

**MACFARLANE GROUP'S INTERIM RESULTS TO 30 JUNE 2008**

Profit before taxation from continuing operations for the six months up 100% to £1.0m (2007 £0.5m)

Sales growth of 12% from continuing operations

Net debt of £8.7m at June 2008, Group expects trading to be strongly cash positive in second half of 2008

Net provision of £0.7m made for discontinued activities

Interim dividend confirmed at 1p per share

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

“The first half of 2008 was a period of further significant progress for Macfarlane Group as we continued to develop our core activities, doubling profits from our continuing operations in the process. This improvement was achieved despite significant supplier price increases across our businesses.

Profits before tax from continuing operations in the half-year increased to £1.0m from £0.5m in 2007 on turnover up 12.2% to £64.4 million.

Operating profits in our Packaging Distribution business increased to £0.6m (2007 - £0.3m). Turnover grew to £51.0 million, an increase of 15% of which 6% was organic and 9% was through acquisitions. These increases show the merit of targeting growth by both means, a strategy which we will hold to in the future. Online Packaging Limited (“Online”), our latest acquisition in January 2008, is operating well.

Our Manufacturing business increased operating profits to £0.9m (2007 - £0.5m) on turnover up 3.2% to £13.5 million. The profits increase reflected a strong operating performance in our Labels business, which benefited also from a strong Euro and a good performance in testing conditions from our Packaging Manufacturing business. 2008 has seen further development in the trading relationship between our Distribution and Packaging Manufacturing businesses and we intend to develop this further.

The commitment to focusing on core activities led to the decision last year to dispose of our Plastics operations based in Ireland and the disposal process is progressing. We have made provision for a net loss on discontinued activities of £0.7m including this item.

An interim dividend of 1p per share will be paid on Thursday 23 October 2008 to shareholders on the register on Friday 26 September 2008.

It would be unrealistic to assume that we will be immune to the effects of a general economic downturn but we have taken actions to ensure that our infrastructure is in line with a reduced level of demand and we are confident that we have the business strength and momentum to cope. Profits generated to date are in line with our expectations.”

<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 10 September 2008 and be available to members of the public at the Company's Registered Office, 21 Newton Place, Glasgow G3 7PY from 12 September 2008.

Notes to Editors

Macfarlane Group PLC is a UK-based group of companies focused on packaging related activities. The Packaging Distribution business is the leading UK distributor of a comprehensive range of packaging consumable products. The Manufacturing Operations comprise three businesses, transit packaging manufacturing; self-adhesive and re-sealable labels; and plastics closures.

Headquartered in Glasgow, Scotland, Macfarlane Group employs 800 people at 23 sites, principally in the UK and Ireland and services 16,000+ customers, in a wide range of sectors including: consumer goods; logistics; electronics; food manufacturing and retailing; internet and home retailing.

## Interim Management Report

The Macfarlane **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 market share in excess of 10%. The business operates through 16 Regional Distribution Centres (RDCs) supplying customers on a local, regional and national basis. The business enables customers to ensure their products are cost-effectively protected in transit and storage by providing them with a comprehensive product range, single source supply, just in time delivery and tailored stock management programmes.

### Business Performance

In the first six months of 2008 Packaging Distribution recorded an operating profit of £0.6m, compared to £0.3m the previous year. There were a number of factors that contributed to these results:

- Sales revenue increased by 15% through a mixture of organic growth driven by both price and volume and the benefit of the acquisition of Online.
- The impact of fuel, raw material and energy cost increases have resulted in supplier price increases being a significant feature in the first half of 2008. However we have been effective in working with our customers to manage the impact of these increases while maintaining our gross margin at an acceptable level.
- The key investments we have made in our web-based packaging service, Packaging2U, and our dedicated new business team continue to have a positive effect in improving market presence and winning new accounts.
- The acquisition of Online was completed in January 2008 and Hinckley, the smallest of Online's three sites, has been successfully integrated into our Coventry RDC. Online is a quality business and has significantly strengthened our position in the UK Packaging Distribution market.
- We have commenced a programme to introduce vehicle-routing software to ensure our in-house distribution fleet is operating in the most cost-effective manner. The results from the early stages in the implementation are encouraging with improved vehicle utilisation and reduced mileage per delivery, helping to offset increases in fuel costs.
- Within our network of 16 RDCs, based on our half-year results we had 5 RDCs performing at acceptable levels of return, 9 RDCs demonstrating improvements that indicate the ability to achieve acceptable performance levels in 2008 and 2 RDCs where performance is currently not at the acceptable level.

The plan for the remainder of 2008 is to focus our management actions in the following areas:

- Maintain a tight focus on the effective management of supplier price changes;
- Continue to drive organic sales growth particularly through effective deployment of the new business development and national account teams;
- Ensure all RDCs are operating to their full profit potential;
- Accelerate the momentum in the Packaging2U business;
- Complete the introduction of the vehicle-routing software to all remaining RDCs;
- Evaluate additional opportunities to improve the cost effectiveness of the business;
- Develop our ability to respond to increasing demands from customers regarding environmentally friendly packaging solutions;
- Deliver the benefits from the full year contribution of the Online Packaging acquisition; and
- Accelerate market penetration through further targeted acquisitions.

### Manufacturing Operations

Macfarlane has two manufacturing businesses, **Labels** producing self-adhesive and resealable labels and **Packaging Manufacturing** producing bespoke composite transit packaging and protective packaging components.

In the first half of 2008 Macfarlane Group's Manufacturing Operations recorded a profit of £0.9 million, compared with £0.5 million in 2007. Key features of performance in the first six months of 2008 were:

- Sales increased by 3.2% versus 2007 primarily through gains with existing customers;
- Gross margins improved due to internal efficiencies from investments in new equipment in 2007; and
- The overhead to sales ratio improved by 0.2% reflecting the nature of the fixed cost base of the manufacturing businesses.

## **Interim Management Report (continued)**

### **Manufacturing Operations**

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 2008 sales improved in self-adhesive labels and slowed slightly in re-sealable labels. However with our first US customers now operational we expect re-sealable label sales to strengthen in the second half of the year.

The cost savings implemented in recent years are enabling the business to operate with a lower cost base and the profitability of the Labels business in the first half of 2008 was ahead of the same period in 2007.

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 2007 with good growth in sales to Macfarlane Distribution and new business wins. However pressure on raw material pricing and planned overhead investments resulted in first half profits broadly at a similar level to 2007.

Our priorities for the Manufacturing Operations in the second half of 2008 are to:

- Maintain our momentum in winning major new contracts in the self-adhesive labels business;
- Improve our penetration in the re-sealable labels market, particularly in the USA;
- Utilise the strong relationship with Macfarlane Distribution to strengthen sales in Packaging Manufacturing; and
- Ensure recent overhead investments in Packaging Manufacturing reflect in improved profitability.

### **Discontinued Operations**

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 generated sales in the first half of 2008 ahead of 2007. However weaker margins due to continuing increases in raw material and energy costs caused results to be below the equivalent period in 2007.

### **Risks and uncertainties**

The principal risks, which could impact on the performance of the Group, were outlined in our Annual Report and Accounts in 2007. (available on our website at [www.macfarlanegroup.net](http://www.macfarlanegroup.net)) These risks and uncertainties remain substantially the same for the remaining six months of the financial year and are summarised below:-

- Profitability is sensitive to supplier price changes, whether caused by movements in commodity-based raw material price movements or in manufacturers' energy and fuel costs;
- In Packaging Distribution, our recruitment and retention of staff with good local market knowledge is vital to compete in local and regional markets;
- In our Manufacturing Operations, there is a high level of dependency on a small number of major customers; and
- Both our businesses serve a wide range of customers in the UK. The customer base covers a range of UK market sectors, however a major UK economic slowdown could adversely affect the Group's results.

The Group operates a formal framework for the identification and evaluation of the major business risks faced by each business and determines an appropriate course of action to manage these risks.

## **Future Outlook**

The first half of 2008 has demonstrated an encouraging uplift in profit performance with improving results from both our Packaging Distribution and Manufacturing businesses. This has been achieved despite weakening demand conditions in the UK economy and pressure on costs.

Given the ongoing uncertainty in the UK economy, action plans have already been implemented to reduce the cost base in the second half of the year to ensure our infrastructure is in line with the likely lower level of demand. These plans, together with the momentum we have created and the impact of seasonality should ensure continued profit growth in the second half of the year.

The performance improvement plan management is currently implementing continues to gives us confidence that the Group is well positioned to fully develop its potential in the chosen markets.

## **Statement of Directors' Responsibilities**

The directors confirm that, to the best of their knowledge, the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" and that the interim management report includes a fair review of the information required under DTR 4.2.7 and DTR 4.2.8, namely:-

- (i) An indication of the important events that have occurred during the six months and their impact on the financial statements and a description of the principal risks and uncertainties for the remaining six months of the year; and
- (ii) Material related party transactions during the six months and any material changes in the related party transactions described in the last annual report.

The Directors of Macfarlane Group PLC were listed in the Macfarlane Group PLC Annual Report for 31 December 2007 and there have been no changes to the Board since that date. This list is maintained on the Macfarlane Group PLC website [www.macfarlanegroup.net](http://www.macfarlanegroup.net)

Approved by the Board of Directors on 28 August 2008 and signed on its behalf by

Peter D Atkinson  
Chief Executive

John Love  
Finance Director

# INDEPENDENT REVIEW REPORT TO MACFARLANE GROUP PLC

## Introduction

We have been engaged by the company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2008, which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated reconciliation of movements in equity, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 16. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the condensed set of financial statements.

This report is made solely to the company in accordance with the International Standard on Review Engagements 2410 (UK and Ireland) 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 half yearly financial report, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2 the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in the half yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements included in the half yearly financial report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of the persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditor  
Glasgow  
United Kingdom  
28 August 2008

MACFARLANE GROUP PLC

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Note	Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Continuing operations</b>				
Revenue	3	64,430	57,389	119,737
Cost of sales		(44,048)	(38,978)	(81,442)
<b>Gross profit</b>		<b>20,382</b>	18,411	38,295
Distribution costs		(3,442)	(2,998)	(5,791)
Administrative expenses		(15,513)	(14,674)	(29,453)
Non-recurring net property gains		-	-	14
<b>Operating profit</b>	3	<b>1,427</b>	739	3,065
Investment income	4	1,555	1,472	2,947
Finance costs	4	(1,993)	(1,758)	(3,545)
<b>Profit before tax</b>		<b>989</b>	453	2,467
Tax	5	(278)	(187)	979
<b>Profit for the period from continuing operations</b>	8	<b>711</b>	266	3,446
<b>Discontinued operations</b>				
Loss for the period from discontinued operations	6	(613)	(1,989)	(1,616)
<b>Profit/(loss) for the period</b>	8	<b>98</b>	(1,723)	1,830
<b>Earnings/(loss) per ordinary share</b>				
From continuing operations	8			
Basic		<b>0.63p</b>	0.24p	3.06p
Diluted		<b>0.63p</b>	0.24p	3.06p
From continuing and discontinued operations				
Basic		<b>0.09p</b>	(1.53p)	1.63p
Diluted		<b>0.09p</b>	(1.53p)	1.62p

**MACFARLANE GROUP PLC**

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE (UNAUDITED)**

**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	Note	<b>Six months to 30 June 2008 £000</b>	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
Exchange difference on translation of foreign operations		<b>343</b>	(135)	748
Actuarial (losses)/gains on defined benefit pension schemes	14	<b>(307)</b>	2,055	393
Tax on items taken directly to equity		<b>85</b>	(842)	(381)
<b>Net income recognised directly in equity</b>		<b>121</b>	1,078	760
Profit/(loss) for the period		<b>98</b>	(1,723)	1,830
<b>Total recognised income and expense for the period</b>		<b>219</b>	(645)	2,590

**MACFARLANE GROUP PLC**

**CONSOLIDATED RECONCILIATION OF MOVEMENTS IN EQUITY (UNAUDITED)**

**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	Note	<b>Six months to 30 June 2008 £000</b>	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
Profit/(loss) for the period		<b>98</b>	(1,723)	1,830
Dividends to equity holders in the period	7	<b>(1,125)</b>	(1,125)	(2,252)
Exchange differences on translation of foreign operations		<b>343</b>	(135)	748
Actuarial (losses)/gains on defined benefit pension schemes	14	<b>(307)</b>	2,055	393
Tax on items taken directly to equity		<b>85</b>	(842)	(381)
Credit in respect of share based payments		<b>62</b>	59	82
<b>Movements in equity in the period</b>		<b>(844)</b>	(1,711)	420
Opening equity		<b>30,245</b>	29,825	29,825
<b>Closing equity</b>		<b>29,401</b>	28,114	30,245

**MACFARLANE GROUP PLC**

**CONSOLIDATED BALANCE SHEET AT 30 JUNE 2008 (UNAUDITED)**

	Note	30 June 2008 £000	30 June 2007 £000	31 December 2007 £000
<b>Non-current assets</b>				
Goodwill		22,812	18,646	18,646
Property, plant and equipment		9,956	9,303	9,637
Investment property		-	1,701	-
Other receivables		875	1,059	872
Deferred tax asset	15	3,801	3,610	3,917
<b>Total non-current assets</b>		<b>37,444</b>	<b>34,319</b>	<b>33,072</b>
<b>Current assets</b>				
Inventories		8,848	8,261	8,095
Trade and other receivables		29,985	27,180	31,108
Deferred tax asset	15	1,565	-	1,665
Cash and cash equivalents		641	890	348
Assets classified as held for sale	11	4,096	8,149	4,238
		<b>45,135</b>	<b>44,480</b>	<b>45,454</b>
<b>Total assets</b>		<b>82,579</b>	<b>78,799</b>	<b>78,526</b>
<b>Current liabilities</b>				
Trade and other payables		27,578	22,551	28,087
Current tax liabilities		58	220	407
Obligations under finance leases		209	41	182
Bank overdrafts and loans		9,222	11,107	3,252
Liabilities directly associated with assets classified as held for sale	11	1,475	3,551	1,409
<b>Total current liabilities</b>		<b>38,542</b>	<b>37,470</b>	<b>33,337</b>
<b>Net current assets</b>		<b>6,593</b>	<b>7,010</b>	<b>12,117</b>
<b>Non-current liabilities</b>				
Retirement benefit obligations	14	14,021	13,180	14,272
Other creditors		160	-	169
Obligations under finance leases		455	35	503
<b>Total non-current liabilities</b>		<b>14,636</b>	<b>13,215</b>	<b>14,944</b>
<b>Total liabilities</b>		<b>53,178</b>	<b>50,685</b>	<b>48,281</b>
<b>Net assets</b>		<b>29,401</b>	<b>28,114</b>	<b>30,245</b>
<b>Equity</b>				
Share capital		28,755	28,755	28,755
Revaluation reserves		70	167	70
Own shares		(1,406)	(1,406)	(1,406)
Translation reserves		291	(936)	(52)
Retained earnings		1,691	1,534	2,878
<b>Total equity</b>		<b>29,401</b>	<b>28,114</b>	<b>30,245</b>

**MACFARLANE GROUP PLC**  
**CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	Note	Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Net cash (outflow)/inflow from operating activities</b>	13	<b>(2,695)</b>	<b>(2,518)</b>	<b>4,025</b>
<b>Investing activities</b>				
Interest received		48	11	46
Disposal of subsidiary undertaking	10	-	-	3,088
Acquisition of subsidiary undertaking	12	(3,630)	-	(800)
Proceeds on disposal of property, plant and equipment		2,408	29	44
Purchases of property, plant and equipment		(589)	(288)	(988)
<b>Net cash (used in)/from investing activities</b>		<b>(1,763)</b>	<b>(248)</b>	<b>1,390</b>
<b>Financing activities</b>				
Dividends paid	7	(1,125)	(1,125)	(2,252)
Repayments of obligations under finance leases		(21)	(23)	(34)
Increase/(decrease) in bank overdrafts		5,970	3,370	(4,495)
<b>Net cash generated from/(used in) financing activities</b>		<b>4,824</b>	<b>2,222</b>	<b>(6,781)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>366</b>	<b>(544)</b>	<b>(1,366)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>829</b>	<b>2,195</b>	<b>2,195</b>
<b>Cash and cash equivalents at end of period</b>	13	<b>1,195</b>	<b>1,651</b>	<b>829</b>

**MACFARLANE GROUP PLC**

**SIX MONTHS ENDED 30 JUNE 2008**

**NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

**1. General information**

The information for the year ended 31 December 2007 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 statements under section 237 (2) or (3) of the Companies Act 1985.

**2. Basis of preparation**

This condensed set of financial statements for the six months ended 30 June 2008 has been prepared on the basis of the accounting policies set out in the Group's 2007 statutory accounts and were approved by the Board of Directors on 28 August 2008. There have been no changes in accounting policies in the six months ended 30 June 2008. The condensed set of financial statements has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. The Group has applied IAS 34 "Interim Financial Reporting" as adopted by the European Union in the preparation of this condensed set of financial statements. The condensed set of financial statements are unaudited but have been formally reviewed by the auditors and their report to the Company is set out on page 5.

**3. Segmental information**

The Group's activities remain 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 UK network of Regional Distribution Centres.

**(ii) Manufacturing Operations**

The manufacture and supply of self-adhesive and re-sealable labels to a variety of FMCG customers in the UK and Europe and the design, manufacture, assembly and supply of timber, corrugated and foam-based packaging materials in the UK.

**Discontinued Operations**

The decision to dispose of the Group's Manufacturing Operations in US/Mexico and plastic-injection moulding operation in Ireland was taken in the first half of 2007 and the results from both operations are disclosed as discontinued operations in the consolidated income statement. The Manufacturing Operations in US/Mexico were sold in October 2007 with details of the disposal set out in note 10. The component parts of the plastic injection-moulding business held for sale at 30 June 2008 are set out in note 11.

	<b>Six months to 30 June 2008 £000</b>	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
<b><u>Packaging Distribution</u></b>			
Revenue	<b>50,958</b>	44,329	92,654
Cost of sales	<b>(35,950)</b>	(30,793)	(64,565)
<b>Gross profit</b>	<b>15,008</b>	13,536	28,089
Net operating expenses	<b>(14,446)</b>	(13,268)	(26,751)
<b>Operating profit</b>	<b>562</b>	268	1,338
<b><u>Manufacturing Operations</u></b>			
Revenue	<b>13,472</b>	13,060	27,083
Cost of sales	<b>(8,098)</b>	(8,185)	(16,877)
Gross profit	<b>5,374</b>	4,875	10,206
Net operating expenses	<b>(4,509)</b>	(4,404)	(8,479)
<b>Operating profit</b>	<b>865</b>	471	1,727

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2008

NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

3. Segmental information (continued)		Six months to 30 June 2008 £000	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Trading results</b>	<b>Continuing operations</b>			
<b>Group segment – total revenue</b>				
Packaging Distribution		<b>50,994</b>	44,550	93,205
Manufacturing Operations		<b>15,731</b>	14,961	31,043
Inter-segment revenue		<b>(2,295)</b>	(2,122)	(4,511)
<b>External Revenue</b>	continuing operations	<b>64,430</b>	57,389	119,737
Packaging Distribution		<b>562</b>	268	1,338
Manufacturing Operations		<b>865</b>	471	1,727
<b>Operating profit</b>	continuing operations	<b>1,427</b>	739	3,065
Net finance costs	(see note 4)	<b>(438)</b>	(286)	(598)
<b>Profit before tax</b>		<b>989</b>	453	2,467
Tax		<b>(278)</b>	(187)	979
Loss for the period from discontinued operations		<b>(613)</b>	(1,989)	(1,616)
<b>Profit/(loss) after tax and discontinued operations</b>		<b>98</b>	(1,723)	1,830
<b>Net assets</b>		<b>30 June 2008 £000</b>	30 June 2007 £000	31 December 2007 £000
<b>Group segment</b>				
Packaging Distribution		<b>19,007</b>	16,729	16,510
Manufacturing Operations		<b>7,773</b>	6,787	10,906
Continuing operations		<b>26,780</b>	23,516	27,416
Discontinued operations		<b>2,621</b>	4,598	2,829
<b>Net assets</b>		<b>29,401</b>	28,114	30,245
4. Investment income and finance costs		Six months to 30 June 2008 £000	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
Expected return on pension scheme assets		<b>1,524</b>	1,453	2,900
Investment income		<b>31</b>	19	47
<b>Total investment income</b>		<b>1,555</b>	1,472	2,947
Interest on bank loans and overdrafts		<b>(271)</b>	(206)	(446)
Interest on obligations under finance leases		<b>(21)</b>	(4)	(24)
Interest cost of pension scheme liabilities		<b>(1,701)</b>	(1,548)	(3,075)
<b>Total finance costs</b>		<b>(1,993)</b>	(1,758)	(3,545)
<b>Net finance costs</b>		<b>(438)</b>	(286)	(598)

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2008

NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

5. Tax	Six months to 30 June 2008 £000	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Current tax</b>			
UK corporation tax	-	-	-
Overseas tax	(23)	(21)	(66)
Prior year	-	65	(228)
	<u>(23)</u>	<u>44</u>	<u>(294)</u>
<b>Deferred tax</b>	<u>(255)</u>	<u>(231)</u>	<u>1,273</u>
<b>Total</b>	<u><u>(278)</u></u>	<u><u>(187)</u></u>	<u><u>979</u></u>

Tax for the first six months has been charged at 28% representing the best estimate of the effective tax charge for the full year. Tax has been provided for the period to 30 June 2008, reflecting the expected tax rate for the full year on overseas earnings. Of the deferred tax charge of £255,000, £155,000 relates to the reduction in the pension deficit in the period and £100,000 reflects the charge for the use of tax losses brought forward, which were valued as a deferred tax asset in the second half of 2007.

6. Discontinued operations	Six months to 30 June 2008 £000	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
The results for current and comparative periods are as follows:-			
<b>Revenue</b>	<b>3,691</b>	10,836	18,312
Cost of sales	<u>(2,239)</u>	<u>(7,183)</u>	<u>(12,082)</u>
<b>Gross profit</b>	<b>1,452</b>	3,653	6,230
Net operating expenses	<u>(1,315)</u>	<u>(3,742)</u>	<u>(5,908)</u>
<b>Operating profit/(loss)</b>	<b>137</b>	(89)	322
Net interest paid	-	(100)	(140)
Impairment loss on re-measurement of discontinued operations	<u>(750)</u>	<u>(1,800)</u>	<u>-</u>
Loss on disposal of subsidiary undertaking (see note 10)	-	-	(1,800)
<b>Loss before tax</b>	<u>(613)</u>	<u>(1,989)</u>	<u>(1,618)</u>
Tax	-	-	2
<b>Post-tax loss from discontinued operations</b>	<u><u>(613)</u></u>	<u><u>(1,989)</u></u>	<u><u>(1,616)</u></u>

Details of Discontinued Operations are set out in note 3. Comparative figures for June 2007 and December 2007 include results for the Group's Manufacturing Operations in US/Mexico for the six months to 30 June 2007 and the period from 1 January to 8 October 2007, the disposal date, respectively.

No depreciation has been charged in respect of discontinued businesses as required by IFRS5 in arriving at the operating result, but if the assets were not held for sale then depreciation of £237,000 (June 2007 £98,000 and December 2007 £300,000) would have been charged.

The net loss on re-measurement of discontinued operations, includes write-downs in the values of assets in our Plastics business to reflect the current view of realisable values and disposal costs.

Cash inflows in respect of the discontinued operations for operating activities amounted to £156,000 for 2008 (2007, outflow of £509,000 in the six months to 30 June 2007 and an inflow of £821,000 for the year to 31 December 2007). Cash outflows in respect of investing activities totalled £50,000 (2007, £121,000 in the six months to 30 June 2007 and inflows of £2,930,000 for the year to 31 December 2007) and cash outflows from financing activities were Nil (2007, £Nil in the six months to 30 June 2007 and £268,000 for the year to 31 December 2007).

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7. Dividends	Six months to 30 June 2008 £000	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
Amounts recognised as distributions to equity holders in the period			
Final dividend in respect of the year ended 31 December 2007 (1.00p per share) (2006 Final 1.00p per share)	1,125	1,125	1,125
Interim dividend for the year ended 31 December 2007	-	-	1,127
<b>Distributions in the period</b>	<u>1,125</u>	<u>1,125</u>	<u>2,252</u>

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

The interim dividend payable on 23 October 2008 was declared on 28 August 2008 and has therefore not been included as a liability in these financial statements.

8. Earnings/(loss) per share	Six months to 30 June 2008 £000	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Earnings</b>			
Earnings from continuing and discontinued operations being net profit attributable to equity holders of the parent	98	(1,723)	1,830
Add: Loss for the period from discontinued operations	613	1,989	1,616
Earnings from continuing operations for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	<u>711</u>	<u>266</u>	<u>3,446</u>
	<b>30 June 2008</b>	<b>30 June 2007</b>	<b>31 December 2007</b>
<b>Number of shares</b>			
Weighted average number of ordinary shares in issue '000	115,019	115,019	115,019
Own shares in Employee Share Ownership Trusts '000	(2,491)	(2,491)	(2,491)
<b>Weighted average number of shares in issue for the Purposes of basic earnings per share '000</b>	<u>112,528</u>	<u>112,528</u>	<u>112,528</u>
Effect of dilutive potential ordinary shares due to share options	20	192	166
<b>Weighted average number of shares in issue for the Purposes of diluted earnings per share '000</b>	<u>112,548</u>	<u>112,720</u>	<u>112,694</u>

9. Performance share plans

A conditional award to executive directors under the Performance Share Plan ("PSP") was made on 30 June 2008 based on 50% of salary. Peter Atkinson, Graham Casey and John Love received conditional rights to 581,706, 258,763 and 270,275 shares respectively.

The first performance condition is based on an earnings per share ("EPS") target for 1/3 of the award. This requires EPS in 2010 to be 4.1p – 4.6p for 25% - 100% of this part of the award to vest working on a straight-line basis. The remaining 2/3 of the award is based on Total Shareholder Return ("TSR"), requiring annual growth in TSR to be 20% - 25% for 25% - 100% of the award to vest, again working on a straight-line basis from a base price of 25.5p. No re-testing of the award is allowed.

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**10. Disposal of subsidiary**

As set out in note 3, the Group's US/Mexican subsidiaries were sold in October 2007, with the resultant loss on disposal being disclosed in the financial statements for 2007. The amounts treated as disposed of in the comparative periods are as follows:-

	Year to 31 December 2007 £000
<b>Net assets disposed</b>	
Goodwill	327
Property, plant and equipment	1,107
Inventories	723
Trade and other receivables	4,022
Trade payables	(1,109)
	5,070
Net assets disposed of	5,070
Loss on disposal (see Note 6)	(1,800)
	3,270
<b>Total consideration (net of attributable expenses)</b>	3,270
<b>Cash consideration (net of attributable expenses)</b>	3,088
Deferred consideration	182
	3,270
<b>Total consideration (net of attributable expenses)</b>	3,270

**11. Non-current assets held for sale**

The major classes of assets and liabilities comprising the operations classified as held for sale at 30 June 2008 and the previous year's reporting dates are as follows:-

	<b>30 June 2008 £000</b>	30 June 2007 £000	31 December 2007 £000
Property, plant and equipment	1,711	2,078	2,064
Inventories	440	1,148	455
Trade and other receivables	1,391	4,162	1,238
Cash and cash equivalents	554	761	481
	4,096	8,149	4,238
<b>Total assets classified as held for sale</b>	4,096	8,149	4,238
Total liabilities associated with assets classified as held for sale	(1,475)	(3,551)	(1,409)
	2,621	4,598	2,829
<b>Net assets classified as held for sale</b>	2,621	4,598	2,829

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**NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

**12. Acquisition of subsidiary**

On 8 January 2008, the Group acquired 100% of the issued share capital of Online Packaging Limited, for a consideration of approximately £5.3 million. £4.5 million of the consideration has been paid, with the deferred consideration becoming payable in the first quarter of 2009, subject to certain trading targets being met in the year to 31 December 2008. The business is a Packaging Distributor and is accounted for in the Packaging Distribution segment.

The provisional fair values assigned to the assets acquired, which are equivalent to book values, and the consideration paid and payable are set out below:-

	<b>30 June 2008 £000</b>
<b>Net assets acquired</b>	
Property, plant and equipment	228
Inventories	429
Trade and other receivables	1,603
Cash and cash equivalents	906
Trade and other payables	(1,758)
Current tax liabilities	(198)
Deferred tax liabilities	(40)
	1,170
<b>Total assets</b>	<b>1,170</b>
Goodwill	4,166
	5,336
<b>Total consideration</b>	<b>5,336</b>
<b>Satisfied by:</b>	
Cash	(4,536)
Deferred consideration	(800)
	(5,336)
<b>Total consideration</b>	<b>(5,336)</b>
<b>Net cash outflow arising on acquisition</b>	
Cash consideration	(4,536)
Cash and cash equivalents acquired	906
	(3,630)
	(3,630)

The goodwill arising on the acquisition of Online Packaging Limited is attributable to the anticipated future profitability of the distribution of the Group's product ranges in additional geographical markets in the UK and anticipated operating synergies from the future combination of activities with the existing Packaging Distribution network. The allocation of the purchase premium currently shown as goodwill, to separable classes of intangible assets will be concluded in the second half of 2008, with amortisation charges adjusted based on that allocation.

Online Packaging Limited contributed £3.9 million revenue and £0.1m to the Group's profit before tax for the period between the date of acquisition and 30 June 2008.

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NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

13. Notes to the cash flow statement	Six months to 30 June 2008 £000	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
Operating profit/(loss) Continuing operations	1,427	739	3,065
Discontinued operations	137	(89)	322
<b>Profit from operations</b>	<b>1,564</b>	<b>650</b>	<b>3,387</b>
Adjustments for:			
Depreciation of property, plant and equipment	1,023	1,048	2,094
Gain on disposal of property, plant and equipment	(1)	(24)	(539)
<b>Operating cash flows before movements in working capital</b>	<b>2,586</b>	<b>1,674</b>	<b>4,942</b>
(Increase)/decrease in inventories	(309)	402	538
Decrease/(increase) in receivables	190	(1,834)	(4,379)
(Decrease)/increase in payables	(3,569)	(1,338)	5,433
Adjustment for pension scheme funding	(735)	(736)	(1,383)
<b>Cash generated by operations</b>	<b>(1,837)</b>	<b>(1,832)</b>	<b>5,151</b>
Income taxes paid	(570)	(389)	(554)
Interest paid	(288)	(297)	(572)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(2,695)</b>	<b>(2,518)</b>	<b>4,025</b>

	Six months to 30 June 2008 £000	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Movement in net debt</b>			
Increase/(decrease) in cash and cash equivalents in period	366	(544)	(1,366)
(Increase)/decrease in bank overdrafts	(5,970)	(3,370)	4,495
Cash flows from debt and lease financing	21	23	(586)
<b>Movement in net debt in the period</b>	<b>(5,583)</b>	<b>(3,891)</b>	<b>2,543</b>
Opening net debt	(3,108)	(5,651)	(5,651)
<b>Closing net debt</b>	<b>(8,691)</b>	<b>(9,542)</b>	<b>(3,108)</b>
<b>Net debt comprises:-</b>			
Cash and cash equivalents	641	890	348
Cash and cash equivalents in business held for resale	554	761	481
<b>Cash and cash equivalents at end of period</b>	<b>1,195</b>	<b>1,651</b>	<b>829</b>
Bank overdrafts in business held for resale	-	(10)	-
Bank overdrafts and loans	(9,222)	(11,107)	(3,252)
<b>Net bank debt</b>	<b>(8,027)</b>	<b>(9,466)</b>	<b>(2,423)</b>
Obligations under finance leases	(664)	(76)	(685)
<b>Closing net debt</b>	<b>(8,691)</b>	<b>(9,542)</b>	<b>(3,108)</b>

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.

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NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

**14. 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 2008, 31 December 2007 and 30 June 2007. 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 2008 £000</b>	30 June 2007 £000	31 December 2007 £000
Fair value of assets	<b>40,784</b>	44,143	45,032
Present value of scheme liabilities	<b>(54,805)</b>	(57,323)	(59,304)
<b>Pension scheme deficit</b>	<b>(14,021)</b>	(13,180)	(14,272)
Deferred tax asset	<b>3,926</b>	3,689	3,996
<b>Pension scheme deficit net of related deferred tax asset</b>	<b>(10,095)</b>	(9,491)	(10,276)

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

<b>Assumptions</b>	<b>30 June 2008</b>	30 June 2007	31 December 2007
Discount rate	<b>6.60%</b>	5.80%	5.80%
Rate of increase in salaries	<b>3.90%</b>	3.20%	3.25%
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 3.20% for LPI	for fixed increases or 2.75% for LPI
Inflation assumption	<b>3.90%</b>	3.20%	3.25%
Life expectancy beyond normal retirement date of 65			
Male	<b>21.3 years</b>	19.5 years	21.3 years
Female	<b>24.0 years</b>	22.4 years	24.0 years

	<b>Six months to 30 June 2008 £000</b>	Six Months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Movement in scheme deficit in the period</b>			
At start of period	<b>(14,272)</b>	(15,873)	(15,873)
Normal service cost	<b>(114)</b>	(149)	(272)
Contributions	<b>763</b>	798	1,571
Curtailed gains	<b>86</b>	84	84
Other finance charges	<b>(177)</b>	(95)	(175)
Actuarial (loss)/gain in the period	<b>(307)</b>	2,055	393
<b>At end of period</b>	<b>(14,021)</b>	(13,180)	(14,272)

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NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

<b>14. Retirement benefit obligations (continued)</b>	<b>Six months to 30 June 2008 £000</b>	<b>Six Months to 30 June 2007 £000</b>	<b>Year to 31 December 2007 £000</b>
<b>Movement in fair value of scheme assets</b>			
Scheme assets at start of period	45,032	43,630	43,630
Expected return on scheme assets	1,524	1,453	2,900
Actual return less expected return on scheme assets	(5,152)	(563)	(942)
Contributions from sponsoring companies	763	798	1,571
Contributions from scheme members	89	98	200
Benefits paid	(1,472)	(1,273)	(2,327)
<b>Scheme assets at end of period</b>	<b>40,784</b>	<b>44,143</b>	<b>45,032</b>
	<b>Six months to 30 June 2008 £000</b>	<b>Six Months to 30 June 2007 £000</b>	<b>Year to 31 December 2007 £000</b>
<b>Movement in present value of defined benefit obligations</b>			
Obligations at start of period	(59,304)	(59,503)	(59,503)
Service costs	(114)	(149)	(272)
Interest costs	(1,701)	(1,548)	(3,075)
Curtailement gain	86	84	84
Contributions from scheme members	(89)	(98)	(200)
Actuarial gain on liabilities in the period	4,845	2,618	1,335
Benefits paid	1,472	1,273	2,327
<b>Obligations at end of period</b>	<b>(54,805)</b>	<b>(57,323)</b>	<b>(59,304)</b>
	<b>30 June 2008 £000</b>	<b>30 June 2007 £000</b>	<b>31 December 2007 £000</b>
<b>15. Deferred tax asset</b>			
<b>Deferred tax asset on pension scheme deficit</b>			
At start of period	3,996	4,762	4,762
Charge on actuarial movement in the period applied through statement of recognised income and expense	85	(842)	(381)
Charge through income statement based on payments made to reduce deficit in the period	(155)	(231)	(385)
Deferred tax asset on pension scheme deficit (see note 14)	3,926	3,689	3,996
Deferred tax liabilities on timing differences	(125)	(79)	(79)
<b>Net deferred tax asset – due after one year</b>	<b>3,801</b>	<b>3,610</b>	<b>3,917</b>
<b>Deferred tax asset on corporation tax losses</b>			
At start of period	1,665	-	-
(Charged)/credited through income statement	(100)	-	1,665
<b>Net deferred tax asset – due within one year</b>	<b>1,565</b>	<b>-</b>	<b>1,665</b>

**16. Related party transactions**

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed. The directors are satisfied that there are no other related party transactions occurring during the six month period which require disclosure.

**Cautionary Statement**

This announcement has been prepared solely to provide additional information to shareholders to assess the Group's strategy and the potential for the strategy to succeed. It should not be relied on by any other party or for any other purpose.

The announcement contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report. Such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors, including both economic and business risk factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.