

MACFARLANE GROUP RETURNS TO PROFITABILITY

Macfarlane Group announces a profit for the year of £3.4m

All businesses showing improvement over 2004

Bank borrowings significantly reduced

Intention to restore regular dividend payments

Sales growth of 3.7% during 2005 from continuing operations

Strong platform for growth, with all businesses having capacity for further performance improvements

Archie Hunter, Chairman of Macfarlane Group PLC today said:-

“I am very glad to report that after four years of losses, Macfarlane Group has returned to profit in 2005.

After trading losses of	£(10.4) million in 2003 *
and	£ (2.4) million in 2004 **
we have recorded a trading profit of	£ 2.6 million in 2005 **

Earnings per share from all businesses in 2005 were 3.01p and group turnover from continuing businesses has increased in the year by £5 million to £127 million.

The turnaround in trading and asset disposals has had the expected positive impact on our cash position. The Group generated cash of £7 million in 2005 and as a result there has been further significant reduction in group borrowings, which stood at £6 million at 31 December 2005 compared to a high point of £32 million at 30 September 2003. The Board anticipates further cash generation from trading in 2006.

All of this has been achieved by disciplined executive action to a demanding plan set by the Board two years ago. The platform has now been created for further profitable development and the payment of dividends to our shareholders.

Trading

The results improvement has been achieved in the face of a difficult market for Packaging Distribution in the UK. The highlights have been the retention of margins and the return to profitability. The drive for profitable growth is now our priority. Future sales growth in this business should be accompanied by strong profit generation given the levels of operational gearing in our UK wide network.

In 2005, within our Manufacturing Operations, our Labels business had to respond to increasingly demanding customer requirements. Significant raw material price increases had an inevitable impact on our Plastics business, which showed improvements but continued to be loss making. The Group's operations in California and Mexico returned to profit in 2005. They show good potential with strong customer and supplier relationships. Both our UK Packaging Manufacturing locations produced profits in 2005 and further improvement is expected this year.

In line with the Group's strategy to concentrate on and develop its core businesses, Macfarlane Group announced an agreement in January 2006 to sell its Hungarian packaging manufacture and assembly operation. The Directors estimate that the disposal will produce a realised gain of £0.9 million in the financial year to 31 December 2006.

More detailed comments on trading are set out in the operating review, following my statement.

International Financial Reporting Standards (“IFRSs”)

These are the first annual accounts requiring to be prepared in line with IFRSs. These new standards have had a significant impact on the balance sheet.

In common with many companies we had to incorporate a net pension scheme deficit in the balance sheet, which at 31 December 2005 amounted to £16 million, net of attributable deferred taxation of £7 million. Without taking action, the incorporation of this deficit would have prevented the payment of dividends by the company in the short-term. In 2005 therefore the Board sought and received the agreement of shareholders and the court to restructure the company’s capital base and the effect of the restructuring is shown in the parent company balance sheet. I would like to emphasise that it is out of the distributable reserves of the parent company that dividends are paid to shareholders and at 31 December 2005, these amounted to £4.4 million.

A plan of payments to fund the deficit over future years has been agreed with the Trustees of the pension scheme. The Board is considering what further steps should be taken to address the pension deficit and mitigate the future effect of pensions on the Group’s distributable reserves.

Cash and Dividends

For the past two years the Board has been clear that alongside the restoration of profitable trading, a significant reduction in Group borrowings was a priority. With these objectives now realised, this allows the Board to address the establishment of an appropriate pattern of dividend payment to our shareholders. The Board believes that shareholders can expect to hear now of the Board’s intentions in this regard.

Subject to continued satisfactory trading, the Board plans to establish the payment of an interim dividend in October of each year and a final dividend in June each year, following the Annual General Meeting. In my statement dated 6 September 2005, I indicated that no further dividend would be declared in respect of 2005. In respect of 2006, the Board’s current intention is that the dividend should be at the rate of 2p per share, 1p for each of the interim and final dividend. However in view of the interval since the last dividend payment in September last year, the Board intends acceleration of the 2006 interim payment from October to June 2006, with the final dividend of 1p being declared and approved by shareholders at the Annual General Meeting in June 2007.

The Board intends to present a special resolution to shareholders at the forthcoming AGM to restore the authority to buy-back shares of the company in the market. The Board has no present intention to use this authority but we believe that it is now appropriate for the Company to have the authority in case specific circumstances develop, where it would be in the best interests of shareholders for the Company to purchase its own shares. If passed, it is the intention of the Board that this authority would be used sparingly.

Future Prospects

I am glad to report a positive start to 2006 and the Board anticipates for the full year a significant advance in profits over 2005.

Our objectives for 2006 are profitable growth in our major businesses. We intend to achieve this by playing to our strengths. Our Packaging Distribution business is the UK leader, almost three times the size of our nearest competitor. We intend to use that strength to further develop our presence, which we estimate currently to be about 10% of the UK market. In each of our other businesses we have created opportunities and we plan to take advantage of them.

Having come through a most difficult period the challenge facing our staff is now a very different one. Through their efforts, the reputation and standing of Macfarlane Group has been very significantly restored. The platform we asked for has been created. The challenge will not diminish but it is one that is now exciting and uplifting. On behalf of the Board I thank them all for what has been achieved.

I am confident we have in the business the leadership and the determination that we need.”

Further information:	Archie S. Hunter	Chairman	0141 333 9666
	Peter D. Atkinson	Chief Executive	0141 333 9666
	John Love	Finance Director	0141 333 9666

* Loss from continuing and discontinued operations before property gains per UK GAAP

** Profit/(loss) from continuing and discontinued trading operations

Operating review

	Revenue	Revenue	Result	Result
	2005	2004	2005	2004
Group Segment	£000	£000	£000	£000
Packaging Distribution	73,915	74,095	661	(769)
Manufacturing Operations	53,332	48,610	2,267	864
Continuing activities	127,247	122,705	2,928	95
Discontinued activities (Manufacturing Operations)	3,618	4,634	750	(845)
	130,865	127,339	3,678	(750)
Net interest payable			(1,054)	(1,678)
Profit/(loss) from continuing & discontinued trading operations			2,624	(2,428)
Gain on disposal of properties			1,048	3,566
Loss on disposal of discontinued operations			-	(1,400)
Profit/(loss) before taxation			3,672	(262)
Tax			(161)	26
Continuing activities			(126)	-
Discontinued activities				
Profit/(loss) for the year			3,385	(236)

Our objective in 2005 was to return Macfarlane Group to profitability following four years of operating losses. The results for 2005 show the Group recording profits from trading operations of £2.6 million, an improvement of £5.1 million on the previous year. The return to profitability combined with good cash generation and lower levels of debt reflect favourably on the actions we have taken across all Group businesses to grow sales, improve margins, lower costs and increase productivity.

All businesses within the Group, with the exception of our Plastics business in Ireland, were profitable in 2005. The return to profitability was achieved despite unfavourable market conditions in the majority of the markets in which we operate and increasing cost pressures on raw materials, fuel and energy.

We have demonstrated in 2005 our ability to implement the relevant action plans to return Macfarlane Group to profitability and a solid foundation has now been established. The focus of our plans for 2006 and beyond is to build on this base and grow the business both organically and through acquisition.

Packaging Distribution

The Macfarlane Packaging Distribution business is the leading UK distributor of a comprehensive range of packaging consumable products. In a highly fragmented market, Macfarlane currently has a 10% market share and through its 15 Regional Distribution Centres (RDCs) supplies customers on a local, regional and national basis. The business enables customers to cost effectively package their products by providing them with a comprehensive product range, single source supply, just-in-time delivery and tailored stock management programmes.

In 2005 Macfarlane Packaging Distribution recorded a profit of £0.7m, an improvement of £1.4m on the previous year. There were a number of factors that contributed to the improvement in results:-

- Although sales revenue was flat on 2004, our 2005 sales performance from the top 10 RDCs showed 5.3% growth versus the previous year in a market that by common consent in 2005 was at best flat;
- In 2005 our On-Time-In-Full (“OTIF”) deliveries averaged 92% compared with 85% in 2004 and only 71% in 2003. This clearly demonstrates the progress we are making in improving the service to our customers;
- In 2005 we increased product range penetration in our existing customer base to an average 8.2 lines per customer compared with 8.0 in 2004 and 7.0 in 2003;
- During 2005 we opened 2,875 new customers, an increase of 12 % vs. 2004;
- We commenced in 2005 a programme to rationalise our supplier base to more cost-effectively source products. Our current supplier base consists of 670 companies, a reduction of 90 vs. 2004;
- Our headcount in 2005 stabilised at 400 and our overhead to sales ratio reduced by 1.8% from 2004;
- In 2005, 30 major customers commenced trading with us electronically using our new Customer Connect service; and

- Our 2005 customer satisfaction survey showed 79% of customers rating our service above average (2004 – 74%) and of these, 27% rating our service as excellent (2004 – 24%).

During 2005 we had stable trading patterns in 12 of our 15 RDCs. These RDCs have experienced and capable management leading effective teams with low staff turnover. Collectively the profit improvement from the stable RDCs was £1.2 million over 2004. However there remain 3 RDCs, which did not perform to the expected levels during 2005. Actions have been taken to strengthen and focus management in these RDCs and we are expecting significant performance improvement in 2006.

The plan for 2006 is to focus our management actions on growing the business, with a particular emphasis on extending the range of products and services supplied to our existing customers and the winning of new customers. During 2006 we will create a dedicated new team focused on winning new business. We will also increase our accessibility to new customers through our web-based service Packaging2U. Our intention is also to enable a wider range of our customers to benefit from trading with us electronically through the Customer Connect service.

We will maintain our attention to cost control and through the ongoing programme of supplier rationalisation and the strength of our strategic supplier relationships expect to maintain our gross margin in 2006.

Our current RDC network allows us to effectively access 85% of the UK market and we are currently operating at ca. 70% of the RDC network capacity. During 2006 we will evaluate potential acquisition opportunities to improve market access and make more effective use of our existing capacity.

Manufacturing Operations

In 2005 Macfarlane Group's Manufacturing Operations recorded a profit of £2.3m, an improvement of £1.4m on the previous year. All operations showed improvements on 2004.

Both Macfarlane Labels and Macfarlane Plastics businesses supply major FMCG customers primarily, but not exclusively, based in the UK and Ireland. Labels operate from two plants, Kilmarnock and Dublin, supplying design and production of high quality self-adhesive and re-sealable labels for consumer packs. Plastics operate from Wicklow in Ireland designing and producing injection-moulded closures and dispensers primarily used in the packaging of powdered consumer products. The key features of the Labels performance in 2005 were:-

- A profit performance broadly in line with 2004 despite the market for self-adhesive labels being particularly competitive with strong retail pressure for supplier price reductions;
- Good volume growth of 27% in re-sealable labels and self-adhesive label volumes at last year's levels;
- Cost reductions and programmes to improve productivity were implemented at both our plants with the aim of offsetting the selling price pressures; and
- There have been initial moves to develop the re-sealable labels business in the USA, following encouraging feedback from potential customers and there are new versions of the re-sealable label being trialled which will enable its use in a number of additional product sectors.

Our priorities in 2006 are to continue to improve operational efficiencies in order to offset retail price pressure, to broaden the appeal of the re-sealable label offering and to accelerate our growth plans in our chosen sectors of the self-adhesive label market. We also see potential opportunities to accelerate growth through acquisition.

Manufacturing Operations

The Plastics business reduced its operating losses significantly in 2005 but did not achieve the break-even level that was targeted. The key features of the 2005 performance were:-

- Sales volume growth vs. 2004 and the operating loss was reduced versus 2004;
- Continued rises in raw material prices, which were not fully recovered, from the customer base;
- We experienced increased cost pressures particularly on transport and energy; and
- Towards the end of 2005 a number of senior management changes were implemented.

The strengthened management team is now fully focused on building on the improvements achieved in 2005 to restore a break-even position in 2006.

Macfarlane's Packaging Manufacture business operates from two UK sites in Grantham and Westbury. The business produces a range of low volume, custom-designed packaging solutions using corrugate, timber and foam materials. The range of products is particularly focused on the electronics, medical and automotive markets where product protection, for both storage and transportation are key requirements. The highlights of the 2005 performance were:-

- Both sites returning to profitability in 2005 following losses in 2004;
- At Grantham the introduction of a "lean manufacturing programme" produced cost reductions and improved productivity;
- Customer retention levels increased through improved customer service; and
- At Westbury the profit recovery was primarily driven by good sales growth.

The priority for 2006 is to improve the returns from this business. At Grantham the focus in 2006 will be on growing sales particularly through the Macfarlane Packaging Distribution network. Our Westbury location is focused on maintaining sales momentum while at the same time introducing a number of the productivity improvement initiatives that were effective at Grantham in 2005.

Macfarlane had packaging manufacturing and assembly operations in California, Hungary and Mexico during 2005. These plants provided corrugate, foam and timber packaging solutions primarily to the electronics sector. The US operations focus particularly on foam based products in relation to their position in the electronics sector and have recently diversified into the healthcare and fresh produce display sectors of the market.

The US business had a particularly successful year in 2005.

- During 2005 the US business suffered major raw material price increases both as a result of the oil price pressure and also due to supply chain issues with certain key vendors following the extraordinary weather conditions. However both of these difficulties were effectively managed and had no material impact on the business in 2005;
- The sales momentum created in the second half of 2004 was maintained throughout the year resulting in annual sales growth of 27%;
- The business returned to profitability following losses in 2004;
- The absorption of the foam packaging activities of a key customer that took place at the end of 2004 was successfully integrated in 2005 and contributed 12% of the sales growth;
- We also created and strengthened a number of significant major customer relationships during 2005 in both the medical and electronics sectors and these provide a solid platform for further growth in 2006; and
- At the end of 2005 we made the decision to establish a new facility in Tijuana, which will enable us to more cost-effectively service our customers in Southern California and give access to new customers in Northern Mexico.

Our priorities in 2006 are to build on our current strong market position and our key customer relationships in California in the medical and electronics sectors. The opening of the new facility in Tijuana will enable us to enhance our production capacity while at the same time becoming more cost-effective and more accessible to key local markets and customers particularly in the Northern Mexico region.

Manufacturing Operations

The decision to establish a business in Hungary was made in 2000, when IBM, a key customer of our Westbury facility relocated to Budapest. Although our business in Hungary continued to be successful in 2005, we became increasingly concerned at the over-dependence on this one customer. In 2005 Nefab AB, a Swedish based company, expressed an interest in acquiring our business in Hungary. Following a strategic review the decision was made to sell the business. The transaction was completed early in January 2006 at a price of £2.3m, a £0.9m premium to net asset value and the activities have been disclosed as discontinued in the financial statements.

Future Outlook

During 2005 we have demonstrated our ability to return the group to profitability. We have also improved cash generation and significantly strengthened the balance sheet. Our priority is now to continue the process of giving greater focus to the Group's activities, accelerating growth in the key businesses and continuing to improve financial performance in the niche businesses.

The Group has a range of businesses, all of which have good potential and operate in highly fragmented markets with opportunities for consolidation. Our market positions particularly in UK Packaging Distribution and Labels are sound and can be strengthened through both organic and acquisition-lead growth. In addition we have a number of other good geographic and product niches, most of which are now profitable and offer continued potential for profit improvement.

The businesses are all developing their operational capability and cost-effectiveness. We consistently see our customer service improving dramatically and our key customer and supplier relationships are strengthening. A key component of our future plans is to accelerate the efforts of all our businesses to become more customer-focused.

Following a particularly difficult period over the last three years, Macfarlane Group has now established a strong foundation. Management is now focused on using this foundation to further develop, strengthen and grow the Group's key businesses.

Macfarlane Group PLC
Consolidated income statement
For the year ended 31 December 2005

	Note	2005 £000	2004 £000
Continuing operations			
Revenue	2	127,247	122,705
Cost of sales		(85,122)	(82,200)
		<hr/>	<hr/>
Gross profit		42,125	40,505
Distribution costs		(6,521)	(6,829)
Administrative expenses		(32,676)	(33,581)
		<hr/>	<hr/>
Operating profit before property transactions	3	2,928	95
Gain on disposal of properties	4	1,048	3,566
		<hr/>	<hr/>
Operating profit		3,976	3,661
Investment income		103	94
Finance costs	5	(1,189)	(1,772)
		<hr/>	<hr/>
Profit before tax		2,890	1,983
Tax	6	(161)	26
		<hr/>	<hr/>
Profit for the period from continuing operations		2,729	2,009
		<hr/>	<hr/>
Discontinued operations			
Profit/(loss) for the period from discontinued operations		656	(845)
Loss on disposal of discontinued operations		-	(1,400)
		<hr/>	<hr/>
Total profit/(loss) for the period from discontinued operations		656	(2,245)
		<hr/>	<hr/>
Profit/(loss) for the year		3,385	(236)
		<hr/> <hr/>	<hr/> <hr/>
Earnings/(loss) per share			
	8		
From continuing operations			
Basic		2.43p	1.79p
		<hr/>	<hr/>
Diluted		2.41p	1.78p
		<hr/>	<hr/>
From continuing and discontinued operations			
Basic		3.01p	(0.21p)
		<hr/>	<hr/>
Diluted		2.99p	(0.21p)
		<hr/>	<hr/>

Macfarlane Group PLC
Consolidated statement of recognised income and expense
For the year ended 31 December 2005

	2005	2004
	£000	£000
Exchange difference on translation of foreign operations	144	(180)
Actuarial (losses)/gains on defined benefit pension schemes	(5,553)	222
Tax on items taken directly to equity	1,666	(67)
	<hr/>	<hr/>
Net expense recognised directly in equity	(3,743)	(25)
Profit/(loss) for the year	3,385	(236)
	<hr/>	<hr/>
Total recognised income and expense for the year	(358)	(261)
	<hr/> <hr/>	<hr/> <hr/>

Macfarlane Group PLC
Consolidated reconciliation of movements in shareholders' equity
For the year ended 31 December 2005

	Note	2005	2004
		£000	£000
Profit/(loss) for the year		3,385	(236)
Dividends to equity holders in the year	7	(844)	(844)
Net expense recognised directly in equity		(3,743)	(25)
		<hr/>	<hr/>
Movements in equity in the year		(1,202)	(1,105)
Opening equity		26,641	27,746
		<hr/>	<hr/>
Closing equity		25,439	26,641
		<hr/> <hr/>	<hr/> <hr/>

Macfarlane Group PLC
Consolidated balance sheet at 31 December 2005

	Note	2005 £000	2004 £000
Non-current assets			
Goodwill		17,182	17,054
Property, plant and equipment		14,608	17,601
Investment property		1,701	1,701
Other receivables		863	2,242
Deferred tax asset		6,651	5,013
Total non-current assets		41,005	43,611
Current assets			
Inventories		8,803	8,689
Trade and other receivables		29,639	28,611
Cash and cash equivalents		1,203	2,018
Total current assets		39,645	39,318
Non-current assets classified as held for sale	9	1,925	3,580
		41,570	42,898
Total assets		82,575	86,509
Current liabilities			
Trade and other payables		24,681	26,777
Current tax liabilities		796	595
Obligations under finance leases		272	479
Bank overdrafts and loans		7,830	14,226
Liabilities directly associated with assets classified as held for sale	9	485	-
Total current liabilities		34,064	42,077
Net current assets/(liabilities)		5,581	(2,759)
Non-current liabilities			
Retirement benefit obligations	11	22,977	17,424
Obligations under finance leases		95	367
Total non-current liabilities		23,072	17,791
Total liabilities		57,136	59,868
Net assets		25,439	26,641
Equity			
Share capital		28,755	28,755
Capital redemption reserve		-	2,952
Share premium account		-	7,547
Revaluation reserves		167	274
Own shares		(1,406)	(1,406)
Translation reserves		(36)	(180)
Retained earnings		(2,041)	(11,301)
Total equity		25,439	26,641

Macfarlane Group PLC
Consolidated cash flow statement
For the year ended 31 December 2005

	Note	2005 £000	2004 £000
Net cash from operating activities	10	1,990	2,170
Investing activities			
Interest received		119	93
Proceeds on disposal of property, plant and equipment		6,255	6,563
Purchases of property, plant and equipment		(869)	(3,925)
Net cash from investing activities		5,505	2,731
Financing activities			
Dividends paid	7	(844)	(844)
Repayments of obligations under finance leases		(479)	(469)
Decrease in bank overdrafts		(6,396)	(3,596)
Net cash used in financing activities		(7,719)	(4,909)
Net decrease in cash and cash equivalents		(224)	(8)
Cash and cash equivalents at beginning of year		2,018	2,026
Cash and cash equivalents at end of year		1,794	2,018

Macfarlane Group PLC

For the year ended 31 December 2005

Notes to the consolidated accounts

1. General information

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements as defined in Section 240 of the Companies Act 1985 and has been extracted from the full statutory accounts for the years ended 31 December 2005 and 31 December 2004 respectively. The information for the year ended 31 December 2004 does not constitute the Group's statutory financial statements as defined in Section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies and these accounts have now been restated under IFRS. The auditors' report on those accounts was unqualified pursuant to Section 235 of the Companies Act 1985 and did not contain a statement under sub-section 237 (2) or (3) of that Act.

The auditors' report on these statutory financial statements for the year ended 31 December 2005 was unqualified pursuant to Section 235 of the Companies Act 1985 and did not contain a statement under sub-section 237 (2) or (3) of that Act.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRSs, this announcement does not of itself contain sufficient information to fully comply with IFRSs. The company expects to publish full financial statements that comply with IFRSs in April 2006.

2. Split between continuing and discontinued activities

	Continuing £000	Discontinued £000	2005 £000	Continuing £000	Discontinued £000	2004 £000
Turnover	127,247	3,618	130,865	122,705	4,634	127,339
Cost of sales	(85,122)	(2,082)	(87,204)	(82,200)	(2,540)	(84,740)
Gross profit	42,125	1,536	43,661	40,505	2,094	42,599
Distribution costs	(6,521)	(104)	(6,625)	(6,829)	(427)	(7,256)
Administration costs	(32,676)	(682)	(33,358)	(33,581)	(2,512)	(36,093)
Profit/(loss) before property transactions	2,928	750	3,678	95	(845)	(750)
Gain on property disposals	1,048	-	1,048	3,566	-	3,566
Operating profit/(loss)	3,976	750	4,726	3,661	(845)	2,816
Investment income	103	32	135	94	-	94
Finance costs	(1,189)	-	(1,189)	(1,772)	-	(1,772)
Profit/(loss) before tax	2,890	782	3,672	1,983	(845)	1,138
Tax	(161)	(126)	(287)	26	-	26
Loss on business disposal	-	-	-	-	(1,400)	(1,400)
Profit/(loss) after tax	2,729	656	3,385	2,009	(2,245)	(236)

Macfarlane Group PLC

For the year ended 31 December 2005

Notes to the consolidated accounts

3. Segmental information

The Group's activities are centred around two principal activities, with those manufacturing operations discontinued in the current and prior years disclosed separately.

(i) Packaging Distribution

The distribution of packaging materials from a network of 15 Regional Distribution Centres in the UK.

(ii) Manufacturing Operations

The manufacture and supply of self-adhesive and resealable labels and plastic-injection moulded products to a variety of FMCG customers in the UK and Europe and the manufacture, assembly and supply of timber, corrugated and foam based packaging materials in the UK and US/Mexico.

(iii) Discontinued Operations

The operations in Hungary were sold at the start of 2006 and are classified as discontinued in the financial statements for 2005.

	2005	2004	2005	2004
Group Segment	Sales	Sales	Result	Result
	£000	£000	£000	£000
Packaging Distribution	73,915	74,095	661	(769)
Manufacturing Operations	53,332	48,610	2,267	864
	<hr/>	<hr/>	<hr/>	<hr/>
Continuing activities	127,247	122,705	2,928	95
Discontinued operations	3,618	4,634	750	(845)
	<hr/>	<hr/>	<hr/>	<hr/>
	130,865	127,339	3,678	(750)
	<hr/>	<hr/>	<hr/>	<hr/>
Profit from discontinued operations			(750)	845
			<hr/>	<hr/>
Profit before property transactions			2,928	95
Gain on disposal of properties			1,048	3,566
			<hr/>	<hr/>
Operating profit			3,976	3,661
Investment income			103	94
Finance costs			(1,189)	(1,772)
			<hr/>	<hr/>
Profit before tax			2,890	1,983
Tax			(161)	26
Profit/(loss) from discontinued operations after tax			656	(845)
Loss on disposal of discontinued operations			-	(1,400)
			<hr/>	<hr/>
Profit/(loss) after tax and discontinued operations			3,385	(236)
			<hr/>	<hr/>

4. Gain on disposal of properties

Three properties were sold during 2005 for a combined consideration of £4,880,000. On 4 February 2005, the Group sold its vacant premises at Govan near Glasgow for a consideration after attributable expenses of £2,715,000, giving rise to a gain of £1,300,000. On the same date the Group announced the disposal of a six-bay distribution site in Grantham. Sale proceeds from the site of £1,935,000 after expenses equated to book value. In April 2005 the Group sold its vacant site at Glenrothes for a consideration of £230,000 after expenses, which equated to book value.

In 2004, the Group sold its premises at Braehead near Glasgow for a consideration of £8,625,000. The disposal gave rise to a gain of £3,845,000 in the financial statements for 2004.

The costs to operate vacant properties in the year amounted to £252,000 (2004 - £279,000) and were offset against the gains arising on disposal.

Macfarlane Group PLC

For the year ended 31 December 2005

Notes to the consolidated accounts

5. Finance costs	2005	2004
	£000	£000
Interest on bank loans and overdrafts	(698)	(1,183)
Interest on obligations under finance leases	(43)	(72)
Interest cost of pension scheme liabilities	(2,728)	(2,734)
	<hr/>	<hr/>
Total interest expense	(3,469)	(3,989)
Expected return on pension scheme assets	2,280	2,217
	<hr/>	<hr/>
Total finance costs	(1,189)	(1,772)
	<hr/> <hr/>	<hr/> <hr/>

6. Tax	2005	2004
	£000	£000
Current tax		
United Kingdom corporation tax at 30% (2004: 30%)	(40)	-
Foreign tax	(121)	(99)
Prior year adjustment	-	24
	<hr/>	<hr/>
Current tax charge	(161)	(75)
Deferred taxation	-	101
	<hr/>	<hr/>
Total	(161)	26
	<hr/> <hr/>	<hr/> <hr/>

The standard rate of current tax for the year, based on the UK rate of corporation tax is 30% (2004 - 30%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The actual tax charge for current and previous year is less than 30% of the results as set out in the income statement for the reasons set out in the following reconciliation:

	2005	2004
	£000	£000
Profit before taxation	2,890	1,893
	<hr/>	<hr/>
Tax on profit at 30%	(867)	(568)
	<hr/>	<hr/>
Factors affecting tax credit for the year:-		
Depreciation in excess of capital allowances	107	1,300
Non taxable gain	390	1,153
Other differences	(1,000)	(573)
Tax losses utilised/(unutilised)	1,281	(1,471)
Difference on overseas tax rates	(72)	60
Prior year adjustment	-	24
	<hr/>	<hr/>
Current tax charge for the year	(161)	(75)
	<hr/> <hr/>	<hr/> <hr/>

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Notes to the consolidated accounts

7. Dividends	2005 £000	2004 £000
Amounts recognised as distributions to equity holders in the year:		
Special interim dividend for the year ended 31 December 2005 of 0.75p per share (2004 – Special interim dividend of 0.75p per share)	844	844
Dividends are not payable on own shares held in the employee share trust.		
8. Earnings/(loss) per share		
From continuing and discontinued operations		
The calculation of the basic and diluted earnings/(loss) per share is based on the following data:		
	2005 £000	2004 £000
Earnings/(loss) from continuing and discontinued operations for the purposes of earnings per share being net profit attributable to equity holders of the parent	3,385	(236)
Adjustments to exclude discontinued operations		
(Profit)/loss for the year from discontinued operations	(656)	845
Loss on disposal of discontinued operations	-	1,400
	2,729	2,009
Number of shares in issue for the purposes of calculating basic and diluted earnings/(loss) per share	2005 No. of shares '000	2004 No. of shares '000
Weighted average number of ordinary shares in issue	115,019	115,019
Own shares in Employee Share Ownership Trusts	(2,491)	(2,491)
	112,528	112,528
Weighted average number of shares in issue for the purposes of basic earnings/(loss) per share		
Effect of dilutive potential ordinary shares due to share options	602	69
	113,130	112,597

As the diluted loss per share reduces the loss per share in 2004, the original loss per share has been reflected as the diluted figure in the financial statements.

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9. Non-current assets and current liabilities classified as held for sale

In January 2006, the Group's Hungarian subsidiary was sold. As the decision to sell the business was taken before 31 December 2005, consequently the results of the subsidiary for 2005 and 2004 are classified as discontinued operations in the consolidated income statement. The component parts of the balance sheet sold in January 2006 are classified as non-current assets and current liabilities held for sale at 31 December 2005.

10. Notes to the cash flow statement

	2005	2004
	£000	£000
Operating profit	3,976	3,661
Continuing operations		
Discontinued operations	750	(845)
Operating profit	4,726	2,816
Adjustments for:		
Depreciation of property, plant and equipment	3,349	3,407
Gain on disposal of property, plant and equipment	(1,075)	(3,911)
Operating cash flows before movements in working capital	7,000	2,312
(Increase)/decrease in inventories	(379)	1,205
(Increase) in receivables	(1,981)	(437)
(Decrease)/increase in payables	(1,233)	36
Cash generated by operations	3,407	3,116
Income taxes (paid)/received	(212)	744
Interest paid	(1,205)	(1,690)
Net cash from operating activities	1,990	2,170
	2005	2004
	£000	£000
Decrease in cash and cash equivalents in the year	(224)	(8)
Decrease in bank overdrafts	6,396	3,596
Cash flows from debt and lease financing	479	469
Loan notes issued in the year	-	(200)
Movement in net debt in the year	6,651	3,857
Opening net debt	(13,054)	(16,911)
Closing net debt	(6,403)	(13,054)
Net debt comprises:		
Cash and cash equivalents	1,203	2,018
Cash and cash equivalents in business held for resale	591	-
Bank overdrafts and loans	(7,830)	(14,226)
Obligations under finance leases	(367)	(846)
Closing net debt	(6,403)	(13,054)

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less. Cash inflows in respect of the discontinued operations for operating activities amounted to £531,000 for 2005, (2004 Outflow of £370,000) Cash inflows in respect of investing activities totalled £32,000 (2004 - £7,000) and cash outflows from financing activities amounted to £268,000 (2004 £1,003,000).

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11. Pension scheme

The Group operates a pension scheme based on final pensionable salary for its UK operations. The assets of the scheme are held separately from those of the Group in managed funds under the overall supervision of the scheme trustees.

The contributions are determined by the scheme's qualified actuary on the basis of triennial valuations using the projected unit method. The most recent triennial valuation was as at 1 May 2005. The principal assumptions adopted were that investment returns would average 7.75% per annum and that salary increases would average 3.5% per annum. The valuation showed that the market value of the relevant assets of the scheme was £35,259,000 and the actuarial value of these assets represented 76% of the value of benefits that had accrued to members.

The final salary scheme was closed to new entrants during 2002 and the rate of contributions from both employees and the employer was increased. The employer contribution rate increased from 13.5% to 15.5% of pensionable salary, and the employee contribution rate increased from 5% to 7% of pensionable salary from 1 July 2002 following actuarial advice.

Following the actuarial valuation, the Board has agreed with the pension scheme trustees to make additional payments to the scheme of £0.7 million per annum for three years commencing 2006 to reduce the net pension deficit. These additional payments will increase the pension scheme assets; they are not a charge against profits.

Balance sheet disclosures

The figures below have been based on the triennial actuarial valuation as at 1 May 2005, updated to the current year-end. The assets in the scheme, the net liability position for the scheme at 31 December 2005 and the expected rates of return were:

Asset class	Fair value 2005 £000	Long- term expected rate of return	Fair value 2004 £000	Long-term expected rate of return	Fair value 2003 £000	Long- term expected rate of return
Equities	24,077	7.50%	19,911	7.75%	18,500	8.25%
Bonds	16,678	4.50%	15,173	5.00%	14,300	5.00%
Other (cash)	21	4.50%	37	5.00%	100	4.50%
Fair value of assets	<u>40,776</u>	<u>6.27%</u>	35,121	6.56%	32,900	6.82%
Present value of scheme liabilities	<u>(63,753)</u>		<u>(52,545)</u>		<u>(50,212)</u>	
Deficit in the scheme	(22,977)		(17,424)		(17,312)	
Related deferred tax asset	<u>6,893</u>		<u>5,227</u>		<u>5,193</u>	
Net pension liability	<u><u>(16,084)</u></u>		<u><u>(12,197)</u></u>		<u><u>(12,119)</u></u>	

Ongoing contributions to the scheme in 2005 covered current service costs and the costs of financing the deficit, but were not at a level to cause the deficit to reduce.

The pension scheme's assets saw a significant benefit from higher than expected equity returns in 2005. However this benefit was more than offset by changes to two of the major actuarial assumptions in determining the pension scheme's liabilities, firstly significant reductions in the bond yields used to value pension liabilities and secondly the move to more up-to-date mortality tables used to value liabilities. Both of these factors significantly increased the pension scheme's liabilities during 2005.

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12. IFRS transitional statements

The reconciliations of equity at 1 January 2004 and 31 December 2004 and the reconciliation of profit/(loss) for the year ended 31 December 2004, as required by IFRS1, including significant accounting policies and notes to 31 December 2004, were included in the Group's half yearly statement to 30 June 2005 issued on 6 September 2005.

13. Posting to shareholders and Annual General Meeting

The Annual Report and Accounts will be sent to shareholders on Friday 7 April 2006. The Annual General Meeting will take place at the Thistle Hotel, Cambridge Street Glasgow at 12 noon on Tuesday 9 May 2006. The Annual Report and Accounts will be available to members of the public at the Company's Registered Office, 21 Newton Place, Glasgow G3 7PY from 10 April 2006.