MACFARLANE GROUP CLANSMAN

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CONTENTS

Financial Results

I am pleased to report that in 1987 the Group once again achieved record results.

Group profits befoie tax increased by 23.7% to £5,577,000 from the previous years £4,508,000 and sales inc1eased by 23.1% to £67,158,000 from £54,565,000 the year before.

Earnings per share amounted to 12.3p an increase of 28% over the 9.6p per share earned in the previous year.

These excellent results reflect the careful planning and development of your Group over many years, and also in some measure the successful divisionalisation which was implemented in early 1987.

Dividends

In the light of these results and the continuing good progress of your Group to which I refer below, your Directors have decided to recommend payment of a final dividend of 2.06p per share. This, together with the interim dividend of 1.252p per share, makes a total for the year of 3.312p per share, an increase over the previous year of 20%.

Over the past three years, dividends per share have risen by over 53%, providing shareholders with a substantial real growth in income. It is our intention that shareholders should continue to benefit in the future from a growth in dividends which reflects the underlying growth in the earnings of your company.

Review of the Year

Your Group traded strongly in nearly all areas of activity in 1987, taking advantage of the additional capacity which we have created and the many new projects which have been developed in recent years.

We have also laid the foundations for continuing growth through the investment of approximately £7 million in new plant, property and further strategic acquisitions.

Packaging Division

All companies within the Packaging Division traded well. The main strength of this division lies in the national network of manufacturing plants and distribution depots strategically located throughout the UK. During the year we opened or expanded depots at Westbury, Telford, Glenrothes and Manchester and we acquired additional packaging companies in Birmingham, Manchester and Gwent, to strengthen the existing network.

These three acquisitions also brought with them some valuable new products which will be marketed throughout the Division.

It has taken many years of careful development and assiduous pursuit of acquisition opportunities to achieve the nationwide structure which is now in place. We have an unrivalled position in packaging distribution in the U.K. which we intend to strengthen further by broadening the range of products sold throughout our network and by acquiring additional facilities when appropriate opportunities arise.

Plastic Moulding Division

The Division has achieved excellent results in 1987. It has benefitted in general from a recovery in the whisky sector and specifically from the establishment of new long term contracts for pilfer resistant bottle closures. Our efforts to develop new technology are bearing fruit and we are encouraged by the prospects for the current year.

Marking Products Division

The companies acquired in 1986 and early 1987 have integrated well within the Division and have contributed to the substantial growth in profit achieved by Marking Products during the year.

The Division is now the leading hand stamp manufacturer and distributor in the U.K. It is operating in an increasingly sophisticated market place where there is a growing demand for pre-inked and self-inking stamp products which is being created by our Marking Products Division. We are encouraged by the prospects for this sector over the next few years.

Development Division

Although this Division did not achieve the growth of the other Divisions in 1987, I am pleased to report that it has started 1988 well and we expect to achieve a significant improvement in its results in 1988.
N.S. Macfarlane and Co., the principal company within the Division which manufactures high quality self adhesive labels and filmic tapes, is now benefitting from the upturn in the whisky sector and also from the establishment in recent years of a wider customer base in other industries.

Management and Staff

I must again record my appreciation to management at all levels and to our staff for their performance during the year. I referred earlier to the divisionalisation in 1987. Each of the Divisions has a strong management team capable of achieving their objectives and they are supported by an excellent workforce.

Finance

The substantial investment and acquisition programme during 1987 has resulted in an increase in borrowing to approximately £7 million. Your Group nevertheless remains conservatively financed with year end borrowings representing only 32% of shareholders' funds.

Property Revaluation

At 31st December 1987 the Group freehold and long leasehold properties were professionally revalued on the basis of open market value with existing use.

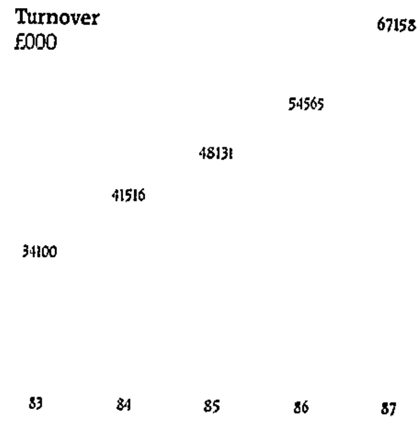
I am pleased to report that this revaluation resulted in a surplus of £4 million over the aggregate book value of £11 million. The properties have been included in the 1987 balance sheets on the basis of this revaluation.

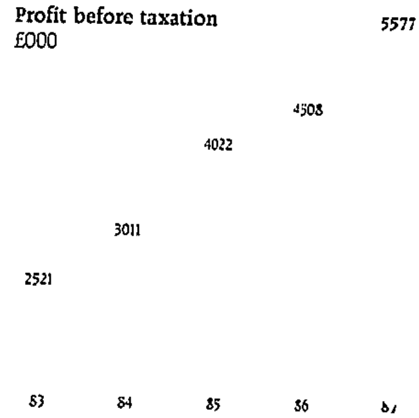
Outlook

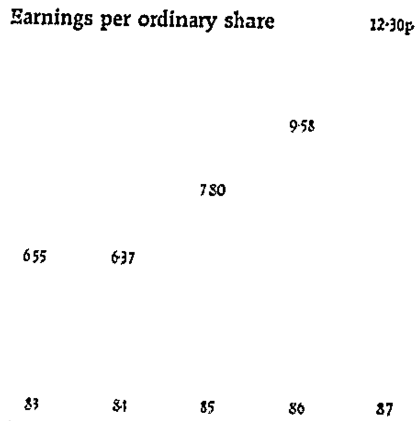
Trading in the first three months of 1988 has been at record levels throughout the Group and provides a very encouraging start to the year as a whole. Our order books remain at a high level and we have every reason to be confident that 1988 will yet again produce excellent results for the Group.

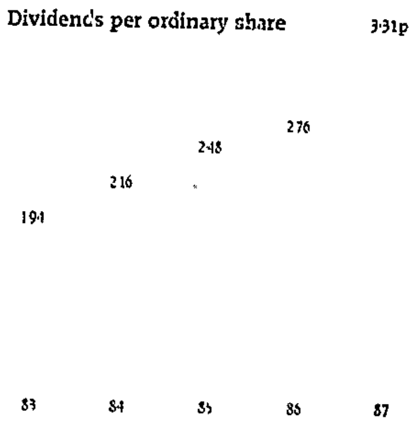
FINANCIAL REVIEW

	1983 £000	1984 £000	1985 £000	1986 £000	**1987 £000**
Turnover	34,100	41,516	48,131	54,565	**67,158**
Profit on ordinary activities before taxation	2,521	3,011	4,022	4,508	**5,577**
Taxation	532	1,060	1,628	1,530	**1,708**
Profit on ordinary activities after taxation	1,989	1,951	2,394	2,978	**3,869**
Extraordinary items	—	651	73	58	**—**
Profit attributable to members of holding company	1,989	1,300	2,321	2,920	**3,869**
Dividends	590	660	765	865	**1,051**
Retained profit for the year	1,399	640	1,556	2,055	**2,818**
Earnings per ordinary share, before extraordinary items	6·55p	6·37p	7·80p	9·58p	**12·30p**
Dividends per ordinary share	1·94p	2·16p	2·48p	2·76p	**3·31p**
Dividend cover	3·4	2·9	3·1	3·4	**3·7**









MANUFACTURING AND DISTRIBUTION NETWORK

PRINCIPAL LOCATIONS

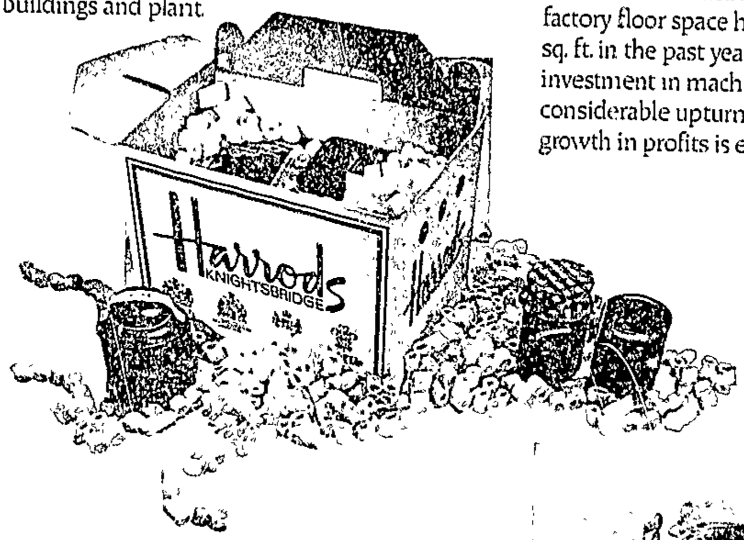
Packaging Division
Plastic Moulding Division
Marking Products Division
Development Division

Gaeltec Limited SKYE
Gaeltec Limited DINGWALL
[illegible] ABERDEEN
Daniel Montgomery & Son Limited KIRKINTILLOCH
A & W Fullarton Limited GLENROTHES
N S Macfarlane & Company Limited GLASGOW
N S Macfarlane (Furniture) Limited GLASGOW
A & W Fullarton Limited GLASGOW
Cyro Limited GLASGOW
N S Macfarlane (Furniture) Limited EDINBURGH
MBF (Clansman) Limited [illegible]
Smith Brothers (Kilmarnock) Limited KILMARNOCK
Abbott's Packaging Limited NEWCASTLE
A & W Fullarton Limited NEWCASTLE
MBF (Clansman) Limited LIVERPOOL
C Williams (Liverpool) & Co Limited LIVERPOOL
Abbott's Packaging Limited DUKINFIELD
Lancashire Box Company Limited HYDE
A & W Fullarton Limited MANCHESTER
Phoenix Packaging Limited STOCKPORT
John E Clarke & Son Limited [illegible]
Mitchell Packaging Limited GRANTHAM
Aston Packaging Limited BIRMINGHAM
MBF (Clansman) Limited BIRMINGHAM
Abbott's Packaging Limited TELFORD
Clansman Cases Limited TELFORD
Abbott's Packaging Limited HAVERHILL
Abbott's Packaging Limited BRACKLEY
Flo-pak (UK) Limited BRACKLEY
Clansman Cases Limited BRACKLEY
Abbott's Packaging Limited LONDON
MBF (Clansman) Limited LONDON
[illegible] Limited LONDON
Cyro Limited LONDON
Abbott's Packaging Limited HORSHAM
Clansman Cases Limited HORSHAM
Gwent Packaging Limited GWENT
Cyro Limited BRISTOL
Controlled Packaging Services Limited WESTBURY
Abbott's Packaging Limited WESTBURY

Abbott's Packaging Limited
Aston Packaging Limited
Clansman Cases Limited
Controlled Packaging Services Limited
Flo-pak (U.K.) Limited
A. & W. Fullarton Limited
Gwent Packaging Limited
Lancashire Box Company Limited
Mitchell Packaging Limited
Phoenix Packaging Limited

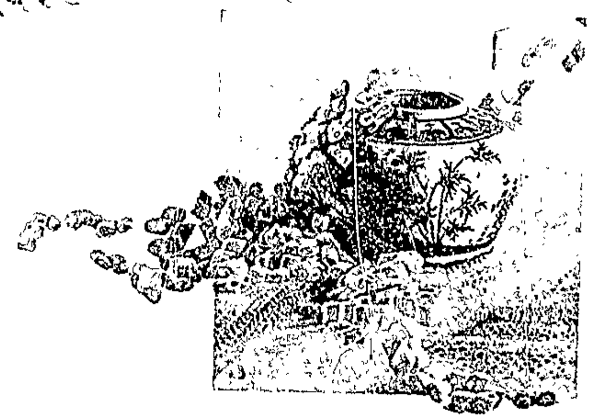
PACKAGING DIVISION

Packaging, the largest of the four Divisions, generates over two-thirds of Group business and employs more than half of the workforce. The Division's success is based on a comprehensive geographical network of manufacturing and distribution depots throughout the U.K. It has had another excellent year of sustained growth and is continuing to benefit from substantial investments in modern buildings and plant.



A. & W. Fullarton of Govan, Glasgow is the major manufacturer within the Group producing timber, heavy duty and corrugated cases and composite packs using foam and board.

Other manufacturing operations at Glenrothes, Newcastle and Manchester have achieved record levels of activity in 1987. At Glenrothes, factory floor space has been doubled to 20,000 sq. ft. in the past year and at Manchester investment in machinery has resulted in a considerable upturn in performance. Further growth in profits is expected in 1988.



Abbott's Packaging, the Group's largest subsidiary, with its headquarters in New Southgate, London, has had another record year. Abbott's, through its highly-computerised depot system, provides a fast, efficient service to a growing customer base of over 15,000 supplying a wide range of packaging materials.

The company has continued to pursue its on-going aggressive expansion policy. During the year new depots were opened at Westbury, Wiltshire and Telford, Shropshire and a further depot is to be opened in Newcastle-upon-Tyne.

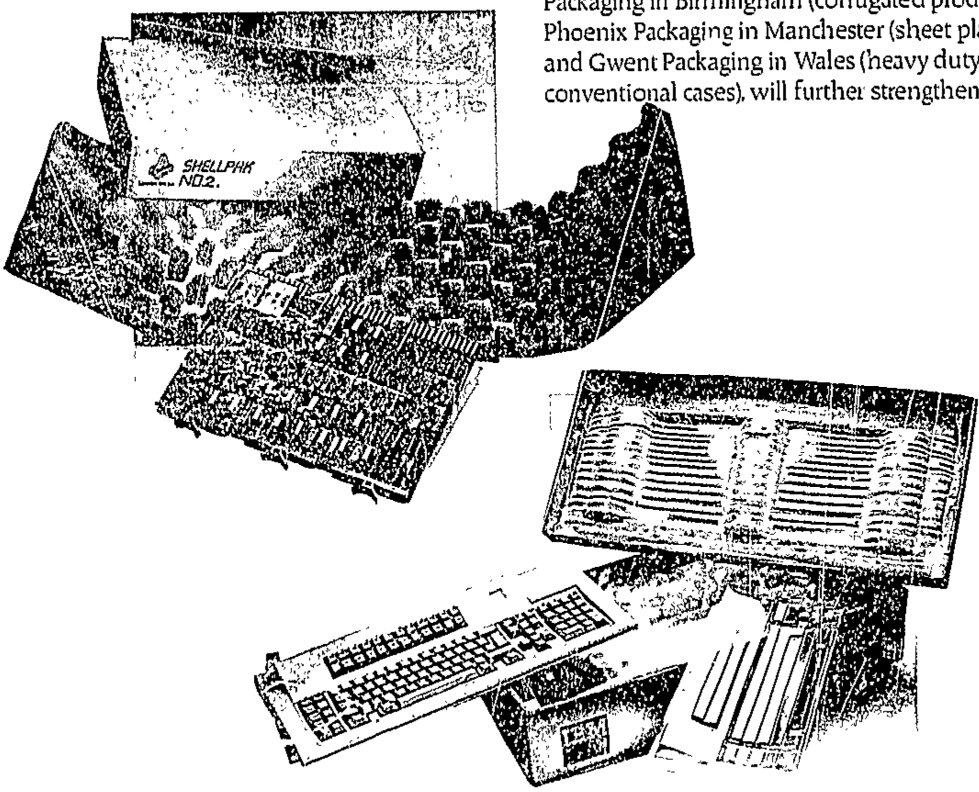
Controlled Packaging Services based at Westbury, Wiltshire, made an excellent contribution to Group profits, building on a reputation for highly specialised packaging for complex and high added value products and quality design. This manufacturing expertise is complemented by the company's reputation for outstanding customer service.

Lancashire Box manufactures and prints conventional cartons to a high standard using a flexographic process in its factory in Hyde. During the year it produced satisfactory results, making a useful contribution to Group profits.

Flo-pak (U.K.) had an excellent year increasing its already significant contribution to Group profits. From its factory at Brackley it manufactures and supplies expanded polystyrene packaging material mainly used in the cosmetics pharmaceutical and electronics industries.

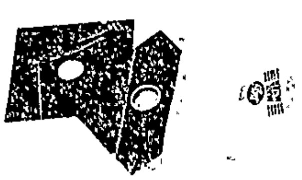
Mitchell Packaging, a rapidly expanding manufacturing operation, distributes all types of packaging materials from Grantham. The traditional process of manufacturing heavy duty and conventional corrugated cases was augmented by installing a new waxing process in the company's enlarged factory last summer.

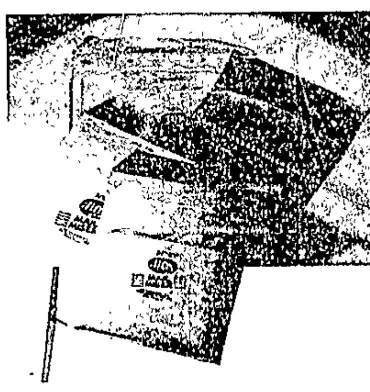
The doubling of the factory size and the new process have helped Mitchells to a record performance with profits and turnover considerably in excess of forecast. Further expansion to the factory should be completed early in 1988 and the prospects for the company are excellent.



Clansman Cases of Brackley, manufacturing heavy duty and conventional cases and high added value composite packs, has significantly increased its profits. The new factory, opened in Horsham in late 1986, made a useful contribution to profits and further benefits are expected in 1988 from the factory acquired in Telford, Shropshire during the year.

The acquisition of three companies, Aston Packaging in Birmingham (corrugated products), Phoenix Packaging in Manchester (sheet plant) and Gwent Packaging in Wales (heavy duty and conventional cases), will further strengthen the Division's national manufacturing and distribution network which is unrivalled in the U.K. packaging sector. The feature of this network is the positioning, where possible, of both a manufacturing base and distribution outlet in one geographical location. This ensures a fast cost-effective and closely-monitored system of moving goods as well as high quality customer service.





PLASTIC MOULDING DIVISION

The Plastic Moulding Division has three principal companies involved in precision, high volume moulding, high vacuum thin-film technology and medical electronics. It has enjoyed an extremely successful year with considerably increased contributions to Group profits.

Daniel Montgomery & Son of Kirkintilloch, the largest company in the Division, utilises complex injection moulding techniques coupled with high vacuum deposition of aluminium and metallic oxides, to make sophisticated bottle closures for premium brands of Scotch Whisky. The company's

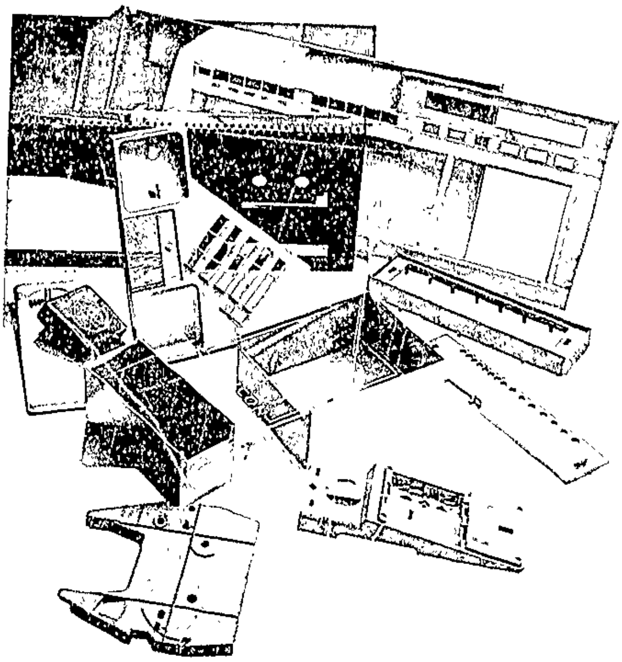
packaging designers work closely with marketing departments within whisky companies in developing new and patentable designs which are unique in shape and decorative style and which increasingly incorporate pilfer resistant and non-refillable fitments.

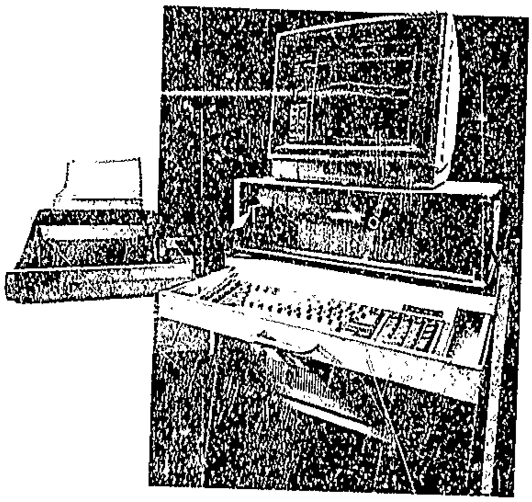
A general recovery in the whisky sector in 1987 was beneficial to Montgomery. Important long-term contracts for sophisticated pilfer resistant bottle closures have been secured, resulting in even higher utilisation of capital equipment.

The company remains unchallenged as the U.K. market leader in complex injection mould and high vacuum aluminium deposit techniques for whisky closures.

A.C.W. manufactures precision mouldings for the pharmaceutical, detergent and computer and typewriter ribbon industries in its factory in Aberdeen. During the year the company has been actively pursuing major contracts within the toiletries and detergents industries where high volume moulding requirements fit in well with A.C.W.'s mass production techniques.

This policy has provided a sound and consistent profit base throughout 1987; three new moulding machines have been ordered to fulfil demand and prospects for 1988 are encouraging.



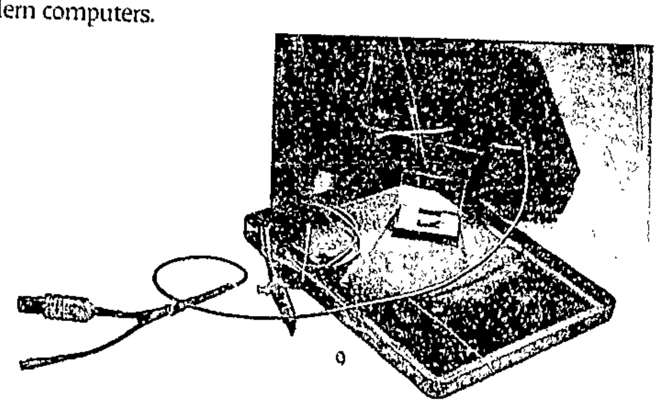


Gaeltec is a medical electronics company with manufacturing facilities on the island of Skye and at Dingwall, Ross-shire. The Group has a 40% shareholding in the company.

Gaeltec manufactures small catheter-mounted pressure transducers using high vacuum deposition of rare metals. The product range has more recently been extended to computer controlled instrumentation used in intensive care, urology and gastro-enterology.

A new range of Hostile Environment Strain Gauges for measuring deformation of high temperature pipe work in, for example, power stations was introduced during the year and will assist the profit base in 1988.

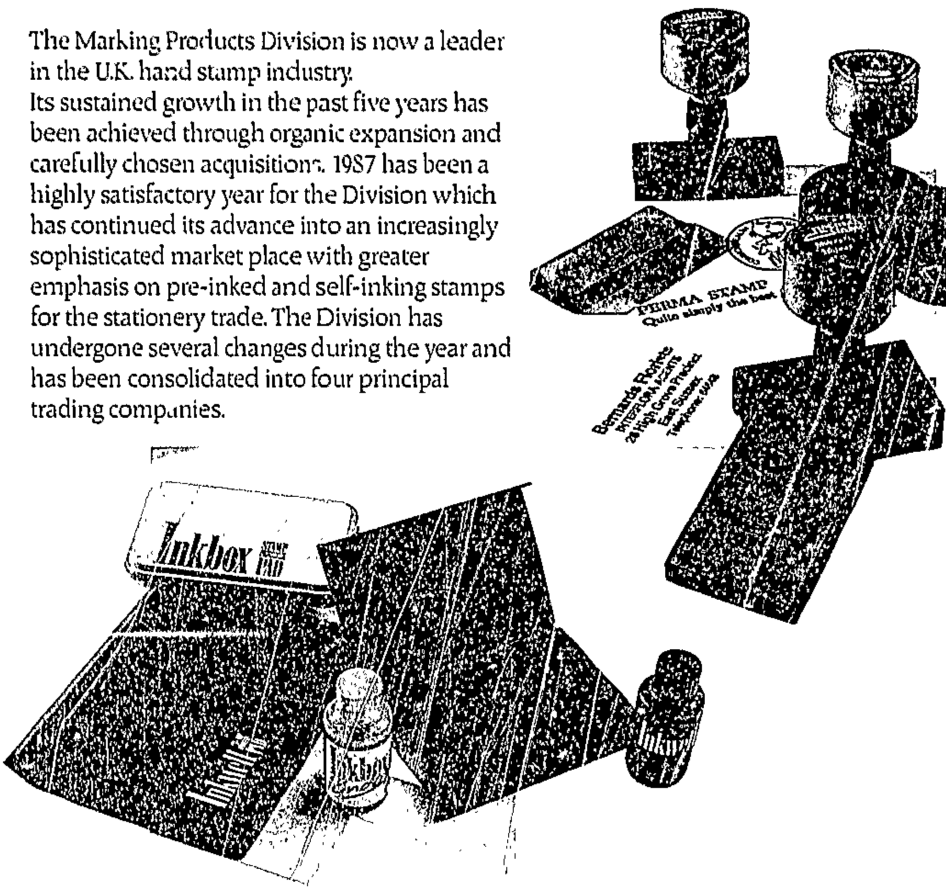
The instrumentation side has suffered a temporary set-back caused by the world-wide shortage of dynamic RAMs which are at the heart of modern computers.



MBF (Clansman) Limited

MARKING PRODUCTS DIVISION

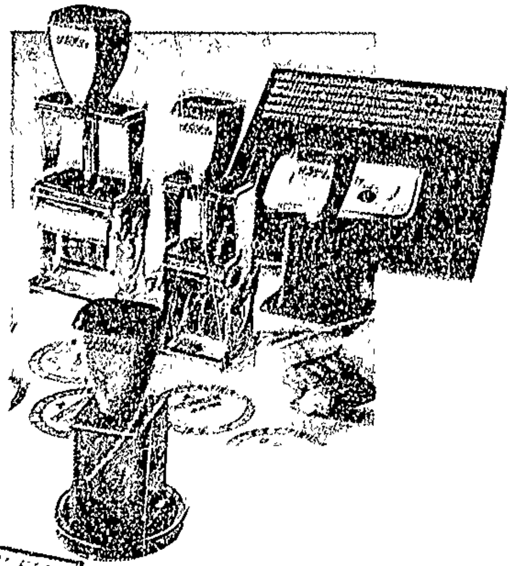
The Marking Products Division is now a leader in the U.K. hand stamp industry.
Its sustained growth in the past five years has been achieved through organic expansion and carefully chosen acquisitions. 1987 has been a highly satisfactory year for the Division which has continued its advance into an increasingly sophisticated market place with greater emphasis on pre-inked and self-inking stamps for the stationery trade. The Division has undergone several changes during the year and has been consolidated into four principal trading companies.

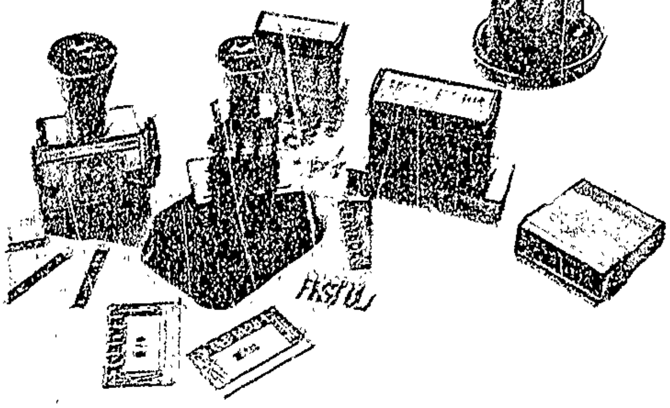


MBF (Clansman) the largest company operates from four locations. The original, in Paisley, is now concentrating on marking products after transferring stationery and packaging interests to other Macfarlane Group companies. In Birmingham, the business, previously carried on by John Berkley, has moved to new premises and an upgrading of production facilities should ensure an improved performance in 1988. In Liverpool, at the specialist stamp pad and ink manufacturing business, formerly Diamine Inks, the introduction of new products and new designs has resulted in a substantial improvement in the trading position during the year. In London the original trade of John Meerloo and Sons specialising in stereos, mainly for the carton printing trade, along with rubber and pre-inked stamps, will provide a necessary manufacturing facility in the South East of England.

The geographical coverage will enable the company to forge even closer links with the wholesale stationery trade.

John T. Clarke & Son of Stockport, the most recent acquisition, manufactures die plate daters, hand stamps and self-inking stamps under the 'DORMY' trademark. The company has made a useful contribution to Group profits and is rationalising and redesigning its product range, packaging and support literature. These important changes together with an export drive initially in Europe and close affiliation with the UK wholesale stationery trade will lead to increased profitability and help the company begin to realise its considerable potential.





Pneumatic Waller [illegible]

[illegible] Williams [illegible]

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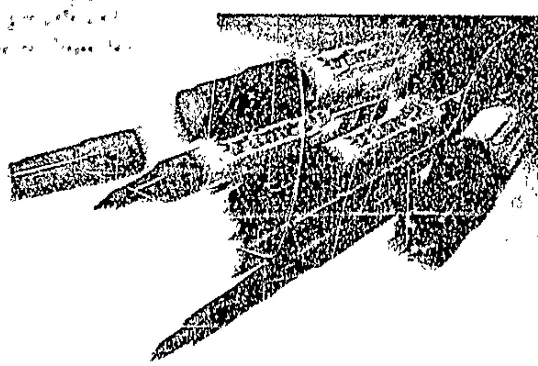


Cyro Limited •
N. S. Macfarlane and Company Limited •
N. S. Macfarlane (Furniture) Limited •
Smith Brothers (Kilmarnock) Limited •

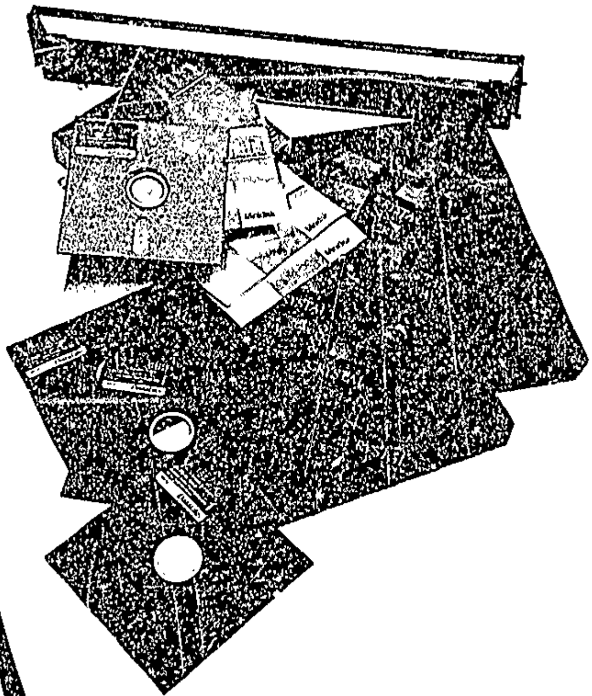
DEVELOPMENT DIVISION

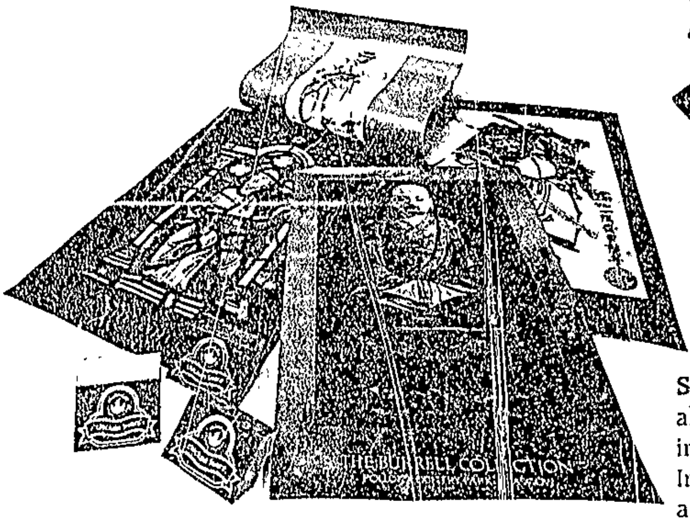
The Development Division comprises four companies.

N. S. Macfarlane and Company of Glasgow, manufacturing high quality self-adhesive labels and filmic tapes, is the major profit earner. The company has enjoyed a number of years of sustained growth, recognising early the potential for high quality multi-colour reel fed labels and embarking on a programme of substantial investment in quality equipment and new technology for producing self-adhesive labels of the highest standard.

This strategy has proved successful, particularly within the Scotch whisky industry which is renowned for its insistence on quality design, efficient service and high product standards. Demanding assignments have included labels using up to eight colours, embossing and fine vignetting. A substantial reduction in demand from the whisky sector, caused by severe de-stocking in the early part of the year has encouraged the company to seek new markets and to further broaden its customer base particularly in the food, automotive and detergent sectors. The establishment of Macfarlane as a recognised supplier to major companies within these industries has produced increased activity and profitability in the second half of the year and will make an increasingly important input to Group profits.

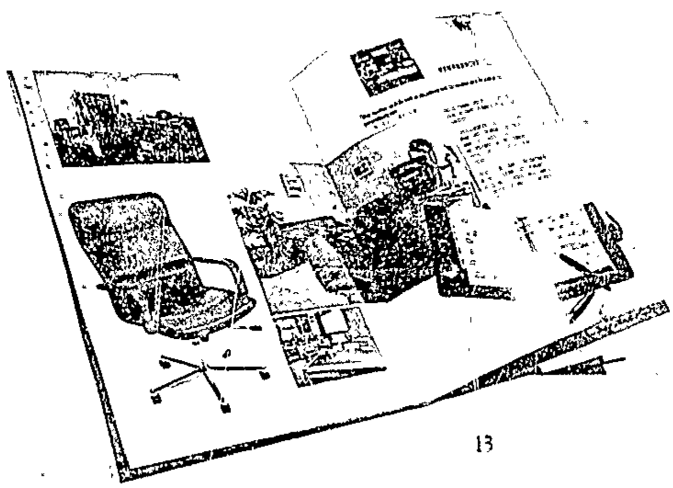
Cyro, the Glasgow based copying products company, has substantially improved its results and has returned to profit. The completion of the rationalisation programme and the injection of new management, strengthened by a further investment in machinery tooling for wide width computer ribbons and cassette ribbons has attracted major international computer companies. The trading turn-round has also been assisted by the transfer of the stationery interests of Smith Brothers and MBF (Clansman). Despite the extremely competitive market place, further progress is expected in 1988.





N. S. Macfarlane (Furniture), the contract office furnishing and designing company with showrooms in Glasgow and Edinburgh has had a successful year. Installations for major companies throughout Scotland have enhanced the company's reputation as a supplier of quality furniture and a designer of office interiors. Work has been carried out in particular for companies within the rapidly expanding financial sector. With a healthy order book the outlook for 1988 is encouraging.

Smith Brothers of Kilmarnock, colour printers, also suffered from the effects of the de-stocking in the whisky sector in the early part of the year. Increased efficiency, following the investment and modernisation programme of last year, combined with the entry into new markets and the development of new products produced improved results in the second half of the year. This improvement is expected to continue into next year and the company looks forward to a renewed period of profitability.



NOTE
All of the group companies mentioned on pages 6-13 are wholly owned with the exception of Gaeltec Limited which is [illegible]% owned. They are all registered in England with the exception of those marked with an asterisk which are registered in Scotland.
All companies operate mainly within the United Kingdom.

Sir Norman Macfarlane

Chairman and Managing Director

Founder in 1949 of N S Macfarlane and Company which became Macfarlane Group (Clansman) in 1973. Aged 62, he combines his executive commitments to Macfarlane Group with non-executive appointments as Chairman of Guinness PLC, American Trust PLC and The Fine Arts Society PLC and as a director of General Accident Fire & Life Assurance Corporation PLC, Edinburgh Fund Managers PLC and Clydesdale Bank PLC. He was Knighted in 1983 for service to industry and the arts.

Charles Cruickshank

Deputy Chairman and Chief Executive – Plastic Moulding Division

Joined Daniel Montgomery & Son as General Manager in 1958, becoming a Director in 1963 and Managing Director in 1973. Aged 63, his design and engineering skills have led to the development of many patented bottle closures which have been the mainspring of Daniel Montgomery's growth. He was appointed to the Group Board in 1973 and became Deputy Chairman in 1979. In 1987 he assumed responsibility for the Plastic Moulding Division.

Robert Dickson

Chief Executive – Marking Products Division

Has been with the Group for 20 years, becoming Managing Director of Macfarlane Business Forms, now MBF (Clansman), in 1983. Aged 40, he has been responsible for the growth of the Group's Marking Products activities which have expanded rapidly in recent years. He was appointed to the Group Board in 1987 and assumed responsibility for the Marking Products Division.

Gordon Lane

Managing Director – Abbott's Packaging

Aged 37, has been with Abbott's Packaging for 15 years becoming Managing Director in 1986. He has played an important role in the rapid growth of Abbott's since it joined Macfarlane Group in 1980. He was appointed to the Group Board in 1987.

Bill Mackie

Chief Executive – Packaging Division

Has been with A & W Fullarton, one of the Group's principal packaging subsidiaries, for 26 years and became Managing Director when it was acquired by Macfarlane Group in 1976. Aged 53, he joined the Group Board in 1979, and has played a major part in the creation and development of the Group's present national packaging network. In 1987 he assumed responsibility for the Packaging Division.

Bill Macnaught

Chief Executive – Development Division

Aged 44, has been with the Group for 28 years, becoming Chief Executive of N.S Macfarlane and Company in 1982. He has been responsible for the substantial growth in that company in recent years. In 1987 he joined the Group Board and assumed responsibility for the Development Division

Andrew Reekie

Financial Director

A member of the Institute of Chartered Accountants of Scotland. Has been with the Group for 19 years, becoming Group Accountant in 1973 and Group Financial Director in 1977. Aged 46 he has been responsible for developing the tightly controlled financial systems which have contributed greatly to the Group's overall success. He is a Fellow of the Institute of Directors.

Norman Barclay

Non Executive Director

Joined Daniel Montgomery & Son in 1952 and in 1963 became Managing Director of the A.C.W. group which merged with N. S. Macfarlane to form Macfarlane Group (Clansman) in 1973. He is now a non executive Director and serves on several Boards in the U.K. and overseas.

Godfrey Lane

Non Executive Director

Was with Abbott's Packaging for 30 years, initially as Finance Director and then as Managing Director until he relinquished his management responsibilities in 1986. He joined the Group Board in 1980 when Abbott's was acquired by Macfarlane Group and laid the foundations for Abbott's current distribution network. He also in 1974 created Flo-pak UK, which is now a significant profit contributor to the Group. He remains a Non Executive Director and is Chairman of the newly formed Audit Committee.

Secretary
A Reekie, C.A.

Registered office and transfer office
Clansman House, Sutcliffe Road, Glasgow G13 1AH.
Telephone 041-959 4444 Fax 041-954 3257

Auditors
Spicer & Oppenheim

Bankers
Royal Bank of Scotland plc

Solicitors
Dallas, McMillan and Sinclair

The directors present their annual report and audited group accounts for the year ended 31st December 1987.

Review of the business

There has been no significant change in the activities of the company and its subsidiaries which are the manufacture and distribution of packaging, plastic mouldings, marking products, specialist printing and office supplies and the provision of storage, warehousing and haulage services. Details of the principal subsidiary companies and their activities are set out on pages 6 to 13.

The group turnover increased by 23.1 per cent and the profit on ordinary activities before taxation by 23.7 per cent.

A review of the business during and following the end of the financial year, together with comments on future developments within the group, are contained in the Chairman's Statement and the Divisional Reviews on pages 6 to 13.

Results and dividends

The group profit on ordinary activities before taxation was £5,577,000 (1986 £4,508,000). The directors recommend payment of a final dividend of 2.06p to be paid on 18th May 1988, making a total of 3.312p for the year. Together with the associated tax credits, the gross equivalent is 4.462p (compared with 3.824p for the year ended 31st December 1986). The retained profit for the year amounting to £2,818,000 will be carried forward in reserves.

Authority to issue further share capital

At the last AGM the directors were given authority to allot further Ordinary Shares for cash beyond those committed to the Executive Share Option Scheme up to an aggregate nominal amount of £1,864,076. That authority expires at the conclusion of the forthcoming AGM.

A resolution will be put to shareholders to renew for a further year the authority over the existing unissued and uncommitted share capital except that in conformity with the Stock Exchange guidelines this authority is limited to a maximum nominal amount of £395,357 (being 5 per cent of the issued Ordinary Share Capital as at 31st December 1987).

Acquisitions

During the year the company acquired the whole issued share capital of Aston Packaging Limited, Birmingham, John T. Clarke & Son Limited, Stockport, Gwent Packaging Limited, Gwent and Phoenix Packaging Limited, Stockport.

Share option schemes

During the year 160,000 ordinary shares were issued on the exercise of options under the Executive Share Option Scheme. At an Extraordinary General Meeting held on 11th December, 1987 the New Executive Share Option Scheme was approved by shareholders.

Substantial holdings of shares in the company

The company has received notification that at 31st December 1987 the following members held more than 5 per cent of the ordinary share capital.

	HOLDING	PERCENTAGE
The Edinburgh Investment Trust plc	1,937,498	6.13
M & G Group of Unit Trusts	1,781,000	5.63
Funds managed by Scottish Amicable Investment Managers Limited	2,344,500	7.41

Directors and their interests

The names of the directors holding office are set out on pages 14 and 15.

As reported last year Messrs. R. Dickson, G. S. Lane and W. G. Macnaught were appointed to the board on 30th January 1987 and Mr. J. A. Taylor resigned as a director on the same date. Messrs. N. V. L. Barclay, C. B. Cruickshank and W. P. Mackie retire by rotation in accordance with the articles of association and being eligible offer themselves for re-election.

No director, either during or at the end of the financial year had an interest in any contract relating to the business of the company or any of its subsidiaries.

The interests of directors in office at 31st December 1987 (as defined by the Companies Act 1985) in Macfarlane Group (Clansman) P.L.C. ordinary shares of 25p each were as follows:

	31st December 1987			1st January 1987 OR DATE OF APPOINTMENT IF LATER		
	Beneficial	Non-Beneficial	Option	Beneficial	Non-Beneficial	Option
Sir Norman Macfarlane	2,279,392	100,000	60,000	2,277,342	100,000	60,000
C. B. Cruickshank	235,232		60,000	235,232		60,000
R. Dickson (appointed 30.1.87)	3,000		40,000	3,000		40,000
G. S. Lane (appointed 30.1.87)	525,000		20,000	525,000		20,000
W. P. Mackie	132,520		60,000	132,520		60,000
W. G. Macnaught (appointed 30.1.87)	1,364		40,000	1,364		40,000
A. Reekie	15,000		60,000	17,300		60,000
N. V. L. Barclay	936,018	120,506		936,018	129,098	
J. G. Lane	1,800,000		60,000	1,800,000		60,000

On 25th January 1988, G. S. Lane exercised his complete option from which he disposed of 10,000 shares. No other changes have occurred in these holdings between 1st January 1988 and 29th March 1988.

Fixed assets

The movements in tangible assets are set out in note 12 on page 25. The significant changes during the year arose from the purchase of buildings at Westbury and Telford by Abbott's Packaging Limited and the fixed assets of the subsidiary companies acquired.

Employment of disabled persons

The company policy is to encourage the employment of disabled persons where the disabilities do not handicap these persons in the performance of their duties.
Where an employee becomes disabled every effort is made to resettle that employee in a suitable post.
Registered disabled persons, once employed, receive equal opportunities for training, career development and promotion.

Employee involvement

The directors of all companies within the group recognise the importance of meaningful communication and consultation in maintaining good employee relations. The group policy of having efficient autonomous units facilitates the involvement of employees in the companies for which they work. Some companies have joint committees at which numerous questions of importance to the employees are discussed. Other companies employ less formal but equally effective methods of communication and consultation.

Political and charitable contributions

During the year a contribution of £10,000 was paid to the N. S Macfarlane Charitable Trust. No other charitable donations and no political contributions were made during the year.

Close company status

The company is not a close company within the provisions of the Income and Corporation Taxes Act 1970.

Auditors

Messrs Spicer and Pegler, Chartered Accountants, changed their name on 18th January 1988 to Spicer & Oppenheim and accordingly have signed their audit report in their new name. A resolution to re-appoint Spicer & Oppenheim will be proposed at the Annual General Meeting.

By order of the Board

Andr Reekie
Secretary

Clansman House
Sutcliffe Road, Glasgow G13 1AH
29th March 1988

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 1987

	Note	1987 £000	1987 £000	1986 £000	1986 £000
Turnover	2		67,158		54,565
Cost of sales			44,242		36,060
Gross Profit			22,916		18,505
Distribution costs		3,129		2,496	
Administrative expenses		14,461		11,676	
			17,590		14,172
			5,326		4,333
Other operating income	5		853		509
Operating profit	3		6,179		4,842
Share of profit of related company		(33)		(60)	
Interest receivable		(86)		(27)	
Interest payable	6	721		421	
			602		334
Profit on ordinary activities before taxation	2		5,577		4,508
Taxation on profit on ordinary activities	7		1,708		1,530
Profit on ordinary activities after taxation			3,869		2,978
Extraordinary charge	8		—		58
Profit attributable to members of the holding company	9		3,869		2,920
Dividends	10		1,051		865
Retained profit for the year			£2,818		£2,055
Retained by:					
Macfarlane Group (Clansman) PLC			2,326		2,058
Subsidiary companies			471		(35)
Related company			21		32
			£2,818		£2,055
Earnings per ordinary share of 25p, before extraordinary charge	11		12·30p		9·58p

CONSOLIDATED BALANCE SHEET

As at 31st December 1987

	Note	£000	£000	£000	£000
Fixed Assets					
Tangible assets	12		22,989		16,181
Investment	14		162		152
			23,151		16,333
Current Assets					
Stocks	15	5,142		3,783	
Debtors	16	15,072		11,299	
Cash at bank and in hand		94		13	
		20,308		15,095	
Creditors — amounts falling due within one year					
Bank loans and overdrafts	17	7,084		3,462	
Trade creditors		7,171		5,165	
Sundry creditors	18	6,498		5,837	
		20,753		14,464	
Net current assets/(liabilities)			(445)		631
Total assets less current liabilities			22,706		16,964
Creditors — amounts falling due after more than one year	19		(153)		(62)
Provision for liabilities and charges	20		(416)		(441)
Deferred credit	21		(402)		(573)
			£21,735		£15,888
Capital and reserves					
Called-up share capital	22		7,907		7,791
Reserves					
Share premium account	23	1,013		577	
Revaluation reserve	23	4,071		505	
Profit and loss account	23	8,744		7,015	
			13,828		8,097
Shareholders' funds			£21,735		£15,888

Approved by the board of directors on 29th March 1988.

Norman Cluffe[?]

Alec Kirkie[?]

HOLDING COMPANY BALANCE SHEET

As at 31st December 1987

	Note	1987 £000	1987 £000	1986 £000	1986 £000
Fixed assets					
Tangible assets	12		510		215
Investment in subsidiary companies	14		10,365		7,090
			10,875		7,305
Current assets					
Debtors	16	9,918		6,888	
Cash at bank and in hand		4		751	
		9,922		7,639	
Deferred taxation asset	20	212		180	
		10,134		7,819	
Creditors — amounts falling due within one year					
Bank loans and overdraft	17	2,558		1,000	
Sundry creditors	18	2,139		2,113	
		4,697		3,113	
Net current assets			5,437		4,706
Total assets less current liabilities			16,312		12,011
Creditors — amounts falling due after more than one year	19		(1,148)		—
			£15,164		£12,011
Capital and reserves					
Called-up share capital	22		7,907		7,791
Reserves					
Share premium account	23	1,013		577	
Revaluation reserve	23	275		—	
Profit and loss account	23	5,969		3,643	
			7,257		4,220
			£15,164		£12,011

Approved by the board of directors on 29th March 1988.

SOURCE AND APPLICATION OF FUNDS

For the year ended 31st December 1987

	Note	1987 £000	1987 £000	1986 £000	1986 £000
Source of Funds					
Profit on ordinary activities before taxation			5,577		4,508
Extraordinary charge before taxation			—		77
			5,577		4,431
Adjustment for items not involving the movement of funds:					
Depreciation		2,431		1,986	
Gain on disposal of tangible fixed assets		(424)		(7)	
Release from deferred credit		(190)		(208)	
Profits retained in related company		(21)		(32)	
			1,796		1,739
Total generated from operations			7,373		6,170
Funds from other sources:					
Shares issued in part consideration of acquisition of subsidiary company	24		414		227
Shares issued under share option scheme			138		17
Proceeds from disposal of tangible fixed assets			818		164
Government grants received			—		66
Tax recovered			—		8
Dividend received from related company			11		—
			£8,754		£6,652
Application of funds					
Purchase of tangible fixed assets			4,078		4,749
Investment in related company			—		141
Tax paid			1,846		1,388
Dividends paid			912		802
Purchase of subsidiary companies	24		3,275		646
(Increase)/decrease in working capital					
Stocks		710		317	
Debtors		1,833		1,044	
Creditors		(726)		(1,038)	
			1,817		323
			£11,928		£8,049
			£(3,174)		£(1,397)
Movement in net liquid funds					
Increase/(decrease) in cash at bank and in hand			81		(69)
Increase in bank loans and overdrafts			(3,255)		(1,328)
			£(3,174)		£(1,397)

1 Accounting Policies

Basis of preparation
The accounts are prepared under the historical cost convention modified to include the revaluation of the majority of the group's properties.

Consolidation
The consolidated profit and loss account and balance sheet include the accounts of the holding company and all its subsidiaries together with the group's share of the profits and retained post acquisition reserves of related companies made up to the end of the financial year. Pre acquisition profits are eliminated on consolidation and goodwill is written off reserves. The proportionate share of the post acquisition reserves in related companies is added to consolidated reserves and to the book value of the investment.

Turnover
Turnover is the value of goods sold and services provided stated net of value added tax.

Depreciation
Tangible fixed assets are stated at cost to the group except in the case of the main properties which are stated at valuations by professional valuers. Depreciation is calculated at fixed rates on a straight line basis so as to write off the cost or valuation of the various assets over the period of their expected useful lives. The rates of depreciation vary between 1 per cent and 3 per cent on buildings and 5 per cent and 20 per cent on plant and equipment.

Stocks
Stock and work in progress are consistently valued at the lower of cost and net realisable value. Such cost is determined by the first-in-first-out method and is stated less any provisions required for obsolescence. In the case of work in progress and finished goods, cost comprises direct cost and a proportion of factory overheads.

Debtors
Debtors are stated after deducting specific provisions for bad and doubtful debts.

Short-term loans and deposits
Interest on short-term loans and deposits is taken into account on a day-to-day basis.

Government grants
Regional development grants receivable on depreciable assets are treated as a deferred credit and are released to profit and loss account over the period of the estimated lives of the assets to which they relate. Employment related regional development grants are credited to the profit and loss account in the period in which the jobs are created.

Taxation
Provision is made for taxation on all profits and realised assessable gains up to the balance sheet date.

Deferred taxation
Provision is made for deferred taxation on all material timing differences except for those which the directors consider will not reverse in the foreseeable future. The provision is based on the rates of tax expected to be in force when the liability is likely to occur.

No provision is made for any taxation liabilities which might arise on the sale of assets at their revalued amounts as it is considered that the revaluation does not constitute a timing difference.

Leases
Rental costs under operating leases are charged to profit and loss account as incurred.

2 Analysis of turnover and profit

Turnover and profit on ordinary activities before taxation are as follows:

	1987		1986	
	Turnover	**Profit**	Turnover	Profit
	£000	**£000**	£000	£000
Packaging	**41,249**	**3,685**	34,788	3,536
Plastic moulding	**6,157**	**1,027**	5,115	499
Marking products	**10,451**	**749**	6,287	344
Development	**9,301**	**116**	8,375	129
	£67,158	**£5,577**	£54,565	£4,508

3 Operating profit

	1987	1986
Operating profit is arrived at after charging:	**£000**	£000
Depreciation	**2,431**	1,986
Auditors' remuneration	**134**	97
Hire of plant	**123**	93

4 Employees

The average number of employees of the group during the year was made up as follows:

	1987	1986
Production	**975**	807
Distribution	**262**	228
Administration	**300**	274
	1,537	1,309

The costs incurred in respect of these employees were:	**£000**	£000
Wages and salaries	**13,082**	10,589
Social security costs	**1,126**	923
Other pension costs	**619**	459
	£14,827	£11,971

Emoluments of the directors of the company included in employee costs:	**£000**	£000
Fees	**—**	—
Other emoluments	**362**	247
	£362	£247

Emoluments of the chairman and managing director, who was also the highest paid director, were £65,000 (1986 – £59,250)

The following table shows, in bands, the emoluments of other directors, and employees whose emoluments exceeded £30,000 in the year:

	Directors		Employees	
	1987	1986	**1987**	1986
Nil-£5,000	**2**	2		
£25,001-£30,000	**—**	2		
£30,001-£35,000	**4**	1	**2**	—
£35,001-£40,000	**2**	2	**—**	—
£40,001-£45,000	**1**	—	**—**	—
£45,001-£50,000	**—**	—	**1**	—

5 Other operating income

	1987 £000	1986 £000
Deferred credit release	190	208
Selective assistance grants	—	13
Employment related grants	93	123
Gain on disposal of tangible fixed assets	430	36
Net rental income	138	118
Commission receivable	2	11
	£853	£509

Note: Gain on disposal of tangible fixed assets includes the following gains. Property at Hoxton Square, London £189,000 and warehouse at Westbury, Wiltshire £63,000

6 Interest payable

	1987 £000	1986 £000
Bank loans and overdrafts	721	420
Loan repayable within five years	—	1
	£721	£421

7 Taxation on profit on ordinary activities

	1987 £000	1986 £000
Corporation tax at 35% (1986-36·25%)		
Current	2,009	1,708
Deferred	(294)	(190)
Prior year adjustments	(19)	(16)
Related company	12	28
	£1,708	£1,530

8 Extraordinary charge

	1987 £000	1986 £000
Disposal, closure and reorganisation costs	—	77
Less taxation thereon	—	19
	£—	£58

9 Profit attributable to members of the holding company

	1987 £000	1986 £000
Retained by holding company	3,377	2,923
Retained by subsidiary companies	471	(35)
Retained by related company	21	32
	£3,869	£2,920

The company has taken advantage of S228(7) of the Companies Act 1985 and consequently a separate profit and loss account for the holding company is not presented.

10 Dividends

The cost of the dividends paid or proposed on the ordinary shares is:

	Per share		1987 £000	1986 £000
Interim paid 9th October 1987 1·252p net			**394**	347
equivalent to gross	**1·715p**	1·568p		
Proposed final 2·06p net			**657**	518
equivalent to gross	**2·747p**	2·256p		
	17.85%	15.30%	**£1,051**	£865

11 Earnings per ordinary share

The earnings per ordinary share are calculated on the basis of the weighted average of 31,455,656 shares in issue (1986 31,091,459) and on earnings, after taxation, of £3,869,000 (1986 £2,978,000).

12 Tangible assets

The group	Land and buildings £000	Plant, vehicles and fittings £000	Total £000
Cost or valuation			
At 1st January 1987	9,907	16,670	26,577
Assets of subsidiary companies acquired	1,255	1,830	3,085
Additions	1,157	2,921	4,078
Disposals	(256)	(1,009)	(1,265)
Surplus on revaluation	2,862	—	2,862
At 31st December 1987	**£14,925**	**£20,412**	**£35,337**
Depreciation			
At 1st January 1987	771	9,625	10,396
On assets of subsidiary companies acquired	113	1,357	1,470
Charge for year	214	2,217	2,431
Disposals	(5)	(866)	(871)
Written back following revaluation	(1,078)	—	(1,078)
At 31st December 1987	**£15**	**£12,333**	**£12,348**
Net book value at 31st December 1987	**£14,910**	**£8,079**	**£22,989**
Net book value at 31st December 1986	£9,136	£7,045	£16,181
At cost	155		
At valuation 1987	14,770		
	£14,925		

12 Tangible assets (cont)

	Land and buildings	Plant vehicles and fittings	Total
The company	£000	£000	£000
Cost or valuation			
At 1st January 1987	210	63	273
Additions	—	43	43
Disposals	—	(23)	(23)
Surplus on revaluation	240	—	240
At 31st December 1987	**£450**	**£83**	**£533**
Depreciation			
At 1st January 1987	31	27	58
Charge for year	4	14	18
Disposals	—	(18)	(18)
Written back following revaluation	(35)	—	(35)
At 31st December 1987	**£—**	**£23**	**£23**
Net book value at 31st December 1987	**£450**	**£60**	**£510**
Net book value at 31st December 1986	£179	£36	£215
At valuation 1987	£450		

A professional valuation of the group's freehold and long leasehold properties at 31st December 1987 was carried out by Webster & Co., Chartered Surveyors, Glasgow, on the basis of open market valuation with existing use.

	Group		Company	
	1987	1986	**1987**	1986
Land and buildings	**£000**	£000	**£000**	£000
On an historical cost basis, land and buildings would have been included at				
Cost	**9,403**	7,935	**173**	173
Aggregate depreciation	**936**	702	**29**	25
Net historical cost value at 31st December 1987	**£8,467**	£7,233	**£144**	£148
Land and buildings at net book value comprise:	**£000**	£000	**£000**	£000
Freeholds	**12,475**	7,434	**450**	179
Long leaseholds	**2,390**	1,654	—	—
Short leaseholds	**45**	48	—	—
	£14,910	£9,136	**£450**	£179

All other tangible assets are stated at historical cost.

13 Contracts for capital expenditure

Contracts for capital expenditure for which no provision has been made in the accounts are estimated to amount to £526,000 (1986 £463,000). Capital expenditure authorised by the directors but not contracted for amounted to £519,000 (1986 £347,000).

14 Investments

The group	1987 £000
Investment in related company	
At 1st January 1987	152
Share of retained profits	10
At 31st December 1987	£162

This represents 40% of the issued share capital of Gaeltec Limited, a company registered in Scotland and engaged in the production of electronic equipment principally for the medical industry.

The company	1987 £000	1986 £000
Investment in subsidiary companies		
Cost		
At 1st January	7,090	7,090
Additions	3,275	645
Transfers	—	(645)
At 31st December	£10,365	£7,090

15 Stocks

The group	1987 £000	1986 £000
Raw materials and consumables	2,628	1,790
Work in progress	279	199
Finished goods and goods for resale	2,235	1,794
	£5,142	£3,783

16 Debtors

	Group		Company	
	1987 £000	1986 £000	1987 £000	1986 £000
Trade debtors	14,049	10,468	—	—
Amounts owed by group companies	—	—	9,733	6,717
Other debtors	227	320	123	116
Prepayments and accrued income	796	511	62	55
	£15,072	£11,299	£9,918	£6,888

Included in amounts owed by group companies are loans to subsidiaries which are due after more than one year totalling £5,430,000.
Included in other debtors are loans made to officers and executives of the group under the group house purchase scheme. The total balance outstanding at 31st December 1987 amounted to £78,000 (1986 £73,000) of which £27,000 (1986 £11,000) was attributable to directors of the holding company.

17 Bank loans and overdrafts

	Group		Company	
	1987	1986	**1987**	1986
	£000	£000	**£000**	£000
Bank loans	**2,000**	1,000	**2,000**	1,000
Overdrafts	**5,084**	2,462	**558**	—
	£7,084	£3,462	**£2,558**	£1,000

The company has given letters of guarantee to secure the overdrafts of certain subsidiary companies.

18 Sundry creditors

	1987	1986	**1987**	1986
	£000	£000	**£000**	£000
Current instalments due on loan	**31**	—	—	—
Amounts owed to group companies	—	—	**916**	1,171
Other creditors	**397**	1,046	**3**	3
Corporation tax	**2,402**	2,057	**365**	331
Other taxation and social security	**1,534**	1,282	**11**	10
Accruals and deferred income	**1,477**	934	**187**	80
Proposed final dividend	**657**	518	**657**	518
	£6,498	£5,837	**£2,139**	£2,113

19 Creditors — amounts falling due after more than one year

	1987	1986	**1987**	1986
	£000	£000	**£000**	£000
(a) Corporation tax	**90**	62	—	—
(b) Other creditors	**63**	—	—	—
(c) Loans from subsidiary companies	—	—	**1,148**	—
	£153	£62	**£1,148**	£—

20 Provision for liabilities and charges

	1987	1986	**1987**	1986
	£000	£000	**£000**	£000
Deferred taxation				
Provided in the accounts:				
Capital allowances and other timing differences	**635**	633	**7**	12
Advance corporation tax	**(219)**	(192)	**(219)**	(192)
Deferred liability/(asset)	**£416**	£441	**£(212)**	£(180)
Full potential liability:				
Capital allowances and other timing differences	**2,259**	2,214	**22**	25
Capital gains rolled over	**684**	519	**18**	16
Advance corporation tax	**(219)**	(192)	**(219)**	(192)
	£2,724	£2,541	**£(179)**	£(151)

21 Deferred credit

	Group 1987 £000	Group 1986 £000	Company 1987 £000	Company 1986 £000
Regional development grants on qualifying expenditure				
At 1st January	573	715	—	—
In subsidiary companies acquired	19	—	—	—
Received in the year	—	66	—	—
Released to profit and loss account	(190)	(208)	—	—
At 31st December	£402	£573	£—	£—

22 Share capital: Ordinary shares of 25p each

	1987 £000	1986 £000
Authorised	10,000	10,000
Allotted, issued and fully paid:		
At 1st January	7,791	7,744
Shares issued in respect of acquisition	76	42
Shares issued under Executive Share Option Scheme	40	5
At 31st December	£7,907	£7,791

At 31st December 1987 there were outstanding options to acquire 1,220,000 ordinary shares under the Macfarlane Group Executive Share Option Scheme. These options are exercisable at 86p per share on or before 13th December 1994.

23 Reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
The group			
At 1st January 1987	577	505	7,015
Goodwill written off	—	—	(1,463)
Premium on shares issued during the year	436	—	—
Amortisation of revaluation surplus	—	(374)	374
Surplus on valuation of property	—	3,940	—
Retained profit for the year	—	—	2,818
At 31st December 1987	£1,013	£4,071	£8,744
The company			
At 1st January 1987	577	—	3,643
Premium on shares issued during the year	436	—	—
Surplus on valuation of property	—	275	—
Retained profit for the year	—	—	2,326
At 31st December 1987	£1,013	£275	£5,969

Following the revaluation of the main group properties and in accordance with accepted accounting practice, an annual amount will be transferred from the revaluation reserve to the profit and loss account. This represents depreciation on the amount by which the revaluation exceeds historical cost. The 1987 transfer reflects this excess depreciation from the date of previous valuations up to 31st December, 1987.

24 Acquisition of subsidiary companies

The statement of Source and Application of Funds incorporates the undernoted amounts relating to the acquisition of subsidiary companies.

	1987	1986
	£000	£000
Fixed Assets	1,615	627
Goodwill/(Capital Reserve)	1,463	(80)
Stocks	649	411
Debtors	1,940	800
Creditors	(2,025)	(772)
Borrowings	(367)	(340)
Net assets acquired	£3,275	£646
Consideration:		
Issue of Shares	414	227
Cash	2,861	419
	£3,275	£646

25 Financial commitments

(a) Pension commitments

The group has a number of pension plans designed to provide retirement benefits based upon final salaries. The cost of these benefits arising from current service, which is determined by actuarial valuation using a projected benefit method, is charged against profit as the service arises. In addition to this there are unfunded pension commitments to former directors of subsidiary companies amounting to £10,000 per annum, terminating in 1992 and £7,800 per annum for life.

(b) Lease commitments

Annual commitments under non-cancellable operating leases of land and buildings comprise:

	1987	1986
Leases which expire:	£000	£000
Within one year	34	8
One to five years	86	63
Beyond five years	52	70
	£172	£141

The majority of leases of land and buildings are subject to rent reviews.

REPORT OF THE AUDITORS

To the members of
Macfarlane Group (Clansman) P.L.C.
We have audited the financial statements on pages 18 to 30 in accordance with approved Auditing Standards.

In our opinion the financial statements, which have been prepared under the historical cost convention as modified by the revaluation of certain assets, give a true and fair view of the state of affairs of the company and the group at 31st December 1987 and of the profit and source and application of funds of the group for the year then ended and comply with the Companies Act 1985.

Spicer Oppenheim

Chartered Accountants

Glasgow 29th March 1988

FINANCIAL DIARY

Dates to note

Dividend payments	
Interim	Announced – September Paid – October
Final	Announced – March Paid – May
Results	
Half year	Announced – September
Full year	Announced – March
Report and Accounts	Posted to shareholders – April
Annual General Meeting	Held in Glasgow – May

Notice is hereby given that the Eighty-ninth annual general meeting of the members of Macfarlane Group (Clansman) P.L.C. will be held at The Merchants House, 7 West George Street, Glasgow G2 1BA on Tuesday 17th May 1988 at 12 noon for the following purposes:

1. To receive and adopt the directors' report and the accounts for the year ended 31st December 1987.

2. To declare a final dividend.

3. To re-elect as directors the persons named in the report of the directors on page 16.

4. To re-appoint the auditors and to authorise the directors to determine their remuneration.

5. Special Resolution.
that:

a) the directors be and they are hereby empowered for the period from the passing of this resolution until the conclusion of the annual general meeting to be held in 1989 to allot equity securities of the company in accordance with the provisions of Section 95 of the Companies Act 1985 up to a maximum nominal amount of £395,357 as if Section 89(1) of the Companies Act 1985 did not apply to such an allotment: and

(b) the directors on behalf of the company shall be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require equity securities to be allotted after its expiry.

By order of the board
Secretary

Clansman House, Sutcliffe Road,
Glasgow G13 1AH
21st April 1988

A member entitled to be present and vote at the above meeting may appoint one or more proxies to attend and on a poll to vote instead of him. A proxy need not also be a member of the company. Members wishing to vote by proxy at the meeting may use the form of proxy enclosed with these accounts. The return of a proxy card does not preclude a member from attending the meeting and voting in person should he so wish.

The register of directors' share interests and those of their families together with a statement of transactions will be available for inspection by members at the registered office of the company during usual hours of business on every week day (Saturdays excepted), and at the Merchants House, 7 West George Street, Glasgow G2 1BA, on 17th May 1988 from 11.30am until the conclusion of the annual general meeting.

There are no contracts of service between directors and the company or any of its subsidiaries.