Chairman's Statement

Record profits, record sales, record investment, an increased dividend payment and an increase in earnings per share: I am particularly pleased to report that all these have been achieved in my last year as Chairman of this unique Group, despite a very challenging period for the UK packaging sector.

Profits before taxation increased by 8% to £21,951,000 from £20,416,000 the previous year and sales for the same period increased by 23% to £193,363,000 from £157,072,000. Earnings per share rose from 11.38p to 12.23p, an increase of 8% over the previous year.

The record results have been achieved after charging substantial restructuring costs which arose as a result of the acquisition and subsequent relocation of Amalgamated Plastics and the relocation of ACW from Aberdeen to Kirkintilloch.

Your directors are recommending a final dividend of 2.95p per share which, together with the interim dividend of 1.55p already paid, will bring the total for the year to 4.50p, an increase of 10% over the 4.095p paid last year.

This increased dividend continues our record of increasing the dividend every year since going public in 1973.

Continued progress in Packaging

Most companies in the Packaging Division continued to make good progress, benefiting from substantial investment in premises, plant and machinery in recent years. New product ranges are being developed constantly throughout the Division and in Abbott's Packaging, we are continuing to achieve high levels of customer service and just-in-time deliveries throughout the United Kingdom. Abbott's comprehensive product range provides substantial opportunities for manufacturing companies in the Packaging Division and for our companies producing industrial film.

We are continuing to expand our manufacturing activities and several of our companies now compete successfully in continental Europe. At the same time, we are developing and increasing the number of overseas licences which will enable Aston Packaging to sell specialist packaging materials and machinery world-wide.

Our logistics operations have grown rapidly during the year in A & W Fullarton and show considerable potential for the future. Our self-adhesive label manufacturer, N.S. Macfarlane & Co., continues to benefit from its investment in state-of-the-art equipment in recent years.

Industrial Film Division

As I stated in my Interim Report, a new Industrial Film Division was established on 1 July 1997. The strength of sterling and continuing over capacity in the sector made 1997 a difficult year for our companies with margins under severe pressure. Relocation of production capacity into lower cost premises and a selective capital investment programme should enable the Division to improve its return on investment in what remains a challenging market.

Chairman: Lord Macfarlane of Bearsden KT

In February last year, we acquired Amalgamated Plastics, which brought the manufacture of two important additional products, bubble packaging and cast film, into the Group. The integration of this company and its new products has not been easy. The strength of sterling, the collapse of the silage film market, over capacity and an unacceptably high level of overheads, all resulted in drastic action being taken. The company reduced its labour force, strengthened its management, rationalised its production, relocated to lower cost premises and resolved quality issues in stretch-film. I am pleased to say that the business is now trading efficiently and profitably. On 1 March 1998 it was merged with Centurion Packaging and Alet Packaging, which was acquired in September 1997, to form Clansman Films, thereby improving efficiency and equipment utilisation as well as providing an integrated sales force and excellent growth opportunities.

Plastic Moulding reorganisation

1997 was a demanding year for the Plastic Moulding Division. Profits did not meet expectations, principally due to higher than anticipated costs incurred in the relocation of ACW to Daniel Montgomery & Son. The strength of sterling impacted on material prices and at Wicklow Custom Packaging currency translation also adversely affected the Division's results.

Daniel Montgomery commenced a major factory extension to enable the integration of the activities of ACW during 1997. The merger has been a lengthy process and therefore costly. However disruption to production and customer service levels have been kept

Chairman's Statement

to a minimum and customers are supportive of the principle of the move, which will provide superior services and facilities on completion in the second half of 1998.

Our new M500 spirits fitment has propelled Daniel Montgomery into new markets, particularly in Eastern Europe where sales of these premium fitments have now started. Capacity is being substantially increased to meet demand. Growth from other spirits markets is also expected in 1998, together with an improvement in business from the traditional ACW markets of healthcare and food products.

Wicklow's manufacturing facilities continue to expand and develop to the highest standards with the addition of a new quality assurance area. There is strong demand in the first quarter of 1998 and the sales team is being strengthened to take advantage of the buoyant Irish market.

Record levels of investment

During the year we reached record levels of investment, spending over £19m as proof of our continuing commitment to renew and modernise factories and to provide our companies with state-of-the-art production equipment. This investment will enable them to develop new products and to improve their efficiency and competitiveness, while operating from a lower cost base. Our total capital investment in the last three years amounts to £46m.

Despite this increase in expenditure and the cost of acquisitions, which included considerable inherited debt, Group borrowings at the year end amounted to a modest £10.6m, reflecting our continuing drive to generate cash as well as profit. I have always believed that strict financial controls are an essential part of our Group strategy and that companies in the Group must generate cash as well as profit.

High quality management teams

I continue to be impressed by the quality and strength in depth of our management which has been a fundamental factor in the development of the Group and will provide continuity for the future. As previously announced, I shall retire as Chairman at the Annual General Meeting in May and I confidently pass the responsibility for the continued development of our Group to my successor, John Ward, who has been with the Company as a non-executive director since the beginning of 1996.

I have been invited by my fellow directors to continue my association with the company as a non-executive director for a period of one year in order to complete fifty years' service with Macfarlane Group. Thereafter, I shall be honoured to accept the office of Life President.

Directors

The early part of 1998 has seen a number of changes to the Group Board. As previously announced, on 1 January Mike Clark, Chief Executive of the Industrial Film Division, was appointed to the Board and on 26 January Rupert Barclay resigned as a non-executive director in order to pursue his business interests.

I am pleased to report that Guy Stenhouse, a director of Noble Grossart, the Edinburgh based merchant bank, has accepted our invitation to join the Board as a non-executive director and a resolution to that effect will be put to shareholders at the Annual General Meeting.

Bob Martin, Chief Executive of the Plastic Moulding Division left the Group at the end of March following the restructuring within that Division. Bill Mackie, the Group Chief Executive, has assumed responsibility for the Division until the restructuring programme has been finalised.

Once again I thank the directors of all our companies in the Group for their contribution to another set of excellent results. I have greatly appreciated their loyal support, in some cases over many years, and I shall miss the daily contact with them enormously. May I thank my Group colleagues, especially for the way in which they have coped during a difficult, but successful year.

Employees

Each year I make a point of emphasising how important our 2,000 employees are to the continued success of the Group. The dedication, enthusiasm and loyalty of our workforce rank high on our list of assets and once again I wish to thank them very warmly for their immense contribution to our success.

Environmental practice

As a packaging group we continue to place environmental issues high on our agenda and to work closely with our major customers to review our business processes and practices in anticipating and applying legislation. All environmental issues are monitored carefully and our companies continue to apply best practice in the use of materials in all our manufacturing processes.

Confidence for the future

The problems in the packaging sector during 1997 have been well documented which makes our Group performance highly creditable. We continue to pursue our strategy with an enthusiastic team, highly sophisticated equipment, quality products and modest borrowings. I am confident that the results for 1998 should be up to expectations.

Personal

The past 49 years have been a wonderful amalgam of creativity, hard work, great fun, splendid colleagues, loyal shareholders and many friendships. Thank you all for your magnificent help and support.

Chairman
26 March 1998

Operating Review

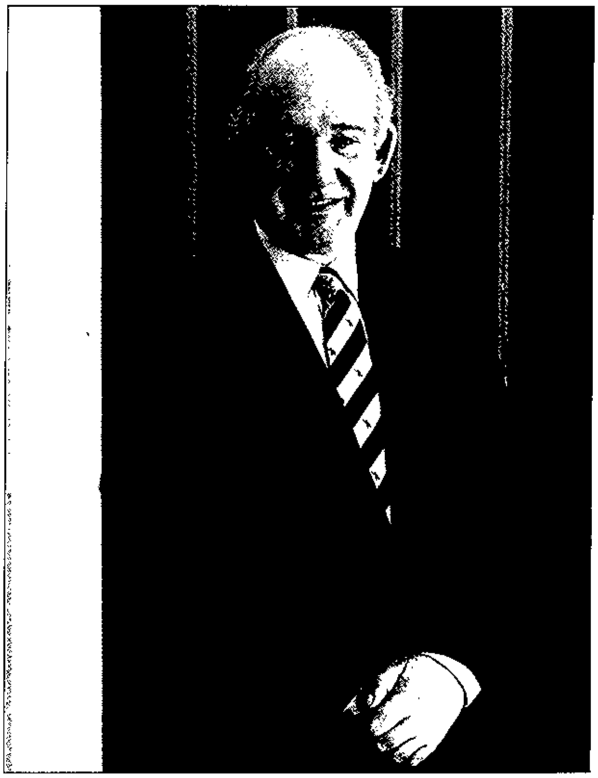
Significant investment continued across the Group during 1997. There was substantial development in services and in new products to grow the product portfolio and increase competitiveness.

Growth is also continuing through synergistic increase by encouraging our manufacturers to increase the product ranges available to our merchants.

The Industrial Film Division was launched successfully in July, providing a range of complementary businesses serving this expanding market. The rationalisation at Amalgamated Plastics and Centurion Packaging has improved equipment utilisation and efficiency, and is providing excellent growth opportunities. The two companies merged with Alet Packaging Limited on 1 March 1998 to form Clansman Films.

The restructuring in the Plastic Moulding Division involving ACW affected production and customer service levels during the second half of the year, but our customers remain supportive of the development. ACW was incorporated into Daniel Montgomery on 1 January 1998 enabling the company to provide superior services and facilities. The non-recurring outgoings involved should be completed by the middle of 1998.

A beneficial restructuring in our Packaging Division is planned during 1998, and the Group will continue to take appropriate investment opportunities and consider further suitable acquisitions in line with its core businesses. The directors remain confident that the Group will continue to make progress in line with expectations by the end of 1998.



Group Chief Executive: Bill Mackie

Packaging Division

Companies within the Division are continuing to develop product ranges, provide high levels of customer service, and improve next-day and just-in-time deliveries within the United Kingdom in seeking to achieve best in class performance.

Abbott's Packaging Limited supplies a comprehensive range of industrial packaging materials to more than 30,000 customers throughout the United Kingdom.

Managing Director: John Maxwell

During 1997, the company's Winchester branch and the new branch at Caerphilly became fully operational. The Exeter, Poole and South Midlands branches were relocated to larger, more suitable premises. The new distribution hub at Wigan had a successful first full year, supporting the northern branches and supplying packaging materials to its own local customer base.

Continuing to achieve next-day delivery is an essential part of Abbott's service to customers, supported by a dedicated team of over 50 sales representatives and the company's 72-page full colour catalogue, which details own brands and products manufactured by other Group companies.

In the drive towards achieving more complete nationwide coverage, the company will open a further two new branches during 1998 to operate from a total of 22 locations.

Operating Review

Aston Packaging Limited manufactures converted paper products under the trade names Corrupad, Protech and Edge Guard.

Managing Director: John Morris

The company is successfully meeting customer demand for environmentally responsible paper-based protective packaging. Aston has set up licence agreements in 15 locations worldwide since 1991 to enable products to be manufactured in local markets. During the year, an agreement was reached with a major corrugated manufacturer to develop Corrupad products in 22 countries within Eastern Europe.

Aston is continuing to develop innovative products, including advanced moulded fibre packaging which has applications in the electronics sector, together with essential manufacturing equipment. During the year, manufacturing equipment was installed for partners in Australia and Ireland, and additional equipment was exported to Germany.

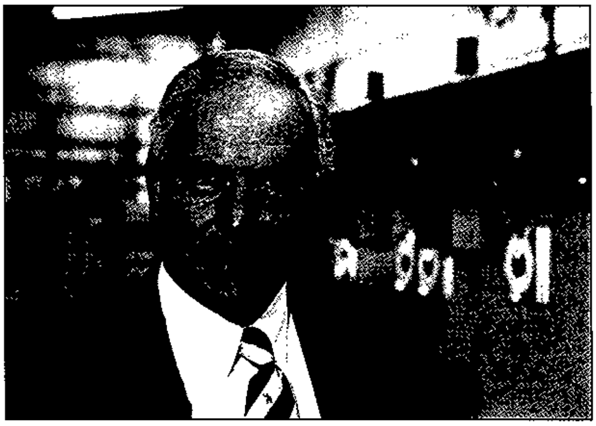
Continual updating of manufacturing techniques will enable Aston to make its products more efficiently in the home market and supply equipment to overseas licensees.

In 1998 the company received The Queen's Award for Export Achievement.

Clansman Cases Limited supplies a full range of heavy duty and conventional corrugated cases.

The company's manufacturing base at Brackley, Northamptonshire, was extended by more than 50% in 1997. A significant investment in case-making equipment will provide a more efficient manufacturing service for major industrial customers and for Abbott's Packaging.

The factories at Stalybridge, Greater Manchester, and Bedwas, Caerphilly, continue to supply customers with a high level of service, including just-in-time deliveries. Further investment is planned at Stalybridge during 1998.



Managing Director: Malcolm Pilcher

Controlled Packaging Services Limited manufactures heavy duty and conventional corrugated cases, specialist packaging products including Tri-mite cases, and moulded reinforced fibreglass packs.

Managing Director: John Matthews

Recently expanded factory and warehouse facilities enabled CPS to win substantial new business from a large computer company manufacturing in continental Europe.

New manufacturing equipment installed during the Autumn provides more flexible manufacturing capability, with the real benefits from this investment appearing during 1998.

CPS provides value-added packs with timber and foam fitting and the company has an unrivalled reputation for customer service. To provide an even better response to customer demand, CPS has established local stockholding and distribution for its own manufactured products in continental Europe.

The customer base has spread in recent years in both the United Kingdom and wider European markets, with significant export business in Germany and Hungary.

Dalewood Packaging Products Limited supplies self-adhesive tapes and stretchfilm to large industrial companies throughout the United Kingdom.

Dalewood has a speciality market in supplying long length rolls of self-adhesive tape and stretchfilm, which are usually machine applied, to high-volume users, particularly in the frozen food industries. The company places a high value on quality of product and service in meeting customer demand.

Dalewood is one of the largest customers of the Group's stretchfilm manufacturing companies. During 1998, Dalewood is looking to expand by selling other products, some manufactured by Group companies, to new and existing customers.

Managing Director: Neil Henshaw

Flo-pak (UK) Limited is the largest manufacturer of polystyrene loosefill packaging in the United Kingdom.

Managing Director: Peter Connor

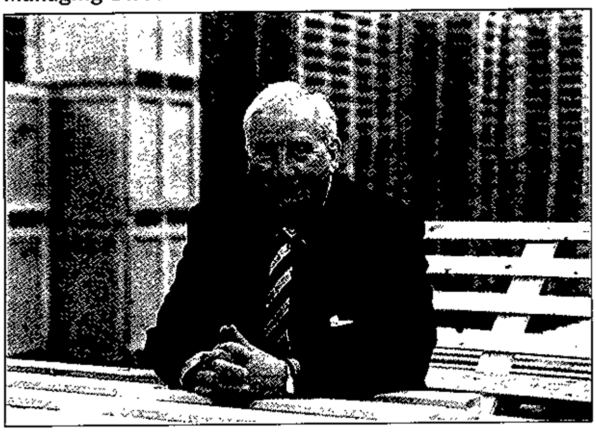
The renowned 8-shaped product was re-launched during the year as 'Super 8', with the hollow configuration in-filled to enhance performance characteristics. Reprocessing polystyrene waste is an important part of the business, providing environmental benefits, cost savings and control of raw materials. The company achieved approval as a fully accredited packaging waste reprocessor by the Environment Agency in January 1998.

During 1997, the company started the manufacture of Ultrawood, a maintenance free plastic extruded form of wood substitute made from polystyrene waste. New products are being developed in conjunction with partners in the construction industry.

CurlPak is manufactured under licence from the United States and has applications in the animal bedding market. Trials are on-going with racehorse breeders and trainers, with favourable results. Production capacity increased during the year with benefits expected to come through during 1998.

A & W Fullarton Limited manufactures heavy duty and conventional corrugated cases, wooden cases and crates and polypropylene moulds, and has a large logistics operation.

Managing Director: Donald Macleod



The principal factory at Govan and satellite operations at Glenrothes and Newcastle-upon-Tyne manufacture corrugated cases, wooden cases and crates and polypropylene moulds for a wide customer base, including the important computer and office equipment sector.

The company owns a 39-acre site at Braehead, which houses a 300,000 sq ft warehouse complex providing a stock distribution and logistics service to major companies. A further 200,000 sq ft development at Hillington will provide a hub for European operations. These sites, adjacent to the planned international business campus at Glasgow International Airport, are complemented by a 75,000 sq ft facility at Kinning Park, Glasgow.

Following substantial investment in both buildings and manufacturing equipment, Fullarton has had another extremely successful year. The company provides a comprehensive year-round facility to its multinational customers.

Operating Review

Mitchell Packaging Limited manufactures heavy duty and conventional corrugated cases and supplies traditional packaging materials.

Managing Director: Andre Finney

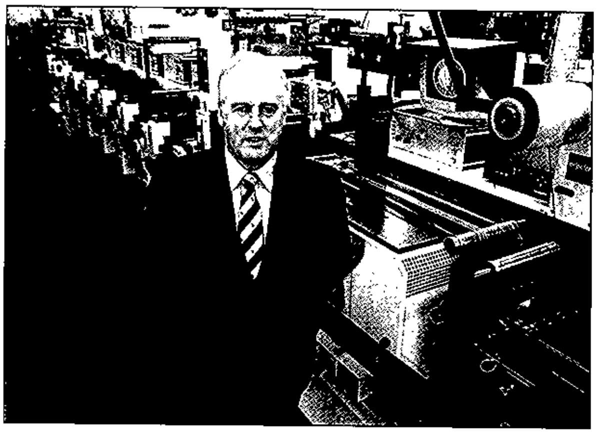
The company has reported a very successful year's trading. Mitchell continues to place emphasis on high value-added packs incorporating timber and foam fitments to complement its heavy duty and conventional corrugated case manufacturing. The company sells a comprehensive range of industrial packaging materials and provides a full design service for its composite packs.

The Grantham site was extended and a major new investment in corrugated case-making machinery was approved for delivery during the second half of 1998.

New products continue to be developed to meet customer needs and in response to new legislation. Trials of the unique and patented Pillatainer are on-going with new customers within the food industry and new business has been secured.

N.S. Macfarlane & Co. Limited manufactures printed self-adhesive labels and is expanding its customer base following investment in modern printing equipment and technology.

Managing Director: Graham Mitchell



The company continued to benefit from substantial investment in high quality printing equipment and in latest technology, and has produced excellent results.

N.S. Macfarlane & Co. provides a high level of technical competence and innovation, and is seeking to maintain its commitment to quality of service and customer response. An important contributor is the company's compliance with the most stringent hygiene standards in meeting the requirements of customers in the food and drink and pharmaceuticals sectors.

The company has acquired land adjacent to the principal factory to enable future expansion. New markets are continually being developed and the investment programme should lead to further progress during 1998.

Operating Review

Industrial Film Division

The strength of sterling and continuing over capacity in the sector made 1997 a difficult year for the Division, with margins under pressure. Relocation of production capacity and contraction into smaller premises should enable the Division to improve returns on investment in what remains a difficult market.

The Division was launched successfully in July and a merger between Alet Packaging, Amalgamated Plastics and Centurion Packaging on 1 March 1998 formed a new company, Clansman Films, with Mike Clark as Managing Director.

The new company will provide economies and greater efficiency in purchasing raw materials and with a combined administration and sales team, Clansman Films will be a major player in the Industrial Film market.

Clansman Films
Managing Director: Mike Clark

Alet Packaging Limited is a large merchant of both cast and blown stretchfilm.

The company was acquired in September 1997 to complement the Division's extrusion capacity and provide strong growth opportunities through its comprehensive customer base.

Amalgamated Plastics Limited manufactures high quality cast stretchfilm and bubblewrap.

The company, based at Potters Bar, was acquired in February 1997 bringing the manufacture of two additional major film products into the Group. These products were identified as large purchases by our Packaging Division and complemented the existing film product range in the Division.

During the year, the company relocated to lower cost premises, rationalised production and resolved quality issues within the stretchfilm market, and is now producing efficiently as part of Clansman Films.

Centurion Packaging Limited manufactures linear low density polyethylene blown hand and machine stretchfilm, shrink pallet covers and top sheets.

Following the rationalisation at Amalgamated Plastics, manufacturing capacity was transferred to the company's purpose-built factory at Preston, Lancashire, which doubled its capacity in blown hand stretchfilm.

On a static turnover, the company's profit for the year was well ahead of 1996. The new company, Clansman Films, will increase equipment utilisation at the Preston and Potters Bar sites, improving efficiency and providing excellent growth opportunities.

Operating Review

Managing Director: Richard Stimson

Alport Plastics Limited manufactures a range of low density polythene products.

The company joined the Group in September 1996 and has recently completed a capital expenditure programme, upgrading its film conversion department.

Results for the year did not achieve expectations but sales are confidently expected to continue to develop during 1998, realising the significant potential within the business.

Saranne Packaging Limited converts and distributes polythene film based products to a wide range of customers.

Joint Managing Directors: Gareth Evans, Bill Greig

Manton Plastics Limited produces polythene film and is an important supplier to Saranne Packaging.

Manton was acquired in April 1997 and a new six-coloured off-line printing press was commissioned in November 1997 to add significant value to its products and help develop sales within the Group.

Saranne reported an excellent year's trading following a significant investment in a large extension of its factory at Pyle, South Wales, and the installation of additional equipment.

Saranne manufactures highly specialised wrapping for the furniture, electronics and medical industries. During 1998, the company will seek to fill increased capacity with sales from within the Group and by moving into new markets.

Plastic Moulding Division

1997 was a very difficult year for the Division. Profits did not meet expectations largely due to substantial restructuring costs during the transfer of ACW's activities into Daniel Montgomery & Son, and to the strength of sterling affecting material prices and currency translation at Wicklow Custom Packaging.

Sales and Marketing Director, Plastic Moulding Division: Hamish Macfarlane

ACW Limited transferred from Aberdeen to Kirkintilloch during the year and from 1 January 1998 is incorporated into Daniel Montgomery & Son.

1997 started with weak demand from customers and the higher than expected costs of relocation in September led to a substantial loss. In particular, the number of employees relocating was lower than expected, with a resultant increase in redundancy costs at Aberdeen and training costs at Kirkintilloch. These outgoings had a substantial impact on this year's results but are expected to be resolved during the first half of 1998.

Daniel Montgomery & Son Limited manufactures a range of decorative and innovative closures mainly for premium spirits brands. The company has developed a sophisticated design capability able to attract customers from many different markets.

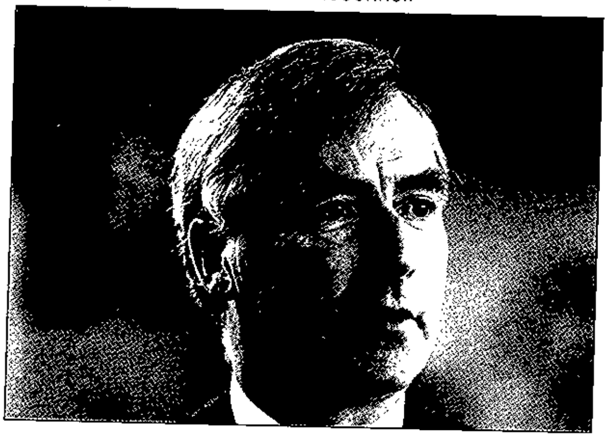
The company started 1997 well and had a good first half to the year. The disruption caused by the ACW relocation and an unprecedented increase in demand for its products, particularly anti-counterfeiting systems resulted in the company incurring substantial additional costs in order to meet customer requirements.

The new M500 fitment has led the company into new markets, particularly in Eastern Europe, where sales have started of its premium fitments. Capacity is being substantially increased on these products to support the forecast growth.

The second phase of the building and equipment replacement programme will be completed by the middle of 1998 and should provide an outstanding manufacturing facility able to compete globally on cost and quality in a diverse range of markets. Growth from spirits markets is expected, together with an improvement in business from markets transferred from ACW.

Wicklow Custom Packaging Limited manufactures high quality components for the electronic, food and drinks, pharmaceutical and toy industries.

Managing Director: Richard McConnell



The company reported a difficult year and although a quiet first half was followed by increased demand for some products in the second half, profits have not reached expectations.

Wicklow's manufacturing facilities continue to expand and develop to the highest standards, with the addition of a new quality assurance area. There is strong demand in the first quarter of 1998 and further recruitment in the sales team to take advantage of the buoyant Irish market.

During the year, George Balmer transferred his responsibilities as managing director to Richard McConnell, and now has a responsibility for Group development in Ireland, sourcing suitable opportunities for growth.

Summary

The investment programme, which continued throughout 1997, will bring lasting benefits through improving the efficiency and the competitiveness of the individual companies and the Group as a whole. Each business is continuing to seek commercial advantage through the quality, range and value of products, through innovation and market leadership and through the quality of service to customers.

Financial Review

Profit and loss account

Group turnover for the year increased by 23% to £193.4 million from the previous year's figure of £157.1 million. Profits before taxation amounted to £22.0 million, an increase of 8% over the £20.4 million earned in the previous year. Operating margin was 11.7% as against 12.6% the previous year, reflecting the impact of integrating acquisitions.

The Packaging Division increased its profits by £1,240,000 despite difficult trading conditions and the Industrial Film Division increased its profits by £716,000 due to the contribution from acquisitions, but the Plastic Moulding Division's profits declined by £421,000, mainly as a result of substantial restructuring costs incurred following the transfer of ACW into Daniel Montgomery & Son.

Interest and borrowings

Interest rates increased in 1997. Net interest paid amounted to £712,000 compared to net interest received of £560,000 in 1996. The interest charge is relatively modest, despite a considerable increase in capital expenditure and substantial borrowings inherited from acquisitions, and reflects continuing efforts to ensure that profits are matched by positive cash generation. The interest cover is strong and it is the directors' aim to maintain sensible levels of gearing.

Dividends and taxation

An interim dividend of 1.55p per share was paid on 7 October 1997. In line with the increase in profits, the directors have recommended that a final dividend of 2.95p be paid on 28 May 1998 to those shareholders on the register at close of business on 11 May 1998. The total dividend for the year excluding tax credits, will amount to 4.50p, an increase of 10% over the 4.095p paid the previous year, reflecting the confidence with which the directors view the future. Dividend cover has been maintained at 2.7 times post tax earnings.

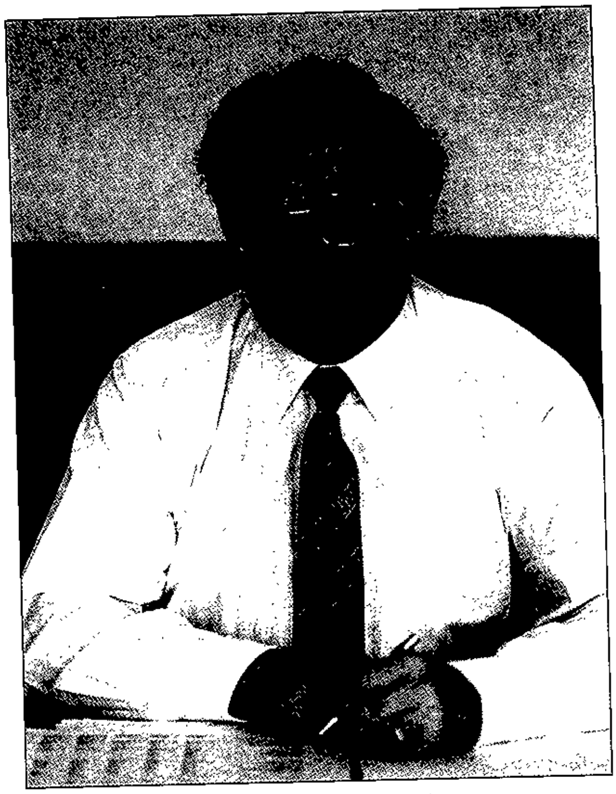
The overall rate of tax for the year was 29.5% compared with 31.6% the previous year. The underlying tax charge is below the prevailing standard rate, following the reduction in corporation tax rates in recent Budgets, and the low tax rates for manufacturing companies in Ireland.

Capital expenditure and acquisitions

During the year capital expenditure amounted to £19.0 million, an increase of £5.0 million over the £14.0 million last year. The investment covers all Group companies and reflects confidence across all our activities for the future. In addition, three companies, Amalgamated Plastics Limited, Manton Plastics Limited and Alet Packaging Limited were acquired. The cash element of the acquisitions, together with total inherited indebtedness amounted to £11.6 million.

Cash flow

Despite this investment, net debt at the end of the year was only £10.6 million, compared with £4.8 million in funds at the end of 1996. Cash flow from operating activities has again been very positive at £23.1 million. Additional working capital was absorbed to fund the requirements of all three acquired companies. Bank facilities are in place to meet the future anticipated financing requirements in the Group.



Group Financial Director: Andrew Reekie

Shareholders' funds

Shareholders funds' have increased to £69.6 million from £64.6 million. Although retained profits amounted to £9.8 million, this has been offset by a £7.0 million write-off of goodwill associated with the acquisitions in the year. The Group's policy has always been to write off goodwill against reserves. This will no longer be possible as a result of the issue of Financial Reporting Standard 10 which takes effect in 1998 and will be adopted in next year's financial statements. At the year end the Company's market capitalisation was £214.3 million, compared with £220.0 million last year. The share price at 31 December 1997 was 169p, an decrease of 7p from the previous year end.

Accounting policies

There have been no changes in accounting policies during the year. The Group continues to comply with all Financial Reporting Standards currently in existence and has adopted the reporting requirements of the new Financial Reporting Standards issued during the year.

Going concern basis

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Directors and Advisers

The Rt. Hon. The Lord Macfarlane of Bearsden KT Chairman

Founder in 1949 of N.S. Macfarlane & Co. which became Macfarlane Group (Clansman) in 1973. Combines executive commitments to Macfarlane Group with appointments as Honorary Life President of United Distillers plc, Chairman of the Fine Arts Society PLC and a non-executive Director of Edinburgh Fund Managers Group plc. Received a knighthood in 1983 for service to industry and the Arts, became a Life Peer in 1991 and was appointed to the Order of the Thistle in 1996. Will retire as Chairman at the Annual General Meeting in May but will retain involvement in the Group as a non-executive Director. Age 72.

John Ward Non-executive Director and Chairman Designate

Joined the Group Board on 1 January 1996. A chartered accountant, Chairman of Scottish Homes and The Scottish Post Office Board and a Director of Dunfermline Building Society, Investors in People Scotland, Scottish Business in the Community and European Assets Trust. Chairman of the Remuneration Committee and a member of the Audit Committee. Will succeed Lord Macfarlane as Chairman at the Annual General Meeting in May. Age 57.

Godfrey Lane Deputy Chairman and non-executive Director

Was with Abbott's Packaging for 30 years, initially as Financial Director and then as Managing Director, relinquishing his management responsibilities in 1986. Joined the Group Board in 1980 and was appointed Deputy Chairman on 1 January 1996. Remains a non-executive Director, Chairman of the Audit Committee and a member of the Remuneration Committee. Age 66.

Rupert Barclay Non-executive Director

A chartered accountant and business consultant. Joined the Group Board in 1995 and was a member of the Audit and Remuneration Committees. Resigned from the Group Board on 26 January 1998 to concentrate on his commitments outwith the Group. Age 41.

Mike Clark Chief Executive - Industrial Film Division

Founder in 1978 of Centurion Packaging. Joined Macfarlane Group when Centurion Packaging was acquired in September 1994. Appointed Chief Executive of the Industrial Film Division on 1 July 1997, reflecting the Group's commitment to film extrusion and conversion following a number of acquisitions in the last three years. Joined the Group Board on 1 January 1998. Age 48.

Gordon Lane Chief Executive - Packaging Division

Was with Abbott's Packaging for 21 years. Appointed to the Group Board in 1987 and became Chief Executive of the Packaging Division on 1 January 1991. Relinquished his position with Abbott's Packaging on 1 August 1993 and assumed responsibility for identifying acquisition opportunities and new products for the Group. Age 47.

The Hon. Hamish Macfarlane Sales and Marketing Director - Plastic Moulding Division

With the Group for 16 years mainly in the Plastic Moulding Division, and has responsibility for sales and marketing within the Division. Joined the Group Board in 1995. Age 36.

Back row (left to right): Hamish Macfarlane, Andrew Reekie, Mike Clark, Gordon Lane
Front row: John Ward, Lord Macfarlane, Bill Mackie Inset: Godfrey Lane

Directors and Advisers

Bill Mackie Group Chief Executive
Was with A & W Fullarton, one of the Group's principal packaging subsidiaries, for 29 years. Appointed Group Chief Executive on 1 January 1991. Joined the Group Board in 1979 and has played a major part in the creation and development of the Group's national packaging network. Age 63.

Robert Martin Chief Executive - Plastic Moulding Division
Joined ACW in 1976 becoming Managing Director in 1985. Joined the Group Board in July 1990 and from 1 January 1991 assumed responsibility for the Plastic Moulding Division. Appointed Managing Director of Daniel Montgomery & Son in 1995. Will leave the Board and the employment of the Group on 31 March 1998. Age 44.

Andrew Reekie Group Financial Director
A member of the Institute of Chartered Accountants of Scotland and a Fellow of the Institute of Directors. Has been with the Group for 29 years becoming Group Accountant in 1973 and Group Financial Director in 1977. Has responsibility for developing the financial reporting systems which have contributed to the Group's overall success. Age 56.

Company Registration Number

No. 4221 Registered in Scotland

Secretary

John Love

Registered Office

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21 Newton Place
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Telephone : 0141 333 9666
Fax : 0141 333 1988

Principal Bankers

The Royal Bank of Scotland plc
10 Gordon Street
Glasgow G1 3PL

Solicitors

Wright Johnston & Mackenzie
12 St Vincent Place
Glasgow G1 2EQ

Stockbrokers

Speirs & Jeffrey Limited
36 Renfield Street
Glasgow G2 1NA

HSBC Securities
Thames Exchange
10 Queen Street Place
London EC4R 1BL

Auditors

Deloitte & Touche
Chartered Accountants
39 St Vincent Place
Glasgow G1 2QQ

Registrars

Bank of Scotland
Apex House
9 Haddington Place
Edinburgh EH7 4AL

Directors' Report

The directors present their annual report and the audited Group accounts for the year ended 31 December 1997.

Principal activities

There has been no significant change in the activities of the Company and its subsidiaries which are the manufacture and distribution of packaging, industrial film, plastic mouldings and specialist printing and the provision of storage, warehousing and haulage services. Details of the principal subsidiary companies and their activities are set out on page 37.

Analysis by Division and geographical area is shown in note 1 on page 23.

Review of the business

A review of the business during and following the end of the financial year and comments on future developments within the Group are contained in the Chairman's Statement and the Operating and Financial Review on pages 1 to 10.

Results and dividends

The Group profit on ordinary activities before taxation was £21,951,000 (1996 – £20,416,000). The directors recommend payment of a final dividend of 2.95p to be paid on 28 May 1998 making a total of 4.50p for the year (compared with 4.095p for the year ended 31 December 1996). The retained profit for the year amounting to £9,772,000 (1996 – £8,836,000) will be transferred to reserves.

Share capital

At the last Annual General Meeting the directors were given authority to allot further ordinary shares for cash beyond those committed to the share option schemes up to an aggregate amount of £1,578,097. That authority expires at the conclusion of the forthcoming Annual General Meeting.

A resolution will be put to shareholders to renew for a further year the authority over the existing unissued and uncommitted ordinary share capital. This authority is limited to a maximum nominal amount of £1,585,353.

Substantial holdings of shares in the company

The Company has received notification that at 26 March 1998 the following members held more than 3 per cent of the ordinary share capital.

	Holding	Percentage
Funds managed or advised by Prudential Assurance plc	6,504,247	5.13%
Funds managed or advised by Norwich Union Investment Management	5,380,757	4.24%
Funds managed by Edinburgh Fund Managers Group plc	5,231,699	4.13%
The Alliance Trust PLC and The Second Alliance Trust PLC	4,957,024	3.91%
Funds managed or advised by M & G Investment Management Limited	4,551,400	3.59%

Board of directors

The names of the directors together with short biographical details are set out on pages 11 and 12.

M. Clark, who was appointed a director of the company on 1 January 1998 retires at the Annual General Meeting and offers himself for election. He has a service contract with the Company which is subject to one year's notice by the Company and subject to six months' notice by the director.

J.G. Lane and The Hon. H.S. Macfarlane retire by rotation in accordance with the articles of association and, being eligible, offer themselves for re-election.

J.G. Lane has a service contract as a non-executive director with the Company which expires in December 1998. The Hon. H.S. Macfarlane has a service contract with the Company which is subject to one year's notice by the Company and subject to six months' notice by the director.

R.G.M.L. Barclay resigned as a non-executive director of the Company on 26 January 1998.

R.I.B. Martin will leave the service of the Company on 31 March 1998.

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 statement of directors' interests in Macfarlane Group (Clansman) P.L.C. is contained in note 4 on page 25.

Directors' and officers' liability insurance

The Company has maintained directors' and officers' liability insurance cover throughout the financial year.

Directors' Report

Employee share schemes

During the year 580,500 ordinary shares were issued on the exercise of options under The Macfarlane Group 1991 Share Option Scheme. Details of all remaining options outstanding under the Company's share option schemes are set out in note 18 on page 31.

£194,000 was allocated from 1997 profits (1996 – £140,000) to the Trustees of the Macfarlane Group Share Appropriation Scheme which was established in 1990 for the appropriation of ordinary shares to eligible employees.

Acquisitions

The Company acquired the whole of the issued share capital of Amalgamated Plastics Limited on 13 February 1997, Manton Plastics Limited on 8 April 1997 and Alet Packaging Limited on 12 September 1997. Further information on these three acquisitions is contained in note 21 on page 32.

Fixed assets

The movements in tangible assets are set out in note 11 on pages 27 and 28. Significant changes during the year arose from major investments in new buildings and plant at Abbott's Packaging Limited, Clansman Cases Limited, A & W Fullarton Limited, N.S. Macfarlane & Co. Limited and Daniel Montgomery & Son Limited.

Environmental policy

It is the Group's policy to attempt to minimise the impact of its activities on the environment whilst seeking to safeguard it. The Group is a member of Valpak, a legal compliance scheme which aims to recycle packaging and develop markets for recycled products.

Employment of disabled persons

The Group 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, either through joint committees or less formal but equally effective methods of communication and consultation.

Supplier payment policy

The Group recognises the importance of maintaining good business relationships with its suppliers. The Group's policy is to negotiate terms with suppliers and settle liabilities in accordance with these terms. The policy is followed by all companies in the Group and staff dealing with payments to suppliers are made aware of it. The policy is made known to suppliers on request. At the year end the company had an average of 31 days' purchases outstanding in trade creditors.

Political and charitable contributions

No charitable contributions were made during the current year. During 1996 a contribution of £10,000 was paid to the N.S. Macfarlane Charitable Trust. There were no political donations during the current or preceding financial year.

Close company status

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

John Love

J. Love
Secretary

Clansman House
21 Newton Place
Glasgow G3 7PY

26 March 1998

Corporate Governance

Introduction

The company has previously given details of various matters relating to its Corporate Governance practices and procedures and these remained in force during 1997. Throughout the current year the Company complied with all the provisions and recommendations of The Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance (The Cadbury Committee).

Board meetings and procedures

The Board meets at least seven times a year and as necessary for any matters arising between regular Board meetings. The Board is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. At each Board meeting, the Board considers reports from the chief executive and the divisional chief executives.

Duties of Directors

All directors have access to the Company secretary who is responsible for ensuring that Board procedures are met. Directors are authorised to take, at the Company's expense, independent professional advice on legal and financial matters in furtherance of their duties as directors, subject to certain limits and procedures.

Non-executive Directors

The non-executive directors monitor the performance of the Company and the executive management. They play a key role in the development of the Group policy and form the Audit and Remuneration Committees. The non-executive directors are appointed for a specific term and their re-appointment is not automatic.

Internal financial control

The directors acknowledge their ultimate responsibility for ensuring that the Group has in place a system of controls, financial and otherwise, that is appropriate to the various business environments in which it operates. The key procedures of the Group's internal financial control framework are set out in the following paragraph.

The Board reviews the strategic direction of all subsidiaries, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. A comprehensive budgeting system is in place. Financial results and key business statistics are reported monthly and variances from budgets are monitored and investigated. There are clearly defined guidelines and levels of authority for capital expenditure and investment appraisal.

The Board has reviewed the effectiveness of the system of internal financial control on the basis of the criteria set out in the Guidance for Directors "Internal Control and Financial Reporting". It has considered the major business and financial risks, the control environment, information on and arising from control procedures and the results of the internal audit department's work, on the basis that a system can only provide reasonable but not absolute assurance and that it relates only to the needs of the business at that time.

As might be expected of a Group of this size and complexity, weaknesses do occur from time to time. However these have not resulted in any material loss, contingency or uncertainty which requires disclosure in accordance with available guidance.

Audit Committee

The Audit Committee during 1997 comprised:–

J.G. Lane (Chairman)
R.G.M.L. Barclay
J.M. Ward

The terms of reference which have been established for many years are similar to those recommended by the Cadbury Committee. The Audit Committee meets routinely four times a year, with other meetings as necessary and the minutes are circulated to all Board members. The financial director, the internal auditors and the external auditors attend such meetings and provide reports as required by the committee.

The committee monitors the adequacy of the Group's internal controls, accounting policies and financial reporting to assist the Group Board in making the statement on internal controls referred to previously. The committee also makes recommendations to the Board where it feels it is appropriate to do so. In addition the committee is responsible for considering the appointment and the fees of the external auditors.

Report of the Remuneration Committee

The Remuneration Committee during 1997 comprised:–

J.M. Ward (Chairman)
R.G.M.L. Barclay
J.G. Lane

None of the Committee has any personal financial interests, conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee consults the chairman about its proposals and has access to professional advice from inside and outside the Company. Throughout the year the Company complied with Section A of the Best Practice Provisions on remuneration committees as annexed to the Listing Rules. The Committee has given full consideration to the provisions in Section B of the Best Practice Provisions in formulating the remuneration policy set out in the following paragraphs.

The Remuneration Committee meets routinely once a year with other meetings as considered necessary. The chairman of the Remuneration Committee will be available to answer questions on any aspect of remuneration policy at the Annual General Meeting.

It is a Group objective that it should attract and retain executives of high calibre and that the executives should be rewarded in such a way which encourages the creation of wealth for shareholders. The Committee is consulted on Board appointments and measures the performance of the executive directors, the key members of senior management. The three non-executive directors who comprise the Remuneration Committee, approve Board remuneration and bonus scheme targets together with the performance conditions under which executive share option schemes operate.

The Company's policy is that for executive directors the three main elements in their remuneration packages are a basic annual salary, an annual performance related bonus and long term incentives in the form of share options. The committee takes a balanced view of remuneration policy considering each element relative to the market. The position was established by research and analysis of the market situation against a comparator group of selected companies in the packaging sector and Scottish based public companies of similar size and complexity to the Company. After careful consideration, the committee is of the view that the remuneration policy for the Company is appropriate.

The intention is to ensure that the remuneration package is set at a competitive rate for comparable posts and that the achievement of clearly defined objectives will provide the opportunity to achieve attractive remuneration levels albeit for that year only. Accordingly executive directors can earn incentive payments based on Group target profits and performance. The maximum payment is 25% of basic salary. The levels of basic salaries are reviewed each year or when an individual has a change of responsibility.

Messrs. G.S. Lane, W.P. Mackie and A. Reekie have service contracts for a period of two years, which terminate on attaining the age of 65. For executive directors appointed after 1 January 1995 contracts of service are for periods of no more than one year. The Committee considers the length of the notice periods to be in the best interests of the Company in maintaining the services of its key directors. Details of those directors retiring by rotation at the forthcoming Annual General Meeting are set out in the report of the directors on page 13 and directors' contracts of service will be available for inspection at the Annual General Meeting.

Executive directors are entitled to accept appointments outside the Company provided the Board's permission is obtained. The Board may allow the fees from one such appointment to be retained by the director. The remaining fees must be accounted for to the Company. The remuneration for non-executive directors is determined by the Board of Directors having regard to the commitment of time required and the level of fees in similar companies. No director plays a part in any discussion about his own remuneration.

The Remuneration Committee has responsibility for the two share option schemes in force and approved the grant of options under the Macfarlane Group (Clansman) P.L.C. 1995 Executive Share Option Scheme on 26 January 1996. The performance criterion that must be met requires the Group's earnings per share to exceed the Retail Price Index increase by not less than 10% for each of the three consecutive financial years over which the condition must be met. The objective is to ensure that the schemes are in line with best practice and promote the long term interests of shareholders.

The Group operates two types of pension scheme, one based on final pensionable salary, the others defined contribution schemes. Every employee of the Group is eligible to join one of these schemes after a suitable qualifying period. All executive directors under the age of 65 are members of the final salary scheme with retirement benefits based on pensionable earnings in the years prior to retirement. All members of the pension scheme, throughout the Group, have their benefits calculated on this basis. There have been no changes to the directors' pension entitlements during the year. There are no unfunded pension promises or similar arrangements for directors.

The emoluments of the directors, including details of share options, are disclosed in note 4 on pages 24 and 25.

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Report to the members of Macfarlane Group (Clansman) PLC

We have audited the financial statements on pages 18 to 34 which have been prepared under the accounting policies set out on page 22.

Respective responsibilities of directors and auditors

As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche Deloitte & Touche

Chartered Accountants and Registered Auditors
39 St Vincent Place
Glasgow G1 2QQ

26 March 1998

Consolidated Profit and Loss Account

For the year ended 31 December 1997

	Note	Continuing operations £000	Acquisitions £000	1997 £000	1996 £000
Turnover	1	178,776	14,587	193,363	157,072
Cost of sales		112,927	9,283	122,210	98,968
Gross profit		65,849	5,304	71,153	58,104
Distribution costs		10,345	1,731	12,076	9,164
Administrative expenses		34,965	3,681	38,646	30,245
		20,539	(108)	20,431	18,695
Other operating income	3	2,015	217	2,232	1,161
Operating profit	5	22,554	109	22,663	19,856
Interest receivable and similar income				58	610
Interest payable and similar charges	6			(770)	(50)
Profit on ordinary activities before taxation	1			21,951	20,416
Taxation on profit on ordinary activities	7			6,472	6,455
Profit for the financial year	8			15,479	13,961
Dividends on equity shares	9			5,707	5,125
Retained profit for the year	19			9,772	8,836
Retained by:					
Macfarlane Group (Clansman) P.L.C.				3,570	3,919
Subsidiaries				6,202	4,917
				9,772	8,836
Earnings per ordinary share of 25p	10			12.23p	11.38p

Balance Sheets

At 31 December 1997

	Note	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Fixed assets					
Tangible assets	11	70,154	54,382	1,194	1,033
Investments	12	–	–	45,925	39,250
		70,154	54,382	47,119	40,283
Current assets					
Stocks	13	12,497	10,171	–	–
Debtors	14	44,083	33,553	5,481	5,716
Cash at bank and in hand		1,657	4,820	14,368	12,906
		58,237	48,544	19,849	18,622
Creditors – amounts falling due within one year	15	56,382	36,552	5,493	3.700
Net current assets		1,855	11,992	14,356	14,922
Total assets less current liabilities		72,009	66,374	61,475	55,205
Creditors – amounts falling due after more than one year	16	545	139	1,862	1.862
Provisions for liabilities and charges	17	1,906	1,638	–	–
Total net assets		69,558	64,597	59,613	53.343
Capital and reserves					
Called up share capital	18	31,707	31,251	31,707	31,251
Share premium account	19	7,547	5,303	7,547	5,303
Revaluation reserve	19	3,393	4,051	–	–
Profit and loss account	19	26,911	23,992	20,359	16.789
Total equity shareholders' funds		69,558	64,597	59,613	53,343

These financial statements were approved by the board of directors on 26 March 1998 and signed on its behalf by

Macfarlane of Bearsden

A. Reekie

Consolidated Cash Flow Statement

For the year ended 31 December 1997

	Note	1997 £000	1996 £000
Cash flow from operating activities	20	23,105	22,985
Returns on investments and servicing of finance			
Interest received		62	709
Interest paid		(618)	(42)
Interest element of finance lease rentals		(118)	(2)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(674)	665
Taxation			
UK Corporation tax paid		(5,662)	(6,641)
Overseas taxation paid		(122)	(97)
Tax paid		(5,784)	(6,738)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(18,356)	(13,861)
Disposal of tangible fixed assets		4,573	1,155
Net cash outflow from capital expenditure and financial investment		(13,783)	(12,706)
Acquisitions and disposals			
Purchase of subsidiaries	21	(7,912)	(8,855)
Net cash outflow from acquisitions and disposals		(7,912)	(8,855)
Equity dividends paid		(5,280)	(4,854)
Net cash outflow before use of liquid resources and financing		(10,328)	(9,503)
Management of liquid resources		–	3,500
Financing			
Issue of ordinary share capital		450	509
Capital element of finance lease rentals		(974)	(36)
Repayment of bank loans		(1,862)	(630)
Net cash outflow from financing		(2,386)	(157)
Decrease in cash in the period	22	(12,714)	(6,160)

The 1996 comparatives have been restated to comply with the requirements of FRS1 (Revised 1996).

Liquid resources comprise short-term deposits.

Statement of Recognised Gains and Losses

For the year ended 31 December 1997

	1997 £000	1996 £000
Profit attributable to members of the company	15,479	13,961
Exchange movement on retranslation of the net investment in overseas subsidiary	(504)	(160)
Total gains and losses recognised since the last annual report	14,975	13,801

Note of Historical Cost Profits and Losses

For the year ended 31 December 1997

	1997 £000	1996 £000
Reported profit on ordinary activities before taxation	21,951	20,416
Realisation of property revaluation gains of previous years	579	-
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	79	85
Historical cost profit on ordinary activities before taxation	22,609	20,501
Historical cost profit for the year retained after taxation and dividends	10,430	8,921

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 1997

	1997 £000	1996 £000
Profit for the financial year	15,479	13,961
Dividends on equity shares	(5,707)	(5,125)
	9,772	8,836
New share capital issued	2,700	5,714
Exchange loss on retranslation of overseas subsidiary	(504)	(160)
Purchased goodwill written off	(7,007)	(11,495)
Net addition to shareholders' funds	4,961	2,895
Shareholders' funds at 1 January	64,597	61,702
Shareholders' funds at 31 December	69,558	64,597

Accounting Policies

Year ended 31 December 1997

Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards under the historical cost convention as modified by the revaluation of certain of the Group's properties.

Consolidation

The consolidated profit and loss account and balance sheet include the accounts of the parent company and all its subsidiaries made up to the end of the financial year. Pre-acquisition profits are eliminated on consolidation and purchased goodwill representing the excess of the purchase consideration over the fair values of the assets acquired is written off reserves. The consolidated profit or loss on disposal of a subsidiary is the difference between the net proceeds of sale and the Group's share of the subsidiary's net assets together with any attributable goodwill originally written off on acquisition.

Turnover

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

Depreciation

Tangible fixed assets are stated at cost to the Group except in the case of certain properties which are stated at valuations by professional valuers. No depreciation is provided on land. Depreciation is calculated at fixed rates on a straight line basis to write off the cost or valuation of the assets over the period of their expected useful lives. The rates of depreciation vary between 1% and 5% per annum on buildings and 10% and 25% per annum on plant, vehicles and fittings.

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 attributable overheads.

Government grants

Government grants of a revenue nature are credited to profit and loss account in the same period as the related expenditure is expected to be incurred.

Taxation

Provision is made for corporation tax on all profits and realised gains up to the balance sheet date at the latest known corporation tax rates.

Deferred taxation

Provision is made for deferred tax on timing differences to the extent that it is probable that a liability will crystallise in the future. The provision is based on the rates of tax expected to be in force when the liability is likely to occur.

Leases

The cost of assets held under finance leases is included in tangible assets and depreciation is provided in accordance with the Group's accounting policy for the class of asset concerned. The interest cost is charged over the term of the lease and future obligations are included in creditors. Rental costs under operating leases are charged to the profit and loss account as incurred.

Foreign currency translation

Assets and liabilities denominated in foreign currencies and financial statements of foreign subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences arising in the consolidated accounts on the retranslation at closing rates of the Group's net investments in foreign subsidiary companies are recorded as movements on reserves. All other exchange differences are dealt with in the profit and loss account.

Pension costs

The expected cost of providing pensions is charged to the profit and loss account in order to spread the cost over the service lives of the employees in the schemes in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Notes on the Accounts
For the year ended 31 December 1997

1. ANALYSIS OF TURNOVER AND SEGMENTAL INFORMATION

Segmental information by division:

	1997 Turnover £000	1997 Profit before tax £000	1997 Net assets £000	1996 Turnover £000	1996 Profit before tax £000	1996 Net assets £000
Continuing activities						
Packaging	124,354	15,728	49,563	114,468	14,488	46,024
Industrial film	29,977	2,324	4,101	19,250	1,161	3,642
Acquisitions in 1997	14,587	(447)	481	–	–	–
Industrial film	44,564	1,877	4,582	19,250	1,161	3,642
Plastic moulding	24,445	4,346	15,413	23,354	4,767	14,931
Group total	193,363	21,951	69,558	157,072	20,416	64,597

Turnover by geographical area:

	1997 £000	1996 £000
United Kingdom	179,819	145,992
Europe	11,813	9,982
Other continents	1,731	1,098
	193,363	157,072

2. EMPLOYEES

	1997 No	1996 No
Average number of persons employed by the Group during the year was as follows:		
Production	1,306	1,070
Sales and distribution	491	416
Administration	233	190
	2,030	1,676

	1997 £000	1996 £000
The costs incurred in respect of these employees were:		
Wages and salaries	34,307	26,792
Social security costs	2,940	2,313
Other pension costs	1,597	1,462
	38,844	30,567

3. OTHER OPERATING INCOME

	1997 £000	1996 £000
Gain on disposal of tangible assets	1,039	510
Net rental income	135	87
Grants receivable	739	164
Royalties receivable	319	400
	2,232	1,161

Notes on the Accounts

For the year ended 31 December 1997

4. DIRECTORS

The emoluments of the parent company directors are shown below:

(i) Emoluments

	Fees £000	Salaries £000	Bonuses £000	Benefits in kind £000	1997 £000	1996 £000
Executive Directors						
Lord Macfarlane of Bearsden KT	–	203	–	9	212	188
W.P. Mackie	–	158	26	7	191	181
G.S. Lane	–	113	18	6	137	131
H.S. Macfarlane	–	79	13	7	99	88
R.I.B. Martin	–	113	–	7	120	132
A. Reekie	–	113	18	11	142	135
	–	779	75	47	901	855
Non-executive Directors						
R.G.M.L. Barclay	21	–	–	–	21	20
J.G. Lane	26	–	–	–	26	25
J.M. Ward	35	–	–	–	35	20
	82	779	75	47	983	920
Pension contributions					92	96
					1,075	1,016

The emoluments of the executive directors and the structure of bonuses are determined by the Remuneration Committee whose report appears on page 16. The bonuses are based on performance targets for the year.

(ii) Directors' pension entitlements

The following executive directors are members of The Macfarlane Group (Clansman) P.L.C. Pension & Life Assurance Scheme (1974), a pension scheme based on final pensionable salary. Details of the benefits accruing under the scheme are set out below:

	Years of service	Accrued pension at 31 December 1997 £000 p.a.	Increase in accrued pension in 1997 £000 p.a.	Transfer value of the increase in accrued pension £000
W.P. Mackie	37	116	12	145
G.S. Lane	25	56	7	40
H.S. Macfarlane	16	19	3	7
R.I.B. Martin	21	45	6	28
A. Reekie	29	67	8	73

4. DIRECTORS (continued)

(iii) Shareholdings

The interests of the directors in office at 31 December 1997 in Macfarlane Group (Clansman) P.L.C. ordinary shares of 25p each were as follows:

	31.12.97			1.1.97		
	Beneficial	Non Beneficial	Option	Beneficial	Non Beneficial	Option
Lord Macfarlane of Bearsden KT	5,128,022	337,500	100,000	5,127,873	337,500	100.000
J.G. Lane	4,250,000	296,321	–	4,250,000	279,922	–
G.S. Lane	1,080,261	–	80,000	1,006,112	–	282,500
H.S. Macfarlane	286,486	337,500	70,000	286,337	337,500	70,000
W.P. Mackie	358,016	–	403,750	367,867	–	403,750
R.I.B. Martin	57,530	–	282,500	57,381	–	282,500
A. Reekie	361,136	337,500	80,000	170,487	337,500	282,500
R.G.M.L. Barclay	97,500	–	–	187,500	–	–
J.M. Ward	50,200	296,321	–	15,000	279,992	–

No changes have occurred in these holdings between 1 January 1998 and the approval of these accounts.

Lord Macfarlane of Bearsden KT, H.S. Macfarlane and A. Reekie have a joint non-beneficial interest as trustees of the N.S. Macfarlane Charitable Trust. J.G. Lane and J.M. Ward have a joint non-beneficial interest as trustees of the Macfarlane Group Share Appropriation Scheme.

(iv) Options

	1.1.97	Exercised	31.12.97	Exercise price	Market price on exercise	Gain on exercise of options
Lord Macfarlane of Bearsden KT	100,000	–	100,000	220p	–	–
G.S. Lane	202,500	202,500	–	80p	183p	£208,575
	80,000	–	80,000	220p	–	–
H.S. Macfarlane	70,000	–	70,000	220p	–	–
W.P. Mackie	303,750	–	303,750	80p	–	–
	100,000	–	100,000	220p	–	–
R.I.B. Martin	202,500	–	202,500	80p	–	–
	80,000	–	80,000	220p	–	–
A. Reekie	202,500	202,500	–	80p	183p	£208,575
	80,000	–	80,000	220p	–	–

Messrs J.G. Lane, R.G.M.L. Barclay and J.M. Ward are non-executive directors of the Company and do not hold any share options. No share options were granted during the year or in the period since the year end.

There are options outstanding at 31 December 1997 which were granted under the Macfarlane Group 1991 Share Option Scheme and are exercisable until 14 January 2002 at 80p per share. The remaining options at 31 December 1997 were granted on 26 January 1996 under the Macfarlane Group (Clansman) PLC 1995 Executive Share Option Scheme and are exercisable between 26 January 1999 and 25 January 2006 at 220p per share, subject to the satisfactory completion of the scheme's conditions.

The market value of Macfarlane Group (Clansman) P.L.C. ordinary shares at 31 December 1997 was 169p per share (1996–176p). The range of share prices during 1997 was 147.5p to 198.5p for each ordinary share of 25p.

Notes on the Accounts

For the year ended 31 December 1997

5. OPERATING PROFIT

	1997 £000	1996 £000
Operating profit is arrived at after charging:		
Depreciation	7,614	5,741
Auditors' remuneration – Audit services	206	184
– Non-audit services	41	106
Hire of plant and equipment	834	419
Operating lease rentals for land and buildings	965	238
Operating lease rentals for plant and machinery	308	379

The audit fee payable by the parent company is £5,000 (1996 – £5,000).

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £000	1996 £000
Bank loan and overdrafts repayable within five years	572	48
Loan notes repayable within five years	80	–
Finance lease charges	118	2
	770	50

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1997 £000	1996 £000
United Kingdom taxation at 31.5% (1996 – 33%) based on the profit for the year	6,230	6,150
Deferred taxation	196	240
Prior period adjustments	(47)	(40)
	6,379	6,350
Overseas taxation	93	105
	6,472	6,455

8. PROFIT FOR THE FINANCIAL YEAR

	1997 £000	1996 £000
Parent company	9,277	9,044
Subsidiaries	6,202	4,917
	15,479	13,961

The Company has taken advantage of Section 230 of the Companies Act 1985 and consequently a separate profit and loss account for the parent company is not presented as part of these accounts.

Notes on the Accounts

For the year ended 31 December 1997

9. DIVIDENDS ON EQUITY SHARES

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

	1997 Per share	1996 Per share	1997 £000	1996 £000
Interim paid 7 October 1997 1.55p net			1,966	1,811
equivalent to gross	1.94p	1.84p		
Proposed final 2.95p net			3,741	3,314
equivalent to gross	3.69p	3.28p		
	5.63p	5.12p	5,707	5,125

10. EARNINGS PER ORDINARY SHARE

The earnings per ordinary share are calculated on the basis of the weighted average of 126,523,060 ordinary shares in issue, (1996–weighted average 122,638,415) and on earnings after taxation of £15,479,000 (1996–£13,961,000). No material dilution of earnings per share would arise if all outstanding options were exercised.

11. TANGIBLE FIXED ASSETS

	Land and buildings £000	Plant, vehicles and fittings £000	Total £000
Group			
Cost or valuation			
At 1 January 1997	35,354	58,373	93,727
Assets of subsidiaries acquired	2,349	9,483	11,832
Additions	6,848	12,168	19,016
Disposals	(2,678)	(5,324)	(8,002)
At 31 December 1997	41,873	74,700	116,573
Depreciation			
At 1 January 1997	3,596	35,749	39,345
Assets of subsidiaries acquired	248	3,680	3,928
Charge for year	739	6,875	7,614
Disposals	(336)	(4,132)	(4,468)
At 31 December 1997	4,247	42,172	46,419
Net book value			
At 31 December 1997	37,626	32,528	70,154
At 31 December 1996	31,758	22,624	54,382

The net book value of tangible assets of £70,154,000 (1996–£54,382,000) includes an amount of £2,892,000 (1996–£296,000) in respect of assets held under finance leases. The depreciation charge in respect of these assets is £428,000 (1996–£34,000).

Land and buildings at cost or valuation are stated:	1997 £000	1996 £000
At cost to the Group	28,074	20,655
At valuation 1987	7,549	8,449
At valuation 1990	6,250	6,250
	41,873	35,354

11. TANGIBLE FIXED ASSETS (continued)

	Land and buildings £000	Plant, vehicles and fittings £000	Total £000
Company			
Cost			
At 1 January 1997	736	426	1,162
Additions	203	38	241
Group transfers	–	3	3
At 31 December 1997	939	467	1,406
Depreciation			
At 1 January 1997	19	110	129
Charge for year	19	66	85
Group transfers	–	(2)	(2)
At 31 December 1997	38	174	212
Net book value			
At 31 December 1997	901	293	1,194
At 31 December 1996	717	316	1,033

Land and buildings at net book value comprise:	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Freeholds	33,248	29,218	888	704
Long leaseholds	3,959	2,468	–	–
Short leaseholds	419	72	13	13
	37,626	31,758	901	717

On an historical cost basis, land and buildings would have been included at:

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Cost	38,682	31,537	939	736
Aggregate depreciation	4,462	3,881	38	19
Net historical cost value at 31 December	34,220	27,656	901	717

12. INVESTMENTS

	1997 £000	1996 £000
Company		
Investment in subsidiaries		
Cost		
At 1 January	39,250	26,663
Acquired during the year	6,675	12,587
At 31 December	45,925	39,250

Details of the principal operating subsidiaries are set out on page 37.

Notes on the Accounts

For the year ended 31 December 1997

13. STOCKS

Group	1997 £000	1996 £000
Raw materials and consumables	4,771	3,759
Work in progress	926	982
Finished goods and goods for resale	6,800	5,430
	12,497	10,171

14. DEBTORS

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Trade debtors	39,790	31,323	–	–
Amounts owed by subsidiaries	–	–	5,050	5,603
Other debtors	1,053	380	341	45
Prepayments and accrued income	3,240	1,850	90	68
	44,083	33,553	5,481	5,716

Included in amounts owed by subsidiaries are loans due after more than one year of £400,000 (1996–£400,000).

Included in other debtors are loans made to two officers and executives of the Group under the Group house purchase scheme. The total balance outstanding at 31 December 1997 amounted to £24,000 (1996–£28,000). The amounts outstanding at 1 January 1997 represented the maximum balance during the year.

Related party transactions

The directors have considered the implications of Financial Reporting Standard 8 "Related Party Disclosures" and are satisfied that there are no other related party transactions occurring during the year which require disclosure.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Bank loans and overdrafts	9,574	22	–	–
Loan notes	1,315	–	1,315	–
Trade creditors	27,021	20,241	93	82
Amounts owed to subsidiaries	–	–	81	–
Other creditors	639	633	3	3
Obligations under finance leases	785	103	–	–
Corporation tax	6,117	5,810	–	–
Other taxation and social security	3,844	2,786	19	3
Accruals and deferred income	3,346	3,643	241	298
Proposed final dividend	3,741	3,314	3,741	3,314
	56,382	36,552	5,493	3,700

The Company has given inter company guarantees to secure the overdrafts of certain subsidiaries. The overall credit lines for these borrowing facilities total £18,000,000.

The loan notes are, at the option of the holder, repayable at par together with accrued interest after 31 December 1997 at six monthly intervals. Any loan notes not previously repaid or purchased, will be repaid in full at par on 31 December 2002. The rate of interest on the loan notes is 0.25% above the base rate of The Royal Bank of Scotland plc. Interest is paid twice yearly in arrears on 30 June and 31 December.

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Bank loans and overdrafts	23	46	–	–
Loans from subsidiaries	–	–	1,862	1,862
Obligations under finance leases	522	93	–	–
	545	139	1,862	1,862

	Group 1997 £000	Group 1996 £000
Bank loan repayments:		
Due within one year	23	22
Due between one and two years	23	23
Due between two and five years	–	23
	46	68

A bank loan totalling £90,000 was drawn down in August 1991 and is repayable over eight years, of which the first four years were interest repayments only. Interest is charged at a fixed rate of 11% per annum.

	Group 1997 £000	Group 1996 £000
Obligations under finance leases:		
Due within one year	785	103
Due between one and two years	388	53
Due between two and five years	134	40
	1,307	196

The finance leases are secured over the assets to which the leases relate.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Deferred taxation				
Provided in accounts:				
Capital allowances and other timing differences	1,906	1,638	–	–
Provision for deferred taxation liability	1,906	1,638	–	–
Full potential liability:				
Capital allowances and other timing differences	3,390	2,917	–	–
Capital gains rolled over	488	536	–	–
Surplus on revaluation	695	773	–	–
	4,573	4,226	–	–

The movement in deferred taxation during the year is as follows:

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
At 1 January	1,638	1,333	–	21
Acquired on acquisition of subsidiaries	72	65	–	–
Charge/(credit) for the year	196	240	–	(21)
At 31 December	1,906	1,638	–	–

18. SHARE CAPITAL

Ordinary shares of 25p each	Number of shares	1997 £000	1996 £000
Authorised	200,000,000	50,000	50,000
Allotted, issued and fully paid:			
At 1 January	125,004,646	31,251	30,434
Shares issued in respect of acquisition agreements	1,243,094	311	657
Shares issued under Executive Share Option Schemes	580,500	145	160
At 31 December	126,828,240	31,707	31,251

At 31 December 1997 there were outstanding options to acquire:

(a) 573,750 ordinary shares under The Macfarlane Group 1991 Share Option Scheme. These options are exercisable until 14 January 2002 at 80p per share.

(b) 2,375,000 ordinary shares under The Macfarlane Group (Clansman) PLC 1995 Executive Share Option Scheme. These options are exercisable between 26 January 1999 and 25 January 2006 at 220p per share, subject to the satisfactory completion of the scheme's conditions.

19. RESERVES

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
Group			
At 1 January 1997	5,303	4,051	23,992
Premium on shares issued during the year	2,244	–	–
Released on disposal of property	–	(579)	579
Amortisation of revaluation surplus	–	(79)	79
Foreign exchange translation differences	–	–	(504)
Purchased goodwill written off	–	–	(7,007)
Retained profit for the year	–	–	9,772
At 31 December 1997	7,547	3,393	26,911
Company			
At 1 January 1997	5,303		16,789
Premium on shares issued during the year	2,244		–
Retained profit for the year	–		3,570
At 31 December 1997	7,547		20,359

The cumulative goodwill written off in these consolidated accounts is £35,664,000 as at 31 December 1997 (1996 – £28,657,000).

20. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Continuing operations £000	Acquisitions £000	1997 £000	1996 £000
Operating profit	22,554	109	22,663	19,856
Depreciation	6,789	825	7,614	5,741
Gain on disposal of assets	(792)	(247)	(1,039)	(510)
(Increase)/decrease in stocks	(889)	705	(184)	(924)
Increase in debtors	(4,849)	(1,196)	(6,045)	(267)
Increase/(decrease) in creditors	1,740	(1,644)	96	(911)
Net cash inflow from operating activities	24,553	(1,448)	23,105	22,985

21. PURCHASE OF SUBSIDIARY UNDERTAKINGS

	Amalgamated Plastics Limited £000	Manton Plastics Limited £000	Alet Packaging Limited £000	1997 £000	1996 £000
Net assets acquired:	(see below)				
Tangible assets	7,104	734	66	7,904	2,364
Stocks	1,537	335	270	2,142	967
Debtors	2,738	1,296	640	4,674	4,244
Cash at bank and in hand	7	11	–	18	663
Bank overdraft	(2,625)	(739)	(343)	(3,707)	(2,136)
Creditors	(4,797)	(1,305)	(378)	(6,480)	(4,111)
Loans and finance lease obligations	(3,624)	(61)	(13)	(3,698)	(834)
Deferred taxation	–	(72)	–	(72)	(65)
	340	199	242	781	1,092
Goodwill	4,816	1,320	871	7,007	11,495
	5,156	1,519	1,113	7,788	12,587
Satisfied by:					
Cash	1,591	1,519	1,113	4,223	7,382
Loan notes issued	1,315	–	–	1,315	–
Shares allotted	2,250	–	–	2,250	5,205
	5,156	1,519	1,113	7,788	12,587
Analysis of net cash outflow in respect of the purchase of subsidiaries:					
Cash consideration	1,591	1,519	1,113	4,223	7,382
Cash and bank balances acquired	(7)	(11)	–	(18)	(663)
Bank overdrafts acquired	2,625	739	343	3,707	2,136
	4,209	2,247	1,456	7,912	8,855

Amalgamated Plastics Limited

	Book value £000	Adjustment £000	Fair value to the Group £000
Fair value table:			
Tangible assets	7,104	–	7,104
Stocks	1,523	14	1,537
Debtors	3,380	(642)	2,738
Cash at bank and in hand	7	–	7
Bank overdraft	(2,625)	–	(2,625)
Creditors	(4,674)	(123)	(4,797)
Loans and finance lease obligations	(3,624)	–	(3,624)
Net assets acquired	1,091	(751)	340

The book value of debtors has been adjusted to reflect provision for bad and doubtful debts. The book value of creditors has been adjusted to reflect liabilities incurred prior to acquisition.

There were no fair value adjustments required in respect of the acquisitions of Manton Plastics Limited and Alet Packaging Limited during the year.

Amalgamated Plastics Limited disclosed turnover of £19,600,000 and losses before taxation of £2,050,000 in the year prior to acquisition. Manton Plastics Limited disclosed turnover of £5,800,000 and losses before taxation of £115,000 in the year prior to acquisition. Alet Packaging Limited disclosed turnover of £3,300,000 and profits before taxation of £55,000 in the year prior to acquisition.

22. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS

	1997 £000	1996 £000
Decrease in cash in the period	(12,714)	(6,160)
Cash inflow from decrease in debt and lease financing	2,836	666
Cash outflow from decrease in liquid resources	–	(3,500)
Decrease in net funds resulting from cash flows	(9,878)	(8,994)
Borrowings acquired with subsidiaries	(3,698)	(834)
New finance leases and loan notes	(1,542)	–
Movement in net (debt)/funds in the period	(15,118)	(9,828)
Opening net funds	4,556	14,384
Closing net (debt)/funds	(10,562)	4,556

23. ANALYSIS OF NET (DEBT)/FUNDS

1997	Cash at bank and in hand £000	Bank overdrafts £000	Bank loans £000	Loan notes £000	Finance leases £000	Total £000
At 1 January 1997	4,820	–	(68)	–	(196)	4,556
Movement in the year	(3,163)	(9,551)	–	–	–	(12,714)
Borrowings repaid	–	–	1,862	–	974	2,836
Borrowings raised	–	–	–	(1,315)	(227)	(1,542)
Borrowings acquired (excluding cash and overdrafts acquired)	–	–	(1,840)	–	(1,858)	(3,698)
At 31 December 1997	1,657	(9,551)	(46)	(1,315)	(1,307)	(10,562)

1996	Current asset investments £000	Cash at bank and in hand £000	Bank loans £000	Finance leases £000	Total £000
At 1 January 1996	3,500	10,980	(90)	(6)	14,384
Movement in the year	(3,500)	(6,160)	–	–	(9,660)
Borrowings repaid	–	–	630	36	666
Borrowings acquired (excluding cash and overdrafts acquired)	–	–	(608)	(226)	(834)
At 31 December 1996	–	4,820	(68)	(196)	4,556

24. FINANCIAL COMMITMENTS

(i) Lease commitments

Annual commitments under non-cancellable operating leases comprise:

Leases which expire:	Land and buildings 1997 £000	Other 1997 £000	Land and buildings 1996 £000	Other 1996 £000
Within one year	375	11	–	149
Within two to five years	43	476	44	283
After five years	389	–	258	–
	807	487	302	432

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

(ii) Contracts for capital expenditure

Contracts for capital expenditure for which no provision has been made in the accounts amounted to £2,409,000 (1996–£2,486,000). Capital expenditure authorised by the directors but not contracted for amounted to £1,476,000 (1996–£2,224,000).

25. SHARE APPROPRIATION SCHEME

A sum of £194,000 has been paid out of 1997 profits (1996–£140,000) to the Trustees of the Macfarlane Group Share Appropriation Scheme which was established in 1990 in order that it may buy and hold shares for specified employees for a tax efficient period. This Scheme bears its own administration expenses. The shares vest unconditionally in the employees once purchased by the Scheme and dividends on the shares are paid to the employees. At 31 December 1997 the Scheme held 296,321 ordinary shares of 25p each, which had a market value of £500,782, on behalf of the employees. Transfers of ordinary shares to eligible employees out of the Scheme take place each year following the completion of the three year tax efficient period.

26. PENSIONS

The Group operates a pension scheme based on final pensionable salary. The assets of the scheme are held separately from those of the Group in managed funds under the overall supervision of the scheme trustees. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of the pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 May 1997. The principal assumptions adopted were that investment returns would average 9% per annum and that salary increases would average 7% per annum. The valuation showed that the market value of the relevant assets of the scheme was £19,055,000 and the actuarial value of these assets represented 84% of the value of benefits that had accrued to members. The trustees of the scheme have maintained the contribution rate, following actuarial advice, and the new contribution levels should reverse the deficit over the estimated remaining service lives of the employees.

The pension charge for the year represents contributions payable by the Group to the funds and amounted to £1,175,000 (1996–£1,187,000). Contributions outstanding at the year end amounted to £39,000 (1996–£35,000).

The Group also operates a number of defined contribution pension schemes. The assets of these schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions paid by the Group to the funds and amounted to £422,000 (1996–£275,000).

Notice of Annual General Meeting

Notice is hereby given that the ninety-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, 26 May 1998 at 12 noon for the following purposes:

Ordinary Business

1. To receive and adopt the directors' report and the accounts for the year ended 31 December 1997.
2. To declare a final dividend.
3. To elect R. G. T. Stenhouse as a director of the company.
4. To elect M. Clark as a director of the company.
5. To re-elect J. G. Lane as a director of the company.
6. To re-elect The Hon. H. S. Macfarlane as a director of the company.
7. To re-appoint the auditors and to authorise the directors to determine their remuneration.

Special Business

To consider and, if thought fit, pass the following resolution:

8. Special Resolution:

(a) that 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 1999 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 £1,585,353 as if Section 89(1) of the Companies Act 1985 did not apply to such an allotment; and

(b) that, 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

John Love

J Love
Secretary

Clansman House
21 Newton Place
Glasgow G3 7PY

27 April 1998

Voting by proxy

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 wish.

The following documents will be available for inspection at the registered office of the company during the usual hours of business on every week day from the date of this notice until the date of the meeting and thereafter at The Merchants House, 7 West George Street, Glasgow G2 1BA from 11.30 am until the conclusion of the meeting.

(a) The register of directors' share interests and those of their families together with a statement of transactions.

(b) Copies of all contracts of service under which the directors are employed by the company or any of its subsidiaries.

Five Year Record

	1993 £000	1994 £000	1995 £000	1996 £000	**1997 £000**
Turnover	96,717	116,956	158,600	157,072	**193,363**
Operating profit	11,930	15,405	20,449	19,856	**22,663**
Exceptional item	–	–	95	–	**–**
Interest receivable	858	996	872	610	**58**
Interest payable	(56)	(95)	(193)	(50)	**(770)**
Profit on ordinary activities before taxation	12,732	16,306	21,223	20,416	**21,951**
Taxation	4,171	5,484	6,633	6,455	**6,472**
Profit for the financial year	8,561	10,822	14,590	13,961	**15,479**
Dividends	2,948	3,784	4,745	5,125	**5,707**
Retained profit for the year	5,613	7,038	9,845	8,836	**9,772**
Earnings per ordinary share	7.50p	9.19p	12.03p	11.38p	**12.23p**
Dividends per ordinary share	2.56p	3.13p	3.90p	4.09p	**4.50p**
Dividend cover	2.9	2.9	3.1	2.7	**2.7**

Financial Diary

DATES TO NOTE

Dividend Payments

Interim	Announced	– August
	Paid	– October
Final	Announced	– March
	Paid	– May

Results

Half year	Announced	– August
Full year	Announced	– March
Report and accounts	Posted to shareholders	– April
Annual General Meeting	Held in Glasgow	– May

Shareholder Enquiries

Enquiries relating to dividend payment, loss of share certificates, dividend warrants and tax vouchers, notification of change of address and transfer of shares to another person should be addressed to the Company's registrars:

Bank of Scotland Registrars, Apex House, 9 Haddington Place, Edinburgh EH7 4AL (Telephone: 0870 6015366)