

Swallowfield plc

Creating and Delivering Solutions for our Customers' Success

Interim Results for the 28 weeks ended 12 January 2008

Swallowfield plc is pleased to announce its interim results for the 28 weeks ended 12 January 2008 and the resumption of interim dividends.

Highlights

- Net Debt, down 64% at £1.49m (2007: £4.10m);
- Higher gross margins on revenue of £23.53m;
- Operating profit before exceptional items better than expected at £0.83m (2007: £0.86m);
- Earnings per share before exceptional items 4.3p (2007: 3.8p);
- Interim dividend resumed at 1.4p per share.
- First half trading better than anticipated and better than analyst forecasts;
- First production run from the new Czech operation in December 2007 – ahead of target;
- Sale and leaseback of Lowmoor completed in spite of difficult commercial property market.

Outlook

- Full year trading remains in line with market expectations;
- Further broadening of manufacturing base to serve a higher quality and growing customer portfolio.

Shena Winning, Non-executive Chairman, commented:

“The last six months have delivered further significant progress with profits ahead of original expectations and net debt down to its lowest level since 1988. These achievements have been made possible by the energy, commitment and expertise of our management team and all of our employees. We operate in a highly competitive environment and expect the commercial pressures of the last few years to continue. Despite a weaker economic outlook for 2008, the increasing operational and financial strength of the company puts us in a strong position for the future.”

Enquiries:

Swallowfield plc

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Creating and Delivering Solutions for our Customers' Success

Swallowfield plc is a market leader in the development, formulation and supply of cosmetics, toiletries and related household products to the own label and branded sectors. We pride ourselves on being a customer orientated, innovative, flexible and responsive company and combine high quality, competitive products with strong customer service - developing close partnerships with our customers and an in depth knowledge of their requirements.

Chairman's Statement

Key Achievements

The results for the 28 weeks to 12 January 2008 are better than analyst forecasts which were issued in September 2007. The overall net margin mix has improved compared to last year, operational efficiencies remain high and we continue to manage costs and assets tightly.

Headline earnings per share were 14.1p benefitting from a post tax profit of £1.31m on the sale and leaseback of our Lowmoor warehouse. The results are also stated after deducting £0.29m of exceptional costs relating to the ongoing restructuring of the cosmetics operation and the transfer of filling and finishing capabilities to the Czech Republic.

Operating profit before exceptional items was £0.83m; a better than expected performance (2007: £0.86m). After allowing for interest paid, profit before tax and exceptional items was £0.66m (2007: £0.63m).

Net debt was £1.49m, a reduction of £2.61m from the same period last year and the lowest level since December 1988.

Business Review

The business has experienced a continuation of the blurring of boundaries between Toiletries and Cosmetics as a result of new product and technology developments. In due course, this will lead to a reassessment of the Group's segmental analysis.

Toiletries Division

Revenue in the toiletries division, as anticipated, decreased from £18.78m to £17.02m and operating profit declined by £0.44m to £0.94m as a result of contract timings and new customer product launches. Cost control and efficiency improvements remain good in response to the pressures on margins from increasing raw materials and component costs which are hard to pass on to customers.

Cosmetics Division

Revenue in the cosmetics division, as anticipated, decreased from £6.94m to £6.51m whilst operating profit increased substantially from £0.20m to £0.71m. The restructuring activities of last year have reduced overhead costs, and labour efficiencies have improved due, in part, to the automated equipment installed over the last 9 months. At the same time, the division had a one-off benefit from the completion of a contract earlier than anticipated.

Czech Republic

The new facility, which will fill and finish cosmetic and toiletry products, was delivered to us on time by the building developer and landlord. Because of this and the high quality of the final build, we were able to make our first production run in December, almost a month ahead of schedule. There is a phased project to transfer equipment from the UK and to install two new production lines that have been purchased specifically for this operation. We expect all of the equipment to be in place and operators to be fully trained by the end of June 2008. The facility is of a high standard and is already generating considerable interest from existing and potential new customers across a range of product technologies. At 12 January 2008, £0.21m of capital investment has been made in Tabor, with net costs since opening of £0.07m and £0.09m treated as exceptional costs in these accounts.

China

Signing of the final contracts for the joint manufacturing venture in China, which is dependent on registering various matters with the local government, has not yet been completed. We expect this to happen within the next three months.

The sourcing office in Shanghai remains in place and continues to contribute well to the overall business.

Financial Results

Net Debt

Further significant progress has been made over the last six months in reducing net debt. At 12 January 2008 net debt stood at £1.49m and was at its lowest level since December 1988. Further progress was made on inventory reduction by the focus on non-stockholding accounts, and inventories reduced by £0.46m compared to the same period last year. The sale and leaseback referred to below contributed significantly to the reduction in borrowings.

Pension Scheme

At 12 January, the pension scheme deficit recorded in the balance sheet under IAS19 was £2.66m, although the Company had an unrealised surplus of £1.54m as a buffer against future volatility and other factors. This unrealised surplus has reduced since 30 June 2007 due to the volatility of investment markets over the last few months. The next Triennial valuation of the scheme is due as at 6 April 2008 and it is likely that we will need to increase the life expectancy assumptions with a consequent rise in liabilities.

Properties

The sale and leaseback of our warehouse at Lowmoor was completed on 28 December 2007 for a cash consideration of £2.12m. These interim results include an exceptional profit on the sale of £1.31m, including £0.05m of related tax timing factors, equivalent to 11.65p per share. At this time, the Directors do not plan to enter into similar transactions with the remainder of the Group's property portfolio, the book value of which is supported by its current value in use to the business.

Strategy & Outlook

Swallowfield is rapidly evolving into a service company providing customers with options which range from market analysis, formulation, design and packaging development through to product manufacture, sourcing and logistics. Our core strategy of customer intimacy is central to the delivery of these services and continuous improvement in Quality, Cost, Service and Innovation, a prerequisite for success. Our ongoing strategy is built around strengthening and building upon the services we offer and broadening our product portfolio.

Our plans for the coming six months include the continued roll-out of our Czech operation and the completion of the joint venture in China. Each of these activities will enhance our service abilities and reduce our cost base in the medium term. In order to improve our service levels to global customers, we are carefully examining opportunities for new overseas sales offices. As a first step, we plan to open a small bureau in France in the next six months. We are mindful, however, of the need to avoid overstretching existing resources and incurring unnecessary overheads.

The recent price increases in oil and other commodities has put pressure on input costs and passing on these increases to customers remains difficult. However, we continue to defend against input price increases and are using our new sourcing capabilities in China and the Czech Republic in this regard.

In the second half of the financial year we expect to begin to deliver on our long-term mission of profitable sales growth in the toiletries business. The cosmetics division will be focused on operating at the 12% targeted return on net assets as we continue to restructure the business and transfer production.

Overall we expect the second half of the year to show an improvement in trading on the second half of last year.

Dividends

The Board laid out its strategy for the payment of dividends in the last Annual Report. In essence this strategy is to pay dividends using a cautious dividend cover of three times, with a progressive approach to future dividend cover over time. Accordingly, the Board will pay an interim dividend of 1.4p per share on 30 May 2008 to shareholders on the register at 9 May 2008. The shares will go ex-dividend on 7 May 2008.

S J Winning
Chairman
28 February 2008

Group Income Statement

		28 weeks ended 12 Jan 2008 (unaudited) £'000	28 weeks ended 13 Jan 2007 (unaudited) £'000	12 months ended 30 June 2007 (audited) £'000
Continuing operations	Notes			
Revenue	2	23,529	25,720	44,715
Cost of sales		(20,105)	(22,021)	(38,411)
Gross profit		3,424	3,699	6,304
Commercial and administrative costs		(2,594)	(2,844)	(4,986)
Operating profit before exceptional items		830	855	1,318
Exceptional items	2	1,024	(244)	(244)
Operating profit		1,854	611	1,074
Finance income		12	21	24
Finance costs		(179)	(251)	(411)
Profit before taxation		1,687	381	687
Taxation		(95)	(126)	(248)
Profit for the period		1,592	255	439
Attributable to:				
Equity shareholders		1,592	255	439
Earnings per share				
- basic and diluted	3	14.1p	2.3p	3.9p
Dividend				
Paid in period (£000's)		146	-	-
Paid in period (pence per share)		1.3	-	-
Proposed (£000's)		158	-	-
Proposed (pence per share)		1.4	-	-

Group Statement of Recognised Income and Expense

	28 weeks ended 12 Jan 2008 (unaudited) £'000	28 weeks ended 13 Jan 2007 (unaudited) £'000	12 months ended 30 June 2007 (audited) £'000
Profit for the period	1,592	255	439
Total recognised income and expense for the period	1,592	255	439

Group Balance Sheet

	Notes	As at 12 Jan 2008 (unaudited) £'000	As at 13 Jan 2007 (unaudited) £'000	As at 30 June 2007 (audited) £'000
ASSETS				
Non-current assets				
Property, plant and equipment		10,940	10,928	11,032
Intangible assets		75	62	77
Total non-current assets		11,015	10,990	11,109
Current assets				
Inventories		5,830	6,288	6,062
Trade and other receivables		7,940	8,181	7,711
Derivative financial instruments		-	13	6
Cash and cash equivalents		584	561	185
		14,354	15,043	13,964
Non-current assets held for sale	5	-	854	854
Total current assets		14,354	15,897	14,818
Total assets		25,369	26,887	25,927
LIABILITIES				
Current liabilities				
Trade and other payables		8,604	9,197	7,508
Interest-bearing loans and borrowings		469	159	1,153
Current tax payable		38	-	-
Total current liabilities		9,111	9,356	8,661
Non-current liabilities				
Interest-bearing loans and borrowings		1,600	4,514	3,920
Post-retirement benefit obligations		2,663	2,694	2,717
Deferred tax liabilities		396	354	476
Total non-current liabilities		4,659	7,562	7,113
Total liabilities		13,770	16,918	15,774
Net assets		11,599	9,969	10,153
EQUITY				
Share capital		563	563	563
Share premium		3,796	3,796	3,796
Other reserve		-	89	-
Retained earnings		7,240	5,521	5,794
Total equity		11,599	9,969	10,153

Group Cash Flow Statement

	28 weeks ended 12 Jan 2008 (unaudited) £'000	28 weeks ended 13 Jan 2007 (unaudited) £'000	12 months ended 30 June 2007 (audited) £'000
Cash flows from operating activities			
Profit before taxation	1,687	381	687
Depreciation	627	717	1,205
Amortisation	22	17	36
Profit on disposal of non-current asset held for sale	(1,313)	-	-
Loss on disposal of equipment	2	-	25
Impairment of property, plant and equipment	6	-	42
Finance income	(12)	(21)	(24)
Finance cost	179	251	411
Decrease in inventories	232	1,059	1,285
(Increase)/decrease in trade and other receivables	(229)	1,337	1,807
Increase/(decrease) in trade and other payables	1,094	(354)	(2,055)
(Decrease)/increase in retirement benefit obligations	(54)	19	55
Cash generated from operations	2,241	3,406	3,474
Finance expense paid	(171)	(257)	(428)
Taxation paid	(90)	-	-
Net cash flow from operating activities	1,980	3,149	3,046
Cash flow from investing activities			
Finance income received	12	4	24
Purchase of property, plant and equipment	(543)	(175)	(834)
Purchase of intangible assets	(20)	(13)	(47)
Sale of property, plant and equipment	2,120	51	51
Net cash flow from investing activities	1,569	(133)	(806)
Cash flow from financing activities			
Capital element of finance lease liabilities	(79)	(198)	(291)
Repayment of loans	(2,432)	(147)	(147)
Dividends paid	(146)	-	-
Net cash flow from financing activities	(2,657)	(345)	(438)
Net increase in cash and cash equivalents	892	2,671	1,802
Cash and cash equivalents at beginning of period	(308)	(2,110)	(2,110)
Cash and cash equivalents at end of period	584	561	(308)
Cash and cash equivalents consist of:			
Cash	584	561	185
Overdraft	-	-	(493)
Cash and cash equivalents at end of period	584	561	(308)

Notes to the Accounts

Note 1 Basis of preparation

The Group's interim results for the 28 week period ended 12 January 2008 are prepared in accordance with the Group's accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards (IFRS) as adopted by the EU and effective at 30 June 2008 or are expected to be adopted and effective at 30 June 2008. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 'Interim Financial Reporting'.

These interim financial statements do not constitute full statutory accounts within the meaning of section 240(5) of the Companies Act 1985 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 28 February 2008.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of certain fixed assets and financial instruments. The accounting policies used in the interim financial statements are consistent with IFRS and those which will be adopted in the preparation of the Group's Annual Report and Financial Statements for the year ended 30 June 2008. The statutory accounts for the year ended 30 June 2007, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditors Report and did not contain a statement under either Section 237(2) or (3) of the Companies Act 1985.

Note 2 Segmental analysis

The Group operates in two segments which reflect the internal organisation and management structure according to the nature of the products:

- Toiletries - Development, manufacture, marketing and sales of toiletry products
- Cosmetics - Development, manufacture, marketing and sales of cosmetic products

Details for these business reporting segments are shown below:

	28 weeks ended 12 Jan 2008		28 weeks ended 13 Jan 2007		52 weeks ended 30 June 2007	
	Revenue (unaudited) £'000	Profit (unaudited) £'000	Revenue (unaudited) £'000	Profit (unaudited) £'000	Revenue (audited) £'000	Profit (audited) £'000
Toiletries	17,019	943	18,783	1,381	33,497	2,362
Cosmetics	6,510	707	6,937	198	11,218	299
Total	23,529	1,650	25,720	1,579	44,715	2,661
Central costs		(820)		(724)		(1,343)
Operating profit before exceptional items		830		855		1,318
Exceptional items		1,024		(244)		(244)
Operating profit		1,854		611		1,074
Finance income		12		21		24
Finance costs		(179)		(251)		(411)
Profit before taxation		1,687		381		687
Taxation		(95)		(126)		(248)
Profit for the period		1,592		255		439

Exceptional items relate to the profit on disposal of property (£1.31m), including £0.05m of related tax timing factors; costs associated with the Bideford reorganisation £0.23m, and other non-recurring items £0.06m (2007: non-operational costs in closing out a customer contract £0.24m.)

Note 3 Earnings per share

	28 weeks ended 12 Jan 2008 (unaudited)	28 weeks ended 13 Jan 2007 (unaudited)	12 months ended 30 June 2007 (audited)
(a) Basic and diluted			
Profit for the period (£'000)	1,592	255	439
Basic weighted average number of ordinary shares in issue during the period	11,256,416	11,256,416	11,256,416
Dilutive potential ordinary shares: executive share options	6,024	-	-
	11,262,440	11,256,416	11,256,416
Basic earnings per share	14.1p	2.3p	3.9p
Diluted earnings per share	14.1p	2.3p	3.9p

Basic earnings per share has been calculated by dividing the profit for each financial period by the weighted average number of ordinary shares in issue in the period. There is no difference for any of the reported periods between the basic net profit per share and the diluted net profit per share.

Adjusted earnings per share

(b) Basic and diluted			
Profit for the period (£'000)	1,592	255	439
(Less)/add back: Exceptional items	(1,024)	244	244
Notional tax charge on exceptional items	(86)	(73)	(73)
Adjusted profit before exceptional items	482	426	610
Basic weighted average number of ordinary shares in issue during the period	11,256,416	11,256,416	11,256,416
Dilutive potential ordinary shares: executive share options	6,024	-	-
	11,262,440	11,256,416	11,256,416
Adjusted basic earnings per share	4.3p	3.8p	5.4p
Adjusted diluted earnings per share	4.3p	3.8p	5.4p

Profit for the period of £1.59m (2007: interim £0.26m; full-year £0.44m) is shown after deducting £1.02m (2007 adding: interim £0.24m; full-year £0.24m) in respect of exceptional items. Adjusted earnings per share has been calculated by dividing the adjusted profit of £0.48m (after allowing for the notional tax charge on exceptional items) (2007: interim £0.43m; full-year £0.61m) by the weighted average number of shares in issue at 12 January 2008, 13 January 2007 and 30 June 2007 respectively.

Note 4 Dividends

The Directors have decided to declare an interim dividend payment of 1.4p per ordinary share. No interim dividend was paid in 2007.

Note 5 Non-current assets held for sale

	As at 12 Jan 2008 (unaudited) £'000	As at 13 Jan 2007 (unaudited) £'000	As at 30 June 2007 (audited) £'000
Property, plant and equipment	-	854	854

Assets held for sale were included within the total assets of the Group's Toiletries segment. The assets incorporated the land and buildings at the Group's separate warehousing facility. The sale was completed on 28 December 2007.

Note 6 Reconciliation of cash and cash equivalents to movement in net debt

	28 weeks ended 12 Jan 2008 (unaudited) £000's	28 weeks ended 13 Jan 2007 (unaudited) £000's	12 months ended 30 June 2007 (audited) £000's
Increase in cash and cash equivalents in the period	892	2,671	1,802
Cash inflow from movement in borrowings	2,432	147	147
Movement on finance leases	79	198	291
Change in net debt from cash flows	3,403	3,016	2,240
Movement in fair value of derivative financial instruments	(6)	17	10
Movement in net debt in the period	3,397	3,033	2,250
Net debt at the beginning of the period	(4,882)	(7,132)	(7,132)
Net debt at the end of the period	(1,485)	(4,099)	(4,882)

Note 7 Announcement of results

These results were announced to the London Stock Exchange on 28 February 2008. The Interim Report will be sent to shareholders and is available to members of the public at the Company's Registered Office at Swallowfield House, Station Road, Wellington, Somerset, TA21 8NL.

INDEPENDENT REVIEW report to SWALLOWFIELD PLC

Introduction

We have been engaged by the company to review the financial information in the half-yearly financial report for the 28 weeks ended 12 January 2008 which comprises the group income statement, the group balance sheet, the group statement of recognised income and expense, the group cash flow statement and the related notes 1 to 7, set out on pages 6 to 8. We have read the other information contained in the half yearly financial report which comprises the Chairman's Statement only and considered whether it contains any apparent misstatements or material inconsistencies with the information in the financial information.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review 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, for our review work, for this report, or for the conclusion we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1 the annual financial statements of the group are prepared in accordance with the basis of preparation.

Our Responsibility

Our responsibility is to express to the company a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the 28 weeks ended 12 January 2008 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

GRANT THORNTON UK LLP
AUDITOR
Bristol
27 February 2008

