

**Crossroads Foundation Limited 國際十字路協會有限公司**

Reports and Financial Statements

For the year ended 31 December 2006

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Expressed in Hong Kong dollars ("HK\$")

## Directors' report for the year ended 31 December 2006

The directors present their report and the audited financial statements for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The Company is a registered non-profit organisation based in Hong Kong. Its principal activity is to take quality goods which people no longer want and to redistribute them to the welfare arenas of Hong Kong, China and elsewhere. It acts as a link between those in great need and those with the desire and resources to supply.

The Company conducts its operations under the following registrations :

- Crossroads International
- Crossroads Central Asia
- Global Hand
- P3 International

### RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2006 and the state of its affairs at that date are set out in the financial statements on pages 5 to 20.

In accordance with the Company's memorandum of association, no dividend shall be paid to the members of the Company.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Company are set out in note 8 to the financial statements.

## DIRECTORS

The directors of the Company during the year were as follows :

David Lewis De Groen  
Jane Rosemarie Henderson  
Judy Joanne Butler  
Malcolm Bruce Begbie  
Sally Linda Begbie

In accordance with the Company's articles of association, all directors shall hold office for three years and be eligible for re-election.

## DIRECTORS' INTERESTS

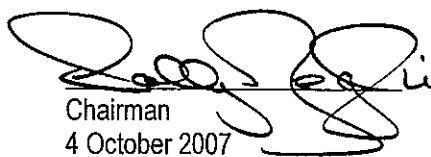
No contract of significance to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company a party to any arrangements to enable the directors of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated companies.

## AUDITORS

The Company's auditors, Grant Thornton retire and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board

  
Chairman  
4 October 2007

## Independent auditors' report

To the members of Crossroads Foundation Limited 國際十字路協會有限公司  
(incorporated in Hong Kong as a company limited by guarantee and not having share capital)

We have audited the financial statements of Crossroads Foundation Limited 國際十字路協會有限公司 (the "Company") set out on pages 5 to 20, which comprise the balance sheet as at 31 December 2006, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2006 and of its deficit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

*Grant Thornton*  
Grant Thornton  
Certified Public Accountants  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

4 October 2007

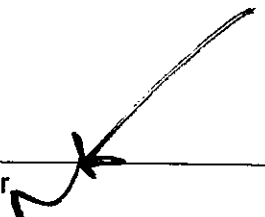
## Income and expenditure account for the year ended 31 December 2006

	Notes	2006 HK\$	2005 HK\$
Income	5	9,514,592	8,841,208
Global handicrafts inventory expenses		(185,724)	(93,390)
Provision for obsolete stock		-	(25,000)
Depreciation		(1,251,192)	(603,408)
Other operating expenses		(9,025,977)	(7,652,270)
<hr/>			
(Deficit)/surplus for the year	6	(948,301)	467,140
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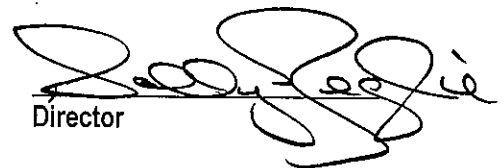
Balance sheet  
as at 31 December 2006

	Notes	2006 HK\$	2005 HK\$
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	2,666,647	3,394,017
<b>Current assets</b>			
Inventories	13	204,405	84,657
Trade and other receivables	9	690,077	386,570
Cash and cash equivalents		597,067	1,236,491
		1,491,549	1,707,718
<b>Current liabilities</b>			
Other payables	10	583,656	657,234
Amounts due to directors	11	842,659	742,561
		1,426,315	1,399,795
<b>Net current assets</b>		65,234	307,923
<b>Net assets</b>		2,731,881	3,701,940
<b>EQUITY</b>			
Accumulated surplus		2,759,405	3,707,706
Translation reserve		(27,524)	(5,766)
<b>Total equity</b>		2,731,881	3,701,940

Director



Director



## Cash flow statement

### for the year ended 31 December 2006

	2006 HK\$	2005 HK\$
<b>Cash flows from operating activities</b>		
(Deficit)/surplus for the year	(948,301)	467,140
Adjustments for :		
Depreciation of property, plant and equipment	1,251,192	603,408
Gain on disposal of property, plant and equipment	-	(2,235)
Loss on writing off of property, plant and equipment	16,422	-
Interest income	(5,836)	(2,785)
Exchange translation difference	(23,993)	(5,766)
Operating profit before working capital changes	289,484	1,059,762
Increase in inventories	(119,748)	(77,639)
(Increase)/decrease in trade and other receivables	(303,507)	210,640
(Decrease)/increase in other payables	(73,578)	388,757
Increase in amounts due to directors	100,098	239,815
<i>Net cash (used in)/generated from operating activities</i>	<i>(107,251)</i>	<i>1,821,335</i>
<b>Cash flows from investing activities</b>		
Interest received	5,836	2,785
Purchase of property, plant and equipment	(538,009)	(1,673,912)
Proceeds from disposal of property, plant and equipment	-	16,808
<i>Net cash used in investing activities</i>	<i>(532,173)</i>	<i>(1,654,319)</i>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(639,424)</b>	<b>167,016</b>
<b>Cash and cash equivalents at 1 January</b>	<b>1,236,491</b>	<b>1,069,475</b>
<b>Cash and cash equivalents at 31 December</b>	<b>597,067</b>	<b>1,236,491</b>

## Statement of changes in equity for the year ended 31 December 2006

	Translation reserve HK\$	Accumulated surplus HK\$	Total HK\$
Balance at 1 January 2005	-	3,240,566	3,240,566
Currency translation	(5,766)	-	(5,766)
Surplus for the year	-	467,140	467,140
<hr/>			
Balance at 31 December 2005 and 1 January 2006	(5,766)	3,707,706	3,701,940
Currency translation	(21,758)	-	(21,758)
Deficit for the year	-	(948,301)	(948,301)
<hr/>			
<b>Balance at 31 December 2006</b>	<b>(27,524)</b>	<b>2,759,405</b>	<b>2,731,881</b>

# Notes to the financial statements

## for the year ended 31 December 2006

### 1. GENERAL INFORMATION

Crossroads Foundation Limited (the "Company") is a registered non-profit organisation based in Hong Kong. The Company is a company limited by guarantee incorporated in Hong Kong. The address of the Company's registered office is 2 Castle Peak Road, Tuen Mun, HKSAR, China.

The Company conducts its operations under the following registrations :

- Crossroads International
- Crossroads Central Asia
- Global Hand
- P3 International

Its principal activity is to take quality goods which people no longer want and to redistribute them to the welfare arenas of Hong Kong, China and elsewhere. It acts as a link between those in great need and those with the desire and resources to supply.

The financial statements on pages 5 to 20 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance.

The financial statements for the year ended 31 December 2006 were approved by the board of directors on 4 October 2007.

### 2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2006, the Company has adopted all the new and amended HKFRSs which are firstly effective on 1 January 2006 and relevant to the Company. The adoption of these new and amended HKFRSs did not result in any significant changes in the Company's accounting policies.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs (Continued)

The Company has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of these HKFRSs will not result in material financial impact on the Company's financial statements.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC) Interpretation 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC) Interpretation 9	Reassessment of Embedded Derivatives <sup>5</sup>
HK(IFRIC) Interpretation 10	Interim Financial Reporting and Impairment <sup>6</sup>
HK(IFRIC) Interpretation 11	Group and Treasury Share Transactions <sup>7</sup>
HK(IFRIC) Interpretation 12	Service Concession Arrangements <sup>8</sup>

Note:

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2007
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2009
- <sup>3</sup> Effective for annual periods beginning on or after 1 March 2006
- <sup>4</sup> Effective for annual periods beginning on or after 1 May 2006
- <sup>5</sup> Effective for annual periods beginning on or after 1 June 2006
- <sup>6</sup> Effective for annual periods beginning on or after 1 November 2006
- <sup>7</sup> Effective for annual periods beginning on or after 1 March 2007
- <sup>8</sup> Effective for annual periods beginning on or after 1 January 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (a) Basis of preparation (Continued)

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

#### (b) Foreign currency translation

The financial statements are presented in Hong Kong dollars (HK\$), which is also the functional currency of the Company.

Foreign currency transactions are translated into Hong Kong dollars using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Exchange differences arising from the translation of the net investment in foreign operation in Asia are taken to the foreign currency translation reserve. This exchange difference will remain a part of equity, only ever being recognized in the income statement should the branch ever be sold in the future.

#### (c) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

Donations are recognised as income in the period in which they are received or receivable.

Revenue from global handicrafts is recognised when the goods are delivered to the customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Revenue recognition (Continued)

Interest income is recognised on a time proportion basis by reference to the principal outstanding and the interest rate applicable.

(d) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less depreciation and impairment losses. The gain or loss arising on retirement or disposal is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income statement.

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 economics benefits associated with the item will flow to the Company and the cost of them can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using straight-line method to allocate their cost over their estimated useful lines, as follows:

Office equipment	20%
Computer equipment	20%
Warehouse equipment	20%
Photographic equipment	20%
Motor vehicle	20%
Leasehold improvements	20%-33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Impairment of assets

Property, plant and equipment are subject to impairment testing. All assets are tested for impairment whenever there are indication that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Given the Company is a not-for-profit entity, the return on investment concept being implied through HKAS 36 Impairment of Assets rules becomes less relevant. As such impairment reviews for the property, plant and equipment recorded in the balance sheet has been limited to ensuring sufficient use will be made of those assets over their remaining useful life in the fulfilment of the Company's primary operating objectives.

(f) Operating leases

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognized in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Inventories

Inventories comprise purchased goods which are stated on weighted-average-cost basis. At the balance sheet date, inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

(h) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

(i) Financial Assets

The Company's financial assets include trade and other receivables.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Trade and other receivables are provided against when objective evidence is received that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(j) Financial liabilities

The Company's financial liabilities primarily comprise of other payables and amounts due to directors.

Other payables are recognised initially at their nominal value and subsequently measured at amortised cost using the effective interest rate method, less settlement payments.

Amounts due to directors are recognised initially at their nominal value and subsequently measured at amortised cost using the effective interest method.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(k) Related parties**

A party is considered to be related to the Company if:

- (i) the party, directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; (iii) has joint control over the Company;
- (ii) the party is a jointly-controlled entity;
- (iii) the party is an associate;
- (iv) the party is a member of the key management personnel of the Company or its parent;
- (v) the party is a close member of the family or any individual referred to in (i) or (ii);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a related party of the Company.

**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 Company did not use critical accounting estimates and judgements in the preparation of the financial statements.

5. REVENUE AND TURNOVER

	2006 HK\$	2005 HK\$
<b>Revenue/ Turnover</b>		
Donations received	9,133,543	8,665,212
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<b>Other income</b>		
Interest income	5,836	2,785
Cottage craft income	-	140
Gain on disposal of property, plant and equipment	-	2,235
Sale of goods – Global handicrafts	360,213	170,836
Written back of provision for stock	15,000	-
	<hr/> 381,049	<hr/> 175,996
Total income	<hr/> 9,514,592	<hr/> 8,841,208

6. SURPLUS FOR THE YEAR

	2006 HK\$	2005 HK\$
Surplus for the year is arrived at after charging :		
Auditors' remuneration	-	-
Depreciation	1,251,192	603,408
Operating lease rentals in respect of volunteer facilities	600,000	600,002

7. INCOME TAX EXPENSES

No Hong Kong profits tax has been provided in the financial statements as the Company is a charitable organisation within the meaning of Section 88 of the Hong Kong Inland Revenue Ordinance ("IRO") and accordingly, it is exempted from payments of all taxes that are levied under the IRO.

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Office equipment HK\$	Computer equipment HK\$	Motor vehicles HK\$	Warehouse equipment HK\$	Photographic equipment HK\$	Total HK\$
At 31 December 2004							
Cost	2,416,410	47,731	328,891	196,000	652,926	34,500	3,676,458
Accumulated depreciation	(514,136)	(32,091)	(247,246)	(117,600)	(401,919)	(25,380)	(1,338,372)
Net book amount	1,902,274	15,640	81,645	78,400	251,007	9,120	2,338,086
Year ended 31 December 2005							
Opening net book amount	1,902,274	15,640	81,645	78,400	251,007	9,120	2,338,086
Additions	1,461,929	11,131	61,888	48,000	83,664	7,300	1,673,912
Disposals	(14,573)	-	-	-	-	-	(14,573)
Depreciation	(495,569)	(4,483)	(16,208)	(36,637)	(47,444)	(3,067)	(603,408)
Closing net book amount	2,854,061	22,288	127,325	89,763	287,227	13,353	3,394,017
At 31 December 2005							
Cost	3,861,531	58,862	390,779	244,000	736,590	41,800	5,333,562
Accumulated depreciation	(1,007,470)	(36,574)	(263,454)	(154,237)	(449,363)	(28,447)	(1,939,545)
Net book amount	2,854,061	22,288	127,325	89,763	287,227	13,353	3,394,017
Year ended 31 December 2006							
Opening net book amount	2,854,061	22,288	127,325	89,763	287,227	13,353	3,394,017
Exchange differences	1,752	162	279	42	-	-	2,235
Additions	231,405	51,663	109,851	129,090	16,000	-	538,009
Written off	-	-	(16,422)	-	-	-	(16,422)
Depreciation	(1,009,484)	(14,515)	(49,147)	(70,053)	(103,496)	(4,497)	(1,251,192)
Closing net book amount	2,077,734	59,598	171,886	148,842	199,731	8,856	2,666,647
At 31 December 2006							
Cost	4,094,465	110,708	484,493	373,090	752,590	41,800	5,857,146
Accumulated depreciation	(2,016,731)	(51,110)	(312,607)	(224,248)	(552,859)	(32,944)	(3,190,499)
Net book amount	2,077,734	59,598	171,886	148,842	199,731	8,856	2,666,647

9. TRADE AND OTHER RECEIVABLES

	2006 HK\$	2005 HK\$
Trade receivables	471,566	115,004
Deposits	162,100	152,000
Prepayments	50,540	75,000
Other receivables	5,871	44,566
	<b>690,077</b>	<b>386,570</b>

10. OTHER PAYABLES

	2006 HK\$	2005 HK\$
Other payables	390,974	238,068
Accruals	192,682	419,166
	<u>583,656</u>	<u>657,234</u>

11. AMOUNTS DUE TO DIRECTORS

Amounts due are unsecured, interest-free and repayable on demand.

12. SHARE CAPITAL

The Company has no share capital and is a company limited by guarantee. At the balance sheet date, the Company had five members (2005: five members). Each member of the Company has an obligation to contribute to the assets of the Company in the event of it being wound up, as may be required, for an amount not exceeding one hundred dollars.

13. INVENTORIES

	2006 HK\$	2005 HK\$
Finished goods	204,405	84,657
	<u>204,405</u>	<u>84,657</u>

14. OPERATING LEASE COMMITMENTS

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable by the Company as follows :

	2006 HK\$	2005 HK\$
Within one year	600,000	600,000
In the second to fifth years	525,000	1,125,000
	1,125,000	1,725,000

The Company leases its office premises under operating leases. The leases run for an initial period of one to five years, with an option to renew the lease terms at the expiry date or at dates mutually agreed between the Company and the respective landlords. None of the leases include contingent rentals.

15. DIRECTORS' REMUNERATION

Remuneration of the directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows :

	2006 HK\$	2005 HK\$
Fees	NIL	NIL
Other emoluments	NIL	NIL

16. FINANCIAL RISK MANAGEMENT

The Company does not have written financial risk management policies and guidelines, primarily due to the simplicity of the financial structure of the business. However, the board of directors meets periodically to analyse and formulate measures to manage the Company's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Company employs a conservative strategy regarding its risk management. As the directors of the Company consider that the Company's exposure to market risk is kept at a minimum level, the Company has not used any derivatives or other instruments for hedging purposes. The Company does not hold or issue derivative financial instruments for trading purposes.

16. FINANCIAL RISK MANAGEMENT (Continued)

The financial assets of the Company comprise primarily trade and other receivables and cash and bank balances. The financial liabilities of the Company comprise primarily other payables and amounts due to directors.

(a) Foreign currency risk

The foreign currency risk is limited to the Company because transactions are predominately in Hong Kong dollar.

(b) Credit risk

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of supporters making donation.

(c) Interest rate risk

The interest rate risk is limited to the cash and cash equivalents held with banking institutions. All cash is immediately accessible and as such earn low short term trading account interest rate returns.

(d) Fair value

The fair value of the Company's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.