

Company Registration No. 1630389
Registered in England

MACFARLANE GROUP UK LIMITED

Report and Financial Statements

31 December 2003

Deloitte & Touche LLP
Glasgow



MACFARLANE GROUP UK LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

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MACFARLANE GROUP UK LIMITED

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 LLP
Glasgow

MACFARLANE GROUP UK LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

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. The directors are disappointed with the results for the year but look forward to improvements in 2004.

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 7. The directors recommend that the retained loss for the year of £12,296,000 (2002 – retained profit of £5,359,000) be 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:

	2003			2002		
	Beneficial	Trustee	Option	Beneficial	Trustee	Option
G.H. Casey	49,399	-	375,617	45,399	-	375,617
A. Cotton	1,035	-	223,140	472	-	143,140
A.R. Finney	75,951	-	233,037	58,209	-	153,037
I. Gray	6,246	-	281,846	5,683	-	201,846
G.H. Young	80,393	-	274,359	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.

In accordance with the Articles of Association G.H. Casey and A. Cotton retire by rotation and being eligible offer themselves for re-election.

Directors' share options	G.H. Casey	A. Cotton	A.R. Finney	I. Gray	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	42,373	58,898	50,847	55,932
The Macfarlane Group PLC Company Share Option Plan 2000					
15 March 2001	43,795	32,558	40,930	43,795	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	52,302	-	60,000	48,674
16 April 2003	-	80,000	80,000	80,000	80,000
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 2003	375,617	223,140	233,037	281,846	274,359

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.

On 16 April 2003, A. Cotton, A.R. Finney, I. Gray and G.H. Young were each granted options to acquire 80,000 ordinary shares at a price of 28½p per share under the Macfarlane Group PLC Executive Share Option Scheme 2000. These options are exercisable between 16 April 2006 and 15 April 2013, 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 hinder 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.

DIRECTORS' REPORT (continued)

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 68 days purchases outstanding in trade creditors (2002 - 62 days).

AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

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



G.H. Young

Company Secretary

2 April 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

UK 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 2003, which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' (deficit)/funds and the related notes numbered 1 to 24. 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.

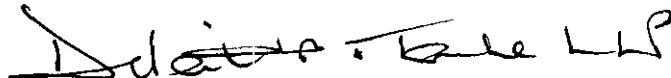
Basis of audit opinion

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 2003 and of its loss for the year then ended and have been prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Glasgow

2 April 2004

MACFARLANE GROUP UK LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2003

	Note	2003 £000	2002 £000
TURNOVER			
Continuing		95,264	121,125
Discontinued operations		7,871	-
Total turnover	2	103,135	121,125
Cost of sales		(72,285)	(80,374)
Gross profit		30,850	40,751
Administrative expenses - recurring		(31,396)	(34,717)
Administrative expenses - exceptional	4	(3,770)	(2,104)
Total administrative expenses		(35,166)	(36,821)
Distribution costs		(6,385)	(7,338)
Other operating income		930	881
		(40,621)	(43,278)
OPERATING LOSS	4	(9,771)	(2,527)
OPERATING LOSS			
Continuing		(8,581)	(2,527)
Discontinued operations		(1,190)	-
OPERATING LOSS		(9,771)	(2,527)
Exceptional items			
(Loss)/gain on disposal of fixed assets		(239)	1,442
Loss on disposal of business discontinued	19	(3,235)	-
		(13,245)	(1,085)
Income from shares in group undertakings	5	1,350	5,534
Interest receivable and similar charges		28	6
Interest payable and similar charges	6	(394)	(583)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(12,261)	3,872
Tax on (loss)/profit on ordinary activities	7	(35)	1,487
RETAINED (LOSS)/PROFIT FOR THE YEAR	17	(12,296)	5,359

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' (DEFICIT)/FUNDS Year ended 31 December 2003

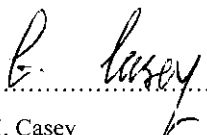
	2003 £000	2002 £000
Retained (loss)/profit for the financial year	(12,296)	5,359
Net (reduction in)/addition to shareholders' funds	(12,296)	5,359
Opening shareholders' funds	7,528	2,169
Closing shareholders' (deficit)/funds	(4,768)	7,528

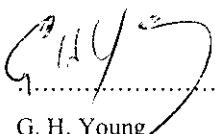
MACFARLANE GROUP UK LIMITED

BALANCE SHEET 31 December 2003

	Note	2003 £000	2002 £000
FIXED ASSETS			
Intangible assets	8	2,447	2,561
Tangible assets	9	20,644	27,725
Investments	10	7,054	7,066
		<u>30,145</u>	<u>37,352</u>
CURRENT ASSETS			
Stocks	11	7,914	10,395
Debtors: amounts falling due within one year	12	23,140	35,016
Debtors: amounts falling due after more than one year	12	-	1,001
Cash at bank and in hand		2,764	2,874
		<u>33,818</u>	<u>49,286</u>
CREDITORS: amounts falling due within one year	13	<u>(32,295)</u>	<u>(34,472)</u>
NET CURRENT ASSETS		<u>1,523</u>	<u>14,814</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		31,668	52,166
CREDITORS: amounts falling due after more than one year	14	(36,343)	(44,135)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(93)	(503)
		<u>(4,768)</u>	<u>7,528</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	(7,571)	4,725
TOTAL EQUITY SHAREHOLDERS' (DEFICIT)/FUNDS		<u>(4,768)</u>	<u>7,528</u>

These financial statements were approved by the Board of Directors on 2 April 2004 and signed on behalf of the Board of Directors by

 Director
G.H. Casey

 Director
G. H. Young

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

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 Company adopted the transitional provisions of FRS 15 in 2002 and has frozen the valuations at modified historic cost. 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 2% - 5% per annum on buildings and 7% - 25% per annum on plant, vehicles and fittings.

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 the 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.

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

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 AND PRE-TAX LOSS

	Continuing £000	Discontinued £000	2003 £000	2002 £000
Turnover	95,264	7,871	103,135	121,125
Cost of sales	66,431	5,854	72,285	80,374
Gross profit	28,833	2,017	30,850	40,751
Distribution costs	(6,132)	(253)	(6,385)	(7,338)
Administration costs	(32,212)	(2,954)	(35,166)	(36,821)
Other operating income	930	-	930	881
Operating loss	(8,581)	(1,190)	(9,771)	(2,527)
Exceptional items				
Loss/(gain) on sale of properties	-	(239)	(239)	1,442
Loss on disposal of business	-	(3,235)	(3,235)	-
Loss before interest	(8,581)	(4,664)	(13,245)	(1,085)
Income from shares in group undertakings			1,350	5,534
Interest receivable and similar charges			28	6
Interest payable			(394)	(583)
Loss before tax			(12,261)	(3,872)

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 (loss)/profit for the year, is attributable to the manufacture and distribution of packaging, specialist printing and the provision of storage, warehousing and haulage services. An analysis of turnover by geographical market is given below:

	2003 £000	2002 £000
United Kingdom	98,711	118,946
Europe	3,740	1,997
Other	684	182
	103,135	121,125

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES	2003	2002
	£000	£000
Emoluments of the highest paid director are as follows:		
Aggregate emoluments excluding pension contributions	97	140
At the year end, the highest paid director had an accrued pension of £35,278 per annum (2002 - £32,351).		
Total emoluments of all directors are as follows:		
Aggregate emoluments	290	351
	No.	No.
Number of directors exercising share options	-	-
Retirement benefits accrue to five directors (2002: three) under the parent company's defined benefit scheme.		
	2003	2002
	No.	No.
Average number of persons employed		
Production	308	358
Sales and distribution	458	564
Administration	180	161
	946	1,083
	2003	2002
	£000	£000
Staff costs during the year (including directors)		
Wages and salaries	18,004	20,953
Social security costs	1,616	1,486
Pension costs	803	893
	20,423	23,332
4. OPERATING LOSS	2003	2002
	£000	£000
Operating loss is arrived at after charging:		
Depreciation - owned assets	5,861	2,986
- leased assets	329	323
Amortisation of intangible assets	114	125
Rentals under operating leases		
Plant and machinery	2,429	2,117
Land and buildings	2,928	2,773
Auditors' remuneration		
For audit services	86	42
For non-audit services	5	2
	2003	2002
	£000	£000
Exceptional charges are as follows:-:		
Vacant property costs	686	665
Cash costs to restructure business	345	144
Cash costs for redundancy programmes	2,739	1,295
	3,770	2,104

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

5. INCOME FROM SHARES IN GROUP UNDERTAKINGS	2003	2002
	£000	£000
Dividends received from subsidiary undertakings	1,350	5,534
	<u>1,350</u>	<u>5,534</u>
6. INTEREST PAYABLE AND SIMILAR CHARGES	2003	2002
	£000	£000
Bank loans, overdrafts and other loans repayable within five years	295	542
Finance leases and hire purchase contracts	99	41
	<u>394</u>	<u>583</u>
	<u>394</u>	<u>583</u>
7. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	2003	2002
	£000	£000
United Kingdom corporation tax :		
Current at 30% (2002:30%)	-	(50)
Adjustment in respect of prior periods	35	(108)
	<u>35</u>	<u>(158)</u>
Total current tax	35	(158)
Deferred taxation	-	(1,329)
	<u>35</u>	<u>(1,487)</u>
	<u>35</u>	<u>(1,487)</u>

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 30% (2002 - 30%). The actual tax charge/(credit) for the current and prior years varies from 30% for the reasons set out in the following reconciliation:

	2003	2002
	£000	£000
(Loss)/profit before tax	(12,261)	3,872
Tax (credit)/charge on (loss)/profit at 30%	(3,678)	1,162
Factors affecting charge:		
Depreciation in excess of capital allowances	418	826
Other differences	3,260	(2,038)
Adjustment in respect of prior periods	35	(108)
	<u>35</u>	<u>(158)</u>
Current tax charge/(credit) for the year	35	(158)
	<u>35</u>	<u>(158)</u>

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2003

8. INTANGIBLE ASSETS

Cost	Purchased goodwill £000	Patents & trademarks £000	Total £000
At 1 January 2003 and 31 December 2003	4,228	240	4,468
Amounts written off			
At 1 January 2003	1,667	240	1,907
Charge for year	114	-	114
At 31 December 2003	1,781	240	2,021
Net book value			
At 31 December 2003	2,447	-	2,447
At 31 December 2002	2,561	-	2,561

9. TANGIBLE FIXED ASSETS

	Land and buildings £000	Plant, machinery & vehicles £000	Fixtures & fittings £000	Total £000
Cost or valuation				
At 1 January 2003	24,707	20,061	9,321	54,089
Additions	4,794	2,585	892	8,271
Disposals	(10,227)	(642)	(272)	(11,141)
Assets of businesses disposed of	(257)	(128)	(9)	(394)
Group transfers	-	(23)	-	(23)
At 31 December 2003	19,017	21,853	9,932	50,802
Accumulated depreciation				
At 1 January 2003	7,393	14,921	4,050	26,364
Charge for the year	1,791	3,022	1,377	6,190
Disposals	(1,449)	(530)	(225)	(2,204)
Assets of businesses disposed of	(73)	(107)	(5)	(185)
Group transfers	-	(7)	-	(7)
At 31 December 2003	7,662	17,299	5,197	30,158
Net book value				
At 31 December 2003	11,355	4,554	4,735	20,644
At 31 December 2002	17,314	5,140	5,271	27,725

The net book value of tangible fixed assets of £20,644,000 (2002 - £27,725,000) includes an amount of £1,302,000 (2002 - £1,630,000) in respect of assets held under finance leases. The depreciation charge in respect of these assets is £329,000 (2002 - £323,000). Included in the depreciation charge in 2003 were impairment charges totalling £3,279,000.

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

9. TANGIBLE FIXED ASSETS (CONTINUED)

Land and buildings at cost or valuation are stated	2003 £000	2002 £000
At valuation 1987	4,392	4,392
At valuation 1990	-	1,550
At cost	14,625	18,765
	<u>19,017</u>	<u>24,707</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:

	2003 £000	2002 £000
Cost	19,024	23,370
Accumulated depreciation	7,313	7,071
Historical cost net book value	<u>11,711</u>	<u>16,299</u>

All other tangible fixed assets are stated at historical cost.

Land and buildings at net book value	2003 £000	2002 £000
Freeholds	9,379	13,973
Long leaseholds	1,644	2,989
Short leasehold improvements	332	352
	<u>11,355</u>	<u>17,314</u>

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

10. INVESTMENTS

Cost	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
At 1 January 2003	10,351	286	10,637
Write off dormant subsidiary	(12)	-	(12)
At 31 December 2003	10,339	286	10,625
Amounts written off			
At 1 January 2003 and 31 December 2003	3,285	286	3,571
Net book value			
At 31 December 2003	7,054	-	7,054
At 31 December 2002	7,066	-	7,066

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

Macfarlane 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.

ALM 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

	2003 £000	2002 £000
Raw materials and consumables	763	883
Work in progress	332	322
Finished goods and goods for resale	6,819	9,190
	7,914	10,395

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

12. DEBTORS	2003 £000	2002 £000
Amounts due within one year		
Trade debtors	18,477	23,914
Amounts owed by group undertakings	809	125
Amounts owed by fellow subsidiary undertakings	97	5,875
Other debtors	2,167	2,696
Corporation tax	-	50
Prepayments and accrued income	1,590	2,356
	<u>23,140</u>	<u>35,016</u>
Amounts due after more than one year		
Amounts owed by group undertakings	-	1,001
	<u>23,140</u>	<u>36,017</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2003 £000	2002 £000
Bank overdraft	-	10,391
Trade creditors	15,556	16,456
Amounts owed to group undertakings	9,085	657
Other taxation and social security	2,608	2,609
Other creditors	1,081	57
Obligations under lease and hire purchase contracts (note 14)	407	495
Accruals and deferred income	3,558	3,807
	<u>32,295</u>	<u>34,472</u>

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	2003 £000	2002 £000
Obligations under lease and hire purchase contracts	673	1,080
Amounts owed to parent company	27,652	4,255
Amounts owed to subsidiary undertakings	3,478	1,370
Amounts owed to other group companies	4,540	37,430
	<u>36,343</u>	<u>44,135</u>
	2003 £000	2002 £000
Obligations under lease and hire purchase contracts		
Due within one year (note 13)	407	495
Due between one and two years	440	407
Due between two and five years	233	673
	<u>1,080</u>	<u>1,575</u>

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

15. PROVISIONS FOR LIABILITIES AND CHARGES	2003	2002
	£000	£000
Provision for vacant leasehold property	93	503
Provision for vacant leasehold property	2003	2002
	£000	£000
At 1 January 2003	503	1,348
Utilised in the year	(410)	(845)
At 31 December 2003	93	503
16. CALLED UP SHARE CAPITAL	2003	2002
	£000	£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	Profit & loss account
	£000	£000
At 1 January 2003	1,442	4,725
Retained loss for the year	-	(12,296)
At 31 December 2003	1,442	(7,571)
18. CONTINGENT LIABILITY		

The company has given an intercompany guarantee to secure the overdrafts of the parent company and certain fellow subsidiaries. The liabilities at 31 December 2003 under these obligations totalled £19,836,000 (2002 - £17,171,000).

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

19. LOSS ON DISPOSAL OF BUSINESS DISCONTINUED

Net assets disposed:	2003	2002
	£000	£000
Tangible assets and related asset write-downs	2,234	-
Stocks	690	-
Debtors	1,974	-
Creditors	(634)	-
	<hr/>	<hr/>
Net assets disposed of	4,264	-
Loss on disposal	(3,235)	(410)
	<hr/>	<hr/>
Consideration (net of attributable expenses)	1,029	(410)
	<hr/>	<hr/>
Satisfied by:	2003	2002
	£000	£000
Cash	706	3,038
Deferred consideration	323	(3,448)
	<hr/>	<hr/>
Total consideration	1,029	(410)
	<hr/>	<hr/>
Analysis of the net cash inflow in respect of the disposal of business	2003	2002
	£000	£000
Cash consideration	706	3,038
	<hr/>	<hr/>
	706	3,038
	<hr/>	<hr/>

On 4 November 2003, the company disposed of the business and certain assets and liabilities of the Northern packaging manufacturing operations in Dundee, Govan and North Shields, which was concluded for a consideration of £1.0m. Included in tangible assets write-downs are impairment charges totaling £2,025,000. The business had made losses for some time and the results are disclosed as discontinued operations in these accounts.

20. FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases comprise:

	Land & buildings	Other	Land & buildings	Other
	2003	2003	2002	2002
	£000	£000	£000	£000
Leases which expire:				
Within one year	110	227	125	710
Within 2 to 5 years	123	1,862	420	2,169
After more than 5 years	3,533	-	3,384	-
	<hr/>	<hr/>	<hr/>	<hr/>
	3,766	2,089	3,929	2,879
	<hr/>	<hr/>	<hr/>	<hr/>

Contracts for capital expenditure

Contracts for capital expenditure for which no provision has been made in the accounts amounted to £2,122,000 (2002 - £6,383,000).

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

21. 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 £563,000 (2002- £669,000) and the agreed contribution rate is 15.5% with effect from 1 July 2002. In the prior year the contribution rate to 30 June 2002 was 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 2001 was updated to 31 December 2003 by a qualified actuary and showed that the market value of the scheme's assets was £32,900,000 and that the actuarial value of these assets represented 66% of the benefits that had accrued to members.

The assets in the scheme, the net asset position for the scheme as calculated under FRS17 at 31 December 2003 and the expected rates of return were:

Asset class	Fair value 2003 £000	Long-term expected rate of return	Fair value 2002 £000	Long-term expected rate of return	Fair value 2001 £000	Long-term expected rate of return
Equities	18,500	8.25%	15,600	8.50%	21,700	8.00%
Bonds	14,300	5.00%	13,800	5.00%	11,100	5.50%
Other (cash)	100	4.50%	100	4.50%	400	4.50%
Fair value of assets	32,900		29,500		33,200	
Present value of scheme liabilities	(50,212)		(46,100)		(40,000)	
Deficit in the scheme	(17,312)		(16,600)		(6,800)	
Related deferred tax asset	5,193		4,980		2,040	
Net pension liability	(12,119)		(11,620)		(4,760)	

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

21. PENSIONS (continued)

The scheme's liabilities at 31 December 2003 were calculated on the following bases as required under FRS17:

Assumptions	2003	2002	2001
Discount rate	5.50%	5.50%	6.00%
Rate of increase in salaries	4.00%	3.75%	4.00%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 2.75% for LPI	3% or 5% for fixed increases or 2.25% for LPI	3% or 5% for fixed increases or 2.50% for LPI
Inflation assumption	2.75%	2.25%	2.50%

	2003 £000	2002 £000
Analysis of amounts charged to group operating loss		
Current service costs	439	510
Profit and loss account	<u>439</u>	<u>510</u>
Analysis of amount credited to group net finance charges	£000	£000
Expected return on pension scheme assets	2,008	2,367
Interest cost of pension scheme liabilities	(2,513)	(2,400)
Net cost	<u>(505)</u>	<u>(33)</u>
Analysis of the actuarial loss as would be shown in the group statement of total recognised gains and losses	£000	£000
Actual return less expected return on scheme assets	1,761	(5,786)
Experience gains & losses arising on scheme liabilities	809	(1,209)
Changes in assumptions underlying the present value of the scheme's liabilities	(3,212)	(3,156)
Actuarial loss	<u>(642)</u>	<u>(10,151)</u>
Movement in scheme deficit in the year	£000	£000
At 1 January 2003	(16,600)	(6,800)
Current service cost	(439)	(510)
Contributions	874	894
Other financial income	(505)	(33)
Actuarial loss in the year	(642)	(10,151)
At 31 December 2003	<u>(17,312)</u>	<u>(16,600)</u>

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 £240,000 (2002- £224,000).

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

22. 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.

23. POST BALANCE SHEET EVENT

On 30 March 2004, the company sold its premises at Braehead near Glasgow for a consideration of £8.6 million. The disposal will give rise to a gain on disposal of £3.8 million in 2004.

24. 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.