

Principal Accounting Policies

1. Basis of Preparation

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The accounts have been prepared under the historical cost convention as modified by the revaluation of certain investment properties, available-for-sale investments and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

2. Basis of Consolidation

The consolidated accounts incorporate the accounts of Swire Pacific Limited, its subsidiary companies (together referred to as the “Group”) and the Group’s interests in jointly controlled and associated companies.

3. Subsidiary Companies

Subsidiary companies are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiary companies are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary company is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets.

Investments in subsidiary companies are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group’s share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary company acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiary companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary company is recorded in equity. Gains or losses on disposals to non-controlling interests where control is not lost are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, jointly controlled company or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Where the Group enters into a contract that contains an obligation (for example a written put option exercisable by the contract counterparty) to acquire shares in a partly-owned subsidiary company from the non-controlling interest, which is not part of a business combination, the Group records a financial liability for the present value of the redemption amount and reclassified from equity. Changes to the value of the financial liability are recognised in the income statement within finance income or finance costs.

In the Company's statement of financial position, its investments in subsidiary companies are stated at cost less provision for any impairment losses. Income from subsidiary companies is accounted for by the Company on the basis of dividends received and receivable.

Long-term loans to subsidiary companies are considered to be quasi-equity in nature where there is no defined repayment terms and no historical repayment of the balances.

4. Jointly Controlled and Associated Companies

Jointly controlled companies are those companies held for the long-term, over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements, and where none of the participating parties has unilateral control over the economic activity of the joint venture.

Associated companies are those companies over which the Group has significant influence but not control or joint control, over their management including participation in the financial and operating policy decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in jointly controlled and associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The excess of the cost of investment in jointly controlled and associated companies over the fair value of the Group's share of the identifiable net assets acquired represents goodwill. The Group's investments in jointly controlled and associated companies include goodwill identified on acquisitions, net of any accumulated impairment loss.

The Group's share of its jointly controlled and associated companies' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses equals or exceeds its interest in the jointly controlled or associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled or associated company.

The Group recognises the disposal of an interest in a jointly controlled company when it ceases to have joint control and the risks and rewards of ownership have passed to the acquirer.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Unrealised gains on transactions between the Group and its jointly controlled and associated companies are eliminated to the extent of the Group's interest in these companies. Unrealised losses on assets transferred between the Group and its jointly controlled and associated companies are also eliminated unless the transactions provide evidence of impairment of the assets transferred. Accounting policies of jointly controlled and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associated companies are recognised in the consolidated income statement.

In the Company's statement of financial position, its investments in jointly controlled and associated companies are stated at cost less provision for any impairment losses. Income from jointly controlled and associated companies is recognised by the Company on the basis of dividends received and receivable.

Long-term loans to jointly controlled and associated companies are considered to be quasi-equity in nature where there is no defined repayment terms and no historical repayment of the balances.

5. Foreign Currency Translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company'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. 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 the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, any associated translation difference is also recognised directly in other comprehensive income. When a gain or loss on a non-monetary item is recognised in the income statement, any associated translation difference is also recognised in the income statement.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

6. Investment Properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property comprises leasehold land and buildings held under finance leases. Land held under operating or finance leases is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment properties (including those under construction) are carried at fair value and are valued at least annually. The majority of investment properties are valued by independent valuers. The valuations are performed in accordance with the Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors and are on an open market basis, related to individual properties, and separate values are not attributed to land and buildings. Land and buildings that are being developed for future use as investment properties and investment properties that are being redeveloped for continuing use as investment properties are measured at fair value and included as under construction. Changes in fair values are recognised in the income statement.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

7. Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. 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 Group and the cost of the item can be measured reliably. Major renovation costs and modifications that extend the life or usefulness of vessels are capitalised and depreciated over the period until the next drydocking. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Leasehold land can be classified as held under finance lease and recorded as property, plant and equipment if the lessee is exposed to substantially all the risks and rewards of ownership of that price of land. Leasehold land is depreciated over the lease term.

On the transfer of owner occupied property to investment property, increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as property revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against property revaluation reserve directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and depreciation based on the asset's original cost is transferred from 'property revaluation reserve' to 'revenue reserve'.

With the exception of freehold land, all other property, plant and equipment are depreciated at rates sufficient to write off their original costs to estimated residual values using the straight-line method over their anticipated useful lives in the following manner:

Leasehold land	Over the lease term
Properties	2% to 5% per annum
Plant and machinery	7% to 34% per annum
Vessels	4% to 7% per annum
Drydocking costs	20% to 50% per annum

The assets' expected useful lives and residual values are regularly reviewed and adjusted, if appropriate, at each period-end date to take into account operational experience and changing circumstances.

Vessels under construction are not depreciated until they are completed.

At each period-end date, both internal and external sources of information are considered to assess whether there is any indication that the assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other net gains/(losses)' in the income statement. When revalued assets are sold, the amounts included in the property revaluation reserve are transferred to revenue reserve.

8. Intangible Assets

(a) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, jointly controlled and associated companies at the date of acquisition. Goodwill is treated as an asset of the entity acquired and where attributable to a foreign entity will be translated at the closing rate.

Goodwill on acquisition of a subsidiary company is included in intangible assets. Goodwill on acquisitions of associated and jointly controlled companies is included in investments in associated and jointly controlled companies respectively.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is performed annually. Impairment losses recognised on goodwill are not reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software costs recognised as assets are amortised over their estimated useful lives.

(c) Technical licences

Separately acquired technical licences are shown at historical cost. Technical licences acquired in a business combination are recognised at fair value at the acquisition date. Technical licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical licences over their estimated useful life of twenty two years.

9. Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation. These assets are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 (cash-generating units).

The Group assesses at the end of each reporting period whether there is any objective evidence that its interests in jointly controlled and associated companies are impaired. Such objective evidence includes whether there has been any significant adverse changes in the technological, market, economic or legal environment in which the jointly controlled and associated companies operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in an associate or jointly controlled entity is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is lower than the higher of the investment's fair value less costs to sell or value in use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

Impairment testing of the investment in a subsidiary is required upon receiving a dividend from that subsidiary if the dividend exceeds the total comprehensive income of the subsidiary concerned in the period the dividend is declared or if the carrying amount of the subsidiary in the Company's statement of financial position exceeds the carrying amount of the subsidiary's net assets including goodwill in the consolidated statement of financial position.

10. Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and financial assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the period-end date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the period-end date where these are classified as non-current assets. See also policy for trade and other receivables (accounting policy note 15).

- (c) **Held-to-maturity investments**
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.
- (d) **Available-for-sale assets**
Available-for-sale assets are non-derivative investments and other assets that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are included in non-current assets unless management intends to dispose of the investment within 12 months of the period-end date.

Purchases and sales of financial assets are recognised on their trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value. Transaction costs are included 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 Group has transferred substantially all risks and rewards of ownership. Available-for-sale assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale assets are recognised in other comprehensive income. When available-for-sale assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investments.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale investments) is based on quoted market prices at the period-end date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The nominal value less estimated credit adjustments of trade receivables is assumed to approximate their fair value.

The Group assesses at each period-end date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

11. Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

- (a) **Fair value hedges**
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group applies fair value hedge accounting for hedging fixed interest risk on borrowings and foreign exchange risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within finance income or finance costs. The gain or loss relating to forward foreign exchange contracts, whether effective or ineffective, is recognised in the income statement within other net gains.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised through the income statement over the period to maturity.

(b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import purchases is recognised in the income statement within cost of sales. The gain or loss relating to the ineffective portion of interest rate swaps or forward foreign exchange contracts is recognised in the income statement within other net gains. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the period-end date.

12. Initial Leasing Costs

Expenditure incurred in leasing the Group's property during construction is deferred and amortised on a straight-line basis to the income statement upon occupation of the property over a period not exceeding the terms of the lease.

13. Stocks and Work in Progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost represents average unit cost and net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. The costs of finished goods and work in progress comprise direct material and labour costs and an appropriate proportion of production overhead expenses less provisions for foreseeable losses. Cost includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials or stocks.

14. Properties Held for Development and Properties for Sale

Properties held for development and properties for sale comprise freehold and leasehold land, construction costs and interest costs capitalised, less provisions for possible losses. Properties held for development are not expected to be sold within the Group's normal operating cycle and are classified as non-current assets. Properties for sale are available for immediate sale and are classified as current assets.

15. Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Trade and other receivables in the statement of financial position are stated net of such provisions.

Objective evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

16. Cash and Cash Equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions and short-term highly liquid investments which were within three months of maturity when acquired, less bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

17. Trade Payables

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

18. Borrowings (including Perpetual Capital Securities)

Borrowings are recognised initially at fair value. Transaction costs incurred are included for those not held at fair value through profit or loss. Transaction costs are incremental costs that are directly attributable to the initiation of the borrowings, including fees and commission paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated either at amortised cost, with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method, or at fair value through profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the period-end date.

For disclosure purposes, the fair value of borrowings stated at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

19. Borrowing Costs

Interest costs incurred are charged to the income statement except for those interest charges 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) which 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.

20. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives paid to lessees or received from the lessors) are recognised as income or expense in the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

21. Deferred Taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the recognition, has no impact on taxable nor accounting profit or loss, it is not recognised. Tax rates enacted or substantially enacted by the period-end date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiary, jointly controlled and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

22. Revenue Recognition

Provided the collectibility of the related receivable is reasonably assured, revenue is recognised as follows:

- (a) Rental income is recognised on a straight-line basis over the shorter of (i) the remaining lease term, (ii) the period to the next rent review date and (iii) the period from the commencement date of the lease to the first break option date (if any), exclusive of any turnover rent (if applicable) and other charges and reimbursements (if any). Where the lease includes a rent-free period, the rental income foregone is allocated evenly over the lease term. Turnover rent is recognised when earned.
- (b) Sales of properties are recognised when effective control of ownership of the properties is transferred to the buyers.
- (c) Sales of services, including aircraft maintenance services and services provided by hotel operations, are recognised when the services are rendered.
- (d) Revenue from vessel charter hire services is recognised over the period of charter hire in accordance with the vessel charter hire agreements.
- (e) Sales of goods are recognised when the goods are delivered to the customer and the customer has accepted the related risks and rewards of ownership, for example insurance and service costs.
- (f) Interest income is recognised on a time-proportion basis using the effective interest method.

23. Related Parties

Related parties are individuals and companies, including subsidiary, fellow subsidiary, jointly controlled and associated companies and key management (including close members of their families), where the individual, company or Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

24. Government Grants

Grants from the government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

25. Retirement Benefits

The Group operates a number of defined benefit and defined contribution retirement benefit schemes for its employees, the assets of which are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant Group companies and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries.

A defined benefit plan is a retirement plan that defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a retirement plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group's contributions to the defined contribution schemes are charged to the income statement in the period to which the contributions relate.

For defined benefit schemes, retirement benefit costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the income statement so as to spread the regular cost over the service lives of employees. The retirement benefit obligation is measured as the present value of the estimated future cash outflows. Plan assets are measured at fair value. Cumulative unrecognised net actuarial gains and losses at the previous financial year-end, to the extent that the amount is in excess of 10% of the greater of the present value of the defined benefit obligations and the fair value of the plan assets, are recognised over the expected average remaining working lives of the employees participating in the plan. A subsidiary company may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided the same basis is applied consistently from period to period. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

26. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not 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.

27. Financial Guarantees

Financial guarantees are initially recognised in the accounts at fair value on the date the guarantee was given. Subsequent to initial recognition, the liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight-line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising at the period-end date. Any increase in the liability relating to guarantees is taken to the income statement.

28. Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

29. Segment Reporting

Operating segments are reported in a manner consistent with the Group's internal financial reporting provided to the executive directors for making strategic decisions. For disclosure purposes, a reportable segment comprises either one or more operating segments which can be aggregated together because they share similar economic characteristics or single operating segments which are disclosable separately because they cannot be aggregated or because they exceed certain quantitative thresholds.