

CONTENTS

- 1 CHAIRMAN'S STATEMENT
- 2 TRADING PERFORMANCE
- 4 CONSOLIDATED INCOME STATEMENT
- 5 CONSOLIDATED STATEMENT OF
RECOGNISED INCOME AND EXPENSE
- 6 CONSOLIDATED BALANCE SHEET
- 7 CONSOLIDATED CASH FLOW STATEMENT
- 8 NOTES TO THE CONSOLIDATED
ACCOUNTS
- 16 INDEPENDENT REVIEW REPORT
- IBC PRINCIPAL OPERATING SUBSIDIARIES

CHAIRMAN'S STATEMENT

In March, 2006, I reported that after four years of losses, Macfarlane Group had returned to profit in the year to 31 December 2005 and that for the current full year's trading, I was anticipating a significant advance in profits.

While the first quarter was much in line with our expectations, we have been disappointed at the second quarter performance, which was weaker than projected resulting in a small loss at the half year.

This was because of:

- pressure on gross margins in packaging distribution;
- slower than planned pick-up in new sales in labels; and
- higher materials and operating costs in the USA.

Management action is being taken in the second half of 2006 to address all of these issues as follows:

- in packaging distribution, the acceleration of the price recovery programme, targeted materials cost savings and reductions in overheads and headcount;
- strengthening of the sales team within the labels business; and
- implementing price recovery and cost savings programmes in the USA.

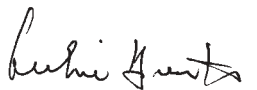
The Board expects that the full year trading profits from continuing operations will show an improvement on last year's figures. The extent of the improvement will be dependent on the pace at which we can secure the results of these actions.

A significant feature of attention in the second half of 2006 is continuing to build the foundations for sustainable growth in 2007 and beyond.

The balance sheet continues to strengthen and the business's traditional strong cash generation in the second half of the year will further substantially reduce our debt.

The Board is maintaining its intention, as reported in its statement in March 2006, to make dividend payments at the rate of 2p per share, 1p for each of the interim and final dividends. The next dividend payment for the final dividend is expected to be made in May 2007.

The Group's objective is to get the recovery back on track and the Board is confident that this will be achieved in the second half of 2006.



ARCHIE S. HUNTER
5 SEPTEMBER 2006

TRADING PERFORMANCE

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 the Packaging Distribution business returned to profitability following three years of losses. Our objective in 2006 is to strengthen our position in the UK market through organic growth and targeted acquisitions.

In the first half of 2006 sales per day have grown by almost 6% compared to the same period in 2005 with 10 RDCs showing growth in excess of 6%. The growth in sales has been generated through new business wins and through increased product penetration with existing customers. In addition we have improved our levels of customer service to almost 95% as measured by On-Time-in-Full (OTIF) deliveries.

The first half of 2006 has been a significant period for supplier price increases due to inflation in raw materials, energy and oil related costs. This difficult pricing environment has caused delays in fully passing through supplier increases to customers, resulting in the gross margin being slightly lower than for the same period in 2005.

Overhead costs have remained under control but we are continuing to make revenue investments in our web-based offering Packaging2U and to enhance the existing sales teams and to establish a New Business Development team, which will be operational in the second half of 2006.

Our priorities in the second half of 2006 are to:

- accelerate the sales growth momentum seen in the first half of the year;
- return the gross margin to previous levels;
- fully deploy the New Business Development team; and
- evaluate suitable potential acquisition opportunities that can enhance our capabilities and create profitable business growth.

MANUFACTURING OPERATIONS

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.

We operate Packaging Manufacturing operations from two UK sites – Grantham and Westbury, both of which manufacture custom-designed packaging solutions for customers looking for cost-effective methods of protecting their products in storage and transit. Our US operations in California and Mexico focus particularly on foam-based packaging components particularly for use in the electronics, healthcare and fresh produce sectors.

In the first half of 2006, the Labels business experienced sales 11% down on 2005 in the self-adhesive sector as it implemented the strategic transition from supplying the low margin own brand food-related product sector to the branded sector. This transition programme will continue until the first half of 2007. Sales of re-sealable labels continued to progress and first half sales were 2% ahead of 2005. We are also experiencing initial encouraging responses from potential re-sealable labels customers in the USA.

The Plastics business experienced sales growth in the first half of 2006 almost 5% ahead versus the first half of 2005. However high oil prices continue to impact raw material costs and gross margins were slightly below those in the equivalent period in 2005. Our UK Packaging Manufacturing operations performed well with sales 6% ahead of the first half in 2005, through both the development of existing customers, including increased sales won in conjunction with our Distribution business and a number of good new business wins.

First half sales in the US/Mexico were also 6% ahead of the same period last year, but there was some margin erosion as delays were experienced in fully passing on supplier price increases and we incurred additional costs to resolve service issues particularly in the Northern Californian market. Our new facility in Tijuana is now operational, performing in line with expectations and receiving encouraging support from existing and potential customers.

Our priorities in the second half of 2006 are to:

- continue the strategic repositioning of the self-adhesive labels business;
- improve our penetration in the re-sealable labels market;
- maintain the good momentum in Plastics and UK Packaging Manufacturing;
- recover the margin erosion in Northern California; and
- fully benefit from the low cost operation now established in Tijuana.

CONSOLIDATED INCOME STATEMENT (unaudited)

For the six months ended 30 June 2006

	Note	Six months to 30 June 2006 £000	Six months to 30 June 2005 £000	Year to 31 December 2005 £000
CONTINUING OPERATIONS				
Revenue	3	64,403	62,310	127,247
Cost of sales		(43,940)	(41,543)	(85,122)
GROSS PROFIT		20,463	20,767	42,125
Distribution expenses		(3,248)	(3,119)	(6,521)
Administrative expenses before vacant property costs		(17,074)	(16,886)	(32,676)
Vacant property costs	3	(190)	(130)	(252)
Administrative expenses		(17,264)	(17,016)	(32,928)
Gain on disposal of property	3	–	1,335	1,300
OPERATING (LOSS)/PROFIT		(49)	1,967	3,976
Investment income		59	–	103
Finance costs	4	(428)	(622)	(1,189)
(LOSS)/PROFIT BEFORE TAX		(418)	1,345	2,890
Tax	5	(230)	(56)	(161)
(LOSS)/PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	8	(648)	1,289	2,729
DISCONTINUED OPERATIONS	7			
Profit for the period from discontinued operations		920	196	656
PROFIT FOR THE PERIOD	8	272	1,485	3,385
(LOSS)/EARNINGS PER ORDINARY SHARE OF 25p	8			
From continuing operations				
Basic		(0.57p)	1.15p	2.43p
Diluted		(0.57p)	1.14p	2.41p
From continuing and discontinued operations				
Basic		0.24p	1.32p	3.01p
Diluted		0.24p	1.31p	2.99p

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE (unaudited) For the six months ended 30 June 2006

		Six months to 30 June 2006 £000	Six months to 30 June 2005 £000	Year to 31 December 2005 £000
Exchange difference on translation of foreign operations		(390)	(341)	144
Actuarial gains/(losses) on defined benefit pension schemes	10	2,186	(150)	(5,553)
Tax on items taken directly to equity		(655)	45	1,666
NET INCOME/(EXPENSE) RECOGNISED DIRECTLY IN EQUITY		1,141	(446)	(3,743)
Profit for the period		272	1,485	3,385
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD		1,413	1,039	(358)

CONSOLIDATED BALANCE SHEET (unaudited)

At 30 June 2006

	Note	As at 30 June 2006 £000	As at 30 June 2005 £000	As at 31 December 2005 £000
NON-CURRENT ASSETS				
Goodwill		17,195	17,054	17,182
Property, plant and equipment		13,360	15,943	14,608
Investment property		1,701	1,701	1,701
Other receivables		1,049	867	863
Deferred tax asset	11	5,806	5,059	6,651
TOTAL NON-CURRENT ASSETS		39,111	40,624	41,005
CURRENT ASSETS				
Inventories		9,016	8,407	8,803
Trade and other receivables		29,235	29,205	29,639
Cash and cash equivalents		942	1,798	1,203
TOTAL CURRENT ASSETS		39,193	39,410	39,645
Non current assets classified as held for sale		–	–	1,925
		39,193	39,410	41,570
TOTAL ASSETS		78,304	80,034	82,575
CURRENT LIABILITIES				
Trade and other payables		24,334	23,266	24,681
Tax liabilities		726	653	796
Obligations under finance leases		39	497	272
Bank overdrafts and loans		7,368	10,244	7,830
Liabilities directly associated with assets classified as held for sale		–	–	485
TOTAL CURRENT LIABILITIES		32,467	34,660	34,064
NET CURRENT ASSETS		6,726	4,750	5,581
NON CURRENT LIABILITIES				
Retirement benefit obligations	10	20,035	17,574	22,977
Obligations under finance leases		75	120	95
TOTAL NON-CURRENT LIABILITIES		20,110	17,694	23,072
TOTAL LIABILITIES		52,577	52,354	57,136
NET ASSETS		25,727	27,680	25,439
EQUITY				
Share capital		28,755	28,755	28,755
Capital redemption reserve		–	2,952	–
Share premium		–	7,547	–
Revaluation reserve		167	274	167
Own shares held by employee share trust		(1,406)	(1,406)	(1,406)
Translation reserve		(425)	(521)	(36)
Retained earnings		(1,364)	(9,921)	(2,041)
TOTAL EQUITY	12	25,727	27,680	25,439

CONSOLIDATED CASH FLOW STATEMENT (unaudited)

For the six months ended 30 June 2006

	Note	Six months to 30 June 2006 £000	Six months to 30 June 2005 £000	Year to 31 December 2005 £000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	9	(2,291)	(1,090)	1,990
INVESTING ACTIVITIES				
Interest received		–	13	119
Disposal of subsidiary undertaking	7	2,174	–	–
Proceeds on disposal of property, plant and equipment		1,522	5,122	6,255
Purchases of property, plant and equipment		(417)	(54)	(869)
NET CASH FROM INVESTING ACTIVITIES		3,279	5,081	5,505
FINANCING ACTIVITIES				
Dividends paid		(1,125)	–	(844)
Repayments of obligations under finance leases		(253)	(229)	(479)
Decrease in bank overdrafts		(462)	(3,982)	(6,396)
NET CASH USED IN FINANCING ACTIVITIES		(1,840)	(4,211)	(7,719)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(852)	(220)	(224)
Cash and cash equivalents at beginning of period		1,794	2,018	2,018
CASH AND CASH EQUIVALENTS AT END OF PERIOD		942	1,798	1,794

At 31 December 2005, cash balances of £591,000 were included within non-current assets classified as held for sale.

NOTES TO THE CONSOLIDATED ACCOUNTS (unaudited)

Six months ended 30 June 2006

1. GENERAL INFORMATION

The information for the year ended 31 December 2005 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985, but has been extracted from the Group's statutory accounts which have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified pursuant to Section 235 of the Companies Act 1985 and did not contain a statement under sub-section 237 of that Act.

2. BASIS OF PREPARATION

These interim financial statements for the six months ended 30 June 2006 have been prepared on the basis of the accounting policies set out in the Group's 2005 statutory accounts and were approved by the Board of Directors on 5 September 2006. The Group has not applied IAS 34 "Interim Financial Reporting" which is not mandatory for UK groups in the preparation of these interim financial statements. The financial statements have been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. The interim financial statements are unaudited but have been formally reviewed by the auditors and their report to the Company is set out on page 16.

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 re-sealable 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 in January 2006 and are classified as discontinued in the financial statements for 2005.

Revenue

	Six months to 30 June 2006 £000	Six Months to 30 June 2005 £000	Year to 31 December 2005 £000
Group Segment			
Packaging Distribution	38,491	36,117	73,915
Manufacturing Operations	25,912	26,193	53,332
	64,403	62,310	127,247
Continuing operations			
Discontinued operations	–	1,631	3,618
	64,403	63,941	130,865

3. SEGMENTAL INFORMATION (continued)

Trading results

	Six months to 30 June 2006 £000	Six Months to 30 June 2005 £000	Year to 31 December 2005 £000
Group Segment			
Packaging Distribution	(373)	(362)	409
Manufacturing Operations	324	994	2,267
Continuing operations	(49)	632	2,676
Discontinued operations	–	207	750
(Loss)/profit from continuing and discontinued operations	(49)	839	3,426
Profit from discontinued operations	–	(207)	(750)
(Loss)/profit before property transactions	(49)	632	2,676
Gain on disposal of property	–	1,335	1,300
Operating (loss)/profit	(49)	1,967	3,976

Net assets

	30 June 2006 £000	30 June 2005 £000	31 December 2005 £000
Group segment			
Packaging Distribution	11,784	12,767	9,836
Manufacturing Operations	13,943	14,913	14,163
Continuing operations	25,727	27,680	23,999
Discontinued operations	–	–	1,440
Net assets	25,727	27,680	25,439

Vacant property costs totalling £190,000 (June 2005 £130,000, December 2005 £252,000) have been re-categorised separately within administrative expenses, rather than being offset against property disposal gains, which gives a more appropriate classification within the business's activities.

NOTES TO THE CONSOLIDATED ACCOUNTS (unaudited)

Six months ended 30 June 2006

4. FINANCE COSTS

	Six months to 30 June 2006 £000	Six Months to 30 June 2005 £000	Year to 31 December 2005 £000
Interest on bank loans and overdrafts	(281)	(373)	(698)
Interest on obligations under finance leases	(8)	(26)	(43)
Interest cost of pension scheme liabilities	(1,503)	(1,371)	(2,728)
Total interest expense	(1,792)	(1,770)	(3,469)
Expected return on pension scheme assets	1,364	1,148	2,280
Net finance costs	(428)	(622)	(1,189)

5. TAXATION

	Six months to 30 June 2006 £000	Six Months to 30 June 2005 £000	Year to 31 December 2005 £000
Current tax			
UK corporation tax	–	–	(40)
Overseas taxation	(53)	(56)	(121)
Prior year	17	–	–
Current tax	(36)	(56)	(161)
Deferred tax	(194)	–	–
Total	(230)	(56)	(161)

Corporation tax has been provided for the period to 30 June 2006, reflecting the expected tax rate for the full year on overseas earnings. Included in the deferred tax charge of £194,000 is £227,000 in relation to the pension deficit. No tax has been provided on the UK results, reflecting the expected tax rate for the full year.

6. DIVIDENDS

	Six months to 30 June 2006 £000	Six Months to 30 June 2005 £000	Year to 31 December 2005 £000
Amounts recognised as distributions to equity holders in the period			
Interim dividend in respect of the year ended 31 December 2006 (1.00p per share)	1,125	–	844
2005 (0.75p per share)			

Dividends are not payable on shares held in the employee share trust.

7. DISCONTINUED OPERATIONS

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

The trading activities of the business in Hungary have been disclosed as discontinued operations in these financial statements and the relevant information for comparative periods is as follows:-

	Six months to 30 June 2006 £000	Six Months to 30 June 2005 £000	Year to 31 December 2005 £000
Revenue	–	1,631	3,618
Profit from operations	–	207	750
Investment income	–	27	32
Gain on disposal of subsidiary undertaking	920	–	–
Profit before tax	920	234	782
Tax	–	(38)	(126)
Post-tax profit from discontinued operations	920	196	656

The amounts treated as disposed of in the period are as follows:-

	Six months to 30 June 2006 £000
Cash consideration (net of attributable expenses)	2,174
Deferred consideration	186
Total consideration (net of attributable expenses)	2,360
Assets classified as held for sale	1,925
Liabilities directly associated with assets held for sale	(485)
	1,440
Gain on disposal of subsidiary undertaking	920

NOTES TO THE CONSOLIDATED ACCOUNTS (unaudited)

Six months ended 30 June 2006

8. (LOSS)/EARNINGS PER SHARE

	Six months to 30 June 2006 £000	Six Months to 30 June 2005 £000	Year to 31 December 2005 £000
Earnings			
Earnings from continuing and discontinued operations for the purposes of earnings per share being net profit attributable to equity holders of the parent	272	1,485	3,385
Adjustments to exclude discontinued operations			
Profit for the year from discontinued operations	–	(196)	(656)
Profit on disposal of discontinued operations	(920)	–	–
(Loss)/earnings from continuing operations for the purposes of earnings per share being net (loss)/profit attributable to equity holders of the parent	(648)	1,289	2,729
	Number of shares '000	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares in issue	115,019	115,019	115,019
Own shares in Employee Share Ownership Trusts	(2,491)	(2,491)	(2,491)
Weighted average number of shares in issue for the purposes of basic earnings per share	112,528	112,528	112,528
Effect of dilutive potential ordinary shares due to share options	970	620	602
Weighted average number of shares in issue for the purposes of diluted earnings per share	113,498	113,148	113,130

9. NOTES TO THE CASH FLOW STATEMENT

	Six months to 30 June 2006 £000	Six Months to 30 June 2005 £000	Year to 31 December 2005 £000
Operating (loss)/profit	(49)	1,967	3,976
Continuing operations	–	207	750
Discontinued operations	–	–	–
(Loss)/profit from operations	(49)	2,174	4,726
Adjustments for:			
Depreciation of property, plant and equipment	1,521	1,521	3,349
Gain on disposal of property, plant and equipment	(2)	(1,382)	(1,075)
Operating cash flows before movements in working capital	1,470	2,313	7,000
(Increase)/decrease in inventories	(213)	282	(379)
(Increase)/decrease in receivables	(913)	788	(1,981)
Decrease in payables	(1,296)	(3,890)	(1,233)
Adjustment for pension scheme funding	(736)	–	–
Cash generated by operations	(1,688)	(507)	3,407
Income taxes paid	(123)	(38)	(212)
Interest paid	(480)	(545)	(1,205)
Net cash (outflow)/inflow from operating activities	(2,291)	(1,090)	1,990

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

9. NOTES TO THE CASH FLOW STATEMENT (continued)

	Six months to 30 June 2006 £000	Six Months to 30 June 2005 £000	Year to 31 December 2005 £000
Movement in net debt			
Decrease in cash and cash equivalents in the period	(852)	(220)	(224)
Decrease in bank overdrafts	462	3,982	6,396
Cash flows from debt and lease financing	253	229	479
Movement in net debt in the year	(137)	3,991	6,651
Opening net debt	(6,403)	(13,054)	(13,054)
Closing net debt	(6,540)	(9,063)	(6,403)
Net debt comprises:-			
Cash and cash equivalents	942	1,798	1,203
Cash and cash equivalents in business held for resale	-	-	591
Bank overdrafts and loans	(7,368)	(10,244)	(7,830)
Obligations under finance leases	(114)	(617)	(367)
Closing net debt	(6,540)	(9,063)	(6,403)

10. PENSION SCHEME CREDITOR

The figures below have been based on the results of the triennial actuarial valuation as at 1 May 2005, updated to 30 June 2006, 31 December 2005 and 30 June 2005. The assets in the scheme, the net liability position of the scheme as calculated under IAS 19 and the principal assumptions were:

	30 June 2006 £000	30 June 2005 £000	31 December 2005 £000
Fair value of assets	41,037	37,294	40,776
Present value of scheme liabilities	(61,072)	(54,868)	(63,753)
Pension scheme deficit	(20,035)	(17,574)	(22,977)
Deferred tax asset (see note 11)	6,011	5,272	6,893
Pension scheme deficit net of related deferred tax asset	(14,024)	(12,302)	(16,084)

The scheme's liabilities were calculated on the following bases as required under IAS 19:

	30 June 2006	30 June 2005	31 December 2005
Assumptions			
Discount rate	5.25%	5.00%	4.75%
Rate of increase in salaries	3.00%	2.50%	2.75%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 2.75% for LPI	3% or 5% for fixed increases or 2.75% for LPI	3% or 5% for fixed increases or 2.75% for LPI
Inflation assumption	3.00%	2.50%	2.75%

NOTES TO THE CONSOLIDATED ACCOUNTS (unaudited)

Six months ended 30 June 2006

10. PENSION SCHEME CREDITOR (continued)

	Six months to 30 June 2006 £000	Six months to 30 June 2005 £000	Year to 31 December 2005 £000
Movement in scheme deficit in the period			
At start of period	(22,977)	(17,424)	(17,424)
Current service cost	(221)	(152)	(298)
Employer contributions	1,116	375	746
Net finance costs	(139)	(223)	(448)
Actuarial gain/(loss) in the period	2,186	(150)	(5,553)
At end of period	(20,035)	(17,574)	(22,977)

Movement in assets during the period

Assets at start of period	40,776	35,121	35,121
Expected return on assets	1,364	1,148	2,280
Actual less expected return on assets	(1,542)	1,433	4,093
Employer contributions	1,116	375	746
Employee contributions	110	111	231
Benefits paid	(787)	(894)	(1,695)
Assets at end of period	41,037	37,294	40,776

Movement in liabilities during the period

Liabilities at start of period	(63,753)	(52,545)	(52,545)
Service costs	(221)	(152)	(298)
Interest costs	(1,503)	(1,371)	(2,728)
Employee contributions	(110)	(111)	(231)
Actuarial gain/(loss) on liabilities in the period	3,728	(1,583)	(9,646)
Benefits paid	787	894	1,695
Liabilities at end of period	(61,072)	(54,868)	(63,753)

11. DEFERRED TAX ASSET

	30 June 2006 £000	30 June 2005 £000	31 December 2005 £000
Deferred tax asset on pension scheme deficit at start of period	6,893	5,227	5,227
(Charge)/credit on actuarial movement in the period applied through statement of recognised income and expense	(655)	45	1,666
(Charge) through income statement based on payments made to reduce deficit in the period	(227)	–	–
Deferred tax asset on pension scheme deficit (see note 10)	6,011	5,272	6,893
Deferred tax liabilities on timing differences	(205)	(213)	(242)
Net deferred tax asset	5,806	5,059	6,651

12. RECONCILIATION OF MOVEMENTS IN EQUITY

	Six months to 30 June 2006 £000	Six Months to 30 June 2005 £000	Year to 31 December 2005 £000
Profit for the period	272	1,485	3,385
Dividends to equity holders in the period	(1,125)	–	(844)
Exchange differences on translation of foreign operations	(390)	(341)	144
Actuarial gains/(losses) on pension schemes	2,186	(150)	(5,553)
Taxation on items taken direct to equity	(655)	45	1,666
Movements in equity in the period	288	1,039	(1,202)
Opening equity	25,439	26,641	26,641
Closing equity	25,727	27,680	25,439

INDEPENDENT REVIEW REPORT

TO MACFARLANE GROUP PLC

INTRODUCTION

We have been instructed by the company to review the financial information for the six months ended 30 June 2006, which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

DIRECTORS' RESPONSIBILITIES

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

REVIEW WORK PERFORMED

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

REVIEW CONCLUSION

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.



Deloitte & Touche LLP
Chartered Accountants
Glasgow
United Kingdom
5 September 2006

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

PRINCIPAL OPERATING SUBSIDIARIES

Company name		Principal activities	Country of registration
MACFARLANE GROUP UK LIMITED			
Coventry	Telephone 02476 511511	Supply and distribution of all forms of packaging materials and equipment.	
Grantham	Telephone 01476 574747	Design and manufacture	
Westbury	Telephone 01373 858555	of specialist packaging.	England
MACFARLANE LABELS LIMITED			
Kilmarnock	Telephone 01563 525151	Manufacture of high quality printed self-adhesive labels and re-sealable labelling solutions.	Scotland
MACFARLANE LABELS (IRELAND) LIMITED			
Dublin	Telephone 00 353 1832 0220	Manufacture of high quality printed self-adhesive labels and re-sealable labelling solutions.	Ireland
MACFARLANE GROUP SWEDEN AB			
Helsingborg	Telephone 00 46 42 13 75 55	Manufacture of high quality printed self-adhesive labels and re-sealable labelling solutions.	Sweden
MACFARLANE PLASTICS LIMITED			
Newtownmountkennedy	Telephone 00 353 1281 0234	Manufacture of injection mouldings for neutraceutical, pharmaceutical, medical, toy, retail and petrochemical industries.	Ireland
MACFARLANE WESTERN FOAM INC			
Union City	Telephone 001 510 324 3626	Design and manufacture of	
Ontario	Telephone 001 909 390 4422	foam packaging components.	USA
MACFARLANE DE MEXICO S.A. De C.V.			
Tijuana	Telephone 00 52 66 49 03 3985	Design and manufacture of	
Guadalajara	Telephone 00 52 33 33 65 8765	foam packaging components.	Mexico

Note: All the above subsidiaries are wholly owned either by Macfarlane Group PLC or one of its subsidiary companies and operate within their country of registration. A full list of trading and non-trading subsidiaries is available from the registered office, 21 Newton Place, Glasgow G3 7PY.

MACFARLANE GROUP PLC

21 Newton Place

Glasgow G3 7PY

Telephone: 0141 333 9666

Facsimile: 0141 333 1988

E-mail: investorinfo@macfarlanegroup.net

Website: <http://www.macfarlanegroup.net>