
Other comprehensive income for the year			
<u>Items that will not be reclassified subsequently to surplus or deficit</u>			
Remeasurements for defined benefit plan	20(a)	(2,436,867)	(2,064,000)
Remeasurements for long service payment obligations			
- VMO General Fund		(1,729,115)	242,310
- VMO Agricultural Development Fund		(220,389)	(93,661)
	20(b)	<u>(1,949,504)</u>	<u>148,649</u>
Total comprehensive loss for the year		<u>(14,861,605)</u>	<u>(23,006,635)</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	
		2020	2019
At 1 April		250,375,438	273,382,073
Deficit for the year		(10,475,234)	(21,091,284)
Other comprehensive income			
- Remeasurements for defined benefit plan	20(a)	(2,436,867)	(2,064,000)
- Remeasurements for long service payment obligations:	20(b)		
- VMO General Fund		(1,729,115)	242,310
- VMO Agricultural Development Fund		(220,389)	(93,661)
Total comprehensive loss		(14,861,605)	(23,006,635)
At 31 March		235,513,833	250,375,438

The above statement of changes in funds 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	2020	2019
Cash flows from operating activities			
Net cash used in operations	30(a)	(8,792,257)	(22,366,439)
Interest received on VMO Loans		9,608	10,178
Net cash outflow from operating activities		<u>(8,782,649)</u>	<u>(22,356,261)</u>
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(4,480,718)	(1,165,278)
Proceeds from disposals of property, plant and equipment	30(b)	38,000	91,000
Net uplift of bank deposits with original maturities over three months		7,762,284	13,017,582
Bank interest received		4,442,607	3,323,470
Net cash inflow from investing activities		<u>7,762,173</u>	<u>15,266,774</u>
Cash flows from financing activities			
Principal elements of lease payments	30(d)	(521,467)	-
Interest elements of lease payments	30(d)	(60,534)	-
Net cash outflow from financing activities		<u>(582,001)</u>	<u>-</u>
Net decrease in cash and cash equivalents		<u>(1,602,477)</u>	<u>(7,089,487)</u>
Cash and cash equivalents at beginning of the year		32,212,990	39,302,477
Cash and cash equivalents at end of the year	13	<u>30,610,513</u>	<u>32,212,990</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

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 interpretations to the existing HKFRSs (collectively, the “Amendments”) adopted by the Organization

The Organization has applied the following Amendments for the first time for its annual reporting period commencing 1 April 2019:

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
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration
HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over Income Tax Treatments

The adoption of these Amendments did not have any material impact on the current period or any prior period and is not likely to affect future periods except for HKFRS 16 as set out in note 2.2.

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

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

The following published new and amended standards that are relevant to the Organization’s operations are mandatory for the Organization’s reporting periods beginning on or after 1 April 2020 and have not been early adopted by the Organization:

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting ¹
HKFRS 3	Definition of Business ¹
HKAS 1 and HKAS 8 (Amendments)	Definition of Material ¹
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform ¹
HKFRS 17	Insurance Contracts ²
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

Note:

- (1) Effective for financial period beginning on 1 April 2020
(2) Effective for financial period beginning on 1 April 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.

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

This note explains the impact of the adoption of HKFRS 16 “Leases” on the Organization’s financial statements that have been applied from 1 April 2019, where they are different to those applied in prior periods.

The Organization has adopted HKFRS 16 from 1 April 2019 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Organization adopted HKFRS 16 using the modified retrospective approach which means that the reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet as of 1 April 2019 and that comparatives will not be restated.

On adoption of HKFRS 16, the Organization recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s weighted average incremental borrowing rate as of 1 April 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 5% per annum.

(a) Practical expedients applied

In applying HKFRS 16 for the first time, the Organization has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Organization has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Organization relied on its assessment made applying HKAS 17 and Interpretation 4 “Determining whether an Arrangement contains a Lease”. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Measurement of lease liabilities

Operating lease commitments disclosed as at 31 March 2019 (note 31)	194,000
Add: adjustment on lease extension with hindsight	1,487,333
	<hr/>
The minimum operating lease payments to discount at the lessee’s incremental borrowing rate	1,681,333
Less: total future interest expenses	(91,005)
	<hr/>
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019	<hr/> <hr/> 1,590,328

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)

(b) Measurement of lease liabilities (Continued)

Total lease liabilities recognised at 1 April 2019

Of which are:

Current lease liabilities	712,669
Non-current lease liabilities	877,659
	<u>1,590,328</u>

(c) Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liabilities. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

For land interests of the Organization's owned properties previously classified as held under finance lease, the Organization recognised the carrying amount of the leased asset before transition as the carrying amount of the right-of-use assets at the date of initial application. The measurement and classification principles of HKFRS 16 are only applied after that date. Upfront payments were fully made to acquire these land interests and there are no ongoing payments to be made under the terms of the land lease and thus no lease liabilities are recognised.

(d) Impact of the adoption of HKFRS 16 on the Organization's balance sheet on 1 April 2019

	Carrying amount at 31 March 2019	Reclassification of leasehold land	Capitalization of operating lease contracts	Carrying amount at 1 April 2019
Line items in the balance sheet impacted by the adoption of HKFRS 16				
Property, plant and equipment				
– leasehold land and buildings				
– Cost	4,446,130	(1,492,700)	-	2,953,430
– Accumulated depreciation	(3,949,541)	996,111	-	(2,953,430)
	<u>496,589</u>	<u>(496,589)</u>	<u>-</u>	<u>-</u>
Land interests on owned properties				
– Cost	-	1,492,700	-	1,492,700
– Accumulated depreciation	-	(996,111)	-	(996,111)
Market premises	-	-	1,590,328	1,590,328
Total right-of-use assets	<u>-</u>	<u>496,589</u>	<u>1,590,328</u>	<u>2,086,917</u>
Current lease liabilities	-	-	712,669	712,669
Non-current lease liabilities	-	-	877,659	877,659
Total lease liabilities	<u>-</u>	<u>-</u>	<u>1,590,328</u>	<u>1,590,328</u>

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)

- (e) Impact of the adoption of HKFRS 16 on the Organization's financial results and cash flows on 1 April 2019

There is no material impact on the deficit for the year.

In the statement of cash flows, the Organization as a lessee is required to split rentals paid under capitalized leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a change in presentation of cash flows within the statement of cash flows.

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.

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.

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)

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.

Upon the adoption of HKFRS 16, the land interests of the Organization's owned properties previously classified under land and building was reclassified as the right-of-use assets (note 2.2).

2.5 Construction in progress

Construction in progress represents leasehold improvements under construction. Construction in progress is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition, and capitalized costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in note 2.4.

2.6 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.

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 Inventories

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

2.8 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.

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.

2.9 Financial assets

(a) Classification

The Organization classifies its financial assets as those to be measured at amortized cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

(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, transaction costs that are directly attributable to the acquisition of the financial asset.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.9 Financial assets (Continued)

(d) Impairment

The Organization assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized 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.

Impairment on other financial assets is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.10 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 amortized cost using the effective interest method, less provision for impairment.

2.11 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 realize 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.

2.12 Cash and cash equivalents

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

2.13 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.

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 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.

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.

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 Employee benefits (Continued)

(b) Retirement plan obligations (Continued)

Defined benefit plan (Continued)

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.

2.15 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.

2.16 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.

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.16 Revenue and other income recognition (Continued)

- (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.

2.17 Grants from government

Government grants relating to the purchase of property, plant and equipment are recognised as deferred income and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

2.18 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 24 and 25. Any net surplus or deficit relating to these funds is transferred from Vegetable Marketing Organization General Fund ("VMO General Fund") to the respective funds.

2.19 Leases

- (a) As a lessor

Rental income from operating leases in respect of market premises where the Organization is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as rental income. The respective leased assets are included in balance sheet based on their nature. The Organization did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting HKFRS 16.

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.19 Leases (Continued)

(b) As a lessee

As explained in note 2.2 above, the Organization has changed its accounting policy for leases where the Organization is the lessee. The new policy is described below and the impact of the change in note 2.2.

Accounting policies applied until 31 March 2019

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 the profit or loss on a straight-line basis over the period of the lease.

Accounting policies applied from 1 April 2019

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Organization.

Contracts may contain both lease and non-lease components. The Organization allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Organization under residual value guarantees;
- the exercise price of a purchase option if the Organization is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Organization exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Organization, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.19 Leases (Continued)

(b) As a lessee (Continued)

To determine the incremental borrowing rate, the Organization:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Organization, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Organization is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments.

When the lease liability is reassessed, the corresponding adjustment is reflected in the right-of-use asset, or comprehensive income if the right-of-use asset is already reduced to zero.

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.

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

3 Financial and fund risks management (Continued)

3.1 Financial risk factors (Continued)

(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.

On that basis, the loss allowance as at 31 March 2020 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
31 March 2020					
Expected loss rate					
– trade receivables	0%	0%	0%	100%	
– VMO loans	0.17%	100%	100%	100%	
Gross carrying amount					
– trade receivables	3,462,905	709,396	-	113,157	4,285,458
– VMO loans	1,542,459	19,900	65,100	94,981	1,722,440
Provision for impairment					
– trade receivables	-	-	-	113,157	113,157
– VMO loans	2,648	19,900	65,100	94,981	182,629
31 March 2019					
Expected loss rate					
– trade receivables	0%	0%	0%	100%	
– VMO loans	0.68%	100%	100%	100%	
Gross carrying amount					
– trade receivables	5,091,169	659,449	-	113,157	5,863,775
– VMO loans	2,165,435	59,907	20,003	87,890	2,333,235
Provision for impairment					
– trade receivables	-	-	-	113,157	113,157
– VMO loans	14,829	59,907	20,003	87,890	182,629

VEGETABLE MARKETING ORGANIZATION

(All amounts in Hong Kong dollars unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

3 Financial and fund risks management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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.

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.

For other financial assets at amortized 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 2020 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.

(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 2020 and 2019, the maturity analysis of the financial liabilities is as follows:

	2020	2019
Less than one year		
Trade and other payables (note 16)	8,941,329	13,407,813
Vegetable buyers' deposits	5,580,499	5,425,824
Undiscounted lease liabilities (note 17)	776,000	-
	<hr/>	<hr/>
	15,297,828	18,833,637
More than one year and less than five years		
Undiscounted lease liabilities (note 17)	129,333	-
	<hr/>	<hr/>
	15,427,161	18,833,637
	<hr/>	<hr/>

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

NOTES TO THE FINANCIAL STATEMENTS

3 Financial and fund risks management (Continued)

3.1 Financial risk factors (Continued)

(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 2020, if interest rate on the bank deposits had been 25 basis points (2019: 25 basis points) higher/lower with all other variables held constant, deficit for the year would have been approximately HK\$514,000 (2019: HK\$529,000) 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
(All amounts in Hong Kong dollars unless otherwise stated)

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.

(a) 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 20.

(b) Determination of the lease term

The length of the lease term is one of the key inputs that determines the amount of the lease liabilities and the right-of-use assets. The determination of the lease terms can be complex and require the use of judgements and estimates.

Management judgement is required in lease term determination particularly in assessing the length of the lease term based on: (i) If there are significant penalties to terminate (or not extend), the Organization is typically reasonably certain to extend (or not terminate); (ii) If any leasehold improvements are expected to have a significant remaining value, the Organization is typically reasonably certain to extend (or not terminate); and (iii) Otherwise, the Organization considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Changing the assumptions selected by management in assessing length of lease term, could affect the net present value used in the calculation of the lease liabilities and the right-of-use assets and as a result affect the Organization's financial position and results of operations.

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 8)				
	Land and buildings	Furniture, fixtures and computer equipment	Motor vehicles	Machinery and others	Subtotal	Leasehold improvements	Furniture, fixtures and computer equipment	Machinery and others	Construction in progress	Total
At 1 April 2018										
Cost	4,446,130	27,832,740	5,761,839	20,978	38,061,687	4,126,083	10,922,945	7,271,312	-	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)	-	(48,723,978)
Net book amount	514,219	3,614,954	276,629	484	4,406,286	4,500	3,824,757	3,422,506	-	11,658,049
Year ended 31 March 2019										
Opening net book amount	514,219	3,614,954	276,629	484	4,406,286	4,500	3,824,757	3,422,506	-	11,658,049
Additions	-	1,065,912	-	-	1,065,912	-	54,898	44,468	-	1,165,278
Disposals (note 30(b))	-	(30,221)	-	(121)	(30,342)	-	(12,600)	(68,735)	-	(111,677)
- Cost	-	(1,328,986)	(311,675)	(2,880)	(1,643,541)	-	(42,000)	(149,967)	-	(1,835,508)
- Accumulated depreciation	-	1,298,765	311,675	2,759	1,613,199	-	29,400	81,232	-	1,723,831
Adjustments	-	-	-	-	-	-	-	(14,845)	-	(14,845)
- Cost (note 18)	-	-	-	-	-	-	-	(41,428)	-	(41,428)
- Accumulated depreciation (note 24)	-	-	-	-	-	-	-	26,583	-	26,583
Depreciation	(17,630)	(992,556)	(175,215)	(363)	(1,185,764)	(4,500)	(631,466)	(714,353)	-	(2,536,083)
Closing net book amount	496,589	3,658,089	101,414	-	4,256,092	-	3,235,589	2,669,041	-	10,160,722
At 31 March 2019										
Cost	4,446,130	27,569,666	5,450,164	18,098	37,484,058	4,126,083	10,935,843	7,124,385	-	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)	-	(49,509,647)
Net book amount	496,589	3,658,089	101,414	-	4,256,092	-	3,235,589	2,669,041	-	10,160,722

(All amounts in Hong Kong dollars unless otherwise stated)

Property, plant and equipment (Continued)28

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

5 Property, plant and equipment (Continued)

	Markets and depots				Vegetable Marketing Organisation Agricultural Development Fund (note 8)						
	Land and buildings	Furniture, fixtures and computer equipment	Motor vehicles	Machinery and others	Subtotal	Leasehold improvements	Furniture, fixtures and computer equipment	Machinery and others	Construction in progress	Subtotal	Total
At 31 March 2020											
Cost	2,953,430	27,182,186	5,178,209	17,253	35,331,078	4,126,083	10,897,653	7,073,562	3,767,686	25,864,984	61,196,062
Accumulated depreciation	(2,953,430)	(24,431,264)	(4,778,209)	(17,253)	(32,180,156)	(4,126,083)	(8,176,974)	(5,115,198)	-	(17,418,255)	(49,598,411)
Net book amount	-	2,750,922	400,000	-	3,150,922	-	2,720,679	1,958,364	3,767,686	8,446,729	11,597,651

Upon the adoption of HKFRS 16, the land interests of the Organization's owned properties previously classified under land and building was reclassified as the right-of-use assets.

Depreciation expenses of HK\$1,116,543 and HK\$1,322,619 (2019: HK\$1,185,764 and HK\$1,350,319) have been charged in the operating expenditure and net deficit from VMO Agricultural Development Fund respectively on page 6 and note 24, respectively.

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

6 Right-of-use assets

	Land interests on owned properties	Leased market premises	Total
At 1 April 2019 (on adoption of HKFRS 16)			
Depreciation	496,589 (17,630)	1,590,328 (676,637)	2,086,917 (694,267)
Lease modification	-	(191,202)	(191,202)
Closing net book amount at 31 March 2020	478,959	722,489	1,201,448
Represented by			
Cost	1,492,700	1,399,126	2,891,826
Accumulated depreciation	(1,013,741)	(676,637)	(1,690,378)
Net book amount	478,959	722,489	1,201,448

Depreciation expenses of HK\$694,267 have been charged in the operating expenditure on page 6.

The Organization's right-of-use assets consist of leasehold land in Hong Kong and leased market premises. For the leasehold land, the Organization is the registered owner of this property interests. Upfront payments were made to acquire these land interests and there are no ongoing payments to be made under the terms of the land lease (i.e. no lease liabilities are recognised), other than government rents and rates and other payments to the relevant government authorities, which may vary from time to time. For the leased market premises, rental contract is typically made for a fixed period of 3 years with no extension option. Lease term is negotiated on an individual basis and contain a range of different terms and conditions.

Details of the maturity analysis of lease liabilities and total cash outflow for leases in 2020 are set out in notes 17 and 30(d) respectively.

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NOTES TO THE FINANCIAL STATEMENTS

7 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 pages 4 and 5:

	Note	2020	2019
ASSETS			
Current assets			
VMO Loans			
- Loans to farmers		1,710,740	2,313,640
- Interest receivable		11,700	19,595
		<u>1,722,440</u>	<u>2,333,235</u>
Less: Provision for impairment of VMO Loans		(182,629)	(182,629)
		<u>1,539,811</u>	<u>2,150,606</u>
Less: Accumulated amortisation at 1 April		(102,410)	(115,353)
Amortisation of premium on VMO Loans	25	29,086	12,943
		<u>(73,324)</u>	<u>(102,410)</u>
VMO Loans – net		1,466,487	2,048,196
Other receivables		34,689	25,970
Bank deposits with original maturities over three months	12	11,100,000	10,500,000
Cash and cash equivalents	13	290,128	63,048
		<u>12,891,304</u>	<u>12,637,214</u>
Total assets		<u>12,891,304</u>	<u>12,637,214</u>
FUNDS			
Capital account transferred from VMO General Fund		2,608,000	2,608,000
Accumulated surplus at 1 April		10,029,214	9,882,969
Net surplus for the year transferred from VMO General Fund	14 & 25	254,090	146,245
Accumulated surplus at 31 March		<u>10,283,304</u>	<u>10,029,214</u>
Total funds		<u>12,891,304</u>	<u>12,637,214</u>
LIABILITIES			
Current and total liabilities		-	-
Total funds and liabilities		<u>12,891,304</u>	<u>12,637,214</u>

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NOTES TO THE FINANCIAL STATEMENTS

7 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 0.001% to 0.3% (2019: 0.007% to 0.3%) per annum and are repayable within one year (2019: within one year) with third party personal guarantees. As at 31 March 2020, the weighted average effective interest rate of the VMO Loans is 0.0612% (2019: 0.006%) 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. Note 3.1 (b) provides for details about the calculation of the allowance.

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

	2020	2019
Opening loss allowance at 1 April	182,629	148,895
Increase in loss allowance recognised in profit or loss during the year (note 25)	-	33,734
Closing loss allowance at 31 March	<u>182,629</u>	<u>182,629</u>

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 2020 and 2019 and are denominated in Hong Kong dollars.

VEGETABLE MARKETING ORGANIZATION

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NOTES TO THE FINANCIAL STATEMENTS**8 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 pages 4 and 5:

	Note	2020	2019
ASSETS			
Non-current assets			
Property, plant and equipment	5	8,446,729	5,904,630
Current assets			
Inventories	10(a)	57,371	91,871
Biological assets	10(b)	-	-
Trade and other receivables		1,599,986	1,903,498
Bank deposits with original maturities over three months	12	9,004,315	12,611,280
Cash and cash equivalents	13	2,798,042	960,201
Total current assets		13,459,714	15,566,850
Total assets		21,906,443	21,471,480
FUNDS			
Capital account			
At 1 April		400,000,000	380,000,000
Transfer from VMO General Fund	14	10,000,000	20,000,000
At 31 March		410,000,000	400,000,000
Accumulated deficit at 1 April		(380,330,967)	(352,434,617)
Net deficit for the year transferred from VMO General Fund	14 & 24	(13,425,742)	(27,896,350)
Accumulated deficit at 31 March		(393,756,709)	(380,330,967)
Total funds		16,243,291	19,669,033
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities		639,225	692,273
Long service payment obligations		296,453	154,908
Deferred income	19	3,396,594	-
Total non-current liabilities		4,332,272	847,181
Current liabilities			
Other payables		776,477	734,341
Provisions for other liabilities		151,287	220,925
Long service payment obligations		32,024	-
Deferred income	19	371,092	-
Total current liabilities		1,330,880	955,266
Total liabilities		5,663,152	1,802,447
Total funds and liabilities		21,906,443	21,471,480

VEGETABLE MARKETING ORGANIZATION

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NOTES TO THE FINANCIAL STATEMENTS**8 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.

9 Financial instruments by category

The Organization's financial instruments include the following:

	Note	2020	2019
Financial assets at amortised cost			
VMO Loans	7(a)	1,466,487	2,048,196
Trade and other receivables	11	6,653,242	7,888,334
Bank deposits with original maturities over three months	12	203,876,907	211,639,191
Cash and cash equivalents	13	30,610,513	32,212,990
		<u>242,607,149</u>	<u>253,788,711</u>
Financial liabilities at amortised cost			
Trade and other payables	16	8,941,329	13,407,813
Lease liabilities	17	877,659	-
Vegetable buyers' deposits		5,580,499	5,425,824
		<u>15,399,487</u>	<u>18,833,637</u>

10 Inventories and biological assets**(a) Inventories**

	2020	2019
Premium vegetables	125,876	150,163
Others	157,117	224,969
	<u>282,993</u>	<u>375,132</u>
Represented by:		
- VMO General Fund	225,622	283,261
- VMO Agricultural Development Fund (note 8)	57,371	91,871
	<u>282,993</u>	<u>375,132</u>

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NOTES TO THE FINANCIAL STATEMENTS

10 Inventories and biological assets (Continued)

(b) Biological assets

	2020	2019
At 1 April	-	52,966
Additions	898,457	1,056,070
Harvested hydroponic vegetable produce	(898,457)	(1,109,036)
	<u> </u>	<u> </u>
At 31 March	-	-
	<u> </u>	<u> </u>

During the year, the quantity of hydroponic vegetable produce harvested for sales is 1,968 (2019: 1,664) kilogram.

11 Trade and other receivables

	2020	2019
Trade receivables	4,285,458	5,863,775
Less: Provision for impairment of trade receivables	(113,157)	(113,157)
	<u> </u>	<u> </u>
Trade receivables, net	4,172,301	5,750,618
Interest receivables	1,157,302	1,030,302
Other receivables	1,323,639	1,107,414
	<u> </u>	<u> </u>
Financial assets	6,653,242	7,888,334
Prepayments for:		
- Insurance expense	28,513	1,248,579
- Other operating expenses	1,237,087	1,409,545
	<u> </u>	<u> </u>
Total	<u>7,918,842</u>	<u>10,546,458</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. Note 3.1(b) provides more details about the calculation of loss allowance.

As at 31 March 2020, the Organization considered that the expected credit loss for other receivables and deposits was immaterial thus no loss allowance was made (2019: 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 2020 and 2019 and are denominated in Hong Kong dollars.

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NOTES TO THE FINANCIAL STATEMENTS

12 Bank deposits with original maturities over three months

	Note	2020	2019
VMO General Fund		183,772,592	188,527,911
VMO Loan Fund	7(a)	11,100,000	10,500,000
VMO Agricultural Development Fund	8	9,004,315	12,611,280
		<u>203,876,907</u>	<u>211,639,191</u>
Maximum exposure to credit risk			

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

13 Cash and cash equivalents

	Note	2020	2019
<u>VMO General Fund</u>			
Cash at banks and in hand		27,522,343	31,189,741
		<u>27,522,343</u>	<u>31,189,741</u>
<u>VMO Loan Fund</u>			
Cash at banks	7(a)	290,128	63,048
		<u>290,128</u>	<u>63,048</u>
<u>VMO Agricultural Development Fund</u>			
Cash at banks and in hand		1,098,042	960,201
Bank deposits with original maturities of three months or less		1,700,000	-
	8	<u>2,798,042</u>	<u>960,201</u>
Total		<u>30,610,513</u>	<u>32,212,990</u>
Maximum exposure to credit risk		<u>30,118,079</u>	<u>30,242,022</u>

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

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

14 VMO General Fund - Accumulated Surplus

	Note	2020	2019
At 1 April		216,305,087	231,561,617
Deficit for the year		(10,475,234)	(21,091,284)
(Deficit)/surplus on remeasurements for:			
- Defined benefit plan	20	(2,436,867)	(2,064,000)
- Long service payment obligations			
- VMO General Fund	20	(1,729,115)	242,310
- VMO Agricultural Development Fund	20	(220,389)	(93,661)
Net surplus transferred from VMO Loan Fund	7(a)	(254,090)	(146,245)
Net deficit transferred from VMO Agricultural Development Fund	8	13,425,742	27,896,350
Transferred to capital account of VMO Agricultural Development fund	8	(10,000,000)	(20,000,000)
At 31 March		<u>204,615,134</u>	<u>216,305,087</u>

15 Funds provided from external sources for capital expenditure

	2020	2019
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>

16 Trade and other payables

	2020	2019
Trade payables	5,597,951	10,497,044
Other payables	2,398,723	2,047,514
Vegetable sellers' and other deposits	944,655	863,255
Financial liabilities	8,941,329	13,407,813
Receipts in advance	43,557	35,717
	<u>8,984,886</u>	<u>13,443,530</u>

The carrying values of trade and other payables approximate their fair values at 31 March 2020 and 2019 and are denominated in Hong Kong dollars.

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NOTES TO THE FINANCIAL STATEMENTS

17 Lease liabilities

	As at 31 March 2020	As at 1 April 2019
Current	749,130	712,669
Non-current	128,529	877,659
	<u>877,659</u>	<u>1,590,328</u>
Minimum lease payments		
- Within one year	776,000	776,000
- Over one year and less than five years	129,333	905,333
Less: total future interest expenses	(27,674)	(91,005)
	<u>877,659</u>	<u>1,590,328</u>

The lessee's incremental borrowing rate applied to the lease liabilities of market premises on 1 April 2019 was 5% per annum. Interest expenses of HK\$60,534 (2019: nil) has been charged in the statement of comprehensive income.

18 Provisions for other liabilities

	Unused annual leave	Contingent price of equipment (note)	Total
At 1 April 2018	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 22(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>
At 31 March 2019	<u>1,189,161</u>	<u>784,803</u>	<u>1,973,964</u>

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NOTES TO THE FINANCIAL STATEMENTS

18 Provisions for other liabilities (Continued)

	Unused annual leave	Contingent price of equipment (note)	Total
At 1 April 2019	1,189,161	784,803	1,973,964
Payments for the year	(147,166)	-	(147,166)
	<u>1,041,995</u>	<u>784,803</u>	<u>1,826,798</u>
(Reversal of provision)/provision for the year			
- VMO General Fund (note 22(a))	87,243	-	87,243
- VMO Agricultural Development Fund	10,241	(36,747)	(26,506)
- Property, plant and equipment (note 5)	-	(60,873)	(60,873)
	<u>97,484</u>	<u>(97,620)</u>	<u>(136)</u>
At 31 March 2020	<u>1,139,479</u>	<u>687,183</u>	<u>1,826,662</u>
Analysis of total provisions:			
	Unused annual leave	Contingent price of equipment (note)	Total
<u>At 31 March 2020</u>			
Non-current	-	639,225	639,225
Current	1,139,479	47,958	1,187,437
	<u>1,139,479</u>	<u>687,183</u>	<u>1,826,662</u>
<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>

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;

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NOTES TO THE FINANCIAL STATEMENTS

18 Provisions for other liabilities (Continued)

Analysis of total provisions: (Continued)

- (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 2020, downward adjustment on cost of HK\$60,873 (2019: HK\$41,428) is resulted.

As at 31 March 2020, a provision is recognised for the contingent price of equipment, totaling HK\$687,183 (2019 HK\$784,803). It is expected that HK\$47,958 (2019: HK\$92,530) will be utilized next year and HK\$639,225 (2019: HK\$692,273) will be utilized or paid during the remaining duration of the Agreement.

19 Deferred income

	2020	2019
At 1 April	-	-
Government grant received (note)	3,790,381	-
Amount utilised and released to profit or loss (note 24)	(22,695)	-
At 31 March	<u>3,767,686</u>	<u>-</u>
Non-current	3,396,594	-
Current	371,092	-
Total	<u>3,767,686</u>	<u>-</u>

Note:

During the year ended 31 March 2020, the Organization developed the second phase of Controlled Environment Hydroponic Research and Development Centre. The cost of development, including the leasehold improvement, furniture and fixtures and machinery, were fully subsidised by the Government.

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NOTES TO THE FINANCIAL STATEMENTS

20 Retirement benefit obligations

	Note	2020	2019
Balance sheet assets for:			
- Defined benefit plan	(a)	<u>6,573,314</u>	<u>9,162,000</u>
Balance sheet obligations for:			
- Long service payment obligations			
- Non-current portion		(6,361,035)	(4,801,030)
- Current portion		(615,895)	(124,903)
	(b)	<u>(6,976,930)</u>	<u>(4,925,933)</u>
Statement of comprehensive income charged for:			
- Defined benefit plan	22(a)	<u>151,819</u>	<u>167,000</u>
- Long service payment obligations			
- VMO General Fund	22(a)	331,288	357,182
- VMO Agricultural Development Fund	22(b)	18,132	17,370
		<u>349,420</u>	<u>374,552</u>
		<u>501,239</u>	<u>541,552</u>
Remeasurements for:			
- Defined benefit plan	(a)	<u>2,436,867</u>	<u>2,064,000</u>
- Long service payment obligations			
- VMO General Fund		1,729,115	(242,310)
- VMO Agricultural Development Fund		220,389	93,661
	(b)	<u>1,949,504</u>	<u>(148,649)</u>
		<u>4,386,371</u>	<u>1,915,351</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 2020 and 2019 carried out by Milliman Limited, who holds a recognised professional qualification.

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

	2020	2019
Present value of the funded obligations	(10,512,518)	(11,194,000)
Fair value of plan assets	<u>17,085,832</u>	<u>20,356,000</u>
Assets in the balance sheet	<u>6,573,314</u>	<u>9,162,000</u>

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NOTES TO THE FINANCIAL STATEMENTS

20 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 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>
Remeasurements:			
- 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	-
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>
At 1 April 2019	(11,194,000)	20,356,000	9,162,000
Current service costs	(281,000)	-	(281,000)
Interest (expense)/income	(160,000)	295,000	135,000
	<u>(11,635,000)</u>	<u>20,651,000</u>	<u>9,016,000</u>
Remeasurements:			
- Return on plan assets (excluding interest income)	-	(2,144,858)	(2,144,858)
- Deficit from change in financial assumption changes	(427,609)	-	(427,609)
- Experience gains	135,600	-	135,600
	<u>(292,009)</u>	<u>(2,144,858)</u>	<u>(2,436,867)</u>
Plan participants contributions	(126,643)	126,643	-
Benefit payments	1,541,134	(1,541,134)	-
Administrative cost	-	(5,819)	(5,819)
	<u>1,414,491</u>	<u>(1,420,310)</u>	<u>(5,819)</u>
At 31 March 2020	<u>(10,512,518)</u>	<u>17,085,832</u>	<u>6,573,314</u>

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NOTES TO THE FINANCIAL STATEMENTS

20 Retirement benefit obligations (Continued)

(a) Defined benefit plan (Continued)

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

	2020 %	2019 %
Equities	55	60
Bonds	36	34
Money instruments	9	6
	<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 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	<u>(684,896)</u>
At 31 March 2019	<u>4,925,933</u>

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NOTES TO THE FINANCIAL STATEMENTS

20 Retirement benefit obligations (Continued)

(b) Long service payment obligations (Continued)

	Present value of long service payment obligations
At 1 April 2019	4,925,933
Current service costs	276,538
Interest expense	72,882
	<u>5,275,353</u>
Remeasurements:	
- Experience losses	1,949,504
Benefit payments	<u>(247,927)</u>
At 31 March 2020	<u>6,976,930</u>

(c) The principal actuarial assumptions used as follows:

	<u>Defined benefit obligations</u>		<u>Long service payment obligations</u>	
	2020	2019	2020	2019
	%	%	%	%
Discount rate	0.6	1.5	0.7	1.5
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 9.2%	Increase by 10.9%
Salary growth rate	0.5%	Increase by 2.3%	Decrease by 2.2%	Increase by 1.3%	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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NOTES TO THE FINANCIAL STATEMENTS

20 Retirement benefit obligations (Continued)

- (e) The expected contributions by the Organization and by the employees for the year ending 31 March 2020:

	<u>Defined benefit obligations</u>		<u>Long service payment obligations</u>	
	2020	2019	2020	2019
Expected contributions by:				
- Organization	-	-	-	-
- Employees	121,284	136,000	-	-
	<u>121,284</u>	<u>136,000</u>	<u>-</u>	<u>-</u>

- (f) The weighted average duration of the defined benefit obligations and long service payment obligations is around 5 years and 11 years (2019: 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>	
	2020	2019	2020	2019
Less than 1 year	973,000	1,553,000	679,000	134,000
Between 1 and 2 years	1,468,000	902,000	861,000	682,000
Between 2 and 5 years	3,077,000	1,728,000	1,698,000	2,844,000
Next 5 years	4,737,000	6,623,000	3,713,000	7,021,000
	<u>10,255,000</u>	<u>10,806,000</u>	<u>6,951,000</u>	<u>10,681,000</u>

21 Net income from sales of premium vegetables

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

	2020	2019
Sales of premium vegetables	24,995,536	29,909,715
Cost of inventories sold	(18,761,078)	(23,033,457)
Gross profit	<u>6,234,458</u>	<u>6,876,258</u>
Commission income relating to sales of premium vegetables	790,528	1,031,876
Direct operating expenses		
Sales commission	(4,411)	(6,856)
Sundry expenses	(65,706)	(50,954)
	<u>(70,117)</u>	<u>(57,810)</u>
Net income for the year	<u>6,954,869</u>	<u>7,850,324</u>

The cost of inventories sold includes inventory written-off of HK\$1,567,642 (2019: HK\$1,908,082).

VEGETABLE MARKETING ORGANIZATION

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NOTES TO THE FINANCIAL STATEMENTS

22 Employee benefit expenditure

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

	Note	2020	2019
Salaries and wages		35,168,684	35,160,562
Provision for unused annual leave	18	87,243	22,667
Retirement benefit costs			
- Defined contribution plan and MPF scheme		1,939,627	1,921,279
- Defined benefit plan	20	151,819	167,000
- Long services payment obligations	20	331,288	357,182
		<u>37,678,661</u>	<u>37,628,690</u>

(b) In addition to the above, employee benefit expenditure amounting to HK\$4,666,353 (2019: HK\$6,455,367) as listed below has been included in various expenditure items in the VMO Agricultural Development Fund in note 24.

	Note	2020	2019
Salaries and wages		4,428,987	6,152,125
Provision for unused annual leave	18	10,241	(13,886)
Retirement benefit costs			
- MPF scheme		208,993	299,758
- Long services payment obligations	20	18,132	17,370
		<u>4,666,353</u>	<u>6,455,367</u>

23 Rent, rates and permit fees

Included in the amount, HK\$Nil (2019: HK\$763,067) represents operating lease rentals for market premises.

24 Net deficit from VMO Agricultural Development Fund

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

	2020	2019
Income		
FarmFest income	4,569,603	4,454,098
Interest income on bank deposits	312,279	319,655
Income from Controlled Environment Hydroponic Research and Development Project (Phase 2) (note 19)	22,695	-
Other income	185,455	13,739
	<u>5,090,032</u>	<u>4,787,492</u>

VEGETABLE MARKETING ORGANIZATION

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NOTES TO THE FINANCIAL STATEMENTS**24 Net deficit from VMO Agricultural Development Fund (Continued)**

	Note	2020	2019
Expenditure			
Land rehabilitation scheme			
- Depreciation		(77,615)	(86,135)
- Miscellaneous expenditure		(4,683)	(5,597)
Construction and improvement of communal agriculture facilities		(203,612)	(148,500)
Crop Development Programmes Promotion			
- Depreciation		(5,440)	(17,182)
- Net deficit from sales of accredited local vegetables	27	(230,743)	(183,083)
- Grants to a third party organization		(4,079,200)	(2,478,800)
- Other expenses		(1,927,394)	(2,450,430)
Controlled Environment Greenhouse Production			
- Depreciation		(12,169)	(3,272)
- Other expenses		(564,415)	(728,440)
Promotion of Organic Farming			
- Depreciation		(31,792)	(34,433)
- Net deficit from sales of organic vegetables	28	(548,524)	(677,340)
- Grants to third party organizations		(40,685)	(13,609,955)
- Loss on disposals of property, plant and equipment	30(b)	(5,350)	-
- Other expenses		(736,886)	(1,123,204)
Voluntary Registration Scheme of Local Vegetable Farms			
- Depreciation		(16,117)	(16,117)
- Other expenses		(527,963)	(996,708)
Promotion of Local Agricultural and Fisheries Products			
- FarmFest expenses		(6,384,026)	(6,214,896)
Improvement to VMO's wholesale marketing facilities and services			
- Depreciation		(470,697)	(477,067)
- Loss on disposals of property, plant and equipment	30(b)	(8,660)	(12,600)
- Other expenses		(1,671,764)	(1,571,305)
Controlled Environment Hydroponic Research and Development Project			
- Net deficit from the production of hydroponic vegetables in the Centre	29(a)	(594,932)	(1,269,223)
- Net deficit from research activities in the Centre	29(b)	(167,881)	(438,447)
- Reversal of overprovision for depreciation of property, plant and equipment		45,148	26,583
- Loss on disposals of property, plant and equipment	30(b)	(1,773)	(68,735)
Controlled Environment Hydroponic Research and Development Project (Phase 2)			
- Other expenses	19	(22,695)	-
Miscellaneous expenses		(5,517)	(5,295)
		<u>(18,295,385)</u>	<u>(32,590,181)</u>
Deficit for the year		<u>(13,205,353)</u>	<u>(27,802,689)</u>

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NOTES TO THE FINANCIAL STATEMENTS

24 Net deficit from VMO Agricultural Development Fund (Continued)

	Note	2020	2019
Remeasurements for long service payment obligations	20	(220,389)	(93,661)
Net deficit for the year	8	<u>(13,425,742)</u>	<u>(27,896,350)</u>

25 Net surplus from VMO Loan Fund

	Note	2020	2019
Income			
Interest on bank deposits		223,831	167,103
Interest on VMO Loans		1,713	309
Amortisation of premium on VMO Loans	7(a)	29,086	12,943
		<u>254,630</u>	<u>180,355</u>
Expenditure			
Bank charges		(540)	(376)
Provision for impairment of VMO Loans	3.1(b)	-	(33,734)
		<u>(540)</u>	<u>(34,110)</u>
Net surplus for the year		<u>254,090</u>	<u>146,245</u>

26 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

27 Crop Development Programmes Promotion

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

	Note	2020	2019
Sales of accredited local vegetables		207,142	238,610
Cost of inventories sold		(100,710)	(103,965)
Gross profit		<u>106,432</u>	<u>134,645</u>
Direct operating expenses			
Employee benefit expenditure		(222,859)	(218,795)
Sales commission		(60,684)	(70,567)
Transportation charges		(40,163)	(9,401)
Miscellaneous expenses		(13,469)	(18,965)
		<u>(337,175)</u>	<u>(317,728)</u>
Net deficit for the year	24	<u>(230,743)</u>	<u>(183,083)</u>

28 Promotion of Organic Farming

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

	Note	2020	2019
Sales of organic vegetables		4,345,422	4,044,144
Cost of inventories sold		(1,460,015)	(1,378,227)
Gross profit		<u>2,885,407</u>	<u>2,665,917</u>
Direct operating expenses			
Employee benefit expenditure		(1,977,065)	(2,013,126)
Sales commission		(953,349)	(878,803)
Transportation charges		(120,488)	(28,205)
Stores and equipment		(105,482)	(147,910)
Miscellaneous expenses		(275,787)	(273,453)
Depreciation		(1,760)	(1,760)
		<u>(3,433,931)</u>	<u>(3,343,257)</u>
Net deficit for the year	24	<u>(548,524)</u>	<u>(677,340)</u>

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NOTES TO THE FINANCIAL STATEMENTS

29 Controlled Environment Hydroponic Research and Development Project

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

	Note	2020	2019
Management service income, recognised over time		641,477	636,322
Gross profit		<u>641,477</u>	<u>636,322</u>
Other income		<u>-</u>	<u>16,268</u>
Direct operating expenses			
Publication and publicity		(8,450)	(17,800)
Packing materials		(6,100)	(160,300)
Employee benefit expenditure		(43,204)	(432,953)
Miscellaneous expenses		(598,443)	(721,678)
Depreciation		(580,212)	(589,082)
		<u>(1,236,409)</u>	<u>(1,921,813)</u>
Net deficit for the year	24	<u>(594,932)</u>	<u>(1,269,223)</u>

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

	Note	2020	2019
Service income, recognised over time		<u>376,496</u>	<u>327,581</u>
Other production cost		(359,717)	(482,064)
Depreciation		(126,817)	(125,271)
Other expenses		(57,843)	(158,693)
Total expenses		<u>(544,377)</u>	<u>(766,028)</u>
Net deficit for the year	24	<u>(167,881)</u>	<u>(438,447)</u>

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30 Cash flows information

(a) Cash used in operations

	2020	2019
Deficit for the year	(10,475,234)	(21,091,284)
Adjustments for:		
- Interest income on bank deposits	(4,569,607)	(3,798,116)
- Interest income on VMO Loans	(1,713)	(309)
- Depreciation of property, plant and equipment (note 5)	2,439,162	2,536,083
- Depreciation of right-of-use assets (note 6)	694,267	-
- Inventories written off (notes 21)	1,567,642	1,908,082
- Provision for impairment of VMO Loans (note 3.1(b))	-	33,734
- Loss on disposals of property, plant and equipment (note (b) below)	54,313	20,677
- Reversal of overprovision for depreciation of property, plant and equipment (note 24)	(45,148)	(26,583)
- Premium on amortisation on VMO Loans (note 25)	(29,086)	(12,943)
- Provision for unused annual leave (note 18)	97,484	8,781
- Reversal of provision of produce to the third party (note 18)	(36,747)	(72,370)
- Retirement benefit costs for defined benefit plan (note 20)	151,819	167,000
- Retirement benefit costs for long service payment (note 20)	349,420	374,552
- Interest expenses	60,534	-
	(9,742,894)	(19,952,696)
Changes in working capital:		
- Inventories	(1,475,503)	(1,634,603)
- Biological assets	-	52,966
- VMO Loans	602,900	227,900
- Trade and other receivables	2,754,616	(85,146)
- Trade and other payables	(4,458,644)	686,926
- Provisions for other liabilities	(147,166)	(137,154)
- Vegetable buyers' deposits	154,675	(839,736)
- Long service payment obligations	(247,927)	(684,896)
- Deferred income	3,767,686	-
Net cash used in operations	(8,792,257)	(22,366,439)

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

	Note	2020	2019
Net book amount	5	92,313	111,677
(Loss)/gain on disposals of property, plant and equipment recognised in:			
- (Other expenditure)/non-trading income		(38,530)	60,658
- Net deficit from VMO Agricultural Development Fund		(15,783)	(81,335)
		(54,313)	(20,677)
Proceeds from disposals of property, plant and equipment		38,000	91,000

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NOTES TO THE FINANCIAL STATEMENTS**30 Cash flows information (Continued)****(c) Major non-cash transactions**

The recognition of right-of-use assets at 1 April 2019 upon adoption of HKFRS 16 and derecognition of the right-of-use-assets (note 6) during the year are non-cash financing activities.

(d) Reconciliation of liabilities arising from financing activities during the year presented:

	Lease liabilities
At 1 April 2019 (on adoption of HKFRS 16)	1,590,328
Non-cash flow:	
- Derecognition	(191,202)
- Accrued interest	60,534
Cash flows	
- Payment for principal element of lease liabilities	(521,467)
- Interest paid	(60,534)
At 31 March 2020	<u>877,659</u>

31 Non-cancellable operating lease commitments

From 1 April 2019, the Organization has recognised certain leases as right-of-use assets and lease liabilities on adoption of HKFRS 16. See notes 6 and 17 for further information.

At 31 March, the Organization had future aggregate minimum lease payments under non-cancellable operating leases, including non-lease component (not included in the measurement of lease liabilities), in respect of market premises are as follows:

	2020	2019
No later than one year	<u>-</u>	<u>194,000</u>

32 Key management compensation

	2020	2019
Salaries and other employee benefits	<u>636,911</u>	<u>583,176</u>