

**11 September 2007**

**MACFARLANE GROUP'S INTERIM RESULTS TO 30 JUNE 2007**

Group profit before taxation from continuing operations for the six months of £0.5m

Sales growth of 12% from continuing operations

Increasing focus being brought to Group activities

Net debt of £9.5m at June 2007, Group expects to be strongly cash positive in second half of 2007

Dividend intentions maintained

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

“I am pleased to be able to report continuing improvement in Macfarlane Group’s trading performance in the six months to 30 June 2007 and significant progress in bringing increased focus to the activities of the Group.

In the six months to 30 June 2007, pre-tax profit from the Group’s continuing operations was £0.5 million compared with a loss of £0.4 million for the six months to 30 June 2006 on sales up 12% from £51.2 million to £57.4 million.

Our Packaging Distribution business is now benefiting from the investments made last year in the management team and in new business development resources. The outcome is an operating profit for the half year of £0.3 million against a loss of £0.5 million a year ago on sales 15% ahead of the same period in 2006. Our market-leading position creates clear potential for profitable growth in this business both organically and by acquisition. The operating profit from all of our Manufacturing Operations was £0.4 million, a similar level to the previous year.

The Board has concluded that the Group’s interests would be best served by the concentration of management’s attention on those business activities where we have developed good market positions and growth potential. Accordingly discussions with prospective purchasers for certain non-strategic activities within Manufacturing Operations are being pursued. As a result, these activities require to be categorised as discontinued operations in this statement with comparative figures amended accordingly. Given the commercial sensitivities of these discussions, the Board believes that it would not be in the Group’s interests to say anything further at this time. Further announcements will be made when appropriate.

The discontinued operations referred to above are expected to give rise to an impairment loss of £1.8 million for which provision has been made, however they will have a considerable positive cash impact. This, together with anticipated net cash generation from trading activities in the six months to 31 December 2007 indicates that the Group will largely eliminate bank borrowings by the end of the year. The Board is actively seeking acquisitions to complement its strategic activities.

As previously indicated, an interim dividend of 1p per share will be paid on Thursday 25 October 2007 to those shareholders on the register at 28 September 2007.

It has been an active six months and the Board is satisfied that progress is being made. The second half of 2007 has maintained the momentum of the first half with trading in July and August in line with our expectations. There are considerable opportunities to be pursued and in each of our business activities we are undertaking initiatives aimed at delivering sustained profitable growth.”

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

The interim report will be sent to shareholders on 17 September 2007 and be available to members of the public at the Company’s Registered Office, 21 Newton Place, Glasgow G3 7PY from 19 September 2007.

## Trading performance

### Packaging Distribution

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

In the first half of 2007, Packaging Distribution recorded an operating profit of £0.3m, compared to a loss of £0.5m in the same period in 2006. Our objective in the remainder of the year is to strengthen our position in the UK market through organic growth and targeted acquisitions.

In the first half of 2007 sales are 15% ahead of the same period in 2006. Organic growth is 10% ahead of 2006 with the benefits of the investments in our RDC managers and the New Business Development team beginning to be demonstrated. Packaging2u.co.uk, our web-based packaging business, is continuing to make good progress.

In the second half of 2006 we acquired Bloomfield Supplies. The business traded successfully in the first half of 2007 and its performance is in line with our expectations. During the second half of 2007 we will fully integrate the Bloomfield business into the Macfarlane RDC network.

We currently have nine of our RDCs performing at acceptable levels of return. Four RDCs are demonstrating levels of improvement in line with our expectations and the three underperforming RDCs are progressing and will be major beneficiaries of the integration of the Bloomfield business, which will enable them to exit the year in profit.

The pricing environment remains volatile however, despite this pressure, our gross margin in the first half of 2007 at 30.5% showed an encouraging improvement on the 29.9% recorded in the same period in 2006. Gross margin improvement continues to be a key area of management focus.

Our priorities for the Distribution business in the second half of 2007 are to:

- Accelerate the current strong sales momentum, particularly through the New Business Development and National Account teams;
- Successfully integrate Bloomfield Supplies into the Macfarlane RDC network;
- Continue to ensure effective recovery of supplier price increases to protect our gross margin;
- Maintain the level of performance improvement in the underperforming RDCs;
- Ensure the Packaging2u.co.uk business accelerates its current momentum; and
- Enhance current organic growth with targeted acquisitions.

## **Trading performance**

### **Manufacturing Operations**

Macfarlane operates a range of manufacturing businesses, producing self-adhesive and re-sealable labels, plastic injection-moulded closures and dispensers, bespoke composite transit packaging and foam-based packaging and protective components.

Macfarlane Labels operates from two plants, Kilmarnock and Dublin, supplying design and production of high quality self-adhesive and re-sealable labels for consumer packs.

In the first half of 2007 Labels sales were broadly in line with the same period in 2006 and showed signs of stabilisation following the 11% reduction in 2006. During the first half sales improved in self-adhesive labels and slowed slightly in re-sealable labels. However with our first US customer now operational we expect re-sealable label sales to strengthen in the second half of the year.

The cost savings implemented in the second half of 2006 are enabling the business to operate with a lower cost base and the profitability of the Labels business in the first half of 2007 was ahead of the same period in 2006.

Macfarlane Plastics operates from Wicklow in Ireland designing and producing injection-moulded closures and dispensers primarily used in the packaging of powdered consumer products. The Plastics business experienced sales in the first half of 2007 around the same level as 2006. However weaker margins resulted in first half profits being slightly down on the equivalent period in 2006.

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 higher-value products in storage and transit.

Sales in our UK Packaging Manufacturing operations were ahead of the same period in 2006 with good growth in sales to Macfarlane Distribution and new business. However pressure on raw material pricing and planned overhead investments resulted in first half profits only slightly ahead of the same period in 2006.

Our US operations in California and Mexico focus on foam-based packaging components primarily for use in the electronics, healthcare and fresh produce sectors. First half sales in the US/Mexico were down on the same period in 2006 primarily due to unfavourable market conditions. In order to counteract the weak demand, cost reduction programmes have been implemented including the increased use of our low-cost manufacturing facility in Tijuana. Despite these actions the US/Mexico business made a loss in the first half of 2007 compared with a small profit in the equivalent period in 2006.

Our priorities for the Manufacturing Operations in the second half of 2007 are to:

- Maintain our momentum in the strategic repositioning of the self-adhesive labels business;
- Improve our penetration in the re-sealable labels market, particularly in the USA;
- Penetrate new geographic markets in our Plastics business through the leveraging of our strong relationships with global customers;
- Utilise the strong relationship with Macfarlane Distribution to strengthen sales in UK Packaging Manufacture;
- Ensure the planned overhead investments in UK Packaging Manufacture reflect in improved profitability; and
- Fully utilise the lower cost benefits of our new Tijuana manufacturing facility to improve profitability in our US/Mexico foam business.

### **Future Outlook**

The first half of 2007 has demonstrated an encouraging uplift in profit performance primarily driven by our Packaging Distribution business. The momentum we have created should strengthen in the second half of the year based on the effective implementation of planned management actions.

Macfarlane Group is intent on giving greater focus to the Group's activities in order to concentrate management resources on accelerating growth and financial returns from the key businesses.

# **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 2007, which comprises the group income statement, the group statement of recognised income and expense, the group reconciliation of movements in equity, the group balance sheet, the group cash flow statement and related notes 1 to 11. 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 2007.

Deloitte & Touche LLP  
Chartered Accountants  
Glasgow  
United Kingdom  
11 September 2007

**MACFARLANE GROUP PLC**  
**GROUP INCOME STATEMENT (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2007**

	Note	Six months to 30 June 2007 £000	Six months to 30 June 2006 £000	Year to 31 December 2006 £000
<b>Continuing operations</b>				
Revenue	3	57,389	51,249	106,313
Cost of sales		<u>(38,978)</u>	<u>(35,019)</u>	<u>(72,522)</u>
<b>Gross profit</b>		<b>18,411</b>	16,230	33,791
Distribution expenses		(2,998)	(2,742)	(5,490)
Administrative expenses		<u>(14,674)</u>	<u>(13,674)</u>	<u>(26,294)</u>
<b>Operating profit/(loss)</b>	3	<b>739</b>	(186)	2,007
Finance costs	4	(1,758)	(1,816)	(3,296)
Investment income	4	<u>1,472</u>	<u>1,562</u>	<u>2,762</u>
<b>Profit/(loss) before tax</b>		<b>453</b>	(440)	1,473
Tax	5	<u>(187)</u>	<u>(278)</u>	<u>(315)</u>
<b>Profit/(loss) for the period from continuing operations</b>	8	<b>266</b>	(718)	1,158
<b>Discontinued operations</b>				
(Loss)/profit for the period from discontinued operations	7	<u>(1,989)</u>	<u>990</u>	<u>893</u>
<b>(Loss)/profit for the period</b>	8	<u><b>(1,723)</b></u>	<u>272</u>	<u>2,051</u>
<b>Earnings/(loss) per ordinary share of 25p</b>				
From continuing operations				
Basic		<u>0.24p</u>	<u>(0.64p)</u>	<u>1.03p</u>
Diluted		<u>0.24p</u>	<u>(0.63p)</u>	<u>1.02p</u>
From continuing and discontinued operations				
Basic		<u>(1.53p)</u>	<u>0.24p</u>	<u>1.82p</u>
Diluted		<u>(1.53p)</u>	<u>0.24p</u>	<u>1.81p</u>

**MACFARLANE GROUP PLC**  
**GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2007**

	Note	Six months to 30 June 2007 £000	Six months to 30 June 2006 £000	Year to 31 December 2006 £000
Exchange difference on translation of foreign operations		(135)	(390)	(764)
Actuarial gains on defined benefit pension schemes	10	2,055	2,186	5,835
Tax on items taken directly to equity		(842)	(655)	(1,751)
<b>Net income recognised directly in equity</b>		<b>1,078</b>	1,141	3,320
(Loss)/profit for the period		(1,723)	272	2,051
<b>Total recognised income and expense for the period</b>		<b>(645)</b>	1,413	5,371

**MACFARLANE GROUP PLC**  
**GROUP RECONCILIATION OF MOVEMENTS IN EQUITY (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2007**

	Note	Six months to 30 June 2007 £000	Six Months to 30 June 2006 £000	Year to 31 December 2006 £000
(Loss)/profit for the period		(1,723)	272	2,051
Dividends to equity holders in the period	6	(1,125)	(1,125)	(1,125)
Exchange differences on translation of foreign operations		(135)	(390)	(764)
Actuarial gains on pension schemes	10	2,055	2,186	5,835
Tax on items taken directly to equity		(842)	(655)	(1,751)
Credit in respect of share based payments		59	-	140
<b>Movements in equity in the period</b>		<b>(1,711)</b>	288	4,386
Opening equity		29,825	25,439	25,439
<b>Closing equity</b>		<b>28,114</b>	25,727	29,825

**MACFARLANE GROUP PLC**  
**GROUP BALANCE SHEET AT 30 JUNE 2007 (UNAUDITED)**

		As at 30 June 2007 £000	As at 30 June 2006 £000	As at 31 December 2006 £000
<b>Non-current assets</b>	<b>Note</b>			
Goodwill		18,646	17,195	18,973
Property, plant and equipment		9,303	13,360	13,112
Investment property		1,701	1,701	1,701
Other receivables		1,059	1,049	1,057
Deferred tax asset	11	3,610	5,806	4,560
<b>Total non-current assets</b>		<b>34,319</b>	39,111	39,403
<b>Current assets</b>				
Inventories		8,261	9,016	9,811
Trade and other receivables		27,180	29,235	29,508
Cash and cash equivalents		890	942	2,195
<b>Total current assets</b>		<b>36,331</b>	39,193	41,514
Non current assets classified as held for sale	7	8,149	-	-
		<b>44,480</b>	39,193	41,514
<b>Total assets</b>		<b>78,799</b>	78,304	80,917
<b>Current liabilities</b>				
Trade and other payables		22,551	24,334	26,710
Tax liabilities		220	726	663
Obligations under finance leases		41	39	44
Bank overdrafts and loans		11,107	7,368	7,747
Liabilities directly associated with assets classified as held for sale	7	3,551	-	-
<b>Total current liabilities</b>		<b>37,470</b>	32,467	35,164
<b>Net current assets</b>		<b>7,010</b>	6,726	6,350
<b>Non-current liabilities</b>				
Retirement benefit obligations	10	13,180	20,035	15,873
Obligations under finance leases		35	75	55
<b>Total non-current liabilities</b>		<b>13,215</b>	20,110	15,928
<b>Total liabilities</b>		<b>50,685</b>	52,577	51,092
<b>Net assets</b>		<b>28,114</b>	25,727	29,825
<b>Equity</b>				
Share capital		28,755	28,755	28,755
Revaluation reserve		167	167	167
Own shares held by employee share trust		(1,406)	(1,406)	(1,406)
Translation reserve		(149)	(425)	(800)
		(787)	-	-
Retained earnings		1,534	(1,364)	3,109
<b>Total equity</b>		<b>28,114</b>	25,727	29,825

**MACFARLANE GROUP PLC**  
**GROUP CASH FLOW STATEMENT (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2007**

	Note	<b>Six months to 30 June 2007 £000</b>	Six months to 30 June 2006 £000	Year to 31 December 2006 £000
<b>Net cash (outflow)/inflow from operating activities</b>	9	<b>(2,518)</b>	(2,291)	160
<b>Investing activities</b>				
Interest received		11	-	9
Disposal of subsidiary undertaking	7	-	2,174	2,102
Acquisition of subsidiary undertaking		-	-	(1,262)
Proceeds on disposal of property, plant and equipment		29	1,522	1,472
Purchases of property, plant and equipment		(288)	(417)	(604)
<b>Net cash (used in)/from investing activities</b>		<b>(248)</b>	3,279	1,717
<b>Financing activities</b>				
Dividends paid		(1,125)	(1,125)	(1,125)
Repayments of obligations under finance leases		(23)	(253)	(268)
Increase/(decrease) in bank overdrafts		3,370	(462)	(83)
<b>Net cash generated from/(used) in financing activities</b>		<b>2,222</b>	(1,840)	(1,476)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(544)</b>	(852)	401
<b>Cash and cash equivalents at beginning of period</b>		<b>2,195</b>	1,794	1,794
<b>Cash and cash equivalents at end of period</b>		<b>1,651</b>	942	2,195

# MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2007

## NOTES TO THE GROUP ACCOUNTS (UNAUDITED)

### 1. General information

The information for the year ended 31 December 2006 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 subsection 237 of that Act.

### 2. Basis of preparation

These interim financial statements for the six months ended 30 June 2007 have been prepared on the basis of the accounting policies set out in the Group's 2006 statutory accounts and were approved by the Board of Directors on 11 September 2007. 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 4.

### 3. Segmental information

The Group's activities are centred around two principal activities, with those Manufacturing Operations being classified as discontinued in the current and prior years disclosed separately.

(i) **Packaging Distribution**

The distribution of packaging materials from a network of 16 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.

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2007

NOTES TO THE GROUP ACCOUNTS (UNAUDITED)

3. Segmental information (continued)

<u>Packaging Distribution</u>	Six months to 30 June 2007 £000	Six Months to 30 June 2006 £000	Year to 31 December 2006 £000
Revenue	44,329	38,491	80,853
Cost of sales	(30,793)	(26,984)	(56,650)
<b>Gross profit</b>	<b>13,536</b>	<b>11,507</b>	<b>24,203</b>
Net operating expenses	(13,268)	(11,982)	(23,767)
<b>Operating profit/(loss)</b>	<b>268</b>	<b>(475)</b>	<b>436</b>

<u>Manufacturing Operations</u>	Six months to 30 June 2007 £000	Six Months to 30 June 2006 £000	Year to 31 December 2006 £000
Revenue	13,060	12,758	25,460
Cost of sales	(8,185)	(8,035)	(15,872)
Gross profit	4,875	4,723	9,588
Net operating expenses	(4,404)	(4,434)	(8,017)
<b>Operating profit</b>	<b>471</b>	<b>289</b>	<b>1,571</b>

Trading results	Continuing operations	Six months to 30 June 2007 £000	Six Months to 30 June 2006 £000	Year to 31 December 2006 £000
<b>Group segment</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>
Packaging Distribution		44,329	38,491	80,853
Manufacturing Operations		13,060	12,758	25,460
<b>Revenue</b>	continuing operations	<b>57,389</b>	<b>51,249</b>	<b>106,313</b>
Packaging Distribution		268	(475)	436
Manufacturing Operations		471	289	1,571
<b>Operating profit/(loss)</b>	continuing operations	<b>739</b>	<b>(186)</b>	<b>2,007</b>

Net assets	30 June 2007 £000	30 June 2006 £000	31 December 2006 £000
<b>Group segment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Packaging Distribution	16,729	11,784	16,425
Manufacturing Operations	6,787	13,943	13,400
Continuing operations	23,516	25,727	29,825
Discontinued operations	4,598	-	-
<b>Net assets</b>	<b>28,114</b>	<b>25,727</b>	<b>29,825</b>

**MACFARLANE GROUP PLC**

**SIX MONTHS ENDED 30 JUNE 2007**

**NOTES TO THE GROUP ACCOUNTS (UNAUDITED)**

<b>4. Finance costs</b>	<b>Six months to 30 June 2007 £000</b>	<b>Six Months to 30 June 2006 £000</b>	<b>Year to 31 December 2006 £000</b>
Interest on bank loans and overdrafts	(206)	(305)	(292)
Interest on obligations under finance leases	(4)	(8)	(12)
Interest cost of pension scheme liabilities	(1,548)	(1,503)	(2,992)
<b>Total finance costs</b>	<b>(1,758)</b>	<b>(1,816)</b>	<b>(3,296)</b>
Expected return on pension scheme assets	1,453	1,364	2,631
Investment income	19	198	131
<b>Total investment income</b>	<b>1,472</b>	<b>1,562</b>	<b>2,762</b>
<b>Net finance costs</b>	<b>(286)</b>	<b>(254)</b>	<b>(534)</b>
<b>5. Tax</b>	<b>Six months to 30 June 2007 £000</b>	<b>Six Months to 30 June 2006 £000</b>	<b>Year to 31 December 2006 £000</b>
<b>Current tax</b>			
UK corporation tax	-	-	(57)
Overseas tax	(21)	(51)	(86)
Prior year	65	-	186
<b>Current tax</b>	<b>44</b>	<b>(51)</b>	<b>43</b>
<b>Deferred tax</b>	<b>(231)</b>	<b>(227)</b>	<b>(358)</b>
<b>Total</b>	<b>(187)</b>	<b>(278)</b>	<b>(315)</b>

Corporation tax has been provided for the period to 30 June 2007, reflecting the expected tax rate for the full year on overseas earnings. The deferred tax charge of £231,000 relates to the pension deficit and includes a charge in respect of the reduction in the long-term rate of corporation tax from 30% to 28% with effect from 31 March 2008. No tax has been provided on the UK results, reflecting the expected tax rate for the full year.

<b>6. Dividends</b>	<b>Six months to 30 June 2007 £000</b>	<b>Six Months to 30 June 2006 £000</b>	<b>Year to 31 December 2006 £000</b>
Amounts recognised as distributions to equity holders in the period			
Final dividend in respect of the year ended 31 December 2006 (1.00p per share) (2006 Interim 1.00p per share)	1,125	1,125	1,125

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

The interim dividend payable on 25 October 2007 was declared on 11 September 2007 and has therefore not been included as a liability in these financial statements.

**MACFARLANE GROUP PLC**

**SIX MONTHS ENDED 30 JUNE 2007**

**NOTES TO THE GROUP ACCOUNTS (UNAUDITED)**

**7. Discontinued operations**

The results for current and comparative periods are as follows:-

	<b>Six months to 30 June 2007 £000</b>	Six Months to 30 June 2006 £000	Year to 31 December 2006 £000
<b>Revenue</b>	<b>10,836</b>	13,154	23,753
Cost of sales	<b>(7,183)</b>	(8,921)	(15,977)
<b>Gross profit</b>	<b>3,653</b>	4,233	7,776
Net operating expenses	<b>(3,742)</b>	(4,096)	(7,537)
<b>Operating (loss)/profit</b>	<b>(89)</b>	137	239
Net interest paid	<b>(100)</b>	(115)	(197)
Impairment loss on remeasurement of discontinued operations	<b>(1,800)</b>	-	-
Gain on disposal of subsidiary undertaking	<b>-</b>	920	849
<b>(Loss)/profit before tax</b>	<b>(1,989)</b>	942	891
Tax	<b>-</b>	48	2
<b>Post-tax (loss)/profit from discontinued operations</b>	<b>(1,989)</b>	990	893

**Non-current assets held for sale**

The major classes of assets and liabilities comprising the operations classified as held for sale at 30 June 2007 are as follows:-

	<b>30 June 2007 £000</b>
Property, plant and equipment	<b>2,078</b>
Inventories	<b>1,148</b>
Trade and other receivables	<b>4,162</b>
Cash and cash equivalents	<b>761</b>
<b>Total assets classified as held for sale</b>	<b>8,149</b>
Total liabilities associated with assets classified as held for sale	<b>(3,551)</b>
<b>Net assets classified as held for sale</b>	<b>4,598</b>

**MACFARLANE GROUP PLC**

**SIX MONTHS ENDED 30 JUNE 2007**

**NOTES TO THE GROUP ACCOUNTS (UNAUDITED)**

**7. Discontinued operations (continued)**

In January 2006, the Group's Hungarian subsidiary was sold, with the resultant gain on disposal being disclosed in the financial statements for 2006. The amounts treated as disposed of in the comparative periods are as follows:-

	Six Months to 30 June 2006 £000	Year to 31 December 2006 £000
Cash consideration (net of attributable expenses)	2,174	<b>2,102</b>
Deferred consideration	186	<b>187</b>
<b>Total consideration (net of attributable expenses)</b>	<b>2,360</b>	<b>2,289</b>
Assets sold	1,925	<b>1,925</b>
Liabilities directly associated with assets sold	(485)	<b>(485)</b>
	<b>1,440</b>	<b>1,440</b>
<b>Gain on disposal of subsidiary undertaking</b>	<b>920</b>	<b>849</b>

**8. Earnings/(loss) per share**

	Six months to 30 June 2007 £000	Six Months to 30 June 2006 £000	Year to 31 December 2006 £000
<b>Earnings</b>			
Earnings from continuing and discontinued operations for the purposes of earnings per share being net profit attributable to equity holders of the parent	(1,723)	272	2,051
Add/(less): Loss/(profit) for the period from discontinued operations	<b>1,989</b>	(990)	(893)
Earnings/(loss) from continuing operations for the purposes of earnings per share being net profit/(loss) attributable to equity holders of the parent	<b>266</b>	(718)	1,158
	<b>30 June 2007</b>	30 June 2006	31 December 2006
Weighted average number of ordinary shares in issue '000	<b>115,019</b>	115,019	115,019
Own shares in Employee Share Ownership Trusts '000	<b>(2,491)</b>	(2,491)	(2,491)
<b>Weighted average number of shares in issue for the Purposes of basic earnings per share '000</b>	<b>112,528</b>	112,528	112,528
Effect of dilutive potential ordinary shares due to share options	<b>192</b>	970	601
<b>Weighted average number of shares in issue for the Purposes of diluted earnings per share '000</b>	<b>112,720</b>	113,498	113,129

**MACFARLANE GROUP PLC**

**SIX MONTHS ENDED 30 JUNE 2007**

**NOTES TO THE GROUP ACCOUNTS (UNAUDITED)**

<b>9. Notes to the cash flow statement</b>	<b>Six months to 30 June 2007 £000</b>	<b>Six Months to 30 June 2006 £000</b>	<b>Year to 31 December 2006 £000</b>
Operating profit/(loss) Continuing operations	<b>739</b>	(186)	2,007
Discontinued operations	<b>(89)</b>	137	239
<b>Profit/(loss) from operations</b>	<b>650</b>	(49)	2,246
Adjustments for:			
Depreciation of property, plant and equipment	<b>1,048</b>	1,521	2,136
Gain on disposal of property, plant and equipment	<b>(24)</b>	(2)	(191)
<b>Operating cash flows before movements in working capital</b>	<b>1,674</b>	1,470	4,191
Decrease/(increase) in inventories	<b>402</b>	(213)	(681)
(Increase)/decrease in receivables	<b>(1,834)</b>	(913)	58
Decrease in payables	<b>(1,338)</b>	(1,296)	(999)
Adjustment for pension scheme funding	<b>(736)</b>	(736)	(1,630)
<b>Cash generated by operations</b>	<b>(1,832)</b>	(1,688)	939
Income taxes paid	<b>(389)</b>	(123)	(195)
Interest paid	<b>(297)</b>	(480)	(584)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(2,518)</b>	(2,291)	160

Cash outflows in respect of the discontinued operations for operating activities amounted to £509,000 for 2007 (2006, Inflow of £83,000 in the six months to 30 June 2006 and an inflow of £1,277,000 for the year to 31 December 2006). Cash outflows in respect of investing activities totalled £121,000 (2006, £65,000 in the six months to 30 June 2006 and £440,000 for the year to 31 December 2006).

	<b>Six months to 30 June 2007 £000</b>	<b>Six Months to 30 June 2006 £000</b>	<b>Year to 31 December 2006 £000</b>
<b>Movement in net debt</b>			
(Decrease)/increase in cash and cash equivalents in period	<b>(544)</b>	(852)	401
(Increase)/decrease in bank overdrafts	<b>(3,370)</b>	462	83
Cash flows from debt and lease financing	<b>23</b>	253	268
<b>Movement in net debt in the period</b>	<b>(3,891)</b>	(137)	752
Opening net debt	<b>(5,651)</b>	(6,403)	(6,403)
<b>Closing net debt</b>	<b>(9,542)</b>	(6,540)	(5,651)
<b>Net debt comprises:-</b>			
Cash and cash equivalents	<b>890</b>	942	2,195
Cash and cash equivalents in business held for resale	<b>761</b>	-	-
Bank overdrafts in business held for resale	<b>(10)</b>	-	-
Bank overdrafts and loans	<b>(11,107)</b>	(7,368)	(7,747)
Obligations under finance leases	<b>(76)</b>	(114)	(99)
<b>Closing net debt</b>	<b>(9,542)</b>	(6,540)	(5,651)

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 maturity of three months or less.

**MACFARLANE GROUP PLC**

**SIX MONTHS ENDED 30 JUNE 2007**

**NOTES TO THE GROUP ACCOUNTS (UNAUDITED)**

**10. Retirement benefit obligations**

The figures below have been based on the results of the triennial actuarial valuation as at 1 May 2005, updated to 30 June 2007, 31 December 2006 and 30 June 2006. The assets in the scheme, the net liability position of the scheme as calculated under IAS 19 and the principal assumptions were:

	<b>30 June 2007 £000</b>	30 June 2006 £000	31 December 2006 £000
Fair value of assets	<b>44,143</b>	41,037	43,630
Present value of scheme liabilities	<b>(57,323)</b>	(61,072)	(59,503)
<b>Pension scheme deficit</b>	<b>(13,180)</b>	(20,035)	(15,873)
Deferred tax asset	<b>3,689</b>	6,011	4,762
<b>Pension scheme deficit net of related deferred tax asset</b>	<b>(9,491)</b>	(14,024)	(11,111)

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

<b>Assumptions</b>	<b>30 June 2007</b>	30 June 2006	31 December 2006
Discount rate	<b>5.80%</b>	5.25%	5.25%
Rate of increase in salaries	<b>3.20%</b>	3.00%	2.75%
Rate of increase in pensions in payment	<b>3% or 5%</b>	3% or 5%	3% or 5%
	<b>for fixed increases or 3.20% for LPI</b>	for fixed increases or 2.75% for LPI	for fixed increases or 2.75% for LPI
Inflation assumption	<b>3.20%</b>	3.00%	2.75%
Life expectancy beyond normal retirement date of 65			
Male	<b>19.5 years</b>	19.5 years	19.5 years
Female	<b>22.4 years</b>	22.4 years	22.4 years

	<b>Six months to 30 June 2007 £000</b>	Six Months to 30 June 2006 £000	Year to 31 December 2006 £000
<b>Movement in scheme deficit in the period</b>			
At start of period	<b>(15,873)</b>	(22,977)	(22,977)
Current service cost	<b>(149)</b>	(221)	(353)
Employer contributions	<b>798</b>	1,116	1,925
Curtailed gains	<b>84</b>	-	58
Net finance costs	<b>(95)</b>	(139)	(361)
Actuarial gain in the period	<b>2,055</b>	2,186	5,835
<b>At end of period</b>	<b>(13,180)</b>	(20,035)	(15,873)

**MACFARLANE GROUP PLC**

**SIX MONTHS ENDED 30 JUNE 2007**

**NOTES TO THE GROUP ACCOUNTS (UNAUDITED)**

<b>10. Retirement benefit obligations (continued)</b>	<b>Six months to 30 June 2007 £000</b>	<b>Six Months to 30 June 2006 £000</b>	<b>Year to 31 December 2006 £000</b>
<b>Movement in assets during the period</b>			
Assets at start of period	43,630	40,776	40,776
Expected return on assets	1,453	1,364	2,631
Actual less expected return on assets	(563)	(1,542)	203
Employer contributions	798	1,116	1,925
Employee contributions	98	110	248
Benefits paid	(1,273)	(787)	(2,153)
<b>Assets at end of period</b>	<b>44,143</b>	<b>41,037</b>	<b>43,630</b>
	<b>Six months to 30 June 2007 £000</b>	<b>Six Months to 30 June 2006 £000</b>	<b>Year to 31 December 2006 £000</b>
<b>Movement in liabilities during the period</b>			
Liabilities at start of period	(59,503)	(63,753)	(63,753)
Service costs	(149)	(221)	(353)
Interest costs	(1,548)	(1,503)	(2,992)
Curtailment gain	84	-	58
Employee contributions	(98)	(110)	(248)
Actuarial gain on liabilities in the period	2,618	3,728	5,632
Benefits paid	1,273	787	2,153
<b>Liabilities at end of period</b>	<b>(57,323)</b>	<b>(61,072)</b>	<b>(59,503)</b>
 <b>11. Deferred tax asset</b>	 <b>30 June 2007 £000</b>	 <b>30 June 2006 £000</b>	 <b>31 December 2006 £000</b>
Deferred tax asset on pension scheme deficit at start of period	4,762	6,893	6,893
Charge on actuarial movement in the period applied through statement of recognised income and expense	(842)	(655)	(1,751)
Charge through income statement based on payments made to reduce deficit in the period	(231)	(227)	(380)
Deferred tax asset on pension scheme deficit (see note 10)	3,689	6,011	4,762
Deferred tax liabilities on timing differences	(79)	(205)	(202)
<b>Net deferred tax asset</b>	<b>3,610</b>	<b>5,806</b>	<b>4,560</b>