

Swallowfield plc

Creating and Delivering Solutions for our Customers' Success

Interim Results for the 28 weeks ended 10 January 2009

Swallowfield plc is pleased to announce its interim results for the 28 weeks ended 10 January 2009.

Highlights

- Revenues ahead by 7% to £25.24m
- Profit before tax £0.59m (2008: £0.66m) before exceptional items;
- Interim dividend increased 29% to 1.8p per share (2008: 1.4p per share);
- Earnings per share 3.6p (2008: 4.3p) before exceptional items;
- Net Debt at low levels after £1.00m of capital and investment expenditure;
- Czech plant fully operational and winning new work.

Outlook

- High level of encouraging new sales enquiries despite worsening economic environment;
- Order postponement evidencing destocking and lower consumer demand;
- Full year profit performance anticipated to be broadly in line with the previous year.

Shena Winning, Non-executive Chairman, commented:

"The last six months have continued the progress made in previous periods with profits largely maintained in tough trading conditions and net debt at low levels after a programme of capital investment. Despite the weaker economic outlook for 2009 and beyond, levels of new sales enquiries are at a high level and some revenue growth is expected in the second half. 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

I am pleased to report that for the twenty eight weeks to 10 January 2009, Swallowfield plc has delivered an underlying level of profit before tax (before exceptional items) of £0.59m, broadly unchanged from the same period in 2008 (£0.66m), and has maintained the strength of its Balance Sheet in a very challenging environment.

Revenue at £25.24m was up 7.3% against the same period last year, the result of the Company's continued focus on building a market awareness of its capabilities and expertise through the development of close relationships at all levels with existing and potential customers in the UK and overseas.

Operating profit before exceptional items of £0.74m was £0.09m less than the same period last year (which had included a one-off benefit from the completion of a contract earlier than expected). The period has seen a change in the mix of trade with increases in lower margin toiletries and a reduction in higher margin cosmetics.

The operating profit also included the impact of significantly increased energy costs; the first four months of costs for our new French office; and additional costs in the Czech Republic. The weakness of sterling has continued to drive raw material price inflation which is difficult to pass on to customers and we continue to review the market for lower cost alternatives where appropriate.

Continued focus on the management of working capital has resulted in net debt at £2.66m after some strategic investment of £1.00m in fixed assets and investment in the first half.

Business Review

The first half of the year has seen the continuation of the strengthening of Swallowfield's reputation as a service company and customers continue to find the geographic diversity of operational facilities and sales offices particularly attractive. The sales and marketing teams have continued to follow a focussed programme of customer engagement to keep them abreast of the product and site options available within Swallowfield.

Czech Republic

The manufacturing site has been operational throughout the twenty eight week period and has seen the successful shipment of new product. The transfer of production lines from the UK is complete and the facility now offers a full complement of colour cosmetics filling lines, an EDT line, a tube filling line and, within the next two months, a liquid fill line. The business now has a staff complement of 117 and continues to attract new business from our customers.

Properties

The extension and fit-out of our finished goods warehouse at Lowmoor was completed in the period at a capital cost of £0.28m. This has enabled us to consolidate our finished goods inventory onto the one site and to release property at Bideford which is now being marketed for sale or short-term rental.

Pension Scheme

The triennial valuation of the defined benefit pension scheme is nearing completion. The valuation will incorporate the most recent life expectancy assumptions and there is not anticipated to be any significant resultant impact on the future funding of the scheme. We have continued to review the scheme and have taken the decision to close it to new entrants and are currently reviewing contribution levels from both employees and the Company. New employees will be offered a defined contribution scheme.

Board

We were very pleased to announce the appointment of Patrick Gaynor as an independent non-executive director with effect from 13th October 2008. Patrick has been following an induction programme and we confidently expect him to make a valuable contribution to the Board in the future.

Outlook

The global economic outlook has continued to deteriorate with all major economies now in deep recession. It is possible that consumers may trade down in their purchasing of toiletries, household and cosmetic products and therefore it is important that we maintain our current spread of business from the prestige through to the mass market.

Inflation is slowing but the recent decline in the value of sterling is driving cost increases on many of the raw materials and components sourced from outside the UK. These cost increases are not easy to pass on but we continue to endeavour to do so with some success. In the medium term sterling's depreciation will provide a further boost to our competitiveness already enhanced by the efficiency improvements and cost reductions we have made in recent years.

Energy costs are now coming down and will reduce costs in the second half of the current trading year. We also expect that additional business going through the Czech Republic plant in the next twelve months will improve returns from that operation.

It has recently become clear that many of our customers are focussing on tight asset management and we are experiencing a reduction in orders as a consequence of the driving down of stock levels across the industry and lower consumer demand.

However, our increased competitiveness, together with the improved service levels, new product development and reputation for quality products has opened the door to new markets. Customer enquiries are increasing and whilst they have yet to be converted into firm orders, they are at high and encouraging levels across our product portfolio.

In the prevailing economic environment we remain cautious about making commitments in respect of the immediate future for the market but remain confident of the strength of our present position and will react flexibly and positively to circumstances. We expect to see some revenue growth in the second half (over the same period last year) and now expect the full year profit performance, excluding exceptional items, to be broadly in line with last year.

With the establishment of a solid underlying business Ian Mackinnon and his team are now focussed on driving profitable top line growth and are significantly increasing the level of customer contacts. We have the capacity to grow the business from our existing facilities with only a limited further increase in plant and equipment. We continue to maintain our very close working relationship with existing and new customers who are constantly looking for new and innovative products to strengthen their place in the market.

Dividend

The Board is recommending a dividend for the half year of 1.8p representing a 29% increase on the 1.4p paid last year. This payment is in line with the Board's stated aim to pay dividends on the basis of a 1.5 times cover on adjusted earnings. The interim dividend will be payable on 29 May 2009 to shareholders on the register at 8 May 2009. The shares will go ex-dividend on 6 May 2009.

S J Winning
Chairman
26 February 2009

Group Income Statement

		28 weeks ended 10 Jan 2009 (unaudited) £'000	28 weeks ended 12 Jan 2008 (unaudited) £'000	12 months ended 30 June 2008 (audited) £'000
Continuing operations	Notes			
Revenue	2	25,242	23,529	44,820
Cost of sales		(22,273)	(20,105)	(38,501)
Gross profit		2,969	3,424	6,319
Commercial and administrative costs		(2,228)	(2,594)	(4,782)
Operating profit before exceptional items		741	830	1,537
Exceptional items		58	1,024	1,024
Operating profit		799	1,854	2,561
Finance income	3	-	12	55
Finance costs	3	(156)	(179)	(272)
Profit before taxation		643	1,687	2,344
Taxation		(194)	(95)	93
Profit for the period		449	1,592	2,437
Attributable to:				
Equity shareholders		449	1,592	2,437
Earnings per share				
- basic and diluted	4	4.0p	14.1p	21.6p
Dividend				
Paid in period (£000's)		462	146	304
Paid in period (pence per share)		4.1	1.3	2.7
Proposed (£000's)	5	203	158	462
Proposed (pence per share)		1.8	1.4	4.1

Group Statement of Recognised Income and Expense

Profit for the period	449	1,592	2,437
Exchange difference on translation of foreign operations	6	-	46
Total recognised income and expense for the period	455	1,592	2,483

Group Balance Sheet

	Notes	As at 10 Jan 2009 (unaudited) £'000	As at 12 Jan 2008 (unaudited) £'000	As at 30 June 2008 (audited) £'000
ASSETS				
Non-current assets				
Property, plant and equipment		11,333	10,940	11,130
Intangible assets		136	75	95
Investments		46	-	-
Total non-current assets		11,515	11,015	11,225
Current assets				
Inventories		6,015	5,830	6,548
Trade and other receivables		9,590	7,940	9,569
Cash and cash equivalents		196	584	49
		15,801	14,354	16,166
Non-current assets held for sale	6	183	-	167
Total current assets		15,984	14,354	16,333
Total assets		27,499	25,369	27,558
LIABILITIES				
Current liabilities				
Trade and other payables		9,633	8,604	10,008
Interest-bearing loans and borrowings		1,523	469	884
Current tax payable		213	38	121
Total current liabilities		11,369	9,111	8,661
Non-current liabilities				
Interest-bearing loans and borrowings		1,334	1,600	1,583
Post-retirement benefit obligations		2,427	2,663	2,584
Deferred tax liabilities		44	396	46
Total non-current liabilities		3,805	4,659	4,213
Total liabilities		15,174	13,770	15,226
Net assets		12,325	11,599	12,332
EQUITY				
Share capital		563	563	563
Share premium		3,796	3,796	3,796
Exchange reserve		52	-	46
Retained earnings		7,914	7,240	7,927
Total equity		12,325	11,599	12,332

Group Cash Flow Statement

	28 weeks ended 10 Jan 2009 (unaudited) £'000	28 weeks ended 12 Jan 2008 (unaudited) £'000	12 months ended 30 June 2008 (audited) £'000
Cash flows from operating activities			
Profit before taxation	643	1,687	2,344
Depreciation	655	627	1,167
Amortisation	33	22	39
Profit on disposal of non-current asset held for sale	-	(1,313)	(1,263)
Loss on disposal of equipment	-	2	-
Impairment of property, plant and equipment	2	6	7
Finance income	-	(12)	(55)
Finance cost	156	179	272
Decrease/(increase) in inventories	533	232	(486)
Increase in trade and other receivables	(21)	(229)	(1,858)
(Decrease)/increase in trade and other payables	(352)	1,094	2,515
Decrease in retirement benefit obligations	(157)	(54)	(133)
Cash generated from operations	1,492	2,241	2,549
Finance expense paid	(156)	(171)	(282)
Taxation paid	(121)	(90)	(169)
Net cash flow from operating activities	1,215	1,980	2,098
Cash flow from investing activities			
Finance income received	-	12	55
Purchase of property, plant and equipment	(876)	(543)	(1,441)
Purchase of intangible assets	(74)	(20)	(57)
Purchase of investments	(46)	-	-
Sale of property, plant and equipment	-	2,120	2,119
Net cash flow from investing activities	(996)	1,569	676
Cash flow from financing activities			
Capital element of finance lease liabilities	-	(79)	(148)
Repayment of loans	(333)	(2,432)	(2,432)
Dividends paid	(462)	(146)	(304)
Net cash flow from financing activities	(795)	(2,657)	(2,884)
Net (decrease)/increase in cash and cash equivalents	(576)	892	(110)
Cash and cash equivalents at beginning of period	(418)	(308)	(308)
Cash and cash equivalents at end of period	(994)	584	(418)
Cash and cash equivalents consist of:			
Cash	196	584	49
Overdraft	(1,190)	-	(467)
Cash and cash equivalents at end of period	(994)	584	(418)

Notes to the Accounts

Note 1 Basis of preparation

The Group's interim results for the 28 week period ended 10 January 2009 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 2009 or are expected to be adopted and effective at 30 June 2009, except for the adoption of IFRS 8 'Operating Segments'. 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 25 February 2009.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of certain non-current assets. 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 2009. The statutory accounts for the year ended 30 June 2008, 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 has previously reported operating in two segments (Toiletries and Cosmetics) which reflected the internal organisation and management structure according to the nature of the products. This segmentation has become increasingly opaque, as customers are sourcing both products and production units are increasingly able to offer a range of solutions.

The Group considers that it only operates in one reportable segment as all sales, purchasing, production and operational decisions are now taken based on the overall Group operating performance. The results of this segment are as reported through the Group income statement, Group balance sheet and Group cash flow statements.

Geographical segments

The distribution of the Group's revenue by destination is shown below:

	28 weeks ended 10 Jan 2009 (unaudited) £'000	28 weeks ended 12 Jan 2008 (unaudited) £'000	12 months ended 30 June 2008 (audited) £'000
UK	20,883	19,743	35,352
Other European Union countries	3,969	3,549	8,507
Rest of the World	390	237	961
	25,242	23,529	44,820

In the 28 weeks ended 10 January 2009, the Group had three customers that exceeded 10% of total revenues, being 19%, 18% and 11% respectively. In the 28 weeks ended 12 January 2008, the Group had one customer which represented 16% of total revenues.

Note 3 Finance income and costs

	28 weeks ended 10 Jan 2009 (unaudited) £'000	28 weeks ended 12 Jan 2008 (unaudited) £'000	12 months ended 30 June 2008 (audited) £'000
Finance income			
Other interest	-	12	24
Net pension scheme income	-	-	31
	-	12	55
Finance costs			
Bank loans and overdrafts	107	176	267
Finance lease interest	-	3	5
Net pension scheme cost	49	-	-
	156	179	272

Note 4 Earnings per share	28 weeks ended 10 Jan 2009 (unaudited)	28 weeks ended 12 Jan 2008 (unaudited)	12 months ended 30 June 2008 (audited)
(a) Basic and diluted			
Profit for the period (£'000)	449	1,592	2,437
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	4,232	6,024	5,352
	11,260,648	11,262,440	11,261,768
Basic earnings per share	4.0p	14.1p	21.6p
Diluted earnings per share	4.0p	14.1p	21.6p

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)	449	1,592	2,437
Less: Exceptional items	(58)	(1,024)	(1,024)
Notional tax credit/(charge) on exceptional items	16	(86)	(83)
Tax credit from change in basis of taxation	-	-	(289)
Adjusted profit before exceptional items	407	482	1,041
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	4,232	6,024	5,352
	11,260,648	11,262,440	11,261,768
Adjusted basic earnings per share	3.6p	4.3p	9.2p
Adjusted diluted earnings per share	3.6p	4.3p	9.2p

Profit for the period of £0.45m (2008: interim £1.59m; full-year £2.44m) is shown after adding £0.06m (2008: interim £1.02m; full-year £1.02m) in respect of exceptional items, and £NIL (2008: interim £NIL; full-year £0.29m) for one-off credits from a change in the basis of taxation. Adjusted earnings per share has been calculated by dividing the adjusted profit of £0.41m (after allowing for the notional tax credit/(charge) on exceptional items) (2008: interim £0.48m; full-year £1.04m) by the weighted average number of shares in issue at 10 January 2009, 12 January 2008 and 30 June 2008 respectively.

Note 5 Dividends

The Directors have declared an interim dividend payment of 1.8p per ordinary share (2008: interim 1.4p; final 4.1p).

Note 6 Non-current assets held for sale	As at 10 Jan 2009 (unaudited) £'000	As at 12 Jan 2008 (unaudited) £'000	As at 30 June 2008 (audited) £'000
Property, plant and equipment	183	-	167

Assets held for sale relate to a freehold warehouse and some retail display stands. The sales are expected to be completed with 12 months of the balance sheet date.

Note 7 Reconciliation of cash and cash equivalents to movement in net debt

	28 weeks ended 10 Jan 2009 (unaudited) £000's	28 weeks ended 12 Jan 2008 (unaudited) £000's	12 months ended 30 June 2008 (audited) £000's
(Decrease)/increase in cash and cash equivalents in the period	(576)	892	(110)
Net cash outflow from decrease in borrowings	333	2,511	2,580
Change in net debt resulting from cash flows	(243)	3,403	2,470
Net debt at the beginning of the period	(2,418)	(4,882)	(4,882)
	(2,661)	(1,479)	(2,412)
Fair value of swaps hedging fixed interest rate borrowing	-	(6)	(6)
Net debt at the end of the period	(2,661)	(1,485)	(2,418)

Note 8 Announcement of results

These results were announced to the London Stock Exchange on 26 February 2009. 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 10 January 2009 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 8, 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 IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation in Note 1.

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 10 January 2009 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

GRANT THORNTON UK LLP
AUDITOR
Bristol
26 February 2009