19 BUSINESS COMBINATIONS AND DISPOSALS

a) Acquisitions

2006 acquisitions

In Canada, the Group acquired the net assets of school bus operators Vine (Vine Bus Lines Ltd) on 7 July 2006, M&O (M&O Bus Lines (Handicab) Ltd) on 11 April 2006, and the entire share capital of Deluxe (Palangio Enterprises (1982) Ltd) on 29 September 2006. In the United States, the Group acquired the entire share capital of school bus operators Reliance (Reliance Motor Coach Company Inc.) on 1 June 2006, and Double A (Double A Transportation Inc.) on 15 December 2006. The Group also acquired the net assets of J&R (J&R Bus Co., LLC) on 20 October 2006, a school bus operator in the United States.

						Book value		
North America Net assets at date of acquisition:	Reliance £m	J&R £m	Double A £m	Deluxe £m	M&O/Vine £m	Total £m	Fair value adjustments £m	**Fair value Total £m**
Intangible assets	–	–	–	–	–	–	10.5	**10.5**
Property, plant and equipment	4.4	1.1	4.0	1.4	0.5	11.4	0.4	**11.8**
Trade and other receivables	0.7	–	0.2	–	–	0.9	0.5	**1.4**
Cash and cash equivalents	0.2	–	0.3	–	–	0.5	–	**0.5**
Trade and other payables	(1.5)	–	(0.8)	(0.1)	–	(2.4)	0.1	**(2.3)**
Deferred tax liability	(1.0)	–	–	–	–	(1.0)	(3.1)	**(4.1)**
Net assets acquired	2.8	1.1	3.7	1.3	0.5	9.4	8.4	**17.8**
Goodwill on acquisition								**8.7**
Total consideration								**26.5**
Net consideration								**25.4**
Acquisition costs								**1.1**
Total consideration								**26.5**
Less: deferred consideration								**(0.9)**
Less: acquisition costs accrued								**(0.3)**
Less: net cash acquired								**(0.5)**
Net cash outflow								**24.8**

The acquisition balance sheets have been adjusted to reflect provisional fair value adjustments The adjustments represent:

a) the recognition of finite life intangible assets of customer contracts acquired with the Reliance business (£4.4m), J&R (£0.4m), Double A (£1.9m) and Deluxe (£0.6m), and of indefinite life intangible assets of customer relationships acquired with J&R (£2.3m) and Deluxe (£0.9m) which reflects the expected indefinite renewal of these school bus contracts in North America. The customer contracts will be amortised over the life of the contracts, whilst customer relationships will not be amortised, but will be tested for impairment on an annual basis;

b) an adjustment to the value of property, plant and equipment at J&R and Double A following a review of the vehicle fleet;

c) an increase in working capital of £0.6m to reflect the liabilities excluded from the opening balance sheet at Double A (£0.5m) and Reliance (£0.3m), offset by an increase in insurance provisions of £0.2m at Double A; and

d) the deferred tax liability recognised on the customer contracts, customer relationships and property, plant and equipment.

Consideration was £10.8m for Reliance (including £0.1m acquisition costs), £4.6m for J&R (including £0.2m acquisition costs and £0.8m deferred consideration), £7.2m for Double A (including £0.4m acquisition costs), £3.0m for Deluxe (including £0.1m deferred consideration and £0.4m acquisition costs), and £0.9m for M&O and Vine.

From their respective dates of acquisition Reliance, J&R, Double A and the Canadian acquisitions have contributed £0.6m, £0.1m, £0.1m and £0.2m respectively to operating profit of the Group. If these combinations had taken place at the beginning of the year the Group operating profit would have been £142.6m, and revenue from continuing operations would have been £2,541.7m.

Included in the goodwill recognised above are certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and increased scale in our North American school bus operations. Management believes that goodwill represents value to the Group for which the recognition of a discrete intangible asset is not permitted. The majority of the value was assessed to comprise of synergy benefits expected to be achieved by merging the businesses acquired into the Group's North American operations.

19 BUSINESS COMBINATIONS AND DISPOSALS (CONTINUED)

a) Acquisitions (continued)

On 14 March 2006 the Group acquired the remaining 67% of the share capital of Altram LRT Limited (Altram), a provider of light transport systems, for £0.2m, giving rise to goodwill of a further £1.0m which has been impaired.

Altram

	Final fair value Total £m
Current assets	**5.9**
Current liabilities	**(7.4)**
Net liabilities acquired	**(1.5)**
Share of associate's liabilities	**0.7**
Goodwill on acquisition	**1.0**
Total consideration	**0.2**
Net consideration	**–**
Acquisition costs	**0.2**
Total consideration	**0.2**
Less: net cash acquired	**(5.2)**
Net cash inflow	**(5.0)**

Altram has contributed a £0.4m loss to operating profit of the Group. If the remaining 67% of share capital had been acquired at the beginning of the year, the operating profit of the Group would have been £141.7m and revenue from continuing operations would have been £2,526.3m.

2005 acquisitions

The project to allocate the consideration paid in 2005 to acquire Alsa to the fair value of the assets acquired was completed in the first half of the year. The fair values of the assets acquired have now been updated.

Alsa	Original fair value £m	2005 Fair value adjustments £m	2006 Fair value adjustments £m	Final fair value total £m
Intangible assets	178.2	(178.2)	174.2	**174.2**
Property, plant and equipment	59.2	14.4	7.2	**80.8**
Available for sale investments	1.2	-	-	**1.2**
Investments accounted for under the equity method	6.0	(1.2)	-	**4.8**
Inventories	3.1	-	-	**3.1**
Trade and other receivables	52.8	(3.8)	-	**49.0**
Current tax	0.8	-	-	**0.8**
Cash and cash equivalents	10.0	-	-	**10.0**
Trade and other payables	(55.4)	-	0.3	**(55.1)**
Retirement benefit obligations	(0.2)	(0.9)	-	**(1.1)**
Provisions	(1.0)	-	-	**(1.0)**
Financial liabilities – Borrowings	(211.8)	-	-	**(211.8)**
Deferred tax liability	0.4	(6.5)	(54.8)	**(60.9)**
Net assets	43.3	(176.2)	126.9	**(6.0)**
Less: minority interest	(11.4)	(4.1)	-	**(15.5)**
Group's share of net assets	31.9	(180.3)	126.9	**(21.5)**
Goodwill on acquisition				**294.1**
Total consideration				**272.6**
Net consideration				**268.2**
Acquisition costs				**4.4**
Total consideration				**272.6**
Less: shares issued				**(122.5)**
Add: provisional completion adjustment receivable				**3.0**
Less: accrued acquisition costs				**(0.2)**
Less: net cash acquired				**(10.0)**
Net cash outflow				**142.9**

During the year ended 31 December 2005, provisional fair value adjustments were made to the assets and liabilities acquired. Due to the proximity of the combination to the 2005 year end, the Group completed the detailed valuation of the intangible and tangible assets acquired with the business during the year ended 31 December 2006. In accordance with IFRS 3 the 2005 comparative balance sheet has been restated to reflect the final fair value adjustments made during the year ended 31 December 2006.

19 BUSINESS COMBINATIONS AND DISPOSALS (CONTINUED)
a) Acquisitions (continued)
The final fair value adjustments represent:

a) the recognition of finite life customer contracts of £174.2m;

b) an upward revaluation of property acquired;

c) a change in the value of working capital acquired; and

d) the deferred tax liability associated with the revaluation of property of £2.5m, and on the customer contracts recognised on acquisition of £52.3m

On 15 December 2005 the Group paid £12.7m of cash consideration to acquire the 10.2% minority interest of Enatcar, a subsidiary of Alsa. This payment represented fair value and consequently had no impact on the goodwill recognised above. Due to the date of acquisition, the profit accrued in 2005 was not material to the Group.

In addition, during the year ended 31 December 2005, the Group acquired the entire share capital of TGM Buses Limited and TGM Middlesex Limited, representing the London bus operations of Tellings Golden Miller PLC (TGM), Aboutown School Transit Inc and Northstar Passenger Services LP, both school bus operators in Canada and Jones School Bus Service Inc, a school bus operator in the United States.

UK Bus and North America Net assets at date of acquisition:	Book value TGM £m	 Aboutown £m	 Northstar £m	 Jones £m	 Total £m	Fair value adjustments £m	Fair value Total £m
Intangible assets	–	–	–	–	–	26.2	26.2
Property, plant and equipment	6.3	0.5	13.9	5.9	26.6	1.6	28.2
Inventories	0.2	–	0.2	–	0.4	–	0.4
Trade and other receivables	2.2	–	0.6	2.7	5.5	–	5.5
Cash and cash equivalents	1.8	–	–	0.2	2.0	–	2.0
Trade and other payables	(2.0)	–	(1.2)	(3.2)	(6.4)	(2.1)	(8.5)
Current tax payable	–	–	(0.3)	–	(0.3)	–	(0.3)
Financial liabilities – borrowings	(2.1)	–	(0.2)	–	(2.3)	–	(2.3)
Deferred tax liability	(1.0)	–	(2.2)	(1.7)	(4.9)	–	(4.9)
Net assets acquired	5.4	0.5	10.8	3.9	20.6	25.7	46.3
Goodwill on acquisition							20.8
Total consideration							67.1
Net consideration							65.9
Acquisition costs							1.2
Total consideration							67.1
Less: deferred consideration							(1.9)
Less: net cash acquired							(2.0)
Net cash outflow							63.2

The acquisition balance sheets were adjusted to reflect provisional fair value adjustments.

The adjustments represented:

a) the recognition of customer contracts acquired with the TGM business (£4.5m), Aboutown (£0.6m), Northstar (£1.5m) and Jones (£6.3m), and customer relationships acquired with Aboutown (£2.8m) and Northstar (£10.5m) which reflects the expected indefinite renewal of these school bus contracts in Canada. The customer contracts are amortised over the life of the contracts, whilst customer relationships are not amortised, but are tested for impairment on an annual basis;

b) an increase in the value of property, plant and equipment at Jones following a review of the vehicle fleet; and

c) an increase in payables of £1.6m at TGM, £0.3m at Jones and £0.2m at Northstar.

b) Disposals
Certain assets of Stewart International Airport meet the definition of non-current assets held for resale following the Group's announcement of the sale of the operating lease to the Port Authority of New York in 2007. The sale is expected to complete in the second half of the year. The assets and related liabilities of the disposal group have been separately identified on the balance sheet.

Stewart International Airport

	Assets held for resale £m
Property, plant and equipment	2.6
Leasehold prepayment	17.5
Current liabilities	(2.4)
Net assets held for resale	17.7

19 BUSINESS COMBINATIONS AND DISPOSALS (CONTINUED)

b) Disposals (continued)

During the year ended 31 December 2005, the Group sold its North American Public Transit operations on 1 September 2005 for gross proceeds of £50.0m. The Group announced the voluntary administration of the Bosnjak Holdings Group (comprising the Group's remaining operations in Australia) on 31 January 2005, and received proceeds of £25.4m (A$60m) when the administrator sold the business on 30 September 2005. The Group also sold its airside coach business at Heathrow Airport on 21 February 2005.

2005 Net assets disposed of:	North American Public Transit £m	Bosnjak Group £m	Heathrow airside £m	Total £m
Property, plant and equipment	5.5	26.0	1.1	32.6
Inventories	1.9	0.2	–	2.1
Trade and other receivables	28.1	2.6	–	30.7
Cash and cash equivalents	2.5	2.1	–	4.6
Trade and other payables	(11.9)	(2.7)	–	(14.6)
Provisions	(10.0)	–	–	(10.0)
Deferred tax	(1.8)	(0.1)	–	(1.9)
Minority interest	–	(0.9)	–	(0.9)
Interest bearing liabilities	–	(2.8)	–	(2.8)
Net assets disposed	14.3	24.4	1.1	39.8
Goodwill realised	36.0	–	0.1	36.1
Disposal provision created	2.7	–	–	2.7
Deferred tax liability on disposal	3.2	–	–	3.2
Loss on sale of businesses	(6.6)	–	–	(6.6)
Net consideration	49.6	24.4	1.2	75.2
Total consideration	50.0	25.9	1.2	77.1
Less: disposal costs	(0.4)	(1.5)	–	(1.9)
Net consideration	49.6	24.4	1.2	75.2
Less: net cash disposed	(2.5)	(2.1)	–	(4.6)
Add: completion adjustment to pay purchaser	1.2	–	–	1.2
Deferred consideration	–	(0.5)	–	(0.5)
Net cash inflow	48.3	21.8	1.2	71.3

20 NON-CURRENT ASSETS – OTHER RECEIVABLES

	2006 £m	2005 £m
Other receivables	**1.8**	2.9
Prepayments and accrued income	**2.3**	23.3
	4.1	26.2

21 INVENTORIES

	2006 £m	2005 £m
Raw materials and consumables	**15.5**	18.7

The movement on the provision for slow moving and obsolete inventory is immaterial.