

VEGETABLE MARKETING ORGANIZATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2018



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

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

Opinion

What we have audited

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

- the balance sheet as at 31 March 2018;
- the statement of comprehensive income for the year ended;
- the statement of changes in funds for the year ended;
- the statement of cash flows for the year then ended;
- notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Organization as at 31 March 2018, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

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

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

Independence

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



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

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

Responsibilities of the Director of Marketing for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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



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

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

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

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

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


PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 SEP 2018

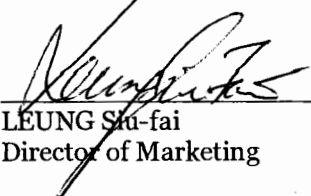
VEGETABLE MARKETING ORGANIZATION
(All amounts in Hong Kong dollars unless otherwise stated)

BALANCE SHEET

		As at 31 March	
	Note	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	11,658,049	14,387,120
Assets under defined benefit plan	17	11,393,000	6,902,000
VMO Loans	6(a)	-	50,817
Total non-current assets		<u>23,051,049</u>	<u>21,339,937</u>
Current assets			
Inventories	9(a)	648,611	657,668
Biological assets	9(b)	52,966	45,464
VMO Loans	6(a)	2,306,756	2,096,245
Trade and other receivables	10	9,986,666	8,223,594
Bank deposits with original maturities over three months	11	224,656,773	257,992,517
Cash and cash equivalents	12	39,302,477	26,470,265
Total current assets		<u>276,954,249</u>	<u>295,485,753</u>
Total assets		<u>300,005,298</u>	<u>316,825,690</u>
FUNDS			
VMO General Fund			
Accumulated surplus	13	231,561,617	229,589,009
Specific funds			
VMO Loan Fund	6(a)	12,490,969	12,507,869
VMO Agricultural Development Fund	7	27,565,383	47,694,375
Funds provided from external sources for capital expenditure	14	1,764,104	1,764,104
Total funds		<u>273,382,073</u>	<u>291,555,357</u>
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities	16	777,640	911,876
Long service payment obligations	17	4,842,175	6,026,763
Total non-current liabilities		<u>5,619,815</u>	<u>6,938,639</u>
Current liabilities			
Trade and other payables	15	12,756,604	9,640,483
Provisions for other liabilities	16	1,438,495	1,571,131
Long service payment obligations	17	542,751	256,097
Vegetable buyers' deposits		6,265,560	6,863,983
Total current liabilities		<u>21,003,410</u>	<u>18,331,694</u>
Total liabilities		<u>26,623,225</u>	<u>25,270,333</u>
Total funds and liabilities		<u>300,005,298</u>	<u>316,825,690</u>

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

The financial statements on pages 4 to 42 were approved by the Director of Marketing on **12 SEP 2018**


LEUNG Siu-fai
Director of Marketing

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

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 March	
		2018	2017
INCOME			
Operating income			
Commission		73,235,873	78,399,796
Rebates		(25,563,824)	(27,358,876)
		47,672,049	51,040,920
Net income from sales of premium vegetables	18	8,398,092	8,192,144
Other operating income			
Rental income		594,846	480,858
Parking permit fee income		1,057,375	934,995
Other income		314,947	691,194
		1,967,168	2,107,047
Non-trading income			
Interest income on bank deposits		1,929,073	1,640,276
Other income		2,400	1,800
Gain on disposals of property, plant and equipment	27(b)	-	84,229
		1,931,473	1,726,305
Total income		59,968,782	63,066,416
EXPENDITURE			
Operating expenditure			
Employee benefit expenditure	19(a)	(38,477,354)	(39,718,690)
General working expenses			
Rent, rates and permit fees	20	(2,445,852)	(2,460,425)
Printing and stationery		(443,457)	(489,090)
Utility services		(1,154,451)	(1,099,402)
Maintenance and minor improvements		(2,395,492)	(2,397,178)
Vegetable baskets		(17,036)	(1,950)
Stores and equipment		(364,683)	(651,336)
Miscellaneous expenses		(406,725)	(455,813)
Staff welfare		(273,608)	(354,849)
Staff training		(5,375)	(12,350)
Travelling expenses		(103,606)	(112,104)
Protective clothing and uniforms		(13,132)	(56,979)
Insurance		(1,147,485)	(1,014,128)
Auditor's remuneration		(387,500)	(416,400)
Market security		(360,783)	(655,885)
Balance carried forward		(9,519,185)	(10,177,889)

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

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		<u>Year ended 31 March</u>	
	Note	2018	2017
Operating expenditure (Continued)			
General working expenses (Continued)			
Balance brought forward		(9,519,185)	(10,177,889)
Transportation expenses		(3,013,778)	(2,817,765)
Depreciation - markets and depots	5	(1,160,036)	(1,441,847)
Subsidy to federation and co-operative societies		(1,021,098)	(994,844)
Grants-in-aid		(30,000)	(482,131)
Publication and publicity		(7,494)	(2,384)
Legal fee		(96,200)	(18,000)
Bank charges		(12,342)	(8,220)
		<u>(14,860,133)</u>	<u>(15,943,080)</u>
Total operating expenditure		<u>(53,337,487)</u>	<u>(55,661,770)</u>
Other expenditure			
Loss on disposals of property, plant and equipment	27(b)	(12,045)	-
Miscellaneous expenses		-	(300)
		<u>-</u>	<u>(300)</u>
Total expenditure		<u>(53,349,532)</u>	<u>(55,662,070)</u>
Operating surplus for the year		<u>6,619,250</u>	<u>7,404,346</u>
Net (deficit)/surplus from:			
- VMO Agricultural Development Fund	21	(30,426,800)	(37,228,441)
- VMO Loan Fund	22	(16,900)	62,266
		<u>(30,443,700)</u>	<u>(37,166,175)</u>
Deficit for the year		<u>(23,824,450)</u>	<u>(29,761,829)</u>
Other comprehensive income for the year			
<u>Items that will not be reclassified subsequently to surplus or deficit</u>			
Remeasurements for defined benefit plan	17(a)	4,281,000	1,617,000
Remeasurements for long service payment obligations			
- VMO General Fund		1,072,358	3,885,745
- VMO Agricultural Development Fund		297,808	195,844
	17(a)	<u>1,370,166</u>	<u>4,081,589</u>
Total comprehensive loss for the year		<u>(18,173,284)</u>	<u>(24,063,240)</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	
		2018	2017
At 1 April		291,555,357	315,618,597
Deficit for the year		(23,824,450)	(29,761,829)
Other comprehensive income			
- Remeasurements for defined benefit plan	17	4,281,000	1,617,000
- Remeasurements for long service payment obligations:	17		
- VMO General Fund		1,072,358	3,885,745
- VMO Agricultural Development Fund		297,808	195,844
Total comprehensive loss		(18,173,284)	(24,063,240)
At 31 March		273,382,073	291,555,357

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

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

STATEMENT OF CASH FLOWS

		<u>Year ended 31 March</u>	
	Note	2018	2017
Cash flows from operating activities			
Net cash used in operations	27(a)	(22,438,267)	(31,492,326)
Interest received on VMO Loans		10,923	16,713
Net cash outflow from operating activities		<u>(22,427,344)</u>	<u>(31,475,613)</u>
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(349,353)	(1,310,001)
Proceeds from disposals of property, plant and equipment	27(b)	12,000	156,024
Net uplift of bank deposits with original maturities over three months		33,335,744	24,075,697
Bank interest received		2,261,165	1,961,760
Net cash inflow from investing activities		<u>35,259,556</u>	<u>24,883,480</u>
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		12,832,212	(6,592,133)
		<u>26,470,265</u>	<u>33,062,398</u>
Cash and cash equivalents at end of the year	12	<u>39,302,477</u>	<u>26,470,265</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 General information

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

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

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

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

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The financial statements of the Organization have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standard (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong and under the historical cost convention, except for biological assets, which have been measured at fair value less costs to sell.

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

- (a) New and amended standards and interpretations (collectively, the “Amendments”) adopted by the Organization

The Organization has adopted the following Amendments for the first time for its annual accounting year commencing 1 April 2017:

- HKAS 7 (Amendment) Statement of cash flows: disclosure initiative
- HKFRS 12 Disclosure of interest in other entities

The adoption of these Amendments did not have any impact on the current period or any prior period and is not likely to affect future periods other than certain additional disclosure to satisfy the new disclosure requirements introduced by HKAS 7 (Amendment), which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flow changes.

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

Certain Amendments have been published that are mandatory for the Organization’s reporting periods beginning on or after 1 April 2018. The following Amendments are relevant and applicable to the Organization; however, they have not been early adopted in these financial statements:

Annual Improvements Project – HKFRS 1 and HKAS 28 (Amendment)	Annual improvements 2014 - 2016 cycle ¹
HKAS 40 (Amendment)	Transfers of investment property ¹
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions ¹
HKFRS 9	Financial instruments ¹
HKFRS 15	Revenue from contracts with customers ¹
HKFRS 16	Leases ²
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture ³
HK(IFRIC) 22	Foreign currency transactions and advance consideration ¹

Note:

- (1) Effective for financial period beginning on 1 January 2018
- (2) Effective for financial period beginning on 1 January 2019
- (3) Effective for financial period beginning on or after a date to be determined

The Organization is in the process of making an assessment of what the impact of these Amendments is expected to be in the period of initial application. So far the Organization has identified some aspects of the new standards which may have a significant impact on the financial statements. Further details of the expected impacts are discussed below. While preliminary assessment has been completed for HKFRS 9, HKFRS 15 and HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on information currently available to the Organization, and further impacts may be identified before the standards are initially applied. The Organization may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in HKFRS 9 are based on an expected credit loss model and replace the HKAS 39 incurred loss model.

- (i) Classification and measurement

The Organization expect that the adoption of HKFRS 9 does not have a significant impact on the classification and measurement of its financial assets including derivative financial instruments, if any.

- (ii) Impairment

HKFRS 9 requires the Organization to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Organization expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Organization does not expect any significant impact from these changes.

The Organization plans to adopt the new standard on the required effective date without restating prior years' information and recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under HKFRS. Either a full retrospective application or a modified retrospective application is required for annual period beginning on 1 January 2018. Early adoption is permitted.

The Organization performed a preliminary assessment of HKFRS 15, which is subject to changes arising from a more detailed ongoing analysis. The Organization expects that the adoption of HKFRS 15 will have no material impact on the financial statements in the period of initial application. However, there will be additional disclosures upon the adoption of HKFRS 15.

HKFRS 16 Leases

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

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

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

HKFRS 16 Leases (Continued)

The standard will affect primarily the accounting for the Organization's operating leases. As at the reporting date, the Organization has non-cancellable operating lease commitments of HK\$174,600 (note 28). However, the Organization has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Organization's results and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial year commencing on 1 January 2019. At this stage, the Organization does not intend to adopt the standard before its effective date.

The Organization is currently assessing the impact of the adoption of other Amendments and is of the view that they would not have a significant impact on the Organization's results of operations and financial position.

2.2 Foreign currency translation

- (a) Functional and presentation currency

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

- (b) Transactions and balances

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

2.3 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Organization and 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)

2.3 Property, plant and equipment (Continued)

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

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

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

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

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

2.4 Impairment of non-financial assets

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

2.5 Inventories

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

2.6 Biological assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.6 Biological assets (Continued)

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

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

2.7 Financial assets

(a) Classification

The Organization classifies its financial assets in loans and receivables. The classification depends on the purpose for which the financial assets were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

(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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Organization has transferred substantially all risks and rewards of ownership. At initial recognition, the Organization measures its loans and receivables at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Loans and receivables are subsequently carried at amortised cost using effective interest method.

2.8 VMO Loans and trade and other receivables

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

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

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Organization currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Organization has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

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

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets carried at amortised cost

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2.11 Cash and cash equivalents

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

2.12 Trade and other payables

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

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

2.13 Employee benefits

(a) Employee leave entitlements

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

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

(b) Retirement plan obligations

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

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.13 Employee benefits (Continued)

(b) Retirement plan obligations (Continued)

Defined contribution plan and MPF scheme

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

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

Defined benefit plan

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

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.13 Employee benefits (Continued)

(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.

2.14 Provisions

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

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

2.15 Revenue and other income recognition

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

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

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.16 Operating leases (as the lessee)

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

2.17 VMO Loan Fund and VMO Agricultural Development Fund

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

The Vegetable Marketing Organization Agricultural Development Fund ("VMO Agricultural Development Fund") was set up for promoting local agriculture.

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

3 Financial and fund risks management

3.1 Financial risk factors

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

(a) Foreign exchange risk

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

(b) Credit risk

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

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

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

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(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)

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

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

(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 2018 and 2017, the maturity analysis of the financial liabilities is as follows:

	2018	2017
Less than one year		
Trade and other payables (note 15)	12,674,195	9,527,566
Vegetable buyers' deposits	6,265,560	6,863,983
	<u>18,939,755</u>	<u>16,391,549</u>

(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 2018, if interest rate on the bank deposits had been 25 basis points (2017: 25 basis points) higher/lower with all other variables held constant, deficit for the year would have been approximately HK\$573,000 (2017: HK\$645,000) 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.

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial and fund risks management (Continued)

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.

4 Critical accounting estimates and judgements

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

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

Defined benefit plan and long service payment obligations

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

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

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

VEGETABLE MARKETING ORGANIZATION

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NOTES TO THE FINANCIAL STATEMENTS

5 Property, plant and equipment

	Markets and depots					Vegetable Marketing Organisation Agricultural Development Fund (note 7)				
	Land and buildings	Furniture, fixtures and computer equipment	Motor vehicles	Machinery and others	Subtotal	Leasehold improvements	Furniture, fixtures and computer equipment	Machinery and others (note)	Subtotal	Total
At 1 April 2016										
Cost	4,446,130	27,956,062	7,204,197	22,113	39,628,502	4,126,083	11,102,081	7,275,175	22,503,339	62,131,841
Accumulated depreciation	(3,896,650)	(23,103,983)	(6,274,201)	(18,993)	(33,293,827)	(3,781,086)	(6,032,371)	(2,412,337)	(12,225,794)	(45,519,621)
Net book amount	<u>549,480</u>	<u>4,852,079</u>	<u>929,996</u>	<u>3,120</u>	<u>6,334,675</u>	<u>344,997</u>	<u>5,069,710</u>	<u>4,862,838</u>	<u>10,277,545</u>	<u>16,612,220</u>
Year ended 31 March 2017										
Opening net book amount	549,480	4,852,079	929,996	3,120	6,334,675	344,997	5,069,710	4,862,838	10,277,545	16,612,220
Additions	-	645,284	-	-	645,284	-	640,237	39,737	679,974	1,325,258
Disposals (note 27(b))	-	(71,795)	-	-	(71,795)	-	(95,660)	-	(95,660)	(167,455)
- Cost	-	(797,106)	(1,442,358)	-	(2,239,464)	-	(706,580)	-	(706,580)	(2,946,044)
- Accumulated depreciation	-	725,311	1,442,358	-	2,167,669	-	610,920	-	610,920	2,778,589
Depreciation	(17,631)	(1,003,606)	(419,068)	(1,542)	(1,441,847)	(177,497)	(1,033,466)	(730,093)	(1,941,056)	(3,382,903)
Closing net book amount	<u>531,849</u>	<u>4,421,962</u>	<u>510,928</u>	<u>1,578</u>	<u>5,466,317</u>	<u>167,500</u>	<u>4,580,821</u>	<u>4,172,482</u>	<u>8,920,803</u>	<u>14,387,120</u>
At 31 March 2017										
Cost	4,446,130	27,804,240	5,761,839	22,113	38,034,322	4,126,083	11,035,738	7,314,912	22,476,733	60,511,055
Accumulated depreciation	(3,914,281)	(23,382,278)	(5,250,911)	(20,535)	(32,568,005)	(3,958,583)	(6,454,917)	(3,142,430)	(13,555,930)	(46,123,935)
Net book amount	<u>531,849</u>	<u>4,421,962</u>	<u>510,928</u>	<u>1,578</u>	<u>5,466,317</u>	<u>167,500</u>	<u>4,580,821</u>	<u>4,172,482</u>	<u>8,920,803</u>	<u>14,387,120</u>

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 7)				
	Land and buildings	Furniture, fixtures and computer equipment	Motor vehicles	Machinery and others	Subtotal	Leasehold improvements	Furniture, fixtures and computer equipment	Machinery and others (note)	Subtotal	Total
Year ended 31 March 2018										
Opening net book amount	531,849	4,421,962	510,928	1,578	5,466,317	167,500	4,580,821	4,172,482	8,920,803	14,387,120
Additions	-	124,050	-	-	124,050	-	206,305	18,998	225,303	349,353
Disposals (note 27(b))	-	(24,045)	-	-	(24,045)	-	(23,399)	-	(23,399)	(47,444)
- Cost	-	(95,550)	-	(1,135)	(96,685)	-	(319,098)	-	(319,098)	(415,783)
- Accumulated depreciation	-	71,505	-	1,135	72,640	-	295,699	-	295,699	368,339
Adjustments (note 16)	-	-	-	-	-	-	-	(37,267)	(37,267)	(37,267)
- Cost	-	-	-	-	-	-	-	(62,598)	(62,598)	(62,598)
- Accumulated depreciation	-	-	-	-	-	-	-	25,331	25,331	25,331
Depreciation	(17,630)	(907,013)	(234,299)	(1,094)	(1,160,036)	(163,000)	(938,970)	(731,707)	(1,833,677)	(2,993,713)
Closing net book amount	514,219	3,614,954	276,629	484	4,406,286	4,500	3,824,757	3,422,506	7,251,763	11,658,049
At 31 March 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	22,320,340	60,382,027
Accumulated depreciation	(3,931,911)	(24,217,786)	(5,485,210)	(20,494)	(33,655,401)	(4,121,583)	(7,098,188)	(3,848,806)	(15,068,577)	(48,723,978)
Net book amount	514,219	3,614,954	276,629	484	4,406,286	4,500	3,824,757	3,422,506	7,251,763	11,658,049

Note: The additions for the year of HK\$18,998 (2017: HK\$39,737) include the contingent price of equipment of HK\$Nil (2017: HK\$15,257) for Controlled Environment Hydroponic Research and Development Project as described in note 16.

Depreciation expenses of HK\$1,160,036 and HK\$1,833,677 (2017: HK\$1,441,847 and HK\$1,941,056) have been charged in the operating expenditure and net deficit from VMO Agricultural Development Fund respectively on page 6 and note 21, respectively. The Organization's leasehold land and buildings are situated in Hong Kong and the leasehold land classified as finance lease is held under a medium term lease of between 10 to 50 years.

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NOTES TO THE FINANCIAL STATEMENTS

6 VMO Loan Fund

(a) Balance sheet

The VMO Loan Fund is represented by the following assets and liabilities which have been included in the assets and liabilities of the Organization in the balance sheet on page 4:

	Note	2018	2017
ASSETS			
Non-current assets			
VMO Loans			
- Loans to farmers		2,541,540	2,277,740
- Interest receivable		29,464	40,221
		<u>2,571,004</u>	<u>2,317,961</u>
Less: Provision for impairment of VMO Loans		(148,895)	(60,878)
		<u>2,422,109</u>	<u>2,257,083</u>
Less: Accumulated amortisation at 1 April		(110,021)	(86,956)
Amortisation of discount on VMO Loans	22	(5,332)	(23,065)
Accumulated amortisation at 31 March		<u>(115,353)</u>	<u>(110,021)</u>
VMO Loans – net		2,306,756	2,147,062
Less: Current portion		(2,306,756)	(2,096,245)
Non-current portion		-	50,817
Current assets			
Current portion of VMO Loans			
Other receivables		10,818	11,561
Bank deposits with original maturities over three months	11	6,501,848	10,280,517
Cash and cash equivalents	12	3,671,547	68,729
		<u>12,490,969</u>	<u>12,457,052</u>
Total assets		<u>12,490,969</u>	<u>12,507,869</u>
FUNDS			
Capital account transferred from VMO General Fund			
		2,608,000	2,608,000
Accumulated surplus at 1 April		9,899,869	9,837,603
Net (deficit)/surplus for the year transferred from VMO General Fund	13 & 22	(16,900)	62,266
Accumulated surplus at 31 March		<u>9,882,969</u>	<u>9,899,869</u>
Total funds		<u>12,490,969</u>	<u>12,507,869</u>
LIABILITIES			
Current and total liabilities			
		-	-
Total funds and liabilities		<u>12,490,969</u>	<u>12,507,869</u>

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NOTES TO THE FINANCIAL STATEMENTS

6 VMO Loan Fund (Continued)

(b) VMO Loans

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

The VMO Loans bear interests at rates from 0.005% to 0.3% (2017: 0.005% to 0.3%) per annum and are repayable within one year (2017: within one year) with third party personal guarantees. As at 31 March 2018, the weighted average effective interest rate of the VMO Loans is 0.007% (2017: 0.007%) per annum.

As at 31 March 2018, VMO Loans of HK\$148,895 (2017: HK\$60,878) were past due and impaired and full provisions have been made. The individually impaired receivables mainly related to borrowers, which were in unexpectedly difficult economic situations. The ageing of these VMO Loans is as follows:

	2018	2017
<u>Past due by:</u>		
Up to 30 days	4,000	8,000
31 to 60 days	4,000	7,000
61 to 90 day	29,013	2,000
Over 90 days	111,882	43,878
	<u>148,895</u>	<u>60,878</u>

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

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

	Note	2018	2017
At 1 April		60,878	80,116
Provision/(reversal of provision) for impairment of receivables upon collection	22	88,017	(19,238)
At 31 March		<u>148,895</u>	<u>60,878</u>

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

The maximum exposure to credit risk at the balance sheet date is the carrying values of the VMO Loans. The carrying values of VMO Loans approximate their fair values at 31 March 2018 and 2017 and are denominated in Hong Kong dollars.

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NOTES TO THE FINANCIAL STATEMENTS

7 **VMO Agricultural Development Fund**

The VMO Agricultural Development Fund is represented by the following assets and liabilities which have been included in the assets and liabilities of the Organization in the balance sheet on page 4:

	Note	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	7,251,763	8,920,803
Current assets			
Inventories	9(a)	401,044	443,326
Biological assets	9(b)	52,966	45,464
Trade and other receivables		2,294,857	1,494,293
Bank deposits with original maturities over three months	11	17,954,611	38,750,000
Cash and cash equivalents	12	1,599,100	511,917
Total current assets		22,302,578	41,245,000
Total assets		29,554,341	50,165,803
FUNDS			
Capital account			
At 1 April		370,000,000	350,000,000
Transfer from VMO General Fund	13	10,000,000	20,000,000
At 31 March		380,000,000	370,000,000
Accumulated deficit at 1 April		(322,305,625)	(285,273,028)
Net deficit for the year transferred from VMO General Fund	13&21	(30,128,992)	(37,032,597)
Accumulated deficit at 31 March		(352,434,617)	(322,305,625)
Total funds		27,565,383	47,694,375
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities		777,640	911,876
Long service payment obligations		113,425	207,703
Total non-current liabilities		891,065	1,119,579
Current liabilities			
Other payables		794,274	744,231
Provisions for other liabilities		303,619	440,529
Long service payment obligations		-	167,089
Total current liabilities		1,097,893	1,351,849
Total liabilities		1,988,958	2,471,428
Total funds and liabilities		29,554,341	50,165,803

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NOTES TO THE FINANCIAL STATEMENTS

7 VMO Agricultural Development Fund (Continued)

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

8 Financial instruments by category

The Organization's financial instruments include the following:

	Note	2018	2017
Financial assets - loans and receivables			
VMO Loans	6(a)	2,306,756	2,147,062
Trade and other receivables	10	6,971,121	5,324,444
Bank deposits with original maturities over three months	11	224,656,773	257,992,517
Cash and cash equivalents	12	39,302,477	26,470,265
		<u>273,237,127</u>	<u>291,934,288</u>
Financial liabilities - other financial liabilities at amortised cost			
Trade and other payables	15	12,674,195	9,527,566
Vegetable buyers' deposits		6,265,560	6,863,983
		<u>18,939,755</u>	<u>16,391,549</u>

9 Inventories and biological assets

(a) Inventories

	2018	2017
Premium vegetables	137,644	128,449
Others	511,005	529,273
	<u>648,649</u>	<u>657,722</u>
Less: Provision for impairment of inventories	(38)	(54)
	<u>648,611</u>	<u>657,668</u>
Represented by:		
- General fund	247,567	214,342
- VMO Agricultural Development Fund (note 7)	401,044	443,326
	<u>648,611</u>	<u>657,668</u>

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NOTES TO THE FINANCIAL STATEMENTS

9 Inventories and biological assets (Continued)

(b) Biological assets	2018	2017
At 1 April	45,464	52,177
Additions	1,046,898	1,094,446
Harvested hydroponic vegetable produce	(951,898)	(1,016,359)
Write off (note 26(a))	(87,498)	(84,800)
	<u>52,966</u>	<u>45,464</u>
<u>At 31 March</u>	<u>52,966</u>	<u>45,464</u>
<u>Analysis of biological assets</u>		
Mature	-	-
Immature	52,966	45,464
	<u>52,966</u>	<u>45,464</u>

As at 31 March 2018, the Organization had 109 (2017: 119) kilogram of biological assets. During the year, the quantity of hydroponic vegetable produce harvested for sales is 3,852 (2017: 3,629) kilogram.

10 Trade and other receivables

	2018	2017
Trade receivables	5,644,942	4,393,625
Less: Provision for impairment of trade receivables	(113,157)	(113,157)
	<u>5,531,785</u>	<u>4,280,468</u>
Trade receivables, net	5,531,785	4,280,468
Interest receivables	555,656	576,185
Other receivables	883,680	467,791
	<u>6,971,121</u>	<u>5,324,444</u>
Financial assets	6,971,121	5,324,444
Prepayments for:		
- Insurance expense	1,269,142	1,436,019
- Other operating expenses	1,746,403	1,463,131
	<u>9,986,666</u>	<u>8,223,594</u>
Total	<u>9,986,666</u>	<u>8,223,594</u>

As of 31 March 2018, trade receivables of HK\$353,987 (2017: HK\$126,294) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The Organization does not hold any collateral over these balances and the ageing analysis of these trade receivables is as follows:

	2018	2017
<u>Past due by:</u>		
Up to 30 days	353,575	126,294
31 to 60 days	12	-
Over 90 days	400	-
	<u>353,987</u>	<u>126,294</u>

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NOTES TO THE FINANCIAL STATEMENTS

10 Trade and other receivables (Continued)

As of 31 March 2018, trade receivables of HK\$113,157 (2017: HK\$113,157) were impaired and provisions have been made. The impaired receivables mainly related a customer, which is in unexpectedly difficult economic situations. The ageing of these trade receivables is as follows:

	2018	2017
<u>Past due by:</u>		
Over 1 year	113,157	113,157
	<u>113,157</u>	<u>113,157</u>

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

	2018	2017
At 1 April and 31 March	113,157	113,157
	<u>113,157</u>	<u>113,157</u>

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

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivables mentioned above. The carrying values of trade and other receivables approximate their fair values at 31 March 2018 and 2017 and are denominated in Hong Kong dollars.

11 Bank deposits with original maturities over three months

	Note	2018	2017
VMO General Fund		200,200,314	208,962,000
VMO Loan Fund	6(a)	6,501,848	10,280,517
VMO Agricultural Development Fund	7	17,954,611	38,750,000
		<u>224,656,773</u>	<u>257,992,517</u>
Maximum exposure to credit risk		<u>224,656,773</u>	<u>257,992,517</u>

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

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

12 Cash and cash equivalents

	Note	2018	2017
<u>VMO General Fund</u>			
Cash at banks and in hand		34,031,830	25,889,619
<u>VMO Loan Fund</u>			
Cash at banks		171,547	68,729
Bank deposits with original maturities of three months or less		3,500,000	-
	6(a)	3,671,547	68,729
<u>VMO Agricultural Development Fund</u>			
Cash at banks and in hand		599,100	511,917
Bank deposits with original maturities of three months or less		1,000,000	-
	7	1,599,100	511,917
Total		39,302,477	26,470,265
Maximum exposure to credit risk		36,426,005	25,623,956

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

13 VMO General Fund - Accumulated Surplus

	Note	2018	2017
At 1 April			
Deficit for the year		229,589,009	236,681,918
		(23,824,450)	(29,761,829)
Surplus on remeasurements for:			
- Defined benefit plan	17	4,281,000	1,617,000
- Long service payment obligations			
- VMO General Fund	17	1,072,358	3,885,745
- VMO Agricultural Development Fund	17	297,808	195,844
Net deficit/(surplus) transferred to VMO Loan Fund	6(a)	16,900	(62,266)
Net deficit transferred to VMO Agricultural Development Fund	7	30,128,992	37,032,597
Transferred to capital account of VMO Agricultural Development fund	7	(10,000,000)	(20,000,000)
At 31 March		231,561,617	229,589,009

14 Funds provided from external sources for capital expenditure

	2018	2017
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
	1,764,104	1,764,104

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NOTES TO THE FINANCIAL STATEMENTS

15 Trade and other payables

	2018	2017
Trade payables	9,592,212	6,391,153
Other payables	2,291,750	2,333,953
Vegetable sellers' and other deposits	790,233	802,460
	<hr/>	<hr/>
Financial liabilities	12,674,195	9,527,566
Receipts in advance	82,409	112,917
	<hr/>	<hr/>
	<u>12,756,604</u>	<u>9,640,483</u>

The carrying values of trade and other payables approximate their fair values at 31 March 2018 and 2017 and are denominated in Hong Kong dollars.

16 Provisions for other liabilities

	Unused annual leave	Contingent price of equipment (note)	Total
At 1 April 2016	1,506,675	1,281,721	2,788,396
Payments for the year	(166,408)	-	(166,408)
	<hr/>	<hr/>	<hr/>
	1,340,267	1,281,721	2,621,988
	<hr/>	<hr/>	<hr/>
(Reversal of provision)/provision for the year			
- General Fund (note 19(a))	29,715	-	29,715
- VMO Agricultural Development Fund	14,940	(198,893)	(183,953)
- Property, plant and equipment (note 5)	-	15,257	15,257
	<hr/>	<hr/>	<hr/>
	44,655	(183,636)	(138,981)
	<hr/>	<hr/>	<hr/>
At 31 March 2017 and 1 April 2017	1,384,922	1,098,085	2,483,007
Payments for the year	(170,512)	-	(170,512)
	<hr/>	<hr/>	<hr/>
	1,214,410	1,098,085	2,312,495
	<hr/>	<hr/>	<hr/>
(Reversal of provision)/provision for the year			
- General Fund (note 19(a))	89,964	-	89,964
- VMO Agricultural Development Fund	13,160	(136,886)	(123,726)
- Property, plant and equipment (note 5)	-	(62,598)	(62,598)
	<hr/>	<hr/>	<hr/>
	103,124	(199,484)	(96,360)
	<hr/>	<hr/>	<hr/>
At 31 March 2018	<u>1,317,534</u>	<u>898,601</u>	<u>2,216,135</u>

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

16 Provisions for other liabilities (Continued)

Analysis of total provisions:

	Unused annual leave	Contingent price of equipment (note)	Total
<u>At 31 March 2018</u>			
Non-current	-	777,640	777,640
Current	1,317,534	120,961	1,438,495
	<u>1,317,534</u>	<u>898,601</u>	<u>2,216,135</u>
<u>At 31 March 2017</u>			
Non-current	-	911,876	911,876
Current	1,384,922	186,209	1,571,131
	<u>1,384,922</u>	<u>1,098,085</u>	<u>2,483,007</u>

Note:

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

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

On 30 October 2015, the Organization entered into a supplementary agreement (the "Supplementary Agreement") with the Third Party in relation to the operation of the Vegetable Factory, whereby the clause of Guarantee Output was abandoned. The duration of the Supplementary Agreement is five years from 1 November 2015. The daily production output of hydroponic vegetables was reduced because of more research activities were undertaken. Due to reassessment of the present value of costs of Free Hydroponic Vegetables and the Continuous Consideration (collectively, the "contingent price of equipment") at 31 March 2018, downward adjustment on cost of HK\$62,598 (2017: upward adjustment on cost of HK\$15,257) is resulted.

As at 31 March 2018, a provision is recognised for the contingent price of equipment, totaling HK\$898,601 (2017: HK\$1,098,085). It is expected that HK\$120,961 (2017: HK\$186,209) will be utilised next year and HK\$777,640 (2017: HK\$911,876) will be utilised or paid during the remaining duration of the Agreement.

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations

	Note	2018	2017
Balance sheet assets for:			
- Defined benefit plan	(a)	<u>11,393,000</u>	<u>6,902,000</u>
Balance sheet obligations for:			
- Long service payment obligations			
- Non-current portion		(4,842,175)	(6,026,763)
- Current portion		(542,751)	(256,097)
	(b)	<u>(5,384,926)</u>	<u>(6,282,860)</u>
Statement of comprehensive income charged for:			
- Defined benefit plan	19(a)	135,000	241,000
- Long service payment obligations			
- VMO General Fund	19(a)	543,509	610,644
- VMO Agricultural Development Fund	19(b)	54,983	74,388
		<u>733,492</u>	<u>926,032</u>
Remeasurements for:			
- Defined benefit plan	(a)	(4,281,000)	(1,617,000)
- Long service payment obligations			
- VMO General Fund		(1,072,358)	(3,885,745)
- VMO Agricultural Development Fund		(297,808)	(195,844)
	(b)	<u>(1,370,166)</u>	<u>(4,081,589)</u>
		<u>(5,651,166)</u>	<u>(5,698,589)</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 2018 and 2017 carried out by Milliman Limited, who holds a recognised professional qualification.

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

	2018	2017
Present value of the funded obligations	(13,765,000)	(17,235,000)
Fair value of plan assets	<u>25,158,000</u>	<u>24,137,000</u>
Assets in the balance sheet	<u>11,393,000</u>	<u>6,902,000</u>

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NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations (Continued)

(a) Defined benefit plan (Continued)

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

	Present value of defined benefit obligations	Fair value of plan assets	Total
At 1 April 2016	(19,397,000)	24,516,000	5,119,000
Current service costs	(275,000)	-	(275,000)
Interest (expense)/income	(154,000)	202,000	48,000
	<u>(19,826,000)</u>	<u>24,718,000</u>	<u>4,892,000</u>
Remeasurements:			
- Return on plan assets (excluding interest income)	-	2,714,000	2,714,000
- Surplus from change in financial assumption changes	292,000	-	292,000
- Experience losses	(1,389,000)	-	(1,389,000)
	<u>(1,097,000)</u>	<u>2,714,000</u>	<u>1,617,000</u>
Plan participants contributions	(226,000)	226,000	-
Employer contributions	-	407,000	407,000
Benefit payments	3,914,000	(3,914,000)	-
Administrative cost	-	(14,000)	(14,000)
	<u>3,688,000</u>	<u>(3,295,000)</u>	<u>393,000</u>
At 31 March 2017	<u>(17,235,000)</u>	<u>24,137,000</u>	<u>6,902,000</u>
At 1 April 2017	(17,235,000)	24,137,000	6,902,000
Current service costs	(239,000)	-	(239,000)
Interest (expense)/income	(200,000)	317,000	117,000
	<u>(17,674,000)</u>	<u>24,454,000</u>	<u>6,780,000</u>
Remeasurements:			
- Return on plan assets (excluding interest income)	-	3,932,000	3,932,000
- Surplus from change in financial assumption changes	274,000	-	274,000
- Experience gains	75,000	-	75,000
	<u>349,000</u>	<u>3,932,000</u>	<u>4,281,000</u>
Plan participants contributions	(192,000)	192,000	-
Employer contributions	-	345,000	345,000
Benefit payments	3,752,000	(3,752,000)	-
Administrative cost	-	(13,000)	(13,000)
	<u>3,560,000</u>	<u>(3,228,000)</u>	<u>332,000</u>
At 31 March 2018	<u>(13,765,000)</u>	<u>25,158,000</u>	<u>11,393,000</u>

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NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations (Continued)

(a) Defined benefit plan (Continued)

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

	2018 %	2017 %
Equities	76	74
Bonds	20	23
Money instruments	4	3
	<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 2016	10,339,929
Current service costs	513,899
Interest expense	171,133
	<u>11,024,961</u>
Remeasurements:	
- Experience gains	(4,081,589)
Benefit payments	(660,512)
	<u>6,282,860</u>
At 31 March 2017	<u>6,282,860</u>

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NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations (Continued)

(b) Long service payment obligations (Continued)

	Present value of long service payment obligations
At 1 April 2017	6,282,860
Current service costs	492,343
Interest expense	106,149
	<u>6,881,352</u>
Remeasurements:	
- Experience gains	(1,370,167)
Benefit payments	(126,259)
	<u>5,384,926</u>
At 31 March 2018	<u>5,384,926</u>

(c) The principal actuarial assumptions used as follows:

	<u>Defined benefit obligations</u>		<u>Long service payment obligations</u>	
	2018	2017 %	2018	2017 %
Discount rate	1.75	1.3	1.75	1.7
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 2.1%	Increase by 2.2%	Decrease by 8.7%	Increase by 10.3%
Salary growth rate	0.5%	Increase by 2.2%	Decrease by 2.1%	Increase by 0.8%	Decrease by 0.3%

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

VEGETABLE MARKETING ORGANIZATION
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NOTES TO THE FINANCIAL STATEMENTS

17 Retirement benefit obligations (Continued)

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

	<u>Defined benefit obligations</u>		<u>Long service payment obligations</u>	
	2018	2017	2018	2017
Expected contributions by:				
- Organization	310,000	387,000	-	-
- Employees	172,000	215,000	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

- (f) The weighted average duration of the defined benefit obligations and long service payment obligations is around 5.2 years and 9 years (2017: 4.9 years and 10.8 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>	
	2018	2017	2018	2017
Less than 1 year	1,507,000	3,752,000	256,000	77,000
Between 1 and 2 years	3,465,000	1,512,000	437,000	408,000
Between 2 and 5 years	2,460,000	4,835,000	1,289,000	1,539,000
Next 5 years	6,622,000	7,684,000	1,854,000	2,776,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>14,054,000</u>	<u>17,783,000</u>	<u>3,836,000</u>	<u>4,800,000</u>

18 Net income from sales of premium vegetables

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

	2018	2017
Sales of premium vegetables	29,844,402	27,652,219
Cost of inventories sold	(22,402,832)	(20,331,024)
Gross profit	<u>7,441,570</u>	<u>7,321,195</u>
Commission income relating to sales of premium vegetables	1,004,955	908,954
Direct operating expenses		
Sales commission	(6,792)	(7,353)
Sundry expenses	(41,641)	(30,652)
	<u>(48,433)</u>	<u>(38,005)</u>
Net income for the year	<u>8,398,092</u>	<u>8,192,144</u>

The cost of inventories sold includes inventory written-off of HK\$1,638,875 (2017: HK\$1,358,629).

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NOTES TO THE FINANCIAL STATEMENTS

19 Employee benefit expenditure

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

	Note	2018	2017
Salaries and wages		35,755,810	36,849,666
Provision for unused annual leave	16	89,964	29,715
Retirement benefit costs			
- Defined contribution plan and MPF scheme		1,953,071	1,987,665
- Defined benefit plan	17	135,000	241,000
- Long services payment obligations	17	543,509	610,644
		<u>38,477,354</u>	<u>39,718,690</u>

(b) In addition to the above, employee benefit expenditure amounting to HK\$8,199,106 (2017: HK\$11,615,789) as listed below has been included in various expenditure items in the VMO Agricultural Development Fund in note 21.

	Note	2018	2017
Salaries and wages		7,754,945	10,993,867
Provision for unused annual leave	16	13,160	14,940
Retirement benefit costs			
- MPF scheme		376,018	532,594
- Long services payment obligations	17	54,983	74,388
		<u>8,199,106</u>	<u>11,615,789</u>

20 Rent, rates and permit fees

Included in the amount, HK\$698,400 (2017: HK\$698,400) represents operating lease rentals for market premises.

21 Net deficit from VMO Agricultural Development Fund

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

	Note	2018	2017
Income			
FarmFest income		4,290,708	4,537,876
Interest income on bank deposits		235,131	338,311
Other income		45,266	15,008
		<u>4,571,105</u>	<u>4,891,195</u>

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NOTES TO THE FINANCIAL STATEMENTS

21 Net deficit from VMO Agricultural Development Fund (Continued)

	Note	2018	2017
Expenditure			
Land rehabilitation scheme			
- Repairs and maintenance		(8,760)	(11,210)
- Depreciation		(86,135)	(103,596)
- Recreational Farming		(28,800)	(542,316)
- Miscellaneous expenditure		(7,249)	(45,734)
Construction and improvement of communal agriculture facilities		(171,000)	(185,850)
Crop Development Programmes Promotion			
- Depreciation		(17,183)	(17,183)
- Net deficit from sales of accredited local vegetables	24	(161,345)	(174,109)
- Grants to a third party organisation		(2,208,000)	(2,428,000)
- Other expenses		(2,934,065)	(4,194,233)
Controlled Environment Greenhouse Production			
- Depreciation		(3,272)	(2,392)
- Other expenses		(875,558)	(1,806,174)
Promotion of Organic Farming			
- Depreciation		(28,942)	(29,542)
- Net deficit from sales of organic vegetables	25	(758,278)	(741,764)
- Grants to third party organisations		(14,218,338)	(14,321,766)
- Other expenses		(1,756,480)	(4,011,315)
Voluntary Registration Scheme of Local Vegetable Farms			
- Depreciation		(16,117)	(16,117)
- Other expenses		(1,445,210)	(1,832,828)
Promotion of Local Agricultural and Fisheries Products			
- FarmFest expenses		(6,040,615)	(6,446,052)
Improvement to VMO's wholesale marketing facilities and services			
- Depreciation		(948,561)	(1,040,373)
- Other expenses		(1,206,598)	(1,939,651)
Controlled Environments Hydroponic Research and Development Centre Production for sales			
- Depreciation		(213,370)	(213,304)
- Net deficit from sales of hydroponic vegetables	26(a)	(931,069)	(889,292)
- Reversal of overprovision for depreciation of property, plant and equipment		25,331	-
- Other expenses		(279,994)	(324,884)
Research activities expense	26(b)	(648,734)	(702,095)
Loss on disposals of property, plant and equipment	27(b)	(23,399)	(95,660)
Miscellaneous expenses		(6,164)	(4,196)
		<u>(34,997,905)</u>	<u>(42,119,636)</u>
Deficit for the year		(30,426,800)	(37,228,441)
Remeasurements for long service payment obligations	17	297,808	195,844
Net deficit for the year	7	(30,128,992)	(37,032,597)

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NOTES TO THE FINANCIAL STATEMENTS

22 Net (deficit)/surplus from VMO Loan Fund

	Note	2018	2017
Income			
Interest on bank deposits		76,432	65,727
Interest on VMO Loans		166	486
Reversal of provision for impairment of VMO Loans	6(b)	-	19,238
		<u>76,598</u>	<u>85,451</u>
Expenditure			
Bank charges		(149)	(120)
Amortisation of discount on VMO Loans	6(a)	(5,332)	(23,065)
Provision for impairment of VMO Loans	6(b)	(88,017)	-
		<u>(93,498)</u>	<u>(23,185)</u>
Net (deficit)/surplus for the year		<u>(16,900)</u>	<u>62,266</u>

23 Taxation

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

24 Crop Development Programmes Promotion

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

	Note	2018	2017
Sales of accredited local vegetables			
Cost of inventories sold		208,459	341,480
		<u>(76,677)</u>	<u>(123,954)</u>
Gross profit		<u>131,782</u>	<u>217,526</u>
Direct operating expenses			
Employee benefit expenditure		(212,685)	(291,082)
Sales commission		(54,044)	(84,265)
Transportation charges		(7,826)	(7,028)
Miscellaneous expenses		(18,572)	(9,260)
		<u>(293,127)</u>	<u>(391,635)</u>
Net deficit for the year	21	<u>(161,345)</u>	<u>(174,109)</u>

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25 Promotion of Organic Farming

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

	Note	2018	2017
Sales of organic vegetables		3,738,564	3,602,611
Cost of inventories sold		(1,252,504)	(1,161,709)
Gross profit		<u>2,486,060</u>	<u>2,440,902</u>
Direct operating expenses			
Employee benefit expenditure		(2,008,867)	(2,119,421)
Sales commission		(790,105)	(763,552)
Transportation charges		(23,476)	(21,086)
Stores and equipment		(133,295)	(76,995)
Miscellaneous expenses		(286,835)	(199,852)
Depreciation		(1,760)	(1,760)
		<u>(3,244,338)</u>	<u>(3,182,666)</u>
Net deficit for the year	21	<u>(758,278)</u>	<u>(741,764)</u>

26 Controlled Environment Hydroponic Research and Development Project

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

	Note	2018	2017
Sales of hydroponic vegetables		359,001	459,076
Cost of hydroponic vegetables sold		(830,344)	(824,056)
Gross loss		<u>(471,343)</u>	<u>(364,980)</u>
Other income		<u>1,745</u>	<u>2,711</u>
Direct operating expenses			
Publication and publicity		-	(78,110)
Packing materials		(71,150)	(83,008)
Employee benefit expenditure		(253,830)	(162,611)
Miscellaneous expenses		(105,491)	(172,294)
Depreciation		(31,000)	(31,000)
		<u>(461,471)</u>	<u>(527,023)</u>
Net deficit for the year	21	<u>(931,069)</u>	<u>(889,292)</u>

The cost of hydroponic vegetables sold includes biological assets written off of HK\$87,498 (2017: HK\$84,800), inventories written off of HK\$272,397 (2017: HK\$186,482), reversal of provision for impairment of inventories of HK\$16 (2017: HK\$15) and depreciation of HK\$395,889 (2017: HK\$395,276).

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

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

	2018	2017
Other production cost	295,574	344,251
Depreciation	122,449	121,513
Other expenses	230,711	236,331
	<u>648,734</u>	<u>702,095</u>

27 Cash flows information

(a) Cash used in operations

	2018	2017
Deficit for the year	(23,824,450)	(29,761,829)
Adjustments for:		
- Interest income on bank deposits	(2,240,636)	(2,044,314)
- Interest income on VMO Loans	(166)	(486)
- Depreciation (note 5)	2,993,713	3,382,903
- Inventories written off (notes 18 and 26(a))	1,911,272	1,545,111
- Biological assets written off (notes 9(b) and 26(a))	87,498	84,800
- Reversal of provision for impairment of inventories (note 9(a) and 26(a))	(16)	(15)
- Provision/(reversal of provision) for impairment of VMO Loans (note 22)	88,017	(19,238)
- Loss on disposals of property, plant and equipment (note (b) below)	35,444	11,431
- Reversal of overprovision for depreciation of property, plant and equipment (note 21)	(25,331)	-
- Discount on amortisation on VMO Loans (note 22)	5,332	23,065
- Provision for unused annual leave (note 16)	103,124	44,655
- Reversal of provision of produce to the Third Party (note 16)	(136,886)	(198,893)
- Retirement benefit costs for defined benefit plan (note 17(a))	135,000	241,000
- Retirement benefit costs for long service payment (note 17(b))	598,492	685,032
	<u>(20,269,593)</u>	<u>(26,006,778)</u>
Changes in working capital:		
- Inventories	(1,902,199)	(1,573,252)
- Biological assets	(95,000)	(78,087)
- VMO Loans	(263,800)	(428,000)
- Trade and other receivables	(1,783,601)	1,221,240
- Trade and other payables	3,116,121	(2,971,980)
- Provisions for other liabilities	(170,512)	(166,408)
- Vegetable buyers' deposits	(598,423)	(421,549)
- Defined benefit plan	(345,000)	(407,000)
- Long service payment obligations	(126,260)	(660,512)
	<u>(22,438,267)</u>	<u>(31,492,326)</u>

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NOTES TO THE FINANCIAL STATEMENTS

27 Cash flows information (Continued)

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

	Note	2018	2017
Net book amount	5	47,444	167,455
(Loss)/gain on disposals of property, plant and equipment recognised in:			
- (Other expenditure)/ non-trading income		(12,045)	84,229
- Net deficit from VMO Agricultural Development Fund	21	(23,399)	(95,660)
		<u>(35,444)</u>	<u>(11,431)</u>
Proceeds from disposals of property, plant and equipment		<u>12,000</u>	<u>156,024</u>

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

28 Non-cancellable operating lease commitments

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

	2018	2017
No later than one year	<u>174,600</u>	<u>174,600</u>

29 Key management compensation

	2018	2017
Salaries and other employee benefits	<u>1,033,626</u>	<u>1,338,711</u>