

MACFARLANE GROUP UK LIMITED

Report and Financial Statements

31 December 2002



REPORT AND FINANCIAL STATEMENTS 2002

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G.H. Casey
A. Cotton
A.R. Finney
I. Gray
G.H. Young

SECRETARY

G.H. Young

REGISTERED OFFICE

Siskin Parkway East
Middlemarch Business Park
Coventry CV3 4PE

BANKERS

Bank of Scotland
Level 8
123 St Vincent Street
Glasgow G2 5EA

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

HSBC Bank PLC
2 Cloth Hall Street
Huddersfield HD1 2ES

SOLICITORS

Wright Johnston & Mackenzie
302 St Vincent Street
Glasgow G2 5RZ

INDEPENDENT AUDITORS

Deloitte & Touche
Glasgow

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

The business of the company is the manufacture and distribution of packaging, specialist printing and the provision of storage, warehousing and haulage services. On 31 December 2001, the trade, assets and liabilities of Macfarlane Packaging Limited, a fellow subsidiary, were transferred in to Macfarlane Group UK Limited.

PARENT COMPANY

The company is a wholly owned subsidiary of Macfarlane Group PLC.

DIVIDENDS AND TRANSFERS TO RESERVES

The results for the year are detailed in the profit and loss account on page 6. The directors are satisfied with the results for the year and recommend that the profit for the year of £5,359,000 (2001 – loss of £692,000) be transferred to/ set against reserves.

DIRECTORS AND DIRECTORS' INTERESTS IN SHARES OF PARENT COMPANY

The interests of the directors at the year end in the ordinary share capital of Macfarlane Group PLC are:

	2002			2001 or date of appointment if later		
	Beneficial	Trustee	Option	Beneficial	Trustee	Option
G.H. Casey	45,399	-	375,617	40,399	-	257,617
A.R. Finney	58,209	-	153,037	58,209	-	153,037
I. Gray	5,683	-	201,846	5,450	-	141,846
A. Cotton	472	-	143,140	239	-	83,140
G.H. Young	79,830	-	194,359	79,830	-	194,359

None of the directors has any interest in either the share capital of the company or of other subsidiary undertakings in the group with the exception of holdings as a nominee of Macfarlane Group PLC. G.H. Casey, A.R. Finney, I. Gray, and G.H. Young's beneficial holdings include 7,444, 4,342, 5,211 and 2,172 shares respectively, which are held by nominees in The Macfarlane Group PLC Bonus Deferral Plan.

Messrs A.R. Finney and G.H. Young were appointed directors of the company on 10 December 2002. In accordance with the Articles of Association they retire by rotation and being eligible offer themselves for re-election.

Directors' share options	G.H. Casey	A.R. Finney	I. Gray	A. Cotton	G.H. Young
Macfarlane Group (Clansman) PLC 1995 Executive Share Option Scheme					
26 January 1996	35,000	45,000	-	-	40,000
22 March 2000	95,339	58,898	50,847	42,373	55,932
The Macfarlane Group PLC Company Share Option Plan 2000					
15 March 2001	43,795	40,930	43,795	32,558	41,860
5 April 2002	-	-	-	7,698	1,326
The Macfarlane Group PLC Executive Share Option Scheme 2000					
15 March 2001	75,274	-	38,995	-	-
5 April 2002	118,000	-	60,000	52,302	48,674
The Macfarlane Group PLC Savings Related Share Option Scheme 2000					
9 May 2001	8,209	8,209	8,209	8,209	6,567
At 31 December 2002	375,617	153,037	201,846	143,140	194,359

DIRECTORS' REPORT (continued)**DIRECTORS AND DIRECTORS' INTERESTS IN SHARES OF PARENT COMPANY (continued)**

On 26 January 1996, G.H. Casey, A.R. Finney and G.H. Young were granted an option to acquire 35,000, 45,000 and 40,000 ordinary shares respectively at a price of 220p per share under the terms of the Macfarlane Group (Clansman) PLC 1995 Executive Share Option Scheme. These options are exercisable until 25 January 2006, subject to the satisfactory completion of the scheme's conditions.

On 22 March 2000, G.H. Casey, A.R. Finney, I. Gray, A. Cotton and G.H. Young were granted options to acquire 95,339, 58,898, 50,847, 42,373 and 55,932 ordinary shares respectively at a price of 59p per share under the Macfarlane Group (Clansman) P.L.C. 1995 Executive Share Option Scheme. These options are exercisable between 22 March 2003 and 22 March 2010, subject to the satisfactory completion of the scheme's conditions.

On 15 March 2001, G.H. Casey, A.R. Finney, I. Gray, A. Cotton and G.H. Young were granted options to acquire 43,795, 40,930, 43,795, 32,558 and 41,860 ordinary shares respectively at a price of 68½p per share under The Macfarlane Group PLC Company Share Option Plan 2000. On the same date G.H. Casey and I. Gray were granted options to acquire 75,274 and 38,995 ordinary shares respectively at a price of 68½p per share under The Macfarlane Group PLC Executive Share Option Scheme 2000. These options are exercisable between 15 March 2004 and 15 March 2011, subject to the satisfactory completion of the scheme's conditions.

On 9 May 2001, G.H. Casey, A.R. Finney, I. Gray and A. Cotton were each granted options to acquire 8,209 ordinary shares, and G.H. Young was granted options to acquire 6,567 ordinary shares at a price of 59p per share under The Macfarlane Group PLC Savings Related Share Option Scheme 2000. These options are exercisable from 1 July 2004, subject to the satisfactory completion of the scheme's conditions.

On 5 April 2002 G.H. Casey, I. Gray, A. Cotton and G.H. Young were granted options to acquire 118,000, 60,000, 52,302 and 48,674 ordinary shares respectively at a price of 88p per share under the Macfarlane Group PLC Executive Share Option Scheme 2000. On the same date A. Cotton and G.H. Young were granted options to acquire 7,698 and 1,326 ordinary shares respectively at a price of 88p per share under the Macfarlane Group PLC Company Share Option Plan 2000. These options are exercisable between 5 April 2005 and 5 April 2012, subject to the satisfactory completion of the scheme and the plan's conditions.

No other share options were granted and no share options were exercised during the year.

EMPLOYMENT OF DISABLED PERSONS

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

EMPLOYEE INVOLVEMENT

The directors recognise the importance of meaningful communication and consultation in maintaining good employee relations.

SUPPLIER PAYMENT POLICY

Company policy is to negotiate terms with suppliers and to settle liabilities in accordance with those terms. Staff dealing with payments to suppliers are made aware of the policy. The policy is made known to suppliers on request. At the year-end the company had an average of 62 days purchases outstanding in trade creditors (2001 - 62 days).

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.

Approved by the Board of Directors and signed by order of the Board



Company Secretary

28th May 2003

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 as at the end of the financial year and of the profit or loss of the company for that period. 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MACFARLANE GROUP UK LIMITED

We have audited the financial statements of Macfarlane Group UK Limited for the year ended 31 December 2002, which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds and the related notes numbered 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been 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, and if we have not received all the information and explanations we require for our audit.

We read the directors' report and the other information contained in the annual report, for the above year as described in the contents section and 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 United Kingdom 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, 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 the Company's affairs as at 31 December 2002 and of its profit for the year then ended and have been prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Glasgow

10 June 2003

PROFIT AND LOSS ACCOUNT**Year ended 31 December 2002**

	Note	2002 £000	2001 £000
TURNOVER – continuing operations	2	121,125	41,798
Cost of sales		(80,374)	(27,623)
Gross profit		40,751	14,175
Administrative expenses - recurring		(34,717)	(4,240)
Administrative expenses - exceptional	4	(2,104)	(1,061)
Total administrative expenses		(36,821)	(5,301)
Distribution costs		(7,338)	(9,275)
Other operating income		881	48
		(43,278)	(14,528)
OPERATING LOSS - continuing operations	4	(2,527)	(353)
Gain on disposal of fixed assets – continuing operations		1,442	-
		(1,085)	(353)
Income from shares in group undertakings	5	5,534	-
Interest receivable and similar charges	6	6	-
Interest payable and similar charges	6	(583)	(79)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		3,872	(432)
Tax on profit/(loss) on ordinary activities	7	1,487	(260)
RETAINED PROFIT/(LOSS) FOR THE YEAR	17	5,359	(692)

There are no recognised gains or losses other than the profit/(loss) for the current or preceding financial year.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**Year ended 31 December 2002**

	2002 £000	2001 £000
Profit/(loss) for the financial year	5,359	(692)
Net addition to/(reduction in) shareholders' funds	5,359	(692)
Opening shareholders' funds	2,169	2,861
Closing shareholders' funds	7,528	2,169

BALANCE SHEET
31 December 2002

	Note	2002 £000	2001 (restated*) £000
FIXED ASSETS			
Intangible assets	8	2,561	2,686
Tangible assets	9	27,725	33,292
Investments	10	7,066	3,802
		<u>37,352</u>	<u>39,780</u>
CURRENT ASSETS			
Stocks	11	10,395	9,612
Debtors: amounts falling due within one year	12	35,016	31,553
Debtors: amounts falling due after more than one year	12	1,001	1,001
Cash at bank and in hand		2,874	27
		<u>49,286</u>	<u>42,193</u>
CREDITORS: amounts falling due within one year	13	(34,472)	(36,897)
NET CURRENT ASSETS		<u>14,814</u>	<u>5,296</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		52,166	45,076
CREDITORS: amounts falling due after more than one year	14	(44,135)	(40,230)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(503)	(2,677)
		<u>7,528</u>	<u>2,169</u>
CAPITAL AND RESERVES			
Called up share capital	16	1,361	1,361
RESERVES			
Share premium	17	1,442	1,442
Profit and loss account	17	4,725	(634)
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>7,528</u>	<u>2,169</u>

* - The balance sheet for the year ended 31 December 2001 has been restated for the adoption of FRS 19 Deferred tax (see note 15 for details).

These financial statements were approved by the Board of Directors on 28 May 2003 and signed on behalf of the Board of Directors by



Director



Director

NOTES TO THE ACCOUNTS**Year ended 31 December 2002****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain land and buildings.

Cash flow statement

The company has not presented a cash flow statement. It has taken advantage of the exemption contained in FRS1 (revised 1996) "Cash Flow Statements" as the ultimate parent company Macfarlane Group PLC has included a consolidated cash flow statement within its group accounts.

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost to the company except in the case of certain properties, which are stated at valuations by professional valuers. The historic valuations of assets are as set out in note 9 to the accounts. The company adopted the transitional provisions of FRS 15 and has frozen valuations at their 1990 valuation. Depreciation is provided on cost or valuation in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Freehold land	Nil
Freehold buildings	2% per annum
Leasehold property	Over the unexpired portion of the lease
Plant and machinery	Between 10% and 20% per annum
Fixtures and fittings	Between 10% and 20% per annum
Motor vehicles	20% per annum

Stocks

Stock is stated 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 material and labour costs plus manufacturing overheads.

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

In accordance with FRS 19, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leases

Operating lease rentals are charged to profit and loss account in equal annual amounts over the lease term.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

1. ACCOUNTING POLICIES (CONTINUED)

Pension costs

The expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account in order to spread the cost over the service lives of employees in the scheme in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll. The cost of providing pensions through defined contribution scheme arrangements is charged to the profit and loss account as incurred.

Intangible fixed assets

For acquisitions of a business, purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of twenty years. Purchased goodwill is included in intangible assets. Patents and trademarks are valued at cost on acquisition and are depreciated in equal annual instalments over their estimated useful economic lives which are considered to be between five and ten years.

2. TURNOVER - continuing operations

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax. The turnover and pre-tax profit/(loss) for the year is attributable to one activity, the distribution of packaging products. An analysis of turnover by geographical market is given below:

	2002 £000	2001 £000
United Kingdom	118,946	41,542
Europe	1,997	256
Other	182	-
	<u>121,125</u>	<u>41,798</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Emoluments of the highest paid director are as follows:

	2002 £000	2001 £000
Aggregate emoluments excluding pension contributions	<u>140</u>	<u>45</u>

Total emoluments of all directors are as follows:

	2002 £000	2001 £000
Aggregate emoluments	<u>351</u>	<u>72</u>
	No.	No.

Number of directors exercising share options	<u>-</u>	<u>-</u>
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Retirement benefits accrue to five directors (2001: three) under the parent company's defined benefit scheme.

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

	2002 No.	2001 No.
Average number of persons employed		
Production	358	-
Sales and distribution	564	213
Administration	161	33
	<u>1,083</u>	<u>246</u>
	2002 £000	2001 £000
Staff costs during the year (including directors)		
Wages and salaries	20,953	4,826
Social security costs	1,486	406
Pension costs	893	85
	<u>23,332</u>	<u>5,317</u>

4. OPERATING LOSS - continuing operations

	2002 £000	2001 £000
Operating loss is arrived at after charging:		
Depreciation - owned assets	2,966	740
- leased assets	343	34
Amortisation of intangible assets	125	-
Rentals under operating leases		
Plant and machinery	2,117	842
Land and buildings	2,773	1,821
Auditors' remuneration		
For audit services	42	20
For non-audit services	2	2
	<u>2002 £000</u>	<u>2001 £000</u>
Exceptional charges are as follows:-:		
Vacant property costs	665	-
Cash costs to restructure business	144	-
Cash costs for redundancy programmes	1,295	-
Branch consolidation programme	-	123
Write off goodwill	-	926
Management buyout costs	-	12
	<u>2,104</u>	<u>1,061</u>

5. INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2002 £000	2001 £000
Dividends received from subsidiary undertakings	<u>5,534</u>	<u>-</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

6. INTEREST PAYABLE AND SIMILAR CHARGES	2002 £000	2001 £000
Bank loans, overdrafts and other loans repayable within five years	542	25
Finance leases and hire purchase contracts	41	54
	<u>583</u>	<u>79</u>
 7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES	 2002 £000	 2001 £000
United Kingdom corporation tax :		
Current at 30% (2001:30%)	(50)	116
Adjustment in respect of prior periods	(108)	(17)
Total current tax	<u>(158)</u>	<u>99</u>
Deferred taxation	(1,329)	161
	<u>(1,487)</u>	<u>260</u>

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 30% (2001 - 30%). The actual tax (credit)/charge for the current and prior years varies from 30% for the reasons set out in the following reconciliation:

	2002 £000	2001 £000
Profit/(loss) before tax	<u>3,872</u>	<u>(432)</u>
Tax charge/(credit) on profit/(loss) at 30%	1,162	(130)
Factors affecting charge:		
Depreciation in excess of capital allowances	826	376
Expenditure not deductible for tax purposes	236	(134)
Utilisation of tax losses	313	-
Movement in short term timing differences	374	4
Heldover capital gains	107	-
Other differences	(3,068)	-
Adjustment in respect of prior periods	(108)	(17)
Current tax (credit)/charge for the year	<u>(158)</u>	<u>99</u>

Adoption of FRS 19 has required no change to the profit and loss account for the year ended 31 December 2001. It has had no impact of the profit and loss account for the year ended 31 December 2002.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

8. INTANGIBLE ASSETS

Cost	Purchased goodwill £000	Patents & trademarks £000	Total £000
At 1 January 2002 and 31 December 2002	4,228	240	4,468
Amounts written off			
At 1 January 2002	1,542	240	1,782
Charge for year	125	-	125
At 31 December 2002	1,667	240	1,907
Net book value			
At 31 December 2002	2,561	-	2,561
At 31 December 2001	2,686	-	2,686

9. TANGIBLE FIXED ASSETS
(a)

	Land and buildings £000	Plant, machinery & vehicles £000	Fixtures & fittings £000	Total £000
Cost or valuation				
At 1 January 2002	30,660	21,105	9,390	61,155
Additions	2,083	1,163	1,666	4,912
Disposals	(8,036)	(2,207)	(1,735)	(11,978)
At 31 December 2002	24,707	20,061	9,321	54,089
Accumulated depreciation				
At 1 January 2002	8,037	15,614	4,212	27,863
Charge for the year	637	1,347	1,325	3,309
Disposals	(1,281)	(2,040)	(1,487)	(4,808)
At 31 December 2002	7,393	14,921	4,050	26,364
Net book value				
At 31 December 2002	17,314	5,140	5,271	27,725
At 31 December 2001	22,623	5,491	5,178	33,292

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

9. TANGIBLE FIXED ASSETS (CONTINUED)

(b) Land and buildings at cost or valuation are stated	2002 £000	2001 £000
At valuation 1987	4,392	6,171
At valuation 1990	1,550	3,200
At cost	18,765	21,289
	<u>24,707</u>	<u>30,660</u>

A professional valuation of certain of the company's properties was carried out by Webster & Co., Chartered Surveyors, Glasgow at 31 December 1987 on the basis of open market valuation with existing use. A professional valuation of certain of the company's properties was carried out during 1990 by Webster & Co., Chartered Surveyors, Glasgow on the basis of open market value with existing use. If stated under historical cost principles the comparable amounts for land and buildings would be:

	2002 £000	2001 £000
Cost	23,370	28,123
Accumulated depreciation	7,071	7,161
Historical cost net book value	<u>16,299</u>	<u>20,962</u>

All other tangible fixed assets are stated at historical cost.

Land and buildings at net book value	2002 £000	2001 £000
Freeholds	13,973	19,304
Long leaseholds	2,989	3,066
Short leasehold improvements	352	253
	<u>17,314</u>	<u>22,623</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

10. INVESTMENTS

Cost	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
At 1 January 2002	7,087	286	7,373
Transfers from fellow group company	3,264	-	3,264
At 31 December 2002	10,351	286	10,637
Amounts written off			
At 1 January 2002	3,285	286	3,571
Transfers from fellow group company	-	-	-
At 31 December 2002	3,285	286	3,571
Net book value			
At 31 December 2002	7,066	-	7,066
At 31 December 2001	3,802	-	3,802

The company owns the whole of the issued share capital of the following companies:

Macarlane Packaging KFT, a company registered in Hungary whose principal activities are the design, manufacture, assembly and supply chain management of specialist packaging.

Macfarlane Packaging (Ireland) Limited, a company registered in Ireland whose principal activities are the manufacture of high quality printed self-adhesive labels and recloseable labelling solutions.

Macfarlane Group Sweden AB (formerly Reseal-It AB), a company registered in Sweden whose principal activities are the manufacture of high quality printed self-adhesive labels and recloseable labelling solutions.

Cumbria Packaging Limited, a dormant company registered in Scotland.

ALM Packaging Limited, a dormant company registered in England.

Star Products Packaging Limited (formerly Moore Packaging Limited), a dormant company registered in England.

Abbott's Packaging Limited (formerly Double R Packaging Limited), a dormant company registered in England.

Macfarlane Merchanting Limited, a dormant company registered in England.

The company has taken advantage of Section 228 of the Companies Act 1985 and consequently consolidated accounts have not been prepared. Information presented is for the company and not the group. Consolidated accounts are prepared by the ultimate parent company as detailed in Note 22.

11. STOCKS

	2002 £000	2001 £000
Raw materials and consumables	883	872
Work in progress	322	222
Finished goods and goods for resale	9,190	8,518
	10,395	9,612

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

12. DEBTORS	2002 £000	2001 £000
Amounts due within one year		
Trade debtors	23,914	26,829
Amounts owed by group undertakings	125	1,276
Amounts owed by fellow subsidiary undertakings	5,875	165
Other debtors	2,696	691
Corporation tax	50	-
Prepayments and accrued income	2,356	2,592
	<u>35,016</u>	<u>31,553</u>
Amounts due after more than one year		
Amounts owed by group undertakings	1,001	1,001
	<u>36,017</u>	<u>32,554</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2002 £000	2001 £000
Bank overdraft	10,391	10,168
Trade creditors	16,456	18,221
Amounts owed to group undertakings	657	127
Corporation tax	-	2,151
Other taxation and social security	2,609	2,486
Other creditors	57	478
Obligations under lease and hire purchase contracts (note 14)	495	347
Accruals and deferred income	3,807	2,919
	<u>34,472</u>	<u>36,897</u>

The bank overdraft is secured by letters of guarantee from the parent company and certain fellow subsidiaries. The finance leases and hire purchase liabilities are secured over the assets to which the lease and hire purchase agreements relate.

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	2002 £000	2001 (restated – see note 15) £000
Obligations under lease and hire purchase contracts	1,080	1,456
Amounts owed to parent company	4,255	4,255
Amounts owed to subsidiary undertakings	1,370	447
Amounts owed to other group companies	37,430	34,072
	<u>44,135</u>	<u>40,230</u>
	2002 £000	2002 £000
Obligations under lease and hire purchase contracts		
Due within one year (note 13)	495	347
Due within two to five years	1,080	1,456
	<u>1,575</u>	<u>1,803</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

15. PROVISIONS FOR LIABILITIES AND CHARGES

	2002 £000	2001 (restated)20 01 £000
Deferred tax	-	1,329
Provision for vacant leasehold property	503	1,348
	<u>503</u>	<u>2,677</u>
	Provision for vacant leasehold property	
	Deferred tax £000	Total £000
At 1 January 2002 – as restated	1,329	2,677
Release in current year	(1,329)	(1,329)
Utilised in the year	-	(845)
	<u>-</u>	<u>(845)</u>
At 31 December 2002	<u>503</u>	<u>503</u>

The adoption of FRS 19 Deferred Tax has required changes in the method of accounting for deferred tax assets and liabilities. The adoption of FRS 19 did not impact on the results of this company itself but had an impact as a result of asset transfers from fellow subsidiaries during the year ended 31 December 2001. The deferred tax balance arising on the assets transferred has been revised and as a result of these changes in accounting policy the comparatives have been restated as follows:

	Creditors: amounts falling due after more than one year - Amounts owed to other group companies £000	Deferred tax £000
At 31 December 2001 as previously reported	40,480	1,079
Revision to group transfers as a result of adopting FRS 19	(250)	250
At 31 December 2001 restated	<u>40,230</u>	<u>1,329</u>

A deferred tax asset has not been recognised in respect of timing differences relating to revenue losses as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £18,000. The asset would be recovered if sufficient future profits are made.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

16. CALLED UP SHARE CAPITAL

	2002 £000	2001 £000
Authorised		
2,000,000 ordinary shares of £1 each	2,000	2,000
Called up, allotted and fully paid		
1,361,000 ordinary shares of £1 each	1,361	1,361

17. RESERVES

	Share premium £000	Profit & loss account £000
At 1 January 2002	1,442	(634)
Retained profit for the year	-	5,359
At 31 December 2002	1,442	4,725

18. CONTINGENT LIABILITY

The company has given an intercompany guarantee to secure the overdrafts of the parent company and certain fellow subsidiaries. The overall credit line at 31 December 2002 in respect of these companies is £36 million.

19. FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases comprise:

	Land and buildings 2002 £000	Other 2002 £000	Land and buildings 2001 £000	Other 2001 £000
Leases which expire:				
Within one year	125	710	188	268
Within 2 to 5 years	420	2,169	374	3,368
After more than 5 years	3,384	-	2,979	-
	3,929	2,879	3,541	3,636

Contracts for capital expenditure

Contracts for capital expenditure for which no provision has been made in the accounts amounted to £6,383,000 (2001 - £nil).

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

20. PENSIONS

The company participates in the Macfarlane Group PLC Pension and Life Assurance Scheme (1974), a defined benefit multi-employer scheme operated by the group. The assets and liabilities of this scheme are held independently from the group. The company is unable to identify its share of the underlying assets and liabilities of the scheme and accordingly accounts for the scheme as if it were a defined contribution scheme.

Contributions to the scheme for the year were £669,000 (2001- £19,000) and the agreed contribution rate is 15.5% with effect from 1 July 2002 (2001- 13.5%).

As stated in the Macfarlane Group PLC financial statements for the year ended 31 December 2002, the full actuarial valuation at 1 May 2000 was updated to 31 December 2002 by a qualified actuary and showed that the market value of the scheme's assets was £29,500,000 and that the actuarial value of these assets represented 64% of the benefits that had accrued to members.

The assets in this scheme and the expected rates of return at 31 December 2002 were:

Asset	2002 Fair Value £000	2002 Long term rate of return expected	2001 Fair Value £000	2001 Long term rate of return expected
Equities	15,6000	8.5%	21,700	8.0%
Bonds	13,800	5.0%	11,100	5.5%
Other (cash)	100	4.5%	400	5.0%
Fair value of assets	29,500		33,200	
Present value of scheme liabilities	(46,100)		(40,000)	
Deficit in scheme	(16,600)		(6,800)	
Related deferred tax asset	4,980		2,040	
Net pension liability	(11,620)		(4,760)	

The figures shown above were calculated on the basis of the following assumptions:

	2002	2001
Discount rate	5.50%	6.00%
Rate of increase in salaries	3.75%	4.00%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 2.25% for LPI	3% or 5% for fixed increases or 2.50% for LPI
Inflation assumption	2.25%	2.50%

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

20. PENSIONS (CONTINUED)

Analysis of the actuarial loss as would be shown in
the statement of total recognised gains and losses

	£000
Actual return less expected return on scheme assets	(5,786)
Experience gains & losses arising on scheme liabilities	(1,209)
Changes in assumptions underlying the present value of the scheme's liabilities	(3,156)
Actuarial loss	(10,151)
Movement in scheme deficit in the year	£000
At 1 January 2002	(6,800)
Current service cost	(510)
Contributions	891
Past service costs	-
Other financial income	(30)
Actuarial loss in the year	(10,151)
At 31 December 2002	(16,600)

The company also operated a number of defined contribution schemes, including the Macfarlane Group PLC Employees' Pension and Life Assurance Scheme (1988). Contributions to these schemes for the year were £224,000 (2001- £66,000).

21. RELATED PARTY TRANSACTIONS

As the company is a wholly owned subsidiary of Macfarlane Group PLC no disclosure of transactions within the group is given in accordance with the exemptions permitted under Financial Reporting Standard No 8.

22. ULTIMATE PARENT COMPANY

The ultimate parent company is Macfarlane Group PLC a company registered in Scotland. A copy of the group accounts of Macfarlane Group PLC may be obtained from its registered office at 21 Newton Place, Glasgow G3 7PY.