

Notes to the Accounts

(Amounts expressed in thousands of Hong Kong dollars unless otherwise stated)

1. General

The Electrical and Mechanical Services Trading Fund ("EMSTF") was established on 1 August 1996 under the Legislative Council Resolution passed on 26 June 1996 pursuant to sections 3, 4 and 6 of the Trading Funds Ordinance (Cap. 430) to provide comprehensive electrical, mechanical and electronic services, vehicle services, and project and consultancy services to clients.

With effect from 1 August 1999, government bureaux, departments and autonomous bodies ("user departments") were allowed to be untied from using the services provided by the EMSTF in four phases over a three-year period. All user departments have been untied since 1 August 2002. They have the freedom to retain the services of the EMSTF or to choose alternative service providers to meet part or all of their electrical and mechanical service needs.

2. Significant accounting policies

2.1 Statement of compliance

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). A summary of the significant accounting policies adopted by the EMSTF is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

2.2 Basis of preparation of the financial statements

The measurement basis used in the preparation of these financial statements is historical cost except that trading financial instruments (note 2.3.2.1) are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical accounting judgements involved in the application of the EMSTF's accounting policies. There are also no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

2.3 Financial assets and financial liabilities

2.3.1 Initial recognition

The EMSTF classifies its financial assets and financial liabilities into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: trading financial instruments, loans and receivables and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value, which normally equals to the transaction prices, plus transaction costs for loans and receivables and other financial liabilities that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on trading financial instruments are expensed immediately.

The EMSTF recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are accounted for at settlement date.

Notes to the Accounts

2. Significant accounting policies *continued*

2.3.2 Categorisation

2.3.2.1 Trading financial instruments

The EMSTF does not acquire financial instruments for the purpose of trading. However, the derivatives embedded in certain structured deposits (note 2.3.4) are categorised as "trading" under HKAS 39, "Financial Instruments: Recognition and Measurement".

Trading financial instruments are carried at fair value. Changes in the fair value are included in the profit and loss account in the period in which they arise.

2.3.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the EMSTF has no intention of trading. This category includes debtors, amounts due from related parties, structured deposits, bank deposits, cash and bank balances.

Loans and receivables are carried at amortised cost using the effective interest method less impairment losses, if any (note 2.3.5).

2.3.2.3 Other financial liabilities

Other financial liabilities are measured at amortised cost using the effective interest method.

2.3.3 Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

2.3.4 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

An embedded derivative is separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the profit and loss account. Where the embedded derivative is separated, the host contract is accounted for according to its category (note 2.3.2).

The derivatives embedded in certain structured deposits are separated from the deposits and accounted for as derivatives because the economic characteristics and risks of the embedded derivatives are not closely related to those of the deposits (note 2.3.2.1).

2.3.5 Impairment of financial assets

The carrying amount of loans and receivables is reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any impairment evidence exists, a loss is recognised in the profit and loss account as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If in a subsequent period, the amount of such impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the profit and loss account.

Notes to the Accounts

2. Significant accounting policies *continued*

2.4 Income tax

2.4.1 Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

2.4.2 Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2.4.3 Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised.

2.4.4 The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

2.4.5 Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the EMSTF has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the EMSTF intends to settle them on a net basis; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority.

2.5 Property, plant and equipment

Fixed assets appropriated to the EMSTF on 1 August 1996 were measured initially at deemed cost equal to the value contained in the Legislative Council Resolution for the setting up of the EMSTF. Fixed assets acquired since 1 August 1996 are capitalised at their costs of acquisition.

The EMSTF headquarters at Caroline Hill Road and the depots at Sung Wong Toi and Kowloon Bay (the "premises") were appropriated to the EMSTF on its establishment in 1996. In 1998, the Government agreed with the EMSTF to swap the "premises" with the new headquarters to be provided by the Government on "a square metre per square metre cost neutral" basis. The arrangement aimed to ensure that the effect on the EMSTF would be cost neutral and to avoid distorting the return on fixed assets (note 10) unnecessarily. The EMSTF moved to the new headquarters in May 2005. For such exchange of assets, the carrying amount of the "premises" was adopted as the value of its new headquarters in the financial statements of the EMSTF.

Notes to the Accounts

2. Significant accounting policies *continued*

The following property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and any impairment losses (note 2.7):

- buildings held for own use appropriated to the EMSTF; and
- plant and equipment, including computer equipment, motor vehicles, furniture and fixtures and other equipment.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, on a straight line basis over the estimated useful lives as follows:

- Buildings 10 - 35 years
- Computer equipment 4 - 10 years
- Motor vehicles 5 years
- Furniture and fixtures 5 years
- Other equipment 7 years
- The land on which the EMSTF's buildings are situated as appropriated to the EMSTF is regarded as a non-depreciating asset.

Gains or losses arising from the disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the profit and loss account at the date of disposal.

2.6 Intangible assets

Intangible assets include acquired computer software licences and capitalised development costs of computer software programmes. Expenditure on development of computer software programmes is capitalised if the programmes are technically feasible and the EMSTF has sufficient resources and the intention to complete development. The expenditure capitalised includes the direct labour and costs of materials. Intangible assets are stated at cost less accumulated amortisation and any impairment losses (note 2.7).

Amortisation of intangible assets is charged to the profit and loss account on a straight-line basis over the assets' estimated useful lives of 4 to 10 years.

2.7 Impairment of fixed assets

The carrying amounts of fixed assets, including property, plant and equipment and intangible assets, are reviewed at each balance sheet date to identify any indication of impairment. If there is an indication of impairment, an impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use.

2.8 Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. The cost of stocks is assigned by using the weighted average cost formula. Work in progress represents jobs in progress as at year end date.

2.9 Cash equivalents

Cash equivalents are short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Notes to the Accounts

Significant accounting policies *continued*

2.10 Employee benefits

Salaries and annual leave are accrued and recognised as an expense in the year in which the associated services are rendered by the staff. Staff oncosts including pensions, housing benefits and non-monetary benefits provided to the staff by the Government are charged to the EMSTF and recognised as an expense in the year in which the associated services are rendered.

2.11 Revenue recognition

2.11.1 Revenue

Revenue is recognised as services are provided.

2.11.2 Interest income

Interest income is recognised as it accrues using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the EMSTF estimates cash flows considering all contractual terms of the financial instruments (for example, call options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.11.3 Other investment income

Realised gains or losses on financial instruments are recognised in the profit and loss account when the financial instruments are derecognised.

Changes in fair value of trading financial instruments are recognised as revaluation gains or losses in the profit and loss account.

2.12 Foreign currency translation

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the profit and loss account.

2.13 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the EMSTF has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Accounts

Significant accounting policies *continued*

2.14 Related parties

The EMSTF is a separate accounting entity within the Government established under the Trading Funds Ordinance. During the year, the EMSTF has entered into transactions with various related parties, including government bureaux and departments, trading funds and financially autonomous bodies controlled or significantly influenced by the Government, in the ordinary course of its business.

3. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the EMSTF after the adoption of these new and revised HKFRSs have been summarised in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The EMSTF has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 29).

3.1 Financial instruments (HKASs 32 and 39, Financial instruments)

With effect from 1 April 2005, in order to comply with HKAS 32, the EMSTF has provided additional disclosures of terms, conditions, accounting policies, risk and fair values of financial assets and financial liabilities throughout the notes to the financial statements and, in particular, in note 27. In order to comply with HKAS 39, the EMSTF has changed its accounting policies relating to financial assets and financial liabilities to those set out in note 2.3. Details of the changes are as follows:

(a) Financial instruments

In prior years, all financial assets were carried at cost less provision for diminution in value. All financial liabilities were carried at cost.

With effect from 1 April 2005 and in accordance with HKAS 39, financial instruments are recognised according to the following categories: trading financial instruments, loans and receivables and other financial liabilities as set out in note 2.3.2.

(b) Embedded derivatives

In prior years, embedded derivatives that were not closely related to the host contracts were not separately accounted for and they were carried as part of the host contracts.

With effect from 1 April 2005, an embedded derivative that is not closely related to the host contract and where the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the profit and loss account is accounted for separately from the host contract (note 2.3.4).

(c) Impairment of financial assets

In prior years, provisions were made by the EMSTF against financial assets when evidence showed that a diminution in value was other than temporary.

With effect from 1 April 2005, in order to comply with HKAS 39, the EMSTF has changed its accounting policies relating to impairment of financial assets to those set out in note 2.3.5.

(d) Description of transitional provisions and effect of adjustments

According to the transitional provisions in HKAS 39, the changes in accounting policies of the above items should be adopted by way of opening balance adjustments to retained earnings and restatement of comparative amounts is prohibited.

The EMSTF has found that no opening balance adjustments are required and that the changes in accounting policies have no material effect on the line items on the face of the financial statements for the year ended 31 March 2006.

Notes to the Accounts

3. Changes in accounting policies *continued*

3.2 Changes in presentation (HKAS 1, Presentation of financial statements and HKAS 38, Intangible assets)

In prior years, computer software licences and capitalised development costs were classified as fixed assets. With effect from 1 April 2005, in order to comply with HKAS 1 and HKAS 38, the EMSTF has changed the presentation and these items are now presented separately as "intangible assets" on the balance sheet.

The new accounting policy has been applied retrospectively with comparatives reclassified.

4. Turnover

	2006	2005
Vehicle services	222,243	183,355
Electrical, mechanical and electronic services	2,777,156	2,705,545
Project and consultancy services	145,856	134,659
Others	43,623	26,775
Total	3,188,878	3,050,334

5. Operating costs

	2006	2005
Staff costs	1,525,209	1,513,436
Materials	291,943	250,290
Contract maintenance	795,678	732,968
Rental and management charges	31,717	20,075
General operating and administration expenses	194,015	162,570
Depreciation and amortisation	16,707	24,241
Audit fees	571	530
Total	2,855,840	2,704,110

6. Other income

	2006	2005
Interest income	55,042	61,822
Net realised and revaluation gains on derivatives embedded in structured deposits	149	-
Total	55,191	61,822

Notes to the Accounts

7. Finance cost

	2006	2005
Interest on		
Government loan repaid and repayable within one year	2,499	1,895
Government loan repayable after one year	-	1,518
	2,499	3,413

8. Taxation

(a) Notional profits tax is provided at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. A payment in lieu of profits tax calculated on the basis of the provisions of the Inland Revenue Ordinance (Cap. 112) will be made to the Government. The amount of taxation charged to the profit and loss account represents:

	2006	2005
Current tax		
Notional profits tax	57,520	60,731
Deferred tax		
Origination and reversal of temporary differences	323	(753)
Total tax expense	57,843	59,978

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2006	2005
Profit before tax	385,730	404,633
Notional tax on profit before tax	67,503	70,811
Tax effect of non-taxable revenue	(9,660)	(10,833)
Actual tax expense	57,843	59,978

9. Dividend

A dividend of \$233.944 million (2005: \$222.328 million) based on 50% of the profit after tax plus an additional amount of \$70 million (2005: \$50 million) is proposed for the year ended 31 March 2006 and payable to the Government.

10. Rate of return on fixed assets

This is calculated as a percentage of profit from operations and interest and other income after taxation to Average Net Fixed Assets ("ANFA"). Fixed assets comprise property, plant and equipment and intangible assets. The EMSTF is expected to meet a target return of 13.5% per annum on ANFA as determined by the Financial Secretary.

Notes to the Accounts

11. Property, plant and equipment

	Land and buildings	Computer equipment	Motor vehicles	Furniture and fixtures	Other equipment	Total
Cost						
At 1 April 2004	950,100	39,534	37,793	26,181	24,626	1,078,234
Additions	-	5,912	2,601	-	-	8,513
Disposals	-	-	(1,635)	-	-	(1,635)
At 31 March 2005	950,100	45,446	38,759	26,181	24,626	1,085,112
At 1 April 2005	950,100	45,446	38,759	26,181	24,626	1,085,112
Additions	-	19,864	272	12,988	-	33,124
Disposals	-	-	(1,379)	-	-	(1,379)
At 31 March 2006	950,100	65,310	37,652	39,169	24,626	1,116,857
Accumulated depreciation						
At 1 April 2004	107,323	38,511	26,393	16,577	23,743	212,547
Additions	13,993	1,036	4,094	4,727	391	24,241
Disposals	-	-	(1,635)	-	-	(1,635)
At 31 March 2005	121,316	39,547	28,852	21,304	24,134	235,153
At 1 April 2005	121,316	39,547	28,852	21,304	24,134	235,153
Additions	8,386	684	3,525	3,896	216	16,707
Disposals	-	-	(1,327)	-	-	(1,327)
At 31 March 2006	129,702	40,231	31,050	25,200	24,350	250,533
Net book value						
At 31 March 2006	820,398	25,079	6,602	13,969	276	866,324
At 31 March 2005	828,784	5,899	9,907	4,877	492	849,959

Notes to the Accounts

12. Intangible assets

	Computer software licences and system development costs	
	2006	2005
Cost		
At beginning of year	6,041	-
Additions	20,631	6,041
At end of year	26,672	6,041
Accumulated amortisation		
At beginning and end of year	-	-
Net book value		
At end of year	26,672	6,041

No amortisation of intangible assets has been charged in the current and the prior year because the corporate computer system concerned was under development.

13. Structured deposits

	2006	2005
Structured deposits with interest		
- at predetermined stepped rates	100,000	100,000
- at rates reset periodically by reference to the Hong Kong Interbank Offered Rate or Hong Kong dollar deposit rate	1,700,000	1,700,000
- at rates reset periodically by reference to an equity index	100,000	-
Portion classified as current assets	1,900,000 (350,000)	1,800,000 -
Non-current portion	1,550,000	1,800,000

The structured deposits with interest at predetermined stepped rates or at rates reset periodically by reference to the Hong Kong Interbank Offered Rate or Hong Kong dollar deposit rate are subject to call option to be exercised at the discretion of the banks before maturity date.

For the structured deposits with interest at rates reset periodically by reference to an equity index, the embedded derivatives are separated from the deposits and accounted for as derivatives. As at 31 March 2006, the separated derivatives were included in the balance sheet at their fair value (note 16).

Notes to the Accounts

14. Deferred tax

Major components of deferred tax recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	Other temporary differences	Total
Balance at 1 April 2004	(2,753)	340	(2,413)
Charged/(Credited) to profit and loss account	(935)	182	(753)
Balance at 31 March 2005	(3,688)	522	(3,166)
Balance at 1 April 2005	(3,688)	522	(3,166)
Charged/(Credited) to profit and loss account	1,560	(1,237)	323
Balance at 31 March 2006	(2,128)	(715)	(2,843)

15. Stocks and work in progress

	2006	2005
Stocks	87,376	82,272
Work in progress	5,484	6,268
	92,860	88,540

16. Debtors and prepayments

	2006	2005
Debtors	1,994	3,329
Prepayments	6,820	37,152
Accrued interest from structured deposits		
Accrued interest income	1,030	8,695
Fair value of embedded derivatives (note 13)	149	-
	1,179	8,695
Other accrued interest	2,721	1,801
Total	12,714	50,977

Notes to the Accounts

17.Short-term borrowing

	2006	2005
Government loan repayable within one year at 31 March (see also note 20)	30,280	30,280

18.Customers' deposits

	2006	2005
Deposits received from related parties	605,194	569,149
Deposits received from other customers	13,407	17,395
	618,601	586,544

19.Deferred revenue

This represents contract fees received in advance for which services have not yet been rendered.

	2006	2005
Contract fees received in advance from related parties	217,744	153,305

20.Government loan

	2006	2005
Government loan repayable after one year at 31 March	-	30,280

A set-up loan of \$302.8 million from the Capital Investment Fund was made in accordance with the resolution passed by the Legislative Council on 26 June 1996 to finance part of initial assets valued at \$1,009.4 million appropriated to the EMSTF effective from 1 August 1996. The loan is repayable in ten equal annual instalments of \$30.28 million starting from 1 July 1997. The tenth (last) instalment due to be payable on 1 July 2006 is shown under short-term borrowing.

A further loan facility of \$150 million from the Capital Investment Fund was approved by the Finance Committee on 12 July 1996 to finance the initial years' working capital of the EMSTF. The working capital loan was to operate as an overdraft facility to the EMSTF with a credit limit of \$150 million, drawn as and when necessary and repayable in full by 31 July 2006. Two drawdowns of \$70 million and \$35 million were made on 1 August 1996 and 2 September 1996 respectively and were subsequently fully paid off. During the current and the prior year, no drawdown from the loan was made.

Interest for the set-up loan is payable on the amount outstanding at the average of the best lending rates quoted by the continuing members of the Committee of the Hong Kong Association of Banks.

21.Trading fund capital

This represents the Government's investment in the EMSTF.

Notes to the Accounts

22.Retained earnings

	2006	2005
Balance at beginning of year	1,748,885	1,626,558
Profit after tax for the year	327,887	344,655
Proposed dividend	(233,944)	(222,328)
Balance at end of year	1,842,828	1,748,885

23.Cash and cash equivalents

	2006	2005
Cash and bank balances	17,700	51,688
Bank deposits with original maturity within three months	1,050,000	990,000
Cash and cash equivalents at end of year	1,067,700	1,041,688

24.Commitments

(a) Capital commitments

At 31 March 2006, outstanding commitments for acquisitions of fixed assets not provided for in the financial statements were as follows:

	2006	2005
Authorised and contracted for	9,079	31,087
Authorised but not yet contracted for	-	-
Total	9,079	31,087

(b) Operating lease commitments

At 31 March 2006, the total future minimum lease payments under non-cancellable operating leases for land and buildings were payable as follows:

	2006	2005
Not later than one year	1,432	2,502
Later than one year and not later than five years	163	170
Total	1,595	2,672

Notes to the Accounts

25. Contingent liabilities

At 31 March 2006, the EMSTF had provided a bank with counter-indemnity in respect of performance bonds for \$10.45 million (2005: \$11.00 million) issued by the bank in favour of certain customers.

26. Related party transactions

Apart from those separately disclosed in the accounts, the other material related party transactions for the year are summarised as follows:

- (a) Services provided to related parties included vehicle services; electrical, mechanical and electronic services; and project and consultancy services. The total revenue derived from these services amounted to \$3,164 million (2005: \$3,024 million). This amount was included in Turnover under note 4.
- (b) Services received from related parties included maintenance, accommodation, central administration and auditing. The total cost incurred on these services amounted to \$91 million (2005: \$84 million). This amount was included in Operating costs under note 5.

Services provided to related parties were priced on a cost-plus basis. Services received from related parties were charged at the rates payable by the general public for services which were also available to the public or on a full cost recovery basis for services which were available only to related parties.

27. Financial instruments

27.1 Investment policy

Surplus cash is invested in financial instruments including fixed deposits and structured deposits. It is the EMSTF's policy that all investments in financial instruments should be principal-protected.

27.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

At the balance sheet date, the EMSTF does not have significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

27.3 Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This results from amount and maturity mismatches of assets and liabilities.

The EMSTF employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the EMSTF to ensure that all liabilities due and known funding requirements could be met.

Notes to the Accounts

27. Financial instruments *continued*

27.4 Interest rate risk

Interest rate risk refers to the risk of loss arising from changes in market interest rates. This can be further classified into fair value interest rate risk and cash flow interest rate risk.

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. Since all the EMSTF's bank deposits and some of its structured deposits bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as they are all stated at amortised cost, their carrying amounts will not be affected by changes in market interest rates.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The EMSTF is exposed to cash flow interest rate risk because most of its structured deposits bear interest at rates reset periodically by reference to the Hong Kong Interbank Offered Rate or Hong Kong dollar deposit rate. In addition, most of the structured deposits are callable by the banks before maturity date. Changes in market interest rates may lead to the exercise of the call option by the banks and therefore affect the future cash flows of such structured deposits.

The table below sets out the EMSTF's exposure to interest rate risk, based on the major interest bearing assets stated at carrying amounts and categorised by the earlier of contractual re-pricing dates or maturity dates and stating the effective interest rate for each group of assets. For structured deposits subject to call option, it is assumed that the call option would not be exercised by the banks before maturity date. For structured deposits with embedded derivatives separated, the effective interest rate is the applicable market interest rate at initial recognition.

	Effective Interest rate	Less than 3 months	3 months to 1 year	1-2 years	2-3 years	Total
2006						
Structured deposits	0.53%	1,700,000	-	100,000	100,000	1,900,000
Bank deposits	3.54%	1,050,000	300,000	50,000	-	1,400,000
		2,750,000	300,000	150,000	100,000	3,300,000
2005						
Structured deposits	3.24%	1,700,000	-	-	100,000	1,800,000
Bank deposits	2.22%	990,000	50,000	300,000	50,000	1,390,000
		2,690,000	50,000	300,000	150,000	3,190,000

27.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The EMSTF basically does not have an exposure to currency risk as substantially all of its financial instruments are denominated in Hong Kong dollar.

27.6 Fair values

The fair values of financial instruments quoted in active markets are their quoted prices at the balance sheet date. In the absence of such quoted market prices, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date.

All financial instruments are stated in the balance sheet at amounts equal to or not materially different from their fair values.

Notes to the Accounts

28. Comparative figures

Certain comparative figures have been reclassified as a result of the changes in accounting policies. Further details are disclosed in note 3.

29. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2006 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards (revised)	1 January 2006
HKFRS 6, Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC)-Int 4, Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC)-Int 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC)-Int 6, Liabilities arising from participating in a specific market - Waste electrical and electronic equipment	1 December 2005
HK(IFRIC)-Int 7, Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC)-Int 8, Scope of HKFRS 2	1 May 2006
HK(IFRIC)-Int 9, Reassessment of embedded derivatives	1 June 2006
Amendment to HKAS 19, Employee benefits - Actuarial gains and losses, group plans and disclosures	1 January 2006
Amendment to HKAS 21, The effects of changes in foreign exchange rate - Net investment in a foreign operation	1 January 2006
Amendments to HKAS 39, Financial instruments: Recognition and measurement:	
- Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
- The fair value option	1 January 2006
- Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
- HKAS 1, Presentation of financial statements	1 January 2006
- HKAS 27, Consolidated and separate financial statements	1 January 2006
- HKFRS 3, Business combinations	1 January 2006
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

The EMSTF is in the process of making an assessment of the impact expected of these amendments, new standards and interpretations in the period of initial application. So far it has concluded that the adoption of HK(IFRIC)-Int 4, HK(IFRIC)-Int 9, HKFRS 7 and the amendment to HKAS 1 is unlikely to have a significant impact on the EMSTF's results of operations and financial position. The other amendments, new standards and interpretations are not applicable to the EMSTF's operations.