

## Notes to the consolidated financial statements

### 15 Impairment of goodwill (continued)

The key assumptions used in the impairment testing were as follows:

- Profit before interest and taxation
- Discount rates
- Rates of growth in CGUs for the years 2 to 5.

#### **Profit before interest and taxation**

The profit before interest and taxation is based on the assumption that future margins will remain at the levels currently being achieved.

#### **Discount rate**

The discount rate reflects management's estimate of the gross cost of capital employed for the groups of CGUs listed above. This is the benchmark established to assess operating performance and to evaluate future capital investment proposals.

#### **Rates of growth in cash generating units beyond the budget period**

Growth rate assumptions are based on, as far as possible, published industry research.

#### **Goodwill impairment**

Management believes that no reasonably possible change in the key assumptions above would cause any of the identified CGUs to become impaired.

### 16 Financial assets

<b>Current</b>	<b>2007 £m</b>	2006 £m
Cash flow hedges	<b>0.9</b>	–
	<b>0.9</b>	–
<hr/>		
	<b>2007 £m</b>	2006 £m
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<b>Non Current financial assets</b>		
Available for sale investments <sup>1</sup>	<b>0.3</b>	0.3
Investment loan <sup>2</sup>	<b>29.1</b>	12.5
Financial assets at fair value through the income statement <sup>3</sup>	<b>25.4</b>	19.8
Cash flow hedges <sup>4</sup>	<b>4.7</b>	–
Currency swaps <sup>4</sup>	<b>1.0</b>	–
Interest rate swap <sup>4</sup>	<b>0.1</b>	–
Investment in a joint venture <sup>5</sup>	–	–
	<b>60.6</b>	32.6

<sup>1</sup>Available for sale assets includes investments in unlisted ordinary shares. The unlisted ordinary shares, for which there is no immediately identifiable market and which have no fixed maturity date or coupon rate, are carried at cost less provision for any impairment.

<sup>2</sup>The Group has entered into a funding arrangement with Optima Legal Services Limited (OLSL) and during the year has provided it with an additional £16.6m (2006: £12.5m) to fund that company's acquisition of further volume legal services businesses. In addition, with regard to the prior year, the Group entered into an option agreement to acquire the shares of OLSL for £1 in the event that Law Society rules are amended to allow the Group to own the shares in this type of legal services company.

<sup>3</sup>Financial assets at fair value through the income statement include investments in units, held in the Group's insurance captives. The units are held in managed funds (comprising units of equities and other assets) which are traded with a quoted market price in an active market. An explanation of the Group's accounting policy with regard to these assets is contained in note 2(m) on page 71. These were classified as available-for-sale assets in the previous period. The reclassification was done as it properly reflects the nature of these assets.

<sup>4</sup>Details of the interest rate swap, currency swaps and cash flow hedges are contained in note 25.

<sup>5</sup>The investment in a joint venture disclosed above represents the Group's interest in a syndicate (for which the Group provides administrative outsourcing services) operating in the Lloyd's market, through its joint venture ownership of Cobex Corporate Member No 1 Limited (Cobex) in conjunction with the Group's insurance partners. The assets and liabilities of this syndicate are as follows:

**16 Financial assets (continued)**

	2007 £m
Investments	5.4
Reinsurance assets	5.7
Other debtors	2.6
Cash and cash equivalents	10.8
<b>Total assets</b>	<b>24.5</b>
Case reserves	(10.6)
Incurred but not reported	(9.6)
Unallocated loss adjustment expense	(2.4)
Other creditors	(1.8)
Accruals and deferred income	(0.1)
<b>Total liabilities</b>	<b>(24.5)</b>
<b>Net position</b>	<b>–</b>

The table above reflects the Cobex share of the assets and liabilities of the Syndicate; Cobex is owned 50.1% by CMGL Holdings Limited (a wholly owned subsidiary of The Capita Group Plc), the remainder being owned by our insurance partner. Cobex has in place a quota share arrangement with its insurance partner such that only 8.86% of any profit or loss declared by the Syndicate, in respect of Cobex, would be attributable to the Group.

The Group has no rights over the assets or liabilities of the Syndicate other than to the extent that it will receive distributed profits or contribute to relieve losses. The Group has in place a letter of credit amounting to £505,000 which is the maximum exposure that the Group has to losses generated within the Syndicate.

**17 Business combinations**

The Group made a number of acquisitions in 2007, of which only two, the acquisition of Harry Weeks and CMGL are considered material and thus disclosed separately, the remainder are shown in aggregate. The book and fair values of the assets acquired are disclosed in the tables below:

	Book values £m	Fair value adjustments £m	Fair value to Group £m
<b>Harry Weeks (now known as Evolvi Rail Systems Limited)</b>			
Intangible assets	–	4.5	4.5
Property, plant and equipment	0.2	–	0.2
Deferred tax	0.3	–	0.3
Debtors	2.3	(0.4)	1.9
Cash and short term deposits	0.2	–	0.2
Creditors	(2.5)	(0.2)	(2.7)
<b>Net assets</b>	<b>0.5</b>	<b>3.9</b>	<b>4.4</b>
<b>Goodwill arising on acquisition</b>			<b>18.1</b>
			<b>22.5</b>
<b>Discharged by:</b>			
Cash			22.5

Harry Weeks includes Harry Weeks Travel & Leisure Group Limited, a business travel software provider via its Evolvi and Travelpackonline software products.

The Group acquired 100% of the ordinary share capital of Harry Weeks on 2 February 2007. From the date of acquisition Harry Weeks has contributed £0.6m to the net profit after tax of the Group. Had the combination taken place at the beginning of the year the profit after tax of the Group would have been £166.1m and the revenue from continuing operations would have been £2,079.4m.

Within goodwill are certain intangibles that were not separable from the acquirees and could not be measured reliably. These items include customer loyalty and the assembled workforce.