

MACFARLANE GROUP RESULTS FOR THE YEAR TO 31 DECEMBER 2007

Profit before tax from continuing operations up 67% to £2.5 million

Net debt reduced to £3.1 million

Further progress on re-shaping the Group

Sharper focus on core activities

Benefits emerging from acquisitions

Full year dividend confirmed at 2p per share

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

“2007 was a year of significant progress for Macfarlane Group as we continued to re-shape the business and focus on our core activities, substantially increasing profits from our continuing operations in the process.

2007 saw the benefits of the strategy set out three years ago. We have shown the ability to grow the business significantly and we see the potential for further progress in 2008.

Trading

Operating profits from continuing activities increased to £3.1 million (2006: £2.0 million) on Group turnover up 13% at £119.7 million. Pre-tax profits increased to £2.5 million (2006: £1.5 million).

- Packaging Distribution turnover increased by 15%, with operating profits increasing from £0.44 million to £1.34 million.
- Our Manufacturing Operations turnover rose by 6%, with operating profits increasing from £1.57 million to £1.73 million.

Earnings per share increased from 1.03p to 3.06p per share, with profits after tax benefiting from a one-off deferred tax credit of £1.7 million. The Board will pay a final dividend of 1p per share, which combined with the interim dividend of 1p per share, results in a full year dividend of 2p per share.

Trading in the first part of 2008 is in line with the Board’s expectations and continues to show the benefits of the concentrated effort put in to running and expanding our UK businesses, following the sale of businesses in the United States and Mexico.

In our Packaging Distribution business, turnover increased by 15% from £80.9 million to £92.7 million. The acquisition of Bloomfield for £2.0 million in October 2006 has demonstrated what targeted acquisitions can achieve; packaging distribution profit more than tripled to £1.3 million in 2007 (2006: £0.4 million) and we are seeing continuing benefit from our scale and market presence. Online Packaging was purchased for £5.1 million in January 2008 and is trading well.

Trading (continued)

The link between our packaging distribution and packaging manufacturing businesses in the UK is becoming more important and valuable each year. In Packaging Distribution we are now three times the size of our nearest competitor and with a UK market share of just over 10% there is considerable opportunity for further profitable growth in the sector.

Our labels company faced considerable market consolidation in what was a difficult year, but coped well to record a profit of £1.2 million on turnover up 4%.

More detailed comments on trading are contained in the operating review following my statement.

Cash and Dividends

During 2007 our borrowings benefited from the disposal of our North American interests and at the year-end our net debt was reduced to £3.1 million. The disposal proceeds from our Kirkintilloch property, realised a further £2.4 million at the start of 2008.

The Board continues to recognise the importance to shareholders of a regular and reliable dividend stream. I am pleased to report that, in addition to the Interim Dividend of 1p per share announced in September, it is the intention of the Board to declare a Final Dividend of 1p per share, payable in June, making a dividend of 2p per share for the full year.

Future Prospects

Whilst the UK economy is entering an uncertain period, the Board is confident that the broad range of industries we serve and the continued opportunity to improve operational performance will enable the business to continue to progress. 2008 has started well.

During the year we will further refine our business focus and will expect to continue to make value-enhancing acquisitions to expand our UK reach. Recent acquisitions have increased our geographic spread and, along with our recruitment initiatives in the past two years, we have added considerably to our customer offering and to our talent pool. Also, the disposal of our US/Mexico business has freed up the time of senior executives to concentrate on internal efficiencies, business innovation and expansion.

The development of Macfarlane Group into an increasingly stable business has demanded huge effort and considerable personal commitment from management and staff alike. The Board very much appreciates this and would like to take this opportunity to thank them all for their contribution to our progress.”

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

Operating review

Group Segment	Revenue	Revenue	Profit	Profit
	2007	2006	2007	2006
	£000	£000	£000	£000
Packaging Distribution	92,654	80,853	1,338	436
Manufacturing Operations	27,083	25,460	1,727	1,571
Continuing activities	<u>119,737</u>	<u>106,313</u>		
Operating profit			3,065	2,007
Net finance costs			(598)	(534)
Profit before tax from continuing operations			<u>2,467</u>	<u>1,473</u>

All businesses within the Group were profitable in 2007 and this was achieved despite continuing cost pressures on raw materials, fuel and energy.

Group debt continued to reduce during 2007 as more focus was brought to the Group's activities.

We have demonstrated good progress in 2007. The focus of our plans for 2008 and beyond is to continue to grow the business both organically and through acquisition.

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 market share in excess of 10%. The business operates through 15 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 2007 Packaging Distribution recorded an operating profit of £1.3m, compared to £0.4m the previous year. There were a number of factors that contributed to these results:

- Sales revenue increased by 10% on an organic basis, partly driven by price increases and partly through volume growth;
- Sales growth was supplemented by the full year benefit of the acquisition of Bloomfield Supplies Limited ("Bloomfield") made in 2006, which increased sales revenues by an additional 5%;
- Supplier price increases remained a significant feature in 2007 due to inflation in raw materials, energy and oil related costs. However we were successful in managing price increases with our customers and this allowed us to improve the gross margin to just over 30%;
- In 2007 our On-Time-In-Full ("OTIF") deliveries averaged 94% compared with 92% in 2006 and 91% in 2005. This clearly demonstrates the progress we are making in improving the service to our customers;
- In 2007 we increased product range penetration in our existing customer base to an average 8.7 lines per customer compared with 8.6 in 2006 and 8.2 in 2005;
- During 2007 we opened 2,278 new customer accounts;
- We continued to make key investments in the business particularly in our e-commerce capability, new business development and the strengthening of the management team;

Operating review

Packaging Distribution

- Our 2007 customer satisfaction survey showed 81% of customers rating our service above average (2006 – 86%) and of these, 29% rated our service as excellent (2006 – 33%). Our slightly lower customer satisfaction score in 2007 reflects a growing need from our customers for help and advice on identifying more environmentally friendly packaging solutions. One of our key customer programmes in 2008 will address this;
- Visitors to Packaging2U our web-based packaging service doubled in 2007, which has enabled us to access a number of market segments where traditionally Macfarlane has not had a presence. We expect Packaging2U to become profitable in 2008;
- During 2007 the dedicated new business team demonstrated its potential with a series of major new customer wins; and
- Bloomfield was successfully integrated into the Macfarlane RDC network and this has given us encouragement to pursue further similar acquisitions in 2008.

Within our current network of 15 RDCs, based on our 2007 results we had 5 RDCs performing at acceptable levels, 8 RDCs demonstrating improvements that indicate their ability to achieve acceptable performance levels in the short-term and 2 RDCs where performance is currently not at the acceptable level.

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

- Improve gross margin through effective management and recovery of likely further supplier price changes;
- Accelerate 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;
- Build the Packaging2U business in order to deliver profits in 2008;
- Increase the efficiency of the logistics infrastructure through the introduction of fleet management software;
- Improve our ability to respond to the increasing demands from our customers regarding environmentally friendly packaging solutions;
- Deliver the benefits from the full year contribution of the Online Packaging acquisition made in January 2008; and
- Accelerate market penetration through further targeted acquisitions.

Manufacturing Operations

Macfarlane operates a range of manufacturing businesses, **Labels** producing self-adhesive and resealable labels, and **Packaging Manufacturing** producing bespoke composite transit packaging and protective components.

In 2007 Macfarlane Group's Manufacturing Operations recorded a profit of £1.7 million, an increase of £0.1 million on 2006. Key features of the Manufacturing Operations performance in 2007 were:

- Sales increase 6% versus 2006;
- Gross margin was flat versus 2006 despite customer price pressure where raw material price increases can not always be fully passed onto customers; and
- The overhead to sales ratio improved by 0.2% reflecting the nature of the fixed cost base of the manufacturing businesses, however total overheads increased by £0.4 million reflecting additional investments in capacity in both businesses.

Operating review

Manufacturing Operations

Labels

The principal activity of the Labels business is the production of self-adhesive and resealable labels for major Fast Moving Consumer Goods (“FMCG”) customers primarily in European markets. The business operates from two production sites in Kilmarnock and Dublin and a sales and design office in Sweden which focuses on the development and growth of our resealable labels business - Reseal-it™.

Business Performance

During 2007 the Macfarlane Labels business continued to experience the price and margin pressure that has been a consistent feature over recent years. In response the business has been transitioning itself away from the volatile lower margin own brand food related business to more secure margin high-quality branded products. This led to a 4% increase in sales and a 3% increase in volume from 2006, with efficiency improvements giving a 5% improvement in profitability. New business levels showed some improvement during the second half of 2007 and it is expected that this will continue in 2008.

Reseal-it™ continues to progress well. The first machine sale in North America was completed in 2007 and there is a growing level of interest from North American customers in the Reseal-it product.

The priorities for the Labels business in 2008 are to:-

- Accelerate organic growth plans particularly in the branded products sector;
- Improve operational efficiencies to counterbalance retail price pressure;
- Develop the Reseal-it™ product in the US market; and
- Broaden the re-sealable label product range.

Packaging Manufacturing

The principal activity of the business is the design and manufacture/assembly of bespoke composite packaging for use in protecting goods in transit. The primary components are corrugate, timber and foam. The business operates from two manufacturing sites in Grantham and Westbury. The business supplies goods directly to customers and via the Group’s Distribution business focusing on such sectors as aerospace, medical equipment, electronics and automotive.

Business Performance

The business had a solid year in 2007 building on the operational improvements achieved during the last two years. Strong sales momentum was achieved with growth of 11% versus last year. There was one significant customer win during the year and sales growth via the Macfarlane Packaging Distribution channel was 12% ahead of last year. However the sales momentum achieved in 2007 was not translated into profit growth due to investments both in equipment and management, which will help secure future profitability. Margins were broadly flat despite volatility in raw material prices.

The Group currently believes the retention of an in-house manufacturing capability allows it to differentiate its offering from other packaging distributors.

The priorities for 2008 are to:

- Improve the overall returns from the business;
- Recover gross margin through effective recovery of further cost increases
- At Grantham the focus will be on growing sales directly and through the in-house Distribution network; and
- Our Westbury location is focused on maintaining sales momentum while at the same time introducing productivity improvement initiatives that were effective at Grantham in 2007.

Operating review

Manufacturing operations

Plastics

The principal activity is the manufacture of injection moulded plastic packaging and dispensing components particularly lids and scoops for the baby food market.

Business Performance

Sales revenue showed growth of 13% versus 2006 primarily through strong performances from the existing base of customers. However input prices for raw materials, energy and labour were not easily transferred to selling prices resulting in a weak gross margin performance.

The overall result for 2007 was disappointing but the business continues to be highly cash generative.

During 2007, working in co-operation with key customers, there have been major improvements in the infrastructure of the business and our enhanced hygiene procedures are at the leading edge of our industry.

During 2008 the management team will focus on:-

- Ensuring input price increases are effectively managed with our customers;
- Achieving ISO22000 accreditation for the Wicklow facility;
- Establishing new lower cost raw material sources; and
- Continuing to improve operational efficiency.

The Board has approved discussions with a number of parties who have expressed interest in acquiring this business and therefore the results of the business have been treated as discontinued in the income statement.

US/Mexico

Macfarlane had packaging manufacturing and assembly operations in California and Mexico, with two plants in Mexico and two in California. The business focused on foam-based packaging components supplying the electronics, healthcare and food and drink sectors of the market.

Following a strategic review in the first half of 2007, the Board decided that it was appropriate to exit our operations in US/Mexico. These operations had not made any significant return in recent years and consumed considerable executive management time. Accordingly the Board considered offers for the business although these would be likely to generate a loss on disposal. In October 2007 Macfarlane US/Mexico was sold to Specialized Packaging Group L.P. resulting in a loss of £1.8 million. Of this loss, £0.7 million related to the accumulated exchange loss for the US/Mexican operations, written off over a number of years which accounting standards require to be brought into the calculation of the loss on disposal in the current year. An equivalent credit to reserves is also recorded.

Future Outlook

Our objectives in 2007 were to continue progress in improving Group profitability, bring a greater focus to the activities of the Group and build both organically and through acquisition our UK market-leading position in Packaging Distribution.

In overall terms we are pleased with what has been achieved in 2007:

- Packaging Distribution has demonstrated good sales momentum and returns are improving;
- UK Packaging Manufacture is showing sustainable profit performance;
- The Labels business is showing stability in the UK and good growth potential for ReSeal-it in North America;
- Plastics has demonstrated a reliable revenue base; and
- We have successfully managed the sale of our foam operations in US/Mexico.

The acquisition of Online Packaging early in 2008 demonstrates our commitment to building our market-leading position in UK Packaging Distribution and additional acquisition opportunities are being evaluated for implementation during 2008.

Our future priorities are to continue to bring greater focus to the activities of the Group in order to allow management to concentrate their time on building and improving returns from our key businesses.

Macfarlane Group PLC
Consolidated income statement
For the year ended 31 December 2007

	Note	2007 £000	2006 £000 <small>* As restated</small>
Continuing operations			
Revenue	2	119,737	106,313
Cost of sales		<u>(81,442)</u>	<u>(72,522)</u>
Gross profit		38,295	33,791
Distribution costs		(5,791)	(5,490)
Administrative expenses		(29,453)	(26,294)
Non-recurring net property gains	4	<u>14</u>	<u>-</u>
Operating profit		3,065	2,007
Finance income	5	2,947	2,762
Finance expense	5	<u>(3,545)</u>	<u>(3,296)</u>
Profit before tax		2,467	1,473
Tax	6	<u>979</u>	<u>(315)</u>
Profit for the year from continuing operations		3,446	1,158
Discontinued operations			
(Loss)/profit for the year from discontinued operations	2 / 9	<u>(1,616)</u>	<u>893</u>
Profit for the year		<u>1,830</u>	<u>2,051</u>
Earnings per share	8		
From continuing operations			
Basic		<u>3.06p</u>	<u>1.03p</u>
Diluted		<u>3.06p</u>	<u>1.02p</u>
From continuing and discontinued operations			
Basic		<u>1.63p</u>	<u>1.82p</u>
Diluted		<u>1.62p</u>	<u>1.81p</u>

* The comparative figures are restated for the reasons set out in note 3 with no impact on the profit for that year.

Macfarlane Group PLC
Consolidated statement of recognised income and expense
For the year ended 31 December 2007

	2007	2006
	£000	£000
Exchange differences on translation of overseas operations	78	(764)
Exchange differences realised on disposal of subsidiary companies	670	-
Exchange difference on translation of foreign operations	748	(764)
Actuarial gains on defined benefit pension schemes	393	5,835
Tax on items taken directly to equity actuarial gain	(111)	(1,751)
long-term rate change	(270)	-
Net income recognised directly in equity	760	3,320
Profit for the year	1,830	2,051
Total recognised income and expense for the year	2,590	5,371

Macfarlane Group PLC
Consolidated reconciliation of movements in shareholders' equity
For the year ended 31 December 2007

	Note	2007	2006
		£000	£000
Profit for the year		1,830	2,051
Dividends to equity holders in the year	7	(2,252)	(1,125)
Net income recognised directly in equity (as above)		760	3,320
Credit in respect of share based payments		82	140
Movements in equity in the year		420	4,386
Opening equity		29,825	25,439
Closing equity		30,245	29,825

Macfarlane Group PLC
Consolidated balance sheet at 31 December 2007

	Note	2007 £000	2006 £000
Non-current assets			
Goodwill		18,646	18,973
Property, plant and equipment		9,637	13,112
Investment property		-	1,701
Other receivables		872	1,057
Deferred tax asset		3,917	4,560
Total non-current assets		33,072	39,403
Current assets			
Inventories		8,095	9,811
Trade and other receivables		31,108	29,508
Deferred tax asset		1,665	-
Cash and cash equivalents		348	2,195
Total current assets		41,216	41,514
Non-current assets classified as held for sale	9	4,238	-
		45,454	41,514
Total assets		78,526	80,917
Current liabilities			
Trade and other payables		28,087	26,710
Current tax liabilities		407	663
Obligations under finance leases		182	44
Bank overdrafts and loans		3,252	7,747
Liabilities directly associated with assets classified as held for sale	9	1,409	-
Total current liabilities		33,337	35,164
Net current assets		12,117	6,350
Non-current liabilities			
Retirement benefit obligations	11	14,272	15,873
Other creditors		169	-
Obligations under finance leases		503	55
Total non-current liabilities		14,944	15,928
Total liabilities		48,281	51,092
Net assets		30,245	29,825
Equity			
Share capital		28,755	28,755
Revaluation reserves		70	167
Own shares		(1,406)	(1,406)
Translation reserves		(52)	(800)
Retained earnings		2,878	3,109
Total equity		30,245	29,825

Macfarlane Group PLC
Consolidated cash flow statement
For the year ended 31 December 2007

	Note	2007 £000	2006 £000
Net cash from operating activities	10	4,025	160
Investing activities			
Interest received		46	9
Disposal of subsidiary undertaking		3,088	2,102
Acquisition of subsidiary undertaking		(800)	(1,262)
Proceeds on disposal of property, plant and equipment		44	1,472
Purchases of property, plant and equipment		(988)	(604)
Net cash from investing activities		1,390	1,717
Financing activities			
Dividends paid	7	(2,252)	(1,125)
Repayments of obligations under finance leases		(34)	(268)
Decrease in bank overdrafts		(4,495)	(83)
Net cash used in financing activities		(6,781)	(1,476)
Net (decrease)/increase in cash and cash equivalents		(1,366)	401
Cash and cash equivalents at beginning of year		2,195	1,794
Cash and cash equivalents at end of year		829	2,195

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2007

1. General information

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements as defined in Section 240 of the Companies Act 1985 and has been extracted from the full statutory accounts for the years ended 31 December 2007 and 31 December 2006 respectively. The information for the year ended 31 December 2006 does not constitute the Group's statutory financial statements as defined in Section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified pursuant to Section 235 of the Companies Act 1985 and did not contain a statement under sub-section 237 (2) or (3) of that Act.

The auditors' report on the statutory financial statements for the year ended 31 December 2007 was unqualified pursuant to Section 235 of the Companies Act 1985 and did not contain a statement under sub-section 237 (2) or (3) of that Act.

2. Split between continuing and discontinued activities

	2007			2006		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
Revenue	119,737	18,312	138,049	106,313	23,754	130,067
Cost of sales	(81,442)	(12,082)	(93,524)	(72,522)	(15,978)	(88,500)
Gross profit	38,295	6,230	44,525	33,791	7,776	41,567
Distribution costs	(5,791)	(881)	(6,672)	(5,490)	(1,029)	(6,519)
Administration costs	(29,453)	(5,027)	(34,480)	(26,294)	(6,508)	(32,802)
Non-recurring net property gains	14	-	14	-	-	-
Operating profit	3,065	322	3,387	2,007	239	2,246
Net finance costs	(598)	(140)	(738)	(534)	(197)	(731)
Profit before tax	2,467	182	2,649	1,473	42	1,515
Tax	979	2	981	(315)	2	(313)
Profit after tax	3,446	184	3,630	1,158	44	1,202
(Loss)/profit on disposal of operations	-	(1,800)	(1,800)	-	849	849
Profit for the year	3,446	(1,616)	1,830	1,158	893	2,051

3. Segmental information

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

(i) Packaging Distribution

The Distribution of packaging materials and supply of storage and warehousing services in the UK.

(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 manufacture, assembly and supply of timber, corrugated and foam-based packaging materials in the UK.

Discontinued Operations

The Manufacturing Operations in US/Mexico were sold in the second half of 2007 and are classified as discontinued in the consolidated income statement. In addition the decision to dispose of the Group's plastic injection-moulding operation was taken in the first half of 2007. Consequently the results of this operation for 2006 were re-classified as discontinued operations in the consolidated income statement.

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2007

3. Segmental information (continued)

	2007 £000	2006 £000
Packaging Distribution		
Revenue	92,654	80,853
Cost of sales	<u>(64,565)</u>	<u>(56,650)</u>
Gross profit	28,089	24,203
Net operating expenses	<u>(26,751)</u>	<u>(23,767)</u>
Operating profit	<u>1,338</u>	<u>436</u>
Manufacturing Operations		
Revenue	27,083	25,460
Cost of sales	<u>(16,877)</u>	<u>(15,872)</u>
Gross profit	10,206	9,588
Net operating expenses	<u>(8,479)</u>	<u>(8,017)</u>
Operating profit	<u>1,727</u>	<u>1,571</u>
	2007	2006
	£000	£000
Packaging Distribution	1,338	436
Manufacturing Operations	<u>1,727</u>	<u>1,571</u>
Operating profit	3,065	2,007
Net finance costs	<u>(598)</u>	<u>(534)</u>
Profit before tax	2,467	1,473
Tax	<u>979</u>	<u>(315)</u>
Profit from continuing operations	3,446	1,158
(Loss)/profit from discontinued operations after tax	<u>(1,616)</u>	<u>893</u>
Profit after tax and discontinued operations	<u>1,830</u>	<u>2,051</u>
	2007	2006
	£000	£000
Group segment		
Packaging Distribution	16,510	16,425
Manufacturing Operations	<u>10,906</u>	<u>13,400</u>
Continuing operations	27,416	29,825
Discontinued operations	<u>2,829</u>	<u>-</u>
Net assets	<u>30,245</u>	<u>29,825</u>

4. Non-recurring net property gains

An investment property was sold during 2007 for a consideration of £2,386,000 realising a gain of £539,000 which has been offset by amounts totalling £525,000 due under certain of the Group's vacant properties.

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2007

5. Net finance expense	2007	2006
	£000	£000
Interest on bank loans and overdrafts	(446)	(292)
Interest on obligations under finance leases	(24)	(12)
Interest cost of pension scheme liabilities	(3,075)	(2,992)
	<hr/>	<hr/>
Total finance expense	(3,545)	(3,296)
	<hr/>	<hr/>
Expected return on pension scheme assets	2,900	2,631
Investment income	47	131
	<hr/>	<hr/>
Total finance income	2,947	2,762
	<hr/>	<hr/>
Net finance expense	(598)	(534)
	<hr/> <hr/>	<hr/> <hr/>
6. Tax	2007	2006
	£000	£000
Current tax		
United Kingdom corporation tax at 30% (2006: 30%)	-	(57)
Foreign tax	(66)	(86)
Adjustments in respect of prior periods	(228)	187
	<hr/>	<hr/>
Current tax (charge)/credit	(294)	44
Deferred taxation credit/(charge)	1,273	(359)
	<hr/>	<hr/>
Total tax credit/(charge)	979	(315)
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The major feature of the 2007 tax credit relates to the recognition of a deferred tax asset for the Group's corporation tax losses. A value of £1,665,000 has been recognised in the current year for the first time as it is now regarded as more likely than not that these losses will be recovered within the short term.

The standard rate of tax for the year, based on the UK rate of corporation tax is 30% (2006 - 30%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The deferred tax credit includes a charge of £385,000 in relation to the reversal of the deferred tax asset on the pension deficit. £47,000 of this charge relates to the change in the long-term rate of tax from 30% to 28% with effect from April 2008.

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

Profit before taxation	2,467	1,473
	<hr/>	<hr/>
Tax on profit at 30%	(740)	(442)
Factors affecting tax charge for the year:-		
Depreciation in excess of capital allowances	8	(216)
Tax charge on contributions to defined benefit pension scheme	(385)	(380)
Non taxable gain	162	-
Other differences	171	(353)
Tax losses utilised	299	836
Tax losses recognised as a deferred tax asset	1,665	-
Difference on overseas tax rates	27	53
Adjustments in respect of prior periods	(228)	187
	<hr/>	<hr/>
Tax credit/(charge) for the year	979	(315)
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Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2007

7. Dividends	2007	2006
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2006 of 1.00p per share (2006 – Nil)	1,126	-
Interim dividend for the year ended 31 December 2007 of 1.00p per share (2006 – 1.00p per share)	1,126	1,125
	<u>2,252</u>	<u>1,125</u>

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

The proposed final dividend of 1.00p per share will be paid on 12 June 2008 to those shareholders on the register at 23 May 2008 and is subject to approval by shareholders at the Annual General Meeting in 2008 and has not been included as a liability in these financial statements.

8. Earnings per share

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share is based on the following data:

	2007	2006
	£000	£000
Earnings from continuing and discontinued operations for the purposes of earnings per share being profit for the year	1,830	2,051
Add/(less) Loss/(profit) for the year from discontinued operations	1,616	(893)
	<u>3,446</u>	<u>1,158</u>
Earnings from continuing operations for the purposes of earnings per share being profit for the year from continuing operations	3,446	1,158
	<u>3,446</u>	<u>1,158</u>
Number of shares in issue for the purposes of calculating basic and diluted earnings per share	2007	2006
	No. of	No. of
	shares	shares
	'000	'000
Weighted average number of ordinary shares in issue	115,019	115,019
Own shares in Employee Share Ownership Trusts	(2,491)	(2,491)
	<u>112,528</u>	<u>112,528</u>
Weighted average number of shares in issue for the purposes of basic earnings per share	112,528	112,528
Effect of dilutive potential ordinary shares due to share options	166	601
	<u>112,694</u>	<u>113,129</u>

9. Discontinued operations, non-current assets and current liabilities classified as held for sale

In April 2007 the Board decided to divest the Plastics business. In October 2007, the Group's US and Mexican Packaging manufacturing subsidiaries were sold, following a decision to divest taken in May 2007. As the decisions to sell the respective businesses were taken before 31 December 2007, the results of the businesses for 2006 and 2007 are classified as discontinued operations in the consolidated income statement. The components of the Plastics business's balance sheet are classified as non-current assets and current liabilities held for sale at 31 December 2007.

In January 2006, the Group's Hungarian subsidiary was sold and the gain on disposal is reflected in the 2006 results.

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Notes to the financial information

For the year ended 31 December 2007

9. Discontinued operations, non-current assets and current liabilities classified as held for sale	2007	2006
Manufacturing Operations	£000	£000
Revenue	18,312	23,754
Cost of sales	(12,082)	(15,978)
Gross profit	6,230	7,776
Net operating expenses	(5,908)	(7,537)
Operating profit	322	239
Net interest paid	(140)	(197)
(Loss)/gain on disposal of subsidiary undertaking	(1,800)	849
(Loss)/profit before tax	(1,618)	891
Tax	2	2
Post-tax (loss)/profit from discontinued operations	(1,616)	893
(Loss)/gain on disposal of subsidiary undertaking		
Goodwill	327	-
Property, plant and equipment	1,107	167
Inventories	723	265
Trade receivables	4,022	902
Cash and cash equivalents	249	591
Trade payables	(1,109)	(485)
Net assets disposed of	5,319	1,440
Accumulated foreign exchange loss on disposal	(670)	-
(Loss)/gain on disposal of subsidiary undertaking	(1,130)	900
Total consideration	3,519	2,340
Cash	3,337	2,153
Deferred consideration	182	187
Total consideration	3,519	2,340
Non-current assets held for sale		
The major classes of assets and liabilities comprising the operations classified as held for sale at 31 December 2007 are as follows:-	2007	2006
	£000	£000
Property, plant and equipment	2,064	-
Inventories	455	-
Trade receivables	1,238	-
Cash and cash equivalents	481	-
Total assets classified as held for sale	4,238	-
Trade and other payables	(1,290)	-
Deferred tax liabilities	(119)	-
	(1,409)	-
Total net assets classified as held for sale	2,829	-

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For the year ended 31 December 2007

10. Notes to the cash flow statement	2007	2006
	£000	£000
Operating profit	3,065	2,246
Continuing operations		
Discontinued operations	322	-
Operating profit	3,387	2,246
Adjustments for:		
Depreciation of property, plant and equipment	2,094	2,136
Gain on disposal of property, plant and equipment	(539)	(191)
Operating cash flows before movements in working capital	4,942	4,191
Decrease/(increase) in inventories	538	(681)
(Increase)/decrease in receivables	(4,379)	58
Increase/(decrease) in payables	5,433	(999)
Adjustment for pension scheme funding	(1,383)	(1,630)
Cash generated by operations	5,151	939
Income taxes paid	(554)	(195)
Interest paid	(572)	(584)
Net cash from operating activities	4,025	160
	2007	2006
	£000	£000
(Decrease)/increase in cash and cash equivalents in the year	(1,366)	401
Decrease in bank overdrafts	4,495	83
Cash flows from debt and lease financing	(586)	268
Movement in net debt in the year	2,543	752
Opening net debt	(5,651)	(6,403)
Closing net debt	(3,108)	(5,651)
Net debt comprises:		
Cash and cash equivalents	348	2,195
Cash and cash equivalents in business held for resale	481	-
Bank overdrafts and loans	(3,252)	(7,747)
Net bank debt	(2,423)	(5,552)
Obligations under finance leases		
Due within one year	(182)	(44)
Due outwith one year	(503)	(55)
Closing net debt	(3,108)	(5,651)

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with maturity of three months or less. Cash inflows in respect of the discontinued operations for operating activities amounted to £821,000 for 2007, (2006 Nil) cash inflows in respect of investing activities totalled £2,930,000 (2006 - £2,102,000) and cash outflows from financing activities amounted to £268,000 (2006 £Nil).

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Notes to the financial information

For the year ended 31 December 2007

11. Pension scheme

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

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

Balance sheet disclosures

The figures below have been based on the triennial actuarial valuation as at 1 May 2005, updated to the current year-end. The assets in the scheme, the net liability position for the scheme at 31 December 2007 and the expected rates of return were:

Asset class	Fair value 2007 £000	Fair value 2006 £000	Fair value 2005 £000	Fair value 2004 £000
Equities	28,162	26,785	24,077	19,911
Bonds	16,859	16,661	16,678	15,173
Other (cash)	11	184	21	37
	<hr/>	<hr/>	<hr/>	<hr/>
Fair value of assets	45,032	43,630	40,776	35,121
Present value of scheme liabilities	(59,304)	(59,503)	(63,753)	(52,545)
	<hr/>	<hr/>	<hr/>	<hr/>
Deficit in the scheme	(14,272)	(15,873)	(22,977)	(17,424)
Related deferred tax asset	3,996	4,762	6,893	5,227
	<hr/>	<hr/>	<hr/>	<hr/>
Net pension liability	(10,276)	(11,111)	(16,084)	(12,197)

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

Assumptions	2007	2006	2005	2004
Discount rate	5.80%	5.25%	4.75%	5.25%
Rate of increase in salaries	3.25%	2.75%	2.75%	2.75%
Inflation assumption	3.25%	2.75%	2.75%	2.75%
Life expectancy beyond normal retirement date of 65				
Male	21.3 years	19.5 years	19.5 years	17.2 years
Female	24.0 years	22.4 years	22.4 years	21.0 years

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Notes to the financial information

For the year ended 31 December 2007

11. Pension scheme (continued)

	2007	2006	2005	2004
Movement in scheme deficit in year	£000	£000	£000	£000
At 1 January	(15,873)	(22,977)	(17,424)	(17,312)
Current service cost	(272)	(353)	(298)	(438)
Employer contributions	1,571	1,925	746	621
Curtailment gains	84	58	-	-
Net finance costs	(175)	(361)	(448)	(517)
Actuarial gain in the period	393	5,835	(5,553)	222
At 31 December	(14,272)	(15,873)	(22,977)	(17,424)

During 2007, the Group made additional payments of £1.3 million to reduce the pension scheme deficit. These payments, combined with an improvement in equity returns and an increase from 5.25% to 5.80% in the bond yields assumed in the valuation of the pension scheme liabilities had a positive impact on the deficit recorded in our balance sheet.

12. Posting to shareholders and Annual General Meeting

The Annual Report and Accounts will be sent to shareholders on Wednesday 9 April 2008. The Annual General Meeting will take place at the Thistle Hotel, Cambridge Street Glasgow at 12 noon on Tuesday 20 May 2008. The Annual Report and Accounts will be available to members of the public at the Company's Registered Office, 21 Newton Place, Glasgow G3 7PY from 11 April 2008.