

B. Reconciliation of net increase/(decrease) in net cash and cash equivalents to movement in net debt

	Year ended 2 January 2010 \$ million	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million
Net debt at the beginning of the period	(476.4)	(591.5)	(920.8)
Decrease/(increase) in net debt resulting from cash flows:			
– Increase/(decrease) in cash and cash equivalents	157.2	19.2	(65.7)
– Decrease/(increase) in debt and lease financing	164.4	(96.2)	284.7
– Redemption of preference shares	–	–	1.2
– Decrease in collateralised cash	(2.1)	(0.7)	(2.4)
	319.5	(77.7)	217.8
Conversion of preference shares	–	–	130.0
Finance leases disposed of on sale of businesses	–	–	6.1
Debt acquired on acquisition of subsidiaries	(7.8)	(0.8)	–
Other non-cash movements	0.5	(1.1)	(1.6)
Foreign currency translation	(43.3)	194.7	(23.0)
Decrease in net debt during the period	268.9	115.1	329.3
Net debt at the end of the period	(207.5)	(476.4)	(591.5)

19. Goodwill

A. Analysis of movements

	\$ million
Cost	
As at 29 December 2007	660.8
Acquisition of subsidiaries	8.4
Foreign currency translation	(40.0)
As at 3 January 2009	629.2
Acquisition of subsidiaries	26.8
Foreign currency translation	25.1
As at 2 January 2010	681.1
Accumulated impairment	
As at 29 December 2007	0.8
Impairments	228.6
Foreign currency translation	(16.1)
As at 3 January 2009	213.3
Impairments	8.7
Foreign currency translation	23.1
As at 2 January 2010	245.1
Carrying amount	
As at 3 January 2009	415.9
As at 2 January 2010	436.0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Goodwill (continued)**B. Allocation of goodwill**

Goodwill is allocated to the following CGUs or groups of CGUs:

	As at 2 January 2010 \$ million	As at 3 January 2009 \$ million
Industrial & Automotive		
Power Transmission	2.2	2.2
Fluid Power:		
– Engineering & Services	42.9	24.7
– Other	18.7	18.2
	61.6	42.9
Sensors & Valves	1.9	1.8
Other Industrial & Automotive:		
– Ideal	20.9	20.9
– Dexter Group	50.8	50.8
	71.7	71.7
Total Industrial & Automotive	137.4	118.6
Building Products		
Air Distribution:		
– Air Systems Components	68.2	67.7
– Hart & Cooley Group	184.3	184.3
– Ruskin	37.0	36.2
	289.5	288.2
Bathware	9.1	9.1
Total Building Products	298.6	297.3
Total Group	436.0	415.9

C. Impairment tests

Goodwill is tested for impairment annually and whenever there are indications that it may have suffered an impairment. Goodwill is considered impaired to the extent that its carrying amount exceeds its recoverable amount, which is the higher of the value in use and the fair value less costs to sell of the CGU or group of CGUs to which it is allocated. In all impairment tests of goodwill performed during the periods under review, the recoverable amount was determined based on value in use calculations.

Management based the value in use calculations on cash flow forecasts derived from the most recent three-year financial plans approved by the Board, in which the principal assumptions were those regarding sales growth rates, selling prices and changes in direct costs.

Cash flows for the years beyond the three-year financial plans for the CGUs to which individually significant amounts of goodwill were allocated were calculated as follows: cash flows in the fourth and fifth years were estimated by management based on relevant industry and economic forecasts; thereafter, the cash flows were projected to grow at 2% per annum, which does not exceed expected long-term growth rates in their principal end markets in North America, Europe, India and the Middle East.

Management applied discount rates to the resulting cash flow projections that reflect current market assessments of the time value of money and the risks specific to the CGU or group of CGUs. In each case, the discount rate was determined using a capital asset pricing model. Pre-tax discount rates used in the annual impairment tests of goodwill during 2009 were in the following ranges: Industrial & Automotive businesses 8.1% to 12.2% (2008: 9.0% to 12.9%); and Building Products businesses 10.4% to 17.2% (2008: 11.2% to 13.0%).

D. Impairments recognised

2009

In February 2008, the Group acquired a 60% interest in Rolastar, a duct manufacturer based in India, and agreed terms for the subsequent acquisition of the remaining 40% minority interest, which was completed in July 2009. Since the acquisition was negotiated, Rolastar's end markets have deteriorated and this has caused the impairment of the entire goodwill allocated to the business, which amounted to \$8.7 million. Management used a pre-tax discount rate of 17.2%.

2008

During 2008, impairments totalling \$228.6 million were recognised in relation to the goodwill allocated to Stackpole, Gates Mectrol and Selkirk.

Stackpole manufactures power transmission components, systems and assemblies, principally for automotive OEMs, at its facilities in Canada, Germany and South Korea. Stackpole's end markets deteriorated significantly during 2008 and this caused the impairment of the entire goodwill allocated to the business, which amounted to \$157.2 million. Management used a pre-tax discount rate of 11.7%.

Gates Mectrol manufactures power transmission and motion control belts, principally for industrial and automotive OEMs, at its facilities in the US and Germany. Gates Mectrol's end markets deteriorated during the second half of 2008 and this caused the impairment of the entire goodwill allocated to the business, which amounted to \$37.4 million. Management used a pre-tax discount rate of 11.7%.

Selkirk manufactures chimney, venting and air distribution products, principally for the residential construction market in North America. Selkirk's end markets deteriorated during 2008 and an impairment of \$34.0 million was recognised in relation to the goodwill allocated to the business. Management used a pre-tax discount rate of 12.5%.

Impairments are analysed by operating segment in note 5.

E. Sensitivity to changes in key assumptions

Individually significant CGUs

Management does not consider that the recoverable amounts of the other CGUs or groups of CGUs to which significant amounts of goodwill are allocated may fall below their carrying amounts due to reasonably possible changes during the next year in one or more of the key assumptions.

At the end of 2008, the recoverable amount of Selkirk equalled its carrying amount and that of Hart & Cooley exceeded its carrying amount by only \$38 million. Management considered that either could have become impaired following a reasonably possible change in the principal assumptions. Since then, the operations of Selkirk have merged with those of Hart & Cooley to form the Hart & Cooley Group. At the end of 2009, the recoverable amount of the Hart & Cooley Group exceeded its carrying amount by \$234 million. During 2009, the recoverable amount of the Hart & Cooley Group increased significantly due to the recognition of merger synergies and the benefits of restructuring and lean manufacturing initiatives that could not be taken into account in measuring the recoverable amount at the end of 2008.

Other CGUs

Management does not consider that a reasonably possible change in one or more key assumptions during the next year could cause the aggregate recoverable amount of other CGUs to fall below their aggregate carrying amount.