3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associates represents the excess of purchase consideration paid for such companies over the fair values ascribed to the net underlying assets acquired at the date of acquisition.

Depending on the circumstances of each acquisition, goodwill is either directly eliminated against reserves or, if there is no foreseen recovery, written off through the profit and loss account in the year in which it arises.

On disposal of an interest in a subsidiary or an associate, the relevant portion of the attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal. Where there is a diminution in value of goodwill other than temporary in nature, the balance is written down in the profit and loss account to its recoverable amount as estimated by the Directors.

(g) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term leasehold properties	2.5%
Leasehold improvements	20% to 50%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%

The gain or loss on disposal or retirement of a fixed asset, other than investment properties, recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

When an asset is reclassified from investment properties to leasehold land and buildings, the asset is stated at the carrying amount as at the date of reclassification and the revaluation reserve attributable to that asset is reclassified to the other asset revaluation reserve. Depreciation is calculated based on the carrying amount, and the portion of the depreciation charge attributable to the related revaluation surplus is transferred from the other asset revaluation reserve to retained profits. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits as a movement in reserves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental being negotiated at arm's length. Such properties are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year and are not depreciated except where the unexpired terms of the leases are 20 years or less, in which case the then carrying amounts are amortised on the straight-line basis over the respective remaining lease terms. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

(i) Properties under development

Properties under development intended for sale are stated at the lower of cost and net realisable value, which is determined by reference to prevailing market prices, on an individual property basis. Other properties under development are stated at cost unless, in the opinion of the Directors, there have been diminutions in values other than temporary in nature, when they are written down to values determined by the Directors. Cost includes all development expenditure, borrowing costs and other direct costs attributable to such properties.

Properties under development which have been pre-sold are stated at cost plus attributable profits less any foreseeable losses.

When properties under development have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the proportion of construction costs incurred up to the accounting date to the estimated total construction costs to completion, and is limited to the amount of sales deposits and instalments received and with due allowance for contingencies.

Where properties are sold under deferred terms with part of the sales proceeds being receivable after an interest-free period, the difference between the sales prices with and without such terms, representing finance income, is treated as deferred income and is allocated to the profit and loss account on a basis which reflects the effective yields on the amounts of the sales proceeds receivable over the interest-free period.

Properties under development intended for sale which are expected to be completed or disposed of within twelve months are classified as current assets.

Deposits received on properties pre-sold prior to their completion in excess of the attributable profit recognised are classified as current liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 6.4% and 7.6% has been applied to the expenditure on the individual assets.

(k) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

(l) Investment securities

Investment securities are listed and unlisted equity securities, which are intended to be held for a continuing strategic or long term purpose, are stated at cost less any provisions for impairments in values deemed necessary by the Directors, other than those considered to be temporary in nature, on an individual investment basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the Directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged is credited to the profit and loss account to the extent of the amounts previously charged.

(m) Other investments

Other investments in securities are listed and unlisted securities which are not classified as investment securities, and are stated at their fair values, as determined by the Directors, at the balance sheet date on an individual investment basis. The gains or losses arising from changes in their respective fair values are credited or charged to the profit and loss account for the period in which they arise.