Company Registration No. 4221
Registered in Scotland

MACFARLANE GROUP PLC

Report and Financial Statements

31 December 1999

MACFARLANE GROUP PLC

REPORT AND FINANCIAL STATEMENTS 1999

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"Macfarlane Group enters the 21st century in great shape to provide even better service and solutions for all our customers throughout the UK and beyond"

Iain D. Duffin *Chief Executive*

HIGHLIGHTS

- Initial strategic review of operations completed
- Four focused divisions trading under Macfarlane brand
- Restructuring will achieve efficiencies and cost benefits
- Strong operating cash flows and low gearing
- Dividend increased to 4.58p per share

CHAIRMAN'S STATEMENT

"Our objective in reshaping Macfarlane Group is to produce a company which will provide total packaging solutions in key markets and deliver double-digit earnings growth as a starting point for generating additional shareholder value. We shall develop our strategy for the company still further in 2000. We shall not shirk from tough decisions to deliver shareholder value."

1999 was another year of challenges and changes within Macfarlane Group. The results for 1999 are in line with expectations, a very creditable performance given the competitive trading conditions. The restructuring programme has progressed well and will be completed in line with the cost levels anticipated. The benefits are already apparent. We also achieved our key objective in the second half of the year by creating four focused business divisions under the Macfarlane brand.

Macfarlane Group faced considerable challenges during 1999. Raw material costs particularly in the Packaging Division and Plastics Division increased significantly. The high value of sterling also impacted on our ability to grow our export sales whilst increasing the competitiveness of imports. I am pleased to report that both Divisions maintained their performance in the second half of the year despite these pressures.

To provide shareholders with more detailed information about our performance, we report on each of the divisions in the Operating Review later in this report. In summary, progress in 1999 is as follows:

Merchanting

Macfarlane Merchanting continues to outperform its competitors in driving forward the Group's packaging sales, whilst providing a secure distribution channel for a number of products manufactured in the Group. The main development of activity in recent years was to pursue the addition of new branches to the network. As the branch network became more comprehensive in its geographical coverage, now 23 locations, so the effectiveness of this strategy gradually diminished. This strategy has now been reviewed to determine the best method of building on the Division's clear competence for the nation-wide distribution of packaging materials, allowing the branches to focus on customer service, whilst at the same time maximising profitability from the branch network.

Packaging

Two of the companies previously in our Ventures Division, Aston Packaging and A & W Fullarton, have now been integrated into the Packaging Division. All five companies in the Division integrated to form Macfarlane Packaging from 1 January 2000, reducing costs, increasing efficiencies and providing an increased focus. The restructuring programme progresses and whilst costs are being incurred, the exercise is being carried out in conjunction with a review of the Division's property portfolio to reduce the number of sites and mitigate costs.

Plastics

The Plastics Division (formerly Industrial Film) performed well in 1999. Wicklow Custom Packaging, the plastic injection moulding specialist, has now been integrated into the Division due to its common customer approach and processes with the other companies in the Division. Following the purchase of Orion Flexo and Ketts Products in 1999, the six companies will become one corporate entity in the first quarter of 2000. The process of integration will deliver efficiency benefits. Further strategic acquisitions are being sought to enhance the product portfolio in the Division.

Labels

Our Labels Division solely comprises N S Macfarlane. It remains our intention to develop the Division to build on the excellent results achieved in the year to date at our high quality operation in Kilmarnock.

Under strategic review

Both companies highlighted as under strategic review in September 1999, Daniel Montgomery & Son and Flo-pak (UK), have now been sold.

Financial performance

The year under review was a testing period. Profits before restructuring charges and losses on disposal of companies decreased by 6.6% to £14.1 million from £15.1 million. Despite challenging trading conditions the Group maintained gross profit percentages at similar levels to 1998. Earnings per share before restructuring charges and losses on disposal reduced 10.6% from 8.37p to 7.48p.

The initial strategic review of the Group's operations by Iain Duffin is now substantially complete. Our four focused operating divisions are in place following the restructuring announced in September 1999. The cost of the restructuring programme outlined in December 1999 is in line with initial indications and the resultant benefits will be realised in 2000 and beyond. Daniel Montgomery & Son was sold in December 1999, incurring a loss on disposal of £6.58 million. The cash effect of the restructuring and the disposal was minimal and our net debt position remains modest.

As a result, your Directors recommend a final dividend of 3.00p per share which, together with the interim dividend of 1.58p already paid, will bring the total for the year to 4.58p, a 1% increase on last year. The dividend was paid out of our traditionally strong cash flows. Operating cash flows and the balance sheet remained strong in 1999.

Investment

We have continued to invest in order to support future growth plans. In 1999, capital expenditure was restricted to £4.3 million, reflecting our objectives to generate returns from capital expenditure incurred in previous years. In addition there have been moves particularly in our Plastics Division, to use bolt-on acquisitions as an alternative to capital expenditure driven growth.

A number of our Divisions already have links in Europe and other continents to more effectively service our global customers. Whilst the strength of sterling currently disadvantages many UK manufacturing companies, there is no doubt that proximity to customers who relocate overseas will be a requirement in the medium term. Any such expansion will be financed from our existing borrowing facilities.

Board changes

Iain Duffin was appointed Chief Executive on 14 June 1999 and has now completed the initial steps of his strategic review. On 12 July 1999 John Love was appointed Finance Director.

As previously announced, Bill Mackie and Andrew Reekie left the service of the Group in June and July 1999 respectively after many years service in the company. Gordon Lane stepped down from the Board in August 1999 to pursue other interests. Iain Duffin has assumed his responsibilities for acquisition and divestment policy. Hamish Macfarlane left the Board in December 1999 to pursue other business interests.

Management Structure

To introduce the new corporate strategy, to secure synergies and to maximise commercial opportunities across the Group a new divisional business structure was created. During the year the Board has significantly enhanced the management capability within the Group by making a number of key appointments to support the newly constituted Divisional teams in fulfilling the challenging objectives set for them.

The issue of executive remuneration is a key factor in helping to lead the company towards the achievement of its goals. At our Annual General Meeting in May 2000 we shall seek shareholder approval for a range of recommendations to underpin performance improvements in the Company.

Employees

Restructuring a company and rebranding under new groupings is a major task. All our management teams and employees deserve our gratitude for their commitment and resolve in meeting the considerable challenges we faced during 1999.

Prospects

This is undoubtedly a time of exciting changes within Macfarlane Group.

The Board fully supports the new Executive Team in their efforts to restructure the Company. The Executive team is targeting increases in sales and improved operating efficiencies in all Divisions. The performance of each Division will continue to be benchmarked against a range of comparator companies to ensure that meaningful improvements in performance can be achieved.

Trading in 2000 has continued to be competitive and although Merchanting, Packaging and Labels are ahead of expectations, Plastics is currently suffering from strong competition in its markets.

At our Annual General Meeting this year, the Board intends to seek shareholder approval to buy back shares in the company. We shall use this authority only where it is felt appropriate and where there are no immediate investment opportunities to utilise surplus funds. The Board currently has no present intention to buy back shares but believes it is right to have the flexibility to do so taking into account the company's cash position and market liquidity in the company's shares.

Our objective in reshaping Macfarlane Group is to produce a company which will provide total packaging solutions in key markets and deliver double-digit earnings growth as a starting point for generating additional shareholder value. We shall develop our strategy for the company still further in 2000. We shall not shirk from tough decisions to deliver shareholder value in Macfarlane Group.

John M. Ward
Chairman

OPERATING REVIEW

MERCHANTING DIVISION

"Just-in-time and next day delivery to 30,000 customers"

Macfarlane Merchanting Limited, which recorded steady sales growth in 1999, 7% ahead of 1998, is the former Abbott's Packaging. Through a nation-wide branch structure, the business operates just-in-time and next-day delivery of industrial packaging materials to over 30,000 customers. The Division is an integral part of our strategic focus to deliver service based packaging solutions to a wide range of customers, generating attractive returns and providing a secure distribution channel for products manufactured in Macfarlane Group.

The main development in recent years has been to pursue the addition of new branches to the network. As the network has become more comprehensive in geographical coverage, so the effectiveness of this strategy has diminished.

The management team reviewed the branch network in 1999 and identified geographical clusters of small branches, which should be consolidated into fewer larger sites. At some sites telesales operations and other Division-wide support operations will be introduced. The consolidation will take place at a relatively small cost and position the Division to more readily meet customer requirements and constantly changing methods of transacting business in future years. The costs to vacate properties and headcount reductions in 1999 are £0.72m. The resultant benefits in 2000 will be £0.35m.

The Division continues to purchase from Group companies as well as stocking and distributing internationally branded packaging products. The ability to offer a high profile service from a local base continues to attract several multi-location customers requiring a high degree of flexibility and logistical support from their suppliers.

PACKAGING DIVISION

"Managing customers' packaging supply chain"

Our Packaging Division, with the original members, Clansman Cases, Controlled Packaging Services and *Mitchell Packaging now includes* Aston Packaging and A & W Fullarton. All five companies integrated to form **Macfarlane Packaging Limited,** from 1 January 2000, reducing costs, increasing efficiencies and providing an increased focus.

The Division responded well to pricing pressures in the second half of 1999, particularly substantial raw material price increases from manufacturers.

The management team has reviewed all activities including the number of manufacturing sites and concluded that the products offered to customers need to be enhanced through improved product design and by further concentration of *manufacturing expertise at specific* sites.

This resulted in site closures with asset write downs and reductions in headcount. The costs of closure were £2.05m *and headcount reductions* cost £1.75m with the resultant benefits expected to reach £0.95m on an annualised basis.

The recently acquired Western Foam, based in California, is trading well and has brought exciting new processes in the approach to market and its knowledge base which will be applied in the UK.

Recent developments in the UK include moves by larger customers to outsource their packaging requirements. Two significant new customers are pilot-testing schemes to manage their packaging supply chain requirements in a manner similar to that used by our Merchanting Division for their customers.

Our Packaging Division is developing its strategy to provide *packaging solutions to a wide* range of customers. This strategy is developing into the role of a full-*service packaging provider for larger* businesses, liaising closely with its customers' supply chain management to provide an efficient and effective service.

OPERATING REVIEW continued

PLASTICS DIVISION

"Enhancing the product portfolio by acquisition"

Our Plastics Division performed extremely well in the first half of 1999. Wicklow Custom Packaging, the plastic injection moulding specialist, has now been integrated into the division due to its common customer approach and processes with the other companies in the Division.

Profitability in the second half of 1999 suffered the effects of the well-documented hardening of raw material prices throughout 1999, particularly the latest increases sustained in October and November, which proved more difficult to recover from customers, who are used to operating in a price-down environment.

Orion Flexo had a difficult year being the company hardest hit by the increased raw material costs. Ketts Products has traded well since its acquisition.

Following the purchase of Orion Flexo in February 1999 and Ketts Products in September 1999, plans are well advanced to combine all the companies into one corporate entity, **Macfarlane Plastics Limited**, in the first quarter of 2000. The costs to reduce the layers of management were as envisaged at £0.40m with resultant benefits of £0.35m expected in 2000. Further strategic acquisitions are being sought to enhance the product portfolio in the Division. Macfarlane Plastics will be a key player in the plastics industry.

All existing manufacturing sites will contribute to the continued progress of the Division. The performance of the Division will be improved in 2000 by increasing the product range offered to the customers. A number of bolt-on acquisitions continue to be targeted as an alternative to capital expenditure driven organic growth.

LABELS DIVISION

"Substantial long-term contracts secured"

Macfarlane Labels Limited comprises the former N.S. Macfarlane & Co. It remains our intention to develop the Division and to build on the excellent results achieved in the year to date at our high quality operation in Kilmarnock.

Pricing pressures remain evident but the Division is responding well *to all business opportunities and has* secured a number of substantial long-term contracts from existing customers despite strong competition.

Whilst there will undoubtedly be an impact on short-term profitability from the renewal of these contracts, securing the business for extended periods will enable the Division to take advantage of opportunities to participate in exciting new projects with these customers.

Our Labels Division has continued to perform well in an extremely competitive market environment. Pricing pressures remain but Macfarlane Labels is responding well to all business opportunities.

The Division continues to provide the highest quality self-adhesive labels to major customers throughout the UK *particularly in the beauty-care,* healthcare, food and pharmaceutical industries. New market sectors are being targeted to broaden the sales base of the Division.

FINANCIAL REVIEW

Group turnover for the year increased by 2.2% to £196.3 million from the previous year's figure of £192.1 million. Profits before restructuring charges and losses on disposal of companies amounted to £14.1 million, a decrease of 6.6% over the £15.1 million earned in the previous year. The operating margin before these expenses was 7.6% as against 8.5% previously.

The Merchanting Division increased its operating profits by £32,000 demonstrating good turnover growth. Our Packaging Division's operating profits reduced by £1,608,000 reflecting pricing pressures throughout the Division particularly in the first half of the year. The Plastics Division recorded an increase in operating profits of £111,000 in a competitive market with Clansman Films (now Macfarlane Plastics), the main contributor. An excellent performance by our Labels Division led to increased profits of £153,000. The two companies classed as under strategic review suffered pressure on margins which led to increased operating losses of £77,000.

Interest and borrowings

Net interest payable amounted to £821,000 compared to £1,248,000 in 1998. The interest charge is relatively modest, despite continued capital expenditure, the cash cost of three acquisitions and borrowings inherited from these acquisitions. The charge reflects continuing efforts to ensure that profits are matched by positive cash generation.

Interest cover remains strong and it is the directors' aim to maintain sensible levels of gearing.

Dividends and taxation

An interim dividend of 1.58p per share was paid on 7 October 1999. The directors have recommended that a final dividend of 3.00p be paid on 25 May 2000 to those shareholders on the register at close of business on 14 April 2000. The total dividend for the year will amount to 4.58p, a 1% increase from the previous year, reflecting strong operating cash flows and the minimal cash impact of the restructuring and divestments.

The overall rate of tax for the year on earnings before the disposal of Daniel Montgomery was 32.8% compared with 29.6% the previous year. The underlying tax charge is above the standard rate, due to restructuring charges not allowable for tax purposes.

Capital expenditure and acquisitions

During 1999 capital expenditure amounted to £4.3 million, well below the £12.6 million spent in 1998. A key objective is to generate good returns from the considerable investments made in previous years. The modest investment made this year covers all Divisions and reflects investment for the future.

In addition, three companies Orion Flexo, Western Foam Packaging Products Inc. and Ketts Products were acquired. The cash element of the acquisitions, together with total inherited indebtedness amounted to £6.6 million.

Shareholders' funds

Shareholders' funds have reduced to £67.7 million from £74.4 million, reflecting the restructuring programme and the loss on disposal of Daniel Montgomery. Net losses absorbed by reserves amounted to £6.2 million.

At the year-end the Company's market capitalisation was £97.7 million, compared with £81.2 million last year. The share price at 31 December 1999 was 77p, an increase of 13p from the previous year end.

At our Annual General Meeting on 22 May 2000, the Board intends to seek shareholder approval to buy back up to 10% of the shares in the company. We shall use this authority only where it is felt appropriate and where there are no immediate investment opportunities to utilise surplus funds. The Board currently has no present intention to buy back shares but believes it is right to have the flexibility to do so taking into account the Company's cash position and market liquidity in the Company's shares.

Funding and cash flow

Although the cost of acquisitions and capital expenditure amounted to £10.9 million, net debt at the end of the year was only £9.7 million, compared with £11.4 million at the end of 1998. Cash flow from operating activities has again been very positive at £19.1 million and the Group's financing requirements have been met by short-term borrowings.

Access to adequate funds is ensured by maintaining committed levels of borrowing facilities. Accordingly, bank facilities are in place to meet the future anticipated financing requirements in the Group.

Under Strategic Review

Both companies highlighted as under strategic review in September 1999 have now been sold. Daniel Montgomery & Son and Flo-Pak (UK) were viewed as businesses which did not readily fit into our new divisional framework. Both were sold to international companies who had very specific focus on the manufacturing activities involved, injection moulding and loosefill manufacture respectively.

As announced on 1 December 1999, the Group disposed of Daniel Montgomery for a consideration of £2m, net of expenses of sale. Macfarlane Group incurred a loss on disposal of £6.6m after all expenses of the sale were taken into account. The loss incurred by the company to the date of disposal was £1.2m on a turnover of £8.1m.

The other company noted as under strategic review, Flo-pak (UK) was sold on 11 February 2000 for a consideration of £3.6m, net of expenses of sale. A profit on disposal of £0.5m will be recorded in the results for 2000. The operating profit incurred by the company in 1999 was £0.4m on a turnover of £3.3m.

Financial instruments

The Group's financial instruments comprise borrowings, cash and liquid resources, and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of 1999.

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in the desired currencies at floating rates of interest. Interest rate exposures are reviewed regularly and financial instruments considered. At present these exposures are not covered by financial instruments.

Liquidity risk

The Group's policy with regard to liquidity is to ensure adequate access to funds is ensured by maintaining appropriate levels of overdraft facilities, which are then reviewed on a regular basis. The maturity profile of debt outstanding at 31 December 1999 is set out in notes 16 and 17 to the accounts.

Currency risk

The Group has two overseas subsidiaries which operate in the USA and Ireland. Revenues and expenses are denominated exclusively in US dollars and Irish punts. As a result the Group's sterling balance sheet could be affected by movements in the US dollar/sterling and Irish punt/sterling exchange rates. The Group's policy during 1999 has been not to hedge these exposures. For 2000 onwards the Group's policy will be to review the need to hedge such exposures on a monthly basis.

Accounting policies

The Group continues to comply with all mandatory Financial Reporting Standards and has adopted the reporting requirements of the new FRS's issued during the year as set out in the accounting policies on page 24. It is the Directors' view that the adoption of these FRS's has not had a material effect on the results for the current year.

Year 2000

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. At the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

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.

BOARD OF DIRECTORS

From left to right
Standing: Bob Speirs; Guy Stenhouse; Mike Clark and Archie Hunter.
Seated: John Love; John Ward and Iain Duffin.

ADVISERS

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No. 4221
Registered in Scotland

Company Secretary
John Love

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2 Cloth Hall Street
Huddersfield HD1 2ES

Solicitors
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302 St Vincent Street
Glasgow G2 5RZ

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

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

Speirs & Jeffrey Limited
36 Renfield Street
Glasgow G2 1NA

Registrars
Lloyds TSB Registrars Scotland
117 Dundas Street
Edinburgh EH3 5ED

John M. Ward
Non-Executive Chairman
Joined the Group Board on 1 January 1996. A chartered accountant, aged 59, he is the Chairman of Scottish Homes and the Scottish Post Office Board and a Non-executive Director of Dunfermline Building Society and European Assets Trust. He was appointed Chairman at the Annual General Meeting in May 1998. He is the Chairman of the Nominations Committee.

Iain D. Duffin
Group Chief Executive
Iain Duffin, aged 53, was appointed Group Chief Executive on 14 June 1999. Was with Hughes MicroElectronics from 1968, becoming Managing Director in 1983, and later CEO of Hughes MicroElectronics Europe Limited, then moving to Hughes Aircraft in the United States as Group Vice President. He moved to ITT Cannon in 1997 to become President and was appointed a Corporate Vice President of ITT Corp. He then accepted the position of Senior Vice President of LucasVarity based in the UK, responsible for strategy, business planning and mergers and acquisitions.

Michael Clark
Chief Executive - Plastics Division
Aged 50, he founded Centurion Packaging, now Macfarlane Plastics, in 1978. Joined Macfarlane Group when Centurion Packaging was acquired in September 1994. He was appointed Chief Executive of the Plastics Division on 1 July 1998, reflecting the Group's commitment to film extrusion and conversion. He joined the Group Board on 1 January 1998 and has made Macfarlane Plastics a key player in the plastics industry.

John Love
Group Finance Director
A member of the Institute of Chartered Accountants of Scotland, he has been with the Group for four years and was appointed Group Finance Director on 12 July 1999. Aged 39, he was with Deloitte & Touche and its predecessor firms for sixteen years before moving to Macfarlane Group in 1996.

Archie S. Hunter
Non-executive Director
Appointed on 1 October 1998, he was formerly the senior partner of KPMG in Scotland. Aged 56, he was a member of KPMG's UK Governing Body from 1992 until 1998. He is also a past President of The Institute of Chartered Accountants of Scotland and is a Non-executive Director of Clydeport plc and Beatson Cancer Research Institute and on the Court of Strathclyde University. He is Chairman of the Remuneration Committee and a member of the Audit Committee and Nominations Committee.

Bob Speirs
Senior Independent Director and Non-executive Director
Appointed on 1 October 1998, he was Group Finance Director of The Royal Bank of Scotland plc until 23 October 1998. Aged 63, he is a fellow of the Chartered Institute of Secretaries. Other directorships include posts as Non-executive Director of Direct Line Insurance plc, Miller Group Limited, Bell Group plc, Stagecoach Holdings plc and Martin Currie Income & Growth Trust plc. He is a member of the Audit, Nominations and Remuneration Committees and is Macfarlane Group's Senior Independent Director.

R. Guy T. Stenhouse
Non-executive Director
Appointed on 26 May 1998, he is an Executive Director of Noble Grossart Limited the Scottish merchant bank. His other directorships include CALA Group Limited and Aardvark Self Storage Limited. Aged 38, he is Chairman of the Audit Committee and a member of the Nominations Committee and the Remuneration Committee.

REPORT OF THE DIRECTORS

The directors present their annual report and the audited Group accounts for the year ended 31 December 1999.

Principal Activities

There have been no significant changes in the activities of the Company and its subsidiaries which are the manufacture and distribution of packaging, 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 39. Analysis by Division and geographical area is shown in note 1 on page 25.

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 Reviews on pages 2 to 9.

Results and Dividends

The Group profit on ordinary activities before taxation was £2,618,000 after charging restructuring costs of £4,917,000 and a loss on the disposal of Daniel Montgomery & Son Limited of £6,580,000. (1998 – £15,077,000). The directors recommend payment of a final dividend of 3.00p to be paid on 25 May 2000 making a total of 4.58p for the year (compared with 4.53p for the year ended 31 December 1998). The loss for the year amounting to £6,207,000 (1998 – retained profit £4,868,000) will be set against 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 £1,585,353. 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.

At the Annual General Meeting on 22 May 2000, the Board intends to seek shareholder approval to buy back up to 10% of the shares in the company. This authority shall be used only where it is felt appropriate and where there are no immediate investment opportunities to utilise surplus funds. The Board has no present intention to buy back shares but believes it is right to have the flexibility to do so should circumstances arise where a share buy-back might be appropriate.

Substantial Holdings of Shares in the Company

The Company has received notification that at 14 March 2000 the following members held more than 3 per cent of the ordinary share capital.

	Holding	Percentage
Funds managed or advised by Schroder Investment Management Limited	11,629,251	9.17%
Funds managed or advised by Deutsche Morgan Grenfell	7,976,893	6.29%
Funds managed or advised by Prudential Corporation plc	5,367,875	4.23%
The Alliance Trust PLC and The Second Alliance Trust PLC	4,957,024	3.91%
Lord Macfarlane of Bearsden KT and Lady Macfarlane	4,782,873	3.77%
Funds managed by Norwich Union Investment Management Limited	4,712,389	3.72%
J. Godfrey Lane and Mrs Winnifred L. Lane	4,000,000	3.15%

Board of Directors

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

W.P. Mackie, A. Reekie, G.S. Lane and The Hon. Hamish S. Macfarlane left the service of the company on 30 June 1999, 12 July 1999, 9 August 1999 and 30 December 1999 respectively.

I.D. Duffin was appointed a director of the company on 14 June 1999. J. Love was appointed a director of the company on 12 July 1999. Both retire at the Annual General Meeting and offer themselves for election. I.D. Duffin has a service contract with the company for a period of one year, although the notice period would extend to two years in the event of a take-over of the company before 13 June 2003. J. Love has a service contract with the company for a period of one year. M. Clark retires by rotation in accordance with the articles of association and, being eligible, offers himself for re-election. He has a service contract with the company for a period of one year.

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 PLC is contained in note 4 on page 27.

Directors' and Officers' Liability Insurance

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

Employee Share Schemes

During the year no ordinary shares were issued on the exercise of options under the Group's share option schemes. One grant of options was made to Iain Duffin as part of his recruitment package. Details are set out in note 4 on page 27. All remaining options outstanding under the Company's share option schemes are set out in note 20 on page 34. The Board and Remuneration Committee have conducted a review of the Company's remuneration policy in the light of the recommendations in the Combined Code, the views of institutional shareholders and current market practice. It has considered appropriate long-term incentive schemes for senior management and has concluded that share option schemes remain the most effective type of long-term incentive for the Company. To take account of changes in corporate practice and ongoing economic circumstances, a number of Resolutions will be proposed at the forthcoming Annual General Meeting to introduce a range of incentive schemes to more readily align executive benefits with the creation of shareholder value.

The Remuneration Committee supervises the grant of options, which are only capable of being exercised if the performance condition to which they are subject has been satisfied. The performance condition will be specified by the Remuneration Committee at the time of the grant of the option, having regard to the objectives of the Company and to market practice at the relevant time. It is proposed that the minimum performance condition attached to grants for 1999/2000 will be that options can only be exercisable if the growth in the Company's normalised earnings per share over any three year period during the option's life has exceeded the growth in the Retail Prices Index over that period by an average of at least 5 per cent per annum.

£161,000 was allocated from 1999 profits (1998 – £183,000) 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 Orion Flexo Limited on 5 February 1999, Western Foam Packaging Products Inc. on 7 September 1999 and Ketts Products Limited on 30 September 1999. Further information on these acquisitions is contained in note 23 on page 35.

Disposals

The Company sold the whole issued share capital of Daniel Montgomery & Son on 1 December 1999, for a consideration of £2,000,000 after attributable expenses. Information on the disposal is shown in note 24 on page 35.

Fixed Assets

The movements in tangible assets are set out in note 12 on pages 29 and 30. Significant changes during the year arose from major investments in new plant and equipment for the Plastics Division and the sale and leaseback of the Group's private car fleet.

Environmental Policy

It is the Group's policy to attempt to minimise the impact of our 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. A number of the Group's manufactured products contain a high proportion of recycled material.

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.

REPORT OF THE DIRECTORS continued

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. All companies in the Group follow the policy 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 36 days purchases outstanding in trade creditors.

Political and Charitable Contributions

No charitable contributions or political donations were made during the current or preceding financial year.

Post Balance Sheet Event

On 11 February 2000 the company sold the whole of the issued share capital of Flo-pak (UK) Limited for a cash consideration of £3,800,000.

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
J. Love
Secretary
21 Newton Place
Glasgow G3 7PY
14 March 2000

John Love.

CORPORATE GOVERNANCE

Introduction
In June 1998 the Combined Code was issued by the London Stock Exchange. This Code is based on the report of the Hampel Committee and sets out Principles of Good Corporate Governance and Code provisions which consolidate the work of the earlier Cadbury and Greenbury Committees. A narrative statement on how the company has applied the principles to ensure compliance with the Code appears on the next two pages.

Directors, Board Meetings and Procedures
The Company is controlled through the Board of Directors which currently comprises three executive and four non-executive directors. As the Chairman is responsible for the running of the Board, he ensures that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings to allow the directors to bring an independent judgement to bear on all issues. The Chief Executive's responsibilities focus on co-ordinating the company's business and implementing the Group strategy.
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. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.
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 a number of the Board Committees. The non-executive directors are appointed for a specific term and their re-appointment is not automatic. The Board has minuted its view that A.S. Hunter, R. Speirs and R.G.T. Stenhouse are independent non-executive directors as defined by the Combined Code.
The Board has a formal schedule of matters reserved to it and meets at least eight 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. It monitors the exposure to key business risks and reviews the direction of individual trading subsidiaries, their annual budgets, progress towards the achievement of those budgets and their capital expenditure programmes. At each meeting, the Board considers reports from the Chairman, Chief Executive and Finance Director.

Board Committees
The board has established a number of standing committees. Each committee operates within defined terms of reference. The principal committees are the Executive Committee, the Audit Committee, the Remuneration Committee, the Capital Structures and Financing Committee and the Nominations Committee.
The Executive Committee comprises the three executive directors, the divisional chief executives and three other group executives. The Committee is responsible for the day to day management of the Company and meets eight times a year.
The Audit Committee comprises three independent non-executive directors and has specific terms of reference dealing with its authority and duties. It meets routinely four times a year, with other meetings as necessary and minutes are circulated to all board members. The finance director, the internal auditors and the external auditors attend such meetings by invitation and provide reports as required by the committee. At each meeting attended by the external auditors, part of the meeting is held between the external auditors and the non-executive directors in private, where appropriate. The committee reviews the monitoring of the adequacy of the Group's internal controls, accounting policies and financial reporting. The committee also makes recommendations to the Board where it feels it is appropriate. In addition the committee is responsible for considering the appointment and levels of fees of the external auditors.
The Remuneration Committee, which now comprises three independent non-executive directors, has specific terms of reference which deal with its authority and duties. It meets routinely twice each year, with other meetings as necessary and the minutes are circulated to all board members. The committee considers the performance of executive directors as a prelude to determining their annual remuneration, bonus awards and long term incentive awards. The report of the Board on Directors' Remuneration is set out on page 17.
The Capital Structures and Financing Committee, which comprises one non-executive director, the finance director and group financial controller, has specific terms of reference which deal with its authority and duties. It meets routinely twice each year, with other meetings as necessary and the minutes are circulated to all board members. The committee considers the capital structure of the company and the suitability of alternative sources of finance available to the Company prior to making recommendations to the Board for approval.
The Nominations Committee comprises the Chairman and the three independent non-executive directors and makes recommendations to the Board on all new board appointments. Its members meet routinely twice each year, with other meetings as necessary. The Committee also considers the extent of any training required for newly appointed directors.

CORPORATE GOVERNANCE continued

Relations with Shareholders
The Company encourages communication with both its institutional and private investors and responds promptly to all queries received in writing. The Chairman, Chief Executive and Finance Director attended a number of meetings with analysts and institutional shareholders in 1999. All shareholders have at least twenty working days notice of the Annual General Meeting at which all directors and Committee Chairmen are available to answer questions.

Accountability and Audit
Financial reporting Detailed reviews of the performance and financial position of each Division are included in the Operating and Financial Reviews on pages 4 to 9. The Board uses this together with the Chairman's Statement on pages 2 and 3 and the Directors' Report on pages 12 to 14 to present a balanced and understandable assessment of the Company's position and prospects. The directors' responsibility for the financial statements is described on page 18.
Internal financial control The directors acknowledge their ultimate responsibility for the Group's system of internal financial control. Such a system can provide reasonable but not absolute assurance against material misstatement or loss and relates only to the needs of the business at that time. The key procedures of the Group's internal financial control framework are set out below.
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 conducted for 1999 an annual review of the effectiveness of the system of internal financial control and has taken account of material developments which have taken place. The review was performed on the basis of the criteria set out in the Guidance for Directors "Internal Control and Financial Reporting" issued in December 1994. 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 auditor's work.

Compliance Statement
The Listing Rules require the Board to report on compliance with the provisions of the Combined Code throughout calendar year 1999. The Company has complied throughout the accounting period ended 31 December 1999 with the provisions set out in Section 1 of the Combined Code.
As permitted by the London Stock Exchange, the Company has complied with Code provision D2.1 on internal control by reporting on internal financial control in accordance with the guidance on internal control and financial reporting issued in December 1994. In respect of the application of Code Principle D.2, the Board has adopted the transitional approach as permitted by the London Stock Exchange and will have the procedures necessary to implement the guidance by 30 June 2000.

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

The Remuneration Committee comprises A.S. Hunter (Chairman), R.G.T. Stenhouse and R. Speirs.

None of the Remuneration 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.

The Remuneration Committee meets routinely twice each 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 independent non-executive directors, who now comprise the Remuneration Committee, determine 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 achievable was 25 per cent of basic salary for 1999. Levels of basic salaries are reviewed each year or when an individual has a change of responsibility.

Details of those directors retiring by rotation at the forthcoming Annual General Meeting are set out in the report of the directors on page 12 and directors' contracts of service will be available for inspection at the Annual General Meeting. Messrs. M. Clark, I.D. Duffin and J. Love have service contracts with a notice period of one year, which terminate on attaining the age of 65. Where the terms and conditions agreed by the Nominations Committee provide for an initial notice period in excess of one year, the Committee recommends that this principle should also apply and that there should be a reduction to one year as soon as practicable. 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, however, it supports the principle of mitigation relative to the compensation settlement on the departure of an Executive Director.

Executive directors are entitled to accept appointments outside the Company provided the Board's permission is obtained. The Board may require the fees from such appointments to 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. The performance criterion that must be met for these options requires the Group's earnings per share to exceed the Retail Price Index increase by not less than between 5 and 10 per cent for each of the three consecutive financial years over which the condition must be met. The Remuneration Committee has reviewed the range of long-term incentives available and subject to shareholder approval, intends to introduce a range of incentive schemes which more accurately reflect current practice and align executive rewards with the creation of shareholder value. The underlying objective remains ensuring that schemes are in line with best practice and promote 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. I.D. Duffin and J. Love are members of the final salary scheme with retirement benefits based on pensionable earnings, in the years prior to retirement. This is consistent for all members of the pension scheme, throughout the Group, who have their benefits calculated on this basis. M. Clark has a money purchase arrangement into which monthly contributions are made. 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 26 and 27.

STATEMENT OF 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;

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 PLC (Formerly Macfarlane Group (Clansman) PLC)

We have audited the financial statements on pages 20 to 37 which have been prepared under the accounting policies set out on page 24.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described above, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement on page 16 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider 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 1999 and of the loss 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
14 March 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1999

		Note	Before exceptional items £000	Exceptional items £000	1999 £000	1998 £000
TURNOVER		1				
Continuing operations	– excluding acquisitions		190,555	–	**190,555**	192,143
	– acquisitions		5,786	–	**5,786**	–
TOTAL TURNOVER			196,341	–	**196,341**	192,143
Cost of sales			127,058	–	**127,058**	122,841
GROSS PROFIT			69,283	–	**69,283**	69,302
Distribution costs			12,679	–	**12,679**	12,168
Administrative expenses			41,989	4,917	**46,906**	42,214
Other operating income		3	(321)	–	**(321)**	(1,405)
OPERATING PROFIT		1	14,936	(4,917)	**10,019**	16,325
Continuing operations	– excluding acquisitions		14,676	(4,917)	**9,759**	16,325
	– acquisitions		260	–	**260**	–
OPERATING PROFIT		1	14,936	(4,917)	**10,019**	16,325
Loss on disposal of business – continuing operations		24	–	(6,580)	**(6,580)**	–
PROFIT BEFORE INTEREST			14,936	(11,497)	**3,439**	16,325
Interest receivable and similar income					**62**	54
Interest payable and similar charges		6			**(883)**	(1,302)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION					**2,618**	15,077
Taxation on profit on ordinary activities		7			**3,016**	4,464
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		8			**(398)**	10,613
Dividends on equity shares		9			**5,809**	5,745
RETAINED/(LOSS) PROFIT FOR THE YEAR					**(6,207)**	4,868
(Absorbed by)/retained by:						
Macfarlane Group PLC					**(5,033)**	762
Subsidiaries					**(1,174)**	4,106
					(6,207)	4,868
Earnings/(loss) per ordinary share of 25p		10	7.48p	(7.79p)	**(0.31p)**	8.37p
Diluted earnings/(loss) per ordinary share of 25p (as per FRS 14)		10	7.48p	(7.79p)	**(0.31p)**	8.36p

BALANCE SHEETS

At 31 December 1999

	Note	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
FIXED ASSETS					
Intangible assets	11	5,542	963	–	–
Tangible assets	12	61,615	73,342	1,017	1,230
Investments	13	–	–	39,056	46,944
		67,157	74,305	40,073	48,174
CURRENT ASSETS					
Stocks	14	11,670	12,767	–	–
Debtors	15	45,094	42,301	7,313	8,901
Cash at bank and in hand		1,674	1,610	15,134	11,239
		58,438	56,678	22,447	20,140
CREDITORS: amounts falling due within one year	16	55,518	53,761	6,652	6,072
NET CURRENT ASSETS		2,920	2,917	15,795	14,068
TOTAL ASSETS LESS CURRENT LIABILITIES		70,077	77,222	55,868	62,242
CREDITORS: amounts falling due after more than one year	17	95	119	500	1,862
PROVISIONS FOR LIABILITIES AND CHARGES	19	2,295	2,702	26	5
TOTAL NET ASSETS		67,687	74,401	55,342	60,375
CAPITAL AND RESERVES					
Called up share capital	20	31,707	31,707	31,707	31,707
Share premium account	21	7,547	7,547	7,547	7,547
Revaluation reserve	21	3,157	3,206	–	–
Profit and loss account	21	25,276	31,941	16,088	21,121
TOTAL EQUITY SHAREHOLDERS' FUNDS		67,687	74,401	55,342	60,375

These financial statements were approved by the board of directors on 14 March 2000 and signed on its behalf by:

Iain D. Duffin Chief Executive

John Love John Love. Finance Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 1999

	Note	1999 £000	1998 £000
CASH FLOW FROM OPERATING ACTIVITIES	22	19,147	24,609
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		74	54
Interest paid		(843)	(1,238)
Interest element of finance lease rentals		(50)	(68)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(819)	(1,252)
TAXATION			
UK Corporation tax paid		(4,424)	(5,728)
Overseas taxation paid		(45)	(87)
TAX PAID		(4,469)	(5,815)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of tangible fixed assets		(4,999)	(12,231)
Disposal of tangible fixed assets		4,019	1,368
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(980)	(10,863)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiaries	23	(6,564)	(1,777)
Disposal of subsidiaries	24	2,000	-
NET CASH OUTFLOW FROM ACQUISITIONS AND DISPOSALS		(4,564)	(1,777)
EQUITY DIVIDENDS PAID		(5,745)	(5,745)
NET CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING		2,570	(843)
MANAGEMENT OF LIQUID RESOURCES		-	-
FINANCING			
Capital element of finance lease rentals		(480)	(802)
Repayment of bank loans and loan notes		(450)	(264)
NET CASH OUTFLOW FROM FINANCING		(930)	(1,066)
INCREASE/(DECREASE) IN CASH IN THE PERIOD	25	1,640	(1,909)

Liquid resources comprise short-term deposits.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 1999

	1999 £000	1998 £000
(Loss)/profit attributable to members of the company	(398)	10,613
Exchange movement on retranslation of the net investment in overseas subsidiaries	(507)	119
TOTAL GAINS AND LOSSES RECOGNISED SINCE THE LAST ANNUAL REPORT	(905)	10,732

NOTE OF HISTORICAL COST PROFITS AND LOSSES

For the year ended 31 December 1999

	1999 £000	1998 £000
Reported profit on ordinary activities before taxation	2,618	15,077
Realisation of property revaluation gains of previous years	–	109
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	49	78
HISTORICAL COST PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,667	15,264
HISTORICAL COST (LOSS)/PROFIT FOR THE YEAR RETAINED AFTER TAXATION AND DIVIDENDS	(6,158)	5,055

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

For the year ended 31 December 1999

	1999 £000	1998 £000
(Loss)/profit for the financial year	(398)	10,613
Dividends on equity shares	(5,809)	(5,745)
	(6,207)	4,868
Exchange (loss)/gain on retranslation of overseas subsidiaries	(507)	119
Purchased goodwill written off	–	(144)
NET (REDUCTION IN)/ADDITION TO SHAREHOLDERS' FUNDS	(6,714)	4,843
Shareholders' funds at 1 January	74,401	69,558
SHAREHOLDERS' FUNDS AT 31 DECEMBER	67,687	74,401

ACCOUNTING POLICIES

Year ended 31 December 1999

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. Financial Reporting Standards 12 and 13 have been adopted in these accounts, with no effect on the current or preceding 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 was written off reserves in respect of acquisitions up to 31 December 1997. From 1 January 1998, in accordance with FRS 10, goodwill arising on consolidation is capitalised and amortised over twenty years, being the estimated economic useful life. 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 or not yet amortised since 1 January 1998.

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 1-5 per cent per annum on buildings and 7-25 per cent 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. Interest costs are charged over the term of the lease and future obligations included in creditors. Rental costs for operating leases are charged to 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 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

Year ended 31 December 1999

1. ANALYSIS OF TURNOVER AND SEGMENTAL INFORMATION

Segmental information by division:

	1999 Turnover £000	1999 Operating profit £000	1999 Exceptional items £000	1999 Net assets £000	1998 Turnover £000	1998 Operating profit £000	1998 Net assets £000
Continuing activities							
Merchanting	51,653	3,664	(718)	19,036	47,996	3,632	18,945
Packaging	55,339	3,097	(3,799)	26,122	56,842	4,909	27,293
Acquisitions	2,248	204	–	4,281	–	–	–
	57,587	3,301	(3,799)	30,403	56,842	4,909	27,293
Plastics	55,143	5,107	(400)	18,078	56,072	5,052	18,622
Acquisitions	3,538	56	–	2,873	–	–	–
	58,681	5,163	(400)	20,951	56,072	5,052	18,622
Labels	17,084	3,622	–	3,580	15,977	3,469	3,812
Strategic review	11,336	(814)	(6,580)	3,383	15,256	(737)	17,145
Sub-total	196,341	14,936	(11,497)	77,353	192,143	16,325	85,817
Net interest/debt	–	(821)	–	(9,666)	–	(1,248)	(11,416)
Group total	196,341	14,115	(11,497)	67,687	192,143	15,077	74,401

The exceptional items incurred by the Merchanting, Packaging and Plastics Divisions totalling £4,917,000 relate to restructuring costs and are primarily closure costs and redundancy costs. As noted in the Financial Review on page 9, both activities classified as under strategic review have now been sold.

Included in the current year figures are £4,077,000 (cost of sales), £1,045,000 (administrative expenses) and £404,000 (distribution costs) attributable to acquisitions.

	1999 £000	1998 £000
Turnover by geographical area:		
United Kingdom	172,794	174,914
Europe	20,448	12,367
Other continents	3,099	4,862
	196,341	192,143

2. EMPLOYEES

	1999 No.	1998 No.
Average number of persons employed by the group during the year was as follows:		
Production	1,224	1,298
Sales and distribution	519	520
Administration	244	233
	1,987	2,051

	1999 £000	1998 £000
The costs incurred in respect of these employees were:		
Wages and salaries	35,260	36,393
Social security costs	3,059	3,087
Other pension costs	1,673	1,677
	39,992	41,157

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

3. OTHER OPERATING INCOME

	1999 £000	1998 £000
Gain on disposal of tangible assets	**146**	1,074
Net rental income	**45**	88
Grants receivable	**5**	54
Royalties receivable	**125**	189
	321	1,405

4. DIRECTORS

The emoluments of the parent company directors are shown below:

(i) Emoluments

	Fees/Salaries £000	Bonuses £000	Benefits in kind £000	Compensation for loss of office £000	1999 £000	1998 £000
Current Directors						
J.M. Ward	91	–	10	–	**101**	86
I.D. Duffin	137	31	159	–	**327**	–
M. Clark	120	20	9	–	**149**	89
J. Love	52	10	3	–	**65**	–
R.G.T. Stenhouse	22	–	–	–	**22**	13
A.S. Hunter	22	–	–	–	**22**	6
R. Speirs	22	–	–	–	**22**	6
	466	61	181	–	**708**	200
Former Directors						
Lord Macfarlane	10	–	7	–	**17**	118
W.P. Mackie	86	–	4	31	**121**	174
G.S. Lane	75	–	5	253	**333**	125
H.S. Macfarlane	86	–	11	86	**183**	89
R.I.B. Martin	–	–	–	–	**–**	232
A. Reekie	65	–	7	123	**195**	130
R.G.M.L. Barclay	–	–	–	–	**–**	2
J.G. Lane	–	–	–	–	–	27
	788	*61*	*215*	*493*	*1,557*	1,097
Pension contributions					**77**	77
					1,634	1,174

The emoluments of the executive directors and the structure of bonuses are determined by the Remuneration Committee. Bonuses are based on performance targets for the year. The fees to Messrs R.G.T. Stenhouse, A.S. Hunter and R. Speirs are paid to their firms or companies respectively.

I.D. Duffin's benefits in kind figure includes a relocation expenses package totalling £150,000.

(ii) Directors' pension entitlements

The following executive directors, except M. Clark, are members of The Macfarlane Group PLC Pension & Life Assurance Scheme (1974), a defined benefit pension scheme. Details of the benefits accruing under the scheme including unapproved benefits and contributions for I.D. Duffin and M. Clark are set out below:

	Years of service	Accrued pension at 31 December 1999 £000 p.a.	Increase in accrued pension since appointment £000 p.a.	Transfer value of the increase in accrued pension £000	Money purchase scheme contributions £000
I.D. Duffin	1	1	1	6	20
M. Clark	21	–	–	–	6
J. Love	4	4	1	2	–

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

4. DIRECTORS (continued)

(iii) Shareholdings

The interests of the directors in office at 31 December 1999 in Macfarlane Group PLC ordinary shares of 25p each were as follows:

	31.12.99			1.1.99 (or date of appointment if later)		
	Beneficial	Non Beneficial	Option	Beneficial	Non Beneficial	Option
J.M. Ward	**104,200**	**444,257**	**–**	84,200	304,337	–
M. Clark	**1,184,395**	**–**	**50,000**	1,184,096	–	50,000
I.D. Duffin	**12,000**	**–**	**1,250,000**	–	–	–
J. Love	**25,000**	**444,257**	**–**	15,000	444,257	–
A.S. Hunter	**25,500**	**–**	**–**	5,500	–	–
R. Speirs	**10,000**	**–**	**–**	10,000	–	–
R.G.T. Stenhouse	**–**	**–**	**–**	–	–	–

No changes have occurred in these holdings between 1 January 2000 and 14 March 2000.

J.M. Ward and J. Love have a joint non-beneficial interest as trustees of the Macfarlane Group Share Appropriation Scheme.

(iv) Options

	1.1.99	Granted	Exercised	31.12.99	Exercise Price
M. Clark	50,000	–	–	50,000	220p
I.D. Duffin	–	1,250,000	–	1,250,000	80p

Messrs J.M. Ward, R.G.T. Stenhouse, A.S. Hunter and R. Speirs are non-executive Directors of the company and do not hold any share options.

The options for M. Clark were granted on 26 January 1996 under the Macfarlane Group (Clansman) P.L.C. 1995 Executive Share Option Scheme and are exercisable between 26 January 2000 and 25 January 2006, subject to the satisfactory completion of the scheme's conditions.

The options for I.D. Duffin were granted on 5 July 1999 under the Macfarlane Group (Clansman) P.L.C. 1995 Executive Share Option Scheme and are exercisable between 6 July 2002 and 25 January 2006, subject to the satisfactory completion of the scheme's conditions.

No other share options were granted or exercised during the year or in the period between 1 January 2000 and 14 March 2000.

The market value of Macfarlane Group PLC ordinary shares at 31 December 1999 was 77p per share (1998 – 64p). The range of share prices during 1999 was 48.5p to 91.5p for each ordinary share of 25p.

5. OPERATING PROFIT

	1999 £000	1998 £000
Operating profit is arrived at after charging:		
Depreciation	**8,336**	9,073
Amortisation of purchased goodwill	**145**	16
Auditors' remuneration – Audit services	**173**	183
– Non-audit services	**54**	44
Hire of plant and equipment	**659**	824
Operating lease rentals for land and buildings	**933**	1,055
Operating lease rentals for plant and machinery	**582**	329

The audit fee payable by the parent company is £10,000 (1998 – £10,000).

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £000	1998 £000
Bank loan and overdrafts repayable within five years	**769**	1,144
Loan notes repayable within five years	**64**	90
Finance lease charges	**50**	68
	883	1,302

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1999 £000	1998 £000
United Kingdom taxation at 30% (1998 – 31%) based on the profit for the year	**3,282**	3,743
Deferred taxation	**(245)**	792
Prior period adjustments	**(96)**	(130)
	2,941	4,405
Overseas taxation	**75**	59
	3,016	4,464

The taxation charge for the year is disproportionate to the results before tax due to the capital loss incurred on the disposal of Daniel Montgomery & Son and certain restructuring costs which are not allowable deductions for corporation tax purposes in the current year.

8. (LOSS)/PROFIT FOR THE FINANCIAL YEAR

	1999 £000	1998 £000
Parent company	**776**	6,507
Subsidiaries	**(1,174)**	4,106
	(398)	10,613

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.

9. DIVIDENDS ON EQUITY SHARES

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

	1999 £000	1998 £000
Interim paid 7 October 1999 1.58p net	**2,004**	2,004
Proposed final 3.00p net	**3,805**	3,741
	5,809	5,745

10. EARNINGS PER ORDINARY SHARE

Earnings per ordinary share are calculated on the basis of the weighted average of 126,828,240 ordinary shares in issue, (1998 – weighted average 126,828,240) and on a loss after taxation of £398,000 (1998 – profit £10,613,000). Diluted earnings per ordinary share are calculated on the basis of the weighted average number of shares on a diluted basis, calculated in accordance with FRS 14 Earnings Per Share, of 126,828,240 (1998 – 127,006,301) and on a loss after taxation of £398,000 (1998 profit – £10,613,000). The difference between the weighted average number of shares used in the basic and diluted earnings per share calculations in 1998 is due to the dilutive effect of share options.

Earnings per ordinary share in 1999 before restructuring charges and disposals are based on the above calculation as adjusted to exclude the exceptional items of £4,917,000, associated tax credits of £1,612,000 and the loss on sale of business of £6,580,000. This earnings per ordinary share before restructuring charges and disposals is presented as the directors consider that this figure presents a fairer comparison with the earnings per share of prior years.

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

11. INTANGIBLE FIXED ASSETS

	Total £000
Goodwill arising on consolidation	
At 1 January 1999	979
Arising during the year (see note 23)	4,724
At 31 December 1999	5,703
Amortisation of goodwill	
At 1 January 1999	16
Charge for year	145
At 31 December 1999	161
Net book value	
At 31 December 1999	5,542
At 31 December 1998	963

As a matter of accounting policy, goodwill arising on acquisitions prior to 31 December 1997 remains eliminated against reserves. Goodwill treated under this accounting policy would be charged to the profit and loss account on the subsequent disposal of a business to which the goodwill related. The cumulative goodwill written off in these consolidated accounts is £35,808,000.

12. TANGIBLE FIXED ASSETS

Group	Land and buildings £000	Plant, vehicles and fittings £000	Total £000
Cost or valuation			
At 1 January 1999	45,039	77,278	122,317
Assets of subsidiaries acquired	285	3,474	3,759
Additions	314	4,013	4,327
Assets of subsidiaries disposed of	–	(16,990)	(16,990)
Disposals	(171)	(6,568)	(6,739)
At 31 December 1999	45,467	61,207	106,674
Depreciation			
At 1 January 1999	4,945	44,030	48,975
Assets of subsidiaries acquired	–	1,098	1,098
Charge for year	2,988	5,348	8,336
Assets of subsidiaries disposed of	–	(9,842)	(9,842)
Disposals	(13)	(3,495)	(3,508)
At 31 December 1999	7,920	37,139	45,059
Net book value			
At 31 December 1999	37,547	24,068	61,615
At 31 December 1998	40,094	33,248	73,342

The net book value of tangible fixed assets of £61,615,000 (1998 – £73,342,000) includes an amount of £436,000 (1998 – £1,625,000) in respect of assets held under finance leases. The depreciation charge in respect of these assets is £66,000 (1998 – £280,000).

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

12. TANGIBLE FIXED ASSETS (continued)

Land and buildings at cost or valuation are stated

	1999 £000	1998 £000
At cost to the group	**32,427**	31,640
At valuation 1987	**6,790**	7,149
At valuation 1990	**6,250**	6,250
	45,467	45,039

Company	Land and buildings £000	Plant, vehicles and fittings £000	Total £000
Cost			
At 1 January 1999	941	553	1,494
Additions	4	30	34
Group transfers	–	14	14
Disposals	–	(259)	(259)
At 31 December 1999	**945**	**338**	**1,283**
Depreciation			
At 1 January 1999	57	207	264
Charge for year	42	58	100
Group transfers	–	4	4
Disposals	–	(102)	(102)
At 31 December 1999	**99**	**167**	**266**
Net book value			
At 31 December 1999	**846**	**171**	**1,017**
At 31 December 1998	884	346	1,230

Land and buildings

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Land and buildings at net book value comprise:				
Freeholds	**32,623**	35,048	**835**	872
Long leaseholds	**4,705**	4,910	–	–
Short leaseholds	**219**	136	**11**	12
	37,547	40,094	**846**	884

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

	1999 £000	1998 £000	1999 £000	1998 £000
Cost	**42,261**	41,867	**945**	941
Aggregate depreciation	**7,740**	4,992	**99**	57
Net historical cost value at 31 December	**34,521**	36,875	**846**	884

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

13. INVESTMENTS

Company

	1999 £000	1998 £000
Investment in subsidiaries		
Cost		
At 1 January	46,944	45,925
Acquired during the year	1,640	1,019
Transferred to subsidiaries	(1,019)	–
Disposed of/struck off during the year	(8,509)	–
At 31 December	39,056	46,944

Details of the principal operating subsidiaries are set out on page 39.

14. STOCKS

Group

	1999 £000	1998 £000
Raw materials and consumables	4,556	3,965
Work in progress	742	1,027
Finished goods and goods for resale	6,372	7,775
	11,670	12,767

15. DEBTORS

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Trade debtors	41,747	38,314	–	–
Amounts owed by subsidiaries	–	–	5,728	8,300
Other debtors	828	1,814	1,407	407
Prepayments and accrued income	2,519	2,173	178	194
	45,094	42,301	7,313	8,901

Included in amounts owed by subsidiaries are loans due after more than one year of £21,000 (1998 – £400,000).

Included in other debtors is a loan made to one executive under the group house purchase scheme. The total balance outstanding at 31 December 1999 amounted to £9,000 (1998 – £22,000). The amount outstanding at 1 January 1999 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 related party transactions occurring during the year which require disclosure.

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank loans and overdrafts	**9,837**	11,436	**–**	342
Loan notes	**1,268**	1,074	**647**	1,074
Trade creditors	**26,940**	24,072	**135**	156
Other creditors	**1,584**	430	**1,166**	4
Obligations under finance leases	**140**	397	**–**	–
Corporation tax	**2,801**	4,009	**–**	500
Other taxation and social security	**2,467**	4,152	**7**	66
Accruals and deferred income	**6,676**	4,450	**892**	189
Proposed final dividend	**3,805**	3,741	**3,805**	3,741
	55,518	53,761	**6,652**	6,072

The Company has given inter company guarantees to secure the overdrafts of certain subsidiaries. The overall credit lines for these borrowing facilities total £24,000,000.

The loan notes are, at the option of the holder, repayable at par together with accrued interest after 31 December 1999 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.

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

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank loans and overdrafts	**–**	–	**–**	–
Loans from subsidiaries	**–**	–	**500**	1,862
Obligations under finance leases	**95**	119	**–**	–
	95	119	**500**	1,862

Bank loan repayments		
Due within one year	**–**	23
Due between one and two years	**–**	–
Due between two and five years	**–**	–
	–	23

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

Obligations under finance leases		
Due within one year	**140**	397
Due between one and two years	**95**	119
Due between two and five years	**–**	–
	235	516

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

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

18. FINANCIAL INSTRUMENTS

A summary of the Group's policies with regard to financial instruments is included in the Financial review on page 9.

Interest rates

All the Group's borrowings in 1999 were denominated in sterling. The interest rates on floating rate borrowings are therefore determined by reference to LIBOR.

Currency analysis of monetary assets and liabilities

At 31 December 1999 the Group had no significant currency exposure generating gains or losses within the profit and loss account.
All monetary assets and liabilities are denominated in the functional currency of the Group operation to which they belong with the following exception. At 31 December 1999 there was a sterling denominated inter-company balance payable by the Group's Irish subsidiary totalling £1,221,917 (1998 £nil).

Fair value of financial instruments

Current liabilities are all at floating rates. The fair values of cash at bank and bank overdrafts, therefore, equate to book values.

Borrowing facilities

The Group has various committed undrawn overdraft facilities. The facilities available at 31 December 1999 in respect of which all conditions precedent had been met were as follows:

	Expiring within one year 1999 £000	Expiring within one year 1998 £000
Drawn down	9,837	11,436
Undrawn	14,163	11,564
	24,000	23,000

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Deferred taxation				
Provided in accounts:				
Capital allowances and other timing differences	2,295	2,702	26	5
Provision for deferred taxation liability	2,295	2,702	26	5
Full potential liability:				
Capital allowances and other timing differences	3,209	4,245	26	5
Capital gains rolled over	472	472	–	–
Surplus on revaluation	309	309	–	–
	3,990	5,026	26	5

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

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
At 1 January	2,702	1,906	5	–
Acquired on acquisition of subsidiaries	117	4	–	–
Divested on disposal of subsidiary company	(279)	–	–	–
(Credit)/charge for the year	(245)	792	21	5
At 31 December	2,295	2,702	26	5

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

20. SHARE CAPITAL

	Number of shares	1999 £000	1998 £000
Ordinary shares of 25p each			
Authorised	200,000,000	**50,000**	50,000
Allotted, issued and fully paid:			
At 1 January	126,828,240	**31,707**	31,707
At 31 December	126,828,240	**31,707**	31,707

At 31 December 1999 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) 3,625,000 ordinary shares under The Macfarlane Group (Clansman) P.L.C. 1995 Executive Share Option Scheme. These options are exercisable between 26 January 2000 and 25 January 2006 at prices between 80p and 220p per share, subject to the satisfactory completion of the scheme's conditions.

21. RESERVES

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
Group			
At 1 January 1999	7,547	3,206	31,941
Amortisation of revaluation surplus	–	(49)	49
Foreign exchange translation differences	–	–	(507)
Loss for the year	–	–	(6,207)
At 31 December 1999	**7,547**	**3,157**	**25,276**
Company			
At 1 January 1999	7,547		21,121
Loss for the year	–		(5,033)
At 31 December 1999	**7,547**		**16,088**

22. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Continuing operations £000	Acquisitions £000	1999 £000	1998 £000
Operating profit	14,676	260	**14,936**	16,325
Restructuring costs	(4,917)	–	**(4,917)**	–
Depreciation	8,126	210	**8,336**	9,073
Amortisation of intangible assets	48	97	**145**	16
Gain on disposal of assets	(146)	–	**(146)**	(1,074)
Decrease/(increase) in stocks	397	50	**447**	(67)
(Increase)/decrease in debtors	(2,345)	(233)	**(2,578)**	2,459
Increase/(decrease) in creditors	2,471	453	**2,924**	(2,123)
Net cash flow from operating activities	18,310	837	**19,147**	24,609

None of the subsidiary undertakings acquired during the year had a material impact on cash flows on an individual basis.

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

23. *PURCHASE OF SUBSIDIARY UNDERTAKINGS*

	Orion Flexo £000	Western Foam £000	Ketts Products £000	1999 £000	1998 £000
Net assets acquired:					
Tangible assets	1,634	685	342	**2,661**	630
Stocks	193	98	273	**564**	203
Debtors	1,034	896	472	**2,402**	515
Cash at bank and in hand	–	946	–	**946**	62
Bank overdraft	(92)	–	(387)	**(479)**	(820)
Creditors	(1,610)	(791)	(449)	**(2,850)**	(535)
Loans and finance lease obligations	(182)	–	(17)	**(199)**	(11)
Deferred taxation	(114)	–	(3)	**(117)**	(4)
	863	1,834	231	**2,928**	40
Goodwill (see note 11)	777	3,273	674	**4,724**	979
	1,640	5,107	905	**7,652**	1,019
Satisfied by:					
Cash	1,640	4,486	905	**7,031**	1,019
Loan notes issued	–	621	–	**621**	–
	1,640	5,107	905	**7,652**	1,019

Analysis of the net cash outflow in respect of the purchase of subsidiaries		
Cash consideration	**7,031**	1,019
Cash and bank balances acquired	**(946)**	(62)
Bank overdrafts acquired	**479**	820
	6,564	1,777

The Directors have not incorporated any adjustments following their provisional assessment of the fair values of the assets and liabilities in respect of the acquisition of Orion Flexo Limited on 5 February 1999, Western Foam Packaging Products Inc on 7 September 1999 and Ketts Products Limited on 30 September 1999. Accordingly the fair values stated above currently equate to book values. The fair values will be finalised in 2000 once the companies have been integrated into the new Divisional framework. In the year prior to acquisition, Orion Flexo Limited disclosed turnover of £4,100,000 and profits before taxation of £150,000, Western Foam Packaging Products Inc disclosed turnover of £7,500,000 and profits before taxation of £900,000 and Ketts Products Limited disclosed turnover of £2,200,000 and profits before taxation of £100,000.

24. DISPOSAL OF SUBSIDIARY UNDERTAKINGS

Net assets disposed: Daniel Montgomery & Son	1999 £000
Tangible assets	**7,148**
Stocks	**1,214**
Debtors	**1,545**
Creditors	**(1,048)**
Deferred taxation	**(279)**
Net assets disposed of	**8,580**
Loss on disposal	**(6,580)**
Cash consideration	**2,000**

Analysis of the net cash inflow in respect of the disposal of subsidiaries	
Cash consideration	**2,000**
Cash and bank balances divested	**-**
	2,000

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

25. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1999 £000	1998 £000
Increase/(decrease) in cash in the period	**1,640**	(1,909)
Cash inflow from decrease in debt and lease financing	**930**	1,066
Decrease/(increase) in net debt resulting from cash flows	**2,570**	(843)
Borrowings acquired with subsidiaries	**(199)**	(11)
New finance leases and loan notes	**(621)**	–
Movement in net debt in the period	**1,750**	(854)
Opening net debt	**(11,416)**	(10,562)
Closing net debt	**(9,666)**	(11,416)

26. ANALYSIS OF NET DEBT

	Cash at bank and in hand £000	Bank overdrafts £000	Bank loans £000	Loan notes £000	Finance leases £000	Total £000
1999						
At 1 January 1999	1,610	(11,413)	(23)	(1,074)	(516)	**(11,416)**
Movement in the year	64	1,576	–	–	–	**1,640**
Borrowings repaid	–	–	23	427	480	**930**
Borrowings raised	–	–	–	(621)	–	**(621)**
Borrowings acquired (excluding cash and overdrafts acquired)	–	–	–	–	(199)	**(199)**
At 31 December 1999	**1,674**	**(9,837)**	**–**	**(1,268)**	**(235)**	**(9,666)**

	Cash at bank and in hand £000	Bank overdrafts £000	Bank loans £000	Loan notes £000	Finance leases £000	Total £000
1998						
At 1 January 1998	1,657	(9,551)	(46)	(1,315)	(1,307)	(10,562)
Movement in the year	(47)	(1,862)	–	–	–	(1,909)
Borrowings repaid	–	–	23	241	802	1,066
Borrowings acquired (excluding cash and overdrafts acquired)	–	–	–	–	(11)	(11)
At 31 December 1998	1,610	(11,413)	(23)	(1,074)	(516)	(11,416)

27. FINANCIAL COMMITMENTS

(i) Lease commitments

Annual commitments under non-cancellable operating leases comprise:

	Land and buildings 1999 £000	Other 1999 £000	*Land and buildings 1998 £000*	*Other 1998 £000*
Leases which expire:				
Within one year	**252**	**166**	375	44
Within two to five years	**136**	**1,812**	9	543
After five years	**664**	**–**	456	–
	1,052	**1,978**	*840*	*587*

The majority of leases of 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 £405,000 (1998 – £1,529,000). Capital expenditure authorised by the directors but not contracted for amounted to £302,000 (1998 – £1,629,000).

NOTES ON THE ACCOUNTS

Year ended 31 December 1999

28. SHARE APPROPRIATION SCHEME

A sum of £161,000 has been paid out of 1999 profits (1998 – £183,000) 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 1999 the Scheme held 444,257 ordinary shares of 25p each, which had a market value of £342,078 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.

29. 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 as at 1 May 1997. The principal assumptions adopted were that investment returns would average 9 per cent per annum and that salary increases would average 7 per cent per annum. The valuation showed that the market value of the relevant assets of the scheme was £24,730,000 and the actuarial value of these assets represented 84 per cent of the value of benefits that had accrued to members. The trustees of the scheme have maintained the contribution rate, following actuarial advice, and this contribution level is expected to 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 £1,147,000 (1998 – £1,180,000). Contributions outstanding at the year end amounted to £2,000 (1998 – £44,000). 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 £526,000 (1998 – £497,000).

30. POST BALANCE SHEET EVENT

On 11 February 2000 the company sold the whole of the issued share capital of Flo-pak (UK) Limited for a cash consideration of £3,800,000.

FIVE YEAR RECORD

	1995 £000	1996 £000	1997 £000	1998 £000	1999 £000
Turnover	158,600	157,072	193,363	192,143	**196,341**
Operating profit before exceptional items	20,449	19,856	22,663	16,325	**14,936**
Exceptional items – restructuring costs	–	–	–	–	**(4,917)**
Profit/(loss) on disposal of operations	95	–	–	–	***(6,580)***
Interest receivable	872	610	58	54	**62**
Interest payable	(193)	(50)	(770)	(1,302)	**(883)**
Profit on ordinary activities before taxation	21,223	20,416	21,951	15,077	**2,618**
Taxation	6,633	6,455	6,472	4,464	**3,016**
Profit/(loss) for the financial year	14,590	13,961	15,479	10,613	**(398)**
Dividends	4,745	5,125	5,707	5,745	**5,809**
Retained profit/(loss) for the year	9,845	8,836	9,772	4,868	**(6,207)**
Earnings per ordinary share	12.03p	11.38p	12.23p	8.37p	**(0.31)p**
Earnings per ordinary share before exceptional charges and disposals	11.98p	11.38p	12.23p	8.37p	**7.48p**
Dividends per ordinary share	3.90p	4.09p	4.50p	4.53p	**4.58p**
Dividend cover	3.1	2.7	2.7	1.8	***1.6**

*Dividend cover calculated before the disposal of Daniel Montgomery & Son Limited and exceptional items.

PRINCIPAL OPERATING SUBSIDIARIES

		Principal Activities	Country of registration
MERCHANTING DIVISION			
Macfarlane Merchanting Limited			
London	Telephone 020 8368 1266	Supply and distribution of all forms of packaging materials.	England
PACKAGING DIVISION			
Macfarlane Packaging Limited			
Glasgow	Telephone 0141 427 4044	Manufacture of heavy duty and conventional corrugated cases and distribution of specialist packaging. Storage, warehousing, manufacture of packaging goods and road haulage.	Scotland
Birmingham	Telephone 0121 327 0411		
Brackley	Telephone 01280 704027		
Grantham	Telephone 01476 574747		
Westbury	Telephone 01373 858555		
Macfarlane Western Foam Inc.			
California	Telephone 001 510 783 7778		USA
PLASTICS DIVISION			
Macfarlane Plastics Limited			
Preston	Telephone 01772 322229	Manufacture and distribution of polythene film based products, including stretchwrap, industrial pallet film and printed polythene products.	England
Brighouse	Telephone 01484 714313		
Malvern	Telephone 01453 755700		
Potters Bar	Telephone 01707 650771		
Pyle	Telephone 01656 746688		
Stroud	Telephone 01453 755700		
Macfarlane Plastics (Ireland) Limited			
Newtonmountkennedy	Telephone 00 353 12810234	Manufacture of mouldings for electronic pharmaceutical, food, drink and toy industries.	Ireland
LABELS DIVISION			
Macfarlane Labels Limited			
Kilmarnock	Telephone 01563 525151	Manufacture of printed self-adhesive labels.	Scotland

Note: All the above subsidiaries are wholly owned by Macfarlane Group PLC and operate within the United Kingdom, with the exception of Macfarlane Plastics (Ireland) Limited which operates in Ireland and Macfarlane Western Foam Inc. which operates in the United States. A full list of trading and non-trading subsidiaries is available from the registered office, 21 Newton Place, Glasgow G3 7PY.

FINANCIAL DIARY

RESULTS

Interim	Announced – September
Final	Announced – March

DIVIDEND PAYMENTS

Interim	Paid – October
Final	Paid – May

ACCOUNTS AND ANNUAL GENERAL MEETING

Report and accounts	Posted to shareholders in April.
Annual General Meeting	Held in Glasgow in May

SHAREHOLDER ENQUIRIES

Dividend payment enquiries, Dividend mandate instructions, Loss of share certificates, Dividend warrants and Tax vouchers, Notification of change of address and Transfer of shares to another person and other administrative matters should be addressed to the Company's *registrars: Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh EH3 5ED (Telephone: 0870 6015366).*