FINAL RESULTS

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Swallowfield plc

Swallowfield plc, the full service provider to global brands and leading retailers in the cosmetics, toiletries and household goods sector announces its results for the year ended 30 June 2012

HIGHLIGHTS

- Earnings per share increased by 16.7% to 11.2p (2011: 9.6p)
- Profit before taxation increased by 17.3% to £1.56m (2011: £1.33m)
- Total revenue increased by 0.7% to £57.9m (2011: £57.5m)
- Overseas revenues increased by 11.5% to £12.6m (2011: £11.3m)
- Operating margin increased to 2.7% (2011: 2.5%)
- Net debt reduced by 12.8% to £4.1m (2011: £4.7m)
- Final dividend proposed 4.1p (2011: 4.1p) per share making a total for the year of 6.3p (2011: 6.3p)

OUTLOOK

- Continue to widen geographic spread and develop new client relationships
- New product launches and new customer wins to offset customer rebalancing
- Expect the current year to have a weaker first half and stronger second half than normal
- Positive expectations for the current year as a whole

Ian Mackinnon Chief Executive commented:

"We are pleased that the Group has progressed well against such a difficult and challenging background. We have increased earnings per share by 16.7% at the same time as reducing net debt from £4.7m to £4.1m. Revenue increased by 0.7% and our profitability as a percentage of revenue increased to 2.7% from 2.5% last year. Good cost control has enabled us to reduce overhead costs from 23.8% to 23.4% of revenue.

The Board has reviewed, challenged and updated the company's strategic plan and placed greater emphasis on large scale product development and the creation of partnerships, joint ventures and acquisitions to speed up delivery of an increase in profitability. This is coupled with a focus on the continued development of a diverse customer base.

Overall, our expectations for the coming financial year remain positive and broadly in line with those discussed six months ago."

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Notes to Editors:
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.

MARKET AND ECONOMIC BACKGROUND

The well documented difficulties in the Euro-zone have affected confidence across most of the major economies of the world and this has had some impact on the toiletries and cosmetics market as one would expect. However, the majority of products sold in the toiletries and cosmetics market are either relatively inexpensive luxury items or everyday toiletry and household products and, as such, we would not expect a significant decline in consumer demand for these products.

As discussed six months ago, the bigger short-term impact from the fragile economic background is that customers continue to consolidate, rationalise and review their supply chains for efficiencies and cost savings. This situation has continued and is creating greater movement in the underlying shape of our customer and product portfolio than normal. At this time, we expect the net impact of these changes will limit opportunities for growth in the current year with a return to higher growth levels the year after.

During the past year we have been successful in developing new customer relationships both in the UK and overseas and this, together with the changes in the customer portfolio, is creating a more robust customer base for the long-term. Customers are recognising the strengths that we have in terms of flexibility, creativity and product development and are discussing a significant number of new opportunities with us.

The cost of manufacturing and shipping from China are continuing to increase relative to European production and, whilst it is still cost effective, we expect the cost advantage to diminish in future years. We are already beginning to witness a small number of customers wishing to bring production back closer to market and are planning to increase the proportion of local production for domestic markets.

BUSINESS REVIEW

Revenue increased by 0.7% with direct exports having increased by 11.5% reflecting our strategy to grow exports at a faster rate than UK based revenue. Direct exports now represent 21.8% of our revenue up from 19.6% last year. Revenues from UK based customers decreased by 1.9%, reflecting the UK market and a change in customer mix.

Profit before taxation increased by 17.3% to £1.56m helped by the growth in revenues and continued good cost control. Raw material, component and other direct input costs have now broadly stabilised as commodity prices appear to have peaked; the weakness in the value of sterling from a few years ago has been absorbed. We expect input costs to remain muted for the coming year. This will allow us to work to begin to improve margins.

We have maintained a tight control over overhead expenditure (our total expenditure excluding direct material costs, direct labour costs and external carriage costs), and have been able to reduce these costs to 23.4% of revenue from 23.8% of revenue last year. We plan to continue to reduce overhead costs in the coming year.

During the year, as part of our plan to strengthen the site and move towards higher technology products, we installed two new production lines at Bideford. These two lines are for technically demanding products and, in each case, had complex start up programmes that have impacted our efficiency levels. These lines are now running in line with expectations and we should see a return to much higher efficiency levels this year.

The Wellington site had a good year, with increasing efficiency levels reflecting the hard work that has gone into lean manufacturing and manpower planning. These programmes are continuing and further investments are planned for the coming year.

Volumes in our Czech factory declined during the year due to product and customer mix; efficiency levels were strong and efforts to both reduce production volatility and improve manpower capacity planning were successful. We expect production volumes to increase during the coming financial year and are in the process of redirecting some production from Bideford to Tabor as Bideford changes production to the new technology products mentioned above.

Our Chinese strategic investment continues to progress and has recently moved to a new larger factory on the outskirts of Shanghai city; this factory has a much improved layout designed to improve workflow and Good Manufacturing Practice (GMP). Dividend income we receive from this investment has been reduced this year in order to retain cash within this business to fund the factory move.

The overall effective rate of group taxation for the year was 18.8% of pre-tax profits which is lower than the standard UK corporation tax rate. This reflects the benefit we received from the R&D tax credit regime in the UK together with a lower tax rate in the Czech Republic. We expect our effective tax rate to increase a little next year but to remain below the standard UK rate.

Earnings per share increased by 16.7% during the year from 9.6p last year to 11.2p during the year under review.

NET DEBT AND CASH FLOW

During the year, net debt decreased to £4.1m from £4.7m last year. Working capital declined over the year under review and capital expenditure, whilst still higher than depreciation, was down slightly on the previous year.

The strength of the Group's balance sheet has once again allowed us to increase the headroom on our borrowing facilities. During the year the Group increased its borrowing facilities by a further £1m by increasing the debt financing facility to £7.5m. This debt facility also allows us to borrow in multiple currencies to help manage our growing foreign exchange transactions.

Net financing costs of £0.02m (2011: £0.08m) comprised interest expense of £0.15m (2011: £0.14m); pension scheme finance income of £0.11m (2011: £Nil); and dividend income received of £0.02m (2011: £0.06m).

The defined benefit pension scheme had its latest triennial valuation at 5 April 2011, the results of which were a deficit broadly in line with the previous valuation. However, to continue to manage the scheme tightly, the Company has increased its deficit contributions and made a number of changes to the scheme including an increase in member contributions and a reduction in accrual rates. Since the 5 April 2011 yields on fixed income securities have reduced significantly caused by recessionary pressures, quantitative easing and the fact that UK government securities are currently seen as a relatively safe haven. This will have had an adverse effect on the funding position.

Capital expenditure was £1.4m (2011: £1.6m) which was £0.2m above depreciation (2011: £0.4m above). Our current expectations are for capital expenditure to equal depreciation in the coming year.

The property for sale at Bideford remains unsold but has received some interest and an offer in the period, which regrettably has subsequently fallen through due to the economic environment.

PROGRESS AGAINST STRATEGY

The Board has carried out a thorough review of the strategic plan and concluded that the broad aim of the Group - to grow the business in excess of the overall market and to improve profitability as measured by return on capital and return on sales - should remain unchanged. In reaching this conclusion, it has determined that additional efforts will be put into larger scale new product development and the commercialisation of this work and the Group will put a greater emphasis on partnerships, joint ventures and acquisition activity. The long-term targets set out a year ago have been reaffirmed.

Widening our geographic footprint
Both the French and United States sales support offices have won new business during the year, contributing to the increase in direct exports. In addition, there are a number of new customers and products that have been won for shipment during the coming year. The business in South Africa continues to grow and new customers continue to be added to the portfolio

Broadening our product technologies
We have developed new skin care formulations which will be manufactured in our new manufacturing rooms and have already won new business for these kinds of products. We are continuing to build on this investment with targeted customers in these categories, and believe we can create further opportunities.

During the year, we have made significant investments at Bideford in formulation development and manufacturing of hair powder and this has now developed into a real core competence.

We continue to develop formulations and manufacturing capability for sun care formulations with further products being launched during the year.

Driving competitive improvements in our cost structure
Total overhead costs including those employed in manufacturing and supply chain activities decreased in value terms and also expressed as a percentage of revenue. Total overheads now represent 23.4% of revenue compared with 23.8% during the previous year and 26.9% in the financial year ended 30 June 2008. This is a robust performance given the inflationary background.

We have plans in place to reduce our overhead costs in the coming year and to increase our manufacturing efficiencies.

Driving Growth
Much effort has gone into the development of new customers both in the UK as well as overseas. We are meeting with some success in this regard and this is helping to offset the impact of customer rebalancing. As well as looking to develop new customer relationships, we are working with our current customer base - which is of fantastic quality - to explore ways to develop new products and find other ways to service them.

We are currently tendering on a number of new business opportunities.

Dividends

As discussed in our last report, the Board determined that the dividend policy could be strengthened over time. The previous dividend policy was to retain a dividend cover of 1.5 times post-tax earnings over the medium term. The Board believes that the dividend cover should be increased over time to 2 times post-tax earnings. The dividend cover for the current year, assuming that the recommended dividend is approved at the Annual General Meeting is 1.8 times.

The Board is recommending a final dividend of 4.1p (2011: 4.1p) per share which, taken together with the interim dividend of 2.2p (2011: 2.2p) per share, makes an annual dividend of 6.3p (2011: 6.3p) per share. If approved at the Annual General Meeting, the final dividend will be paid on 30th November 2012 to shareholders on the register on 9th November 2012. The shares will go ex-dividend on 7th November 2012.

OUTLOOK

We continue to take a cautious stance regarding growth prospects for the UK and Euro-zone economies. We do not anticipate any significant recovery in the near-term as governments seek to cut budget deficits and consumers seek to rebuild their own finances. The recent slowdown in the global economy will also act as a drag on potential growth. We still believe that long-term growth prospects are good and that we can still grow the business on the back of our product technologies, innovation and customer service.

The rebalancing of customers mentioned above will make net revenue growth hard to achieve in this current year, but will create less risk. Our efforts to develop new customer accounts and win new business is going on at pace and this should enable us to return to growth in the following year. These factors will contribute to a weaker first half and a stronger second half of the current year than is normal.

We have put in place a series of measures to make further reductions in overhead costs and have a number of planned efficiency improvements which will come through in the next 12 months. We anticipate that these measures, together with an improved margin mix and an expectation that raw material and component prices have broadly peaked, this will provide an impetus to our profits during the coming year.

Overall, we remain cautiously optimistic for the coming year.

Group Statement of Comprehensive Income
For the year ended 30 June 2012

	Notes	**2012** £'000	2011 Restated* £'000
Revenue	5	**57,879**	57,452
Cost of sales		**(51,772)**	(51,204)
Gross profit		**6,107**	6,248
Commercial and administrative costs		**(4,539)**	(4,839)
Operating profit		**1,568**	1,409
Finance income		**143**	60

Finance costs		**(155)**	(140)
Profit before taxation	6	**1,556**	1,329
Taxation	7	**(293)**	(247)
Profit for the year		**1,263**	1,082
Other comprehensive income:			
Exchange differences on translating foreign operations		**(290)**	68
Gain on available for sale financial assets		**-**	48
Other comprehensive income for the year		**(290)**	116
Total comprehensive income for the year		**973**	1,198
Profit attributable to:			
Equity shareholders		**1,263**	1,082
Total comprehensive income attributable to:			
Equity shareholders		**973**	1,198
Earnings per share			
- basic and diluted	8	**11.2p**	9.6p
Dividend			
Paid in year (£'000)		**712**	712
Paid in year (pence per share)		**6.3**	6.3
Proposed (£'000)		**464**	464
Proposed (pence per share)		**4.1**	4.1

*The 2011 cost of sales, commercial and administrative costs have been restated to ensure consistency with the revised cost categorisation adopted in 2012. The effect of this is to reclassify £582,000 of costs from commercial and administrative expenses to cost of sales.

Group Statement of Financial Position
As at 30 June 2012

	2012 £'000	2011 £'000
ASSETS		
Non-current assets		
Property, plant and equipment	**11,405**	11,395
Intangible assets	**164**	131
Deferred tax assets	**18**	-
Investments	**192**	192
Total non-current assets	**11,779**	11,718
Current assets		
Inventories	**8,297**	8,428
Trade and other receivables	**13,629**	13,750
Cash and cash equivalents	**923**	1,186
	22,849	23,364
Assets held for sale	**167**	167
Total current assets	**23,016**	23,531
Total assets	**34,795**	35,249
LIABILITIES		
Current liabilities		
Trade and other payables	**17,771**	18,358
Interest-bearing loans and borrowings	**471**	508
Current tax payable	**106**	44
Total current liabilities	**18,348**	18,910

Non-current liabilities		
Interest-bearing loans and borrowings	**433**	500
Post-retirement benefit obligations	**2,204**	2,356
Deferred tax liabilities	**103**	37
Total non-current liabilities	**2,740**	2,893
Total liabilities	**21,088**	21,803
Net assets	**13,707**	13,446

EQUITY		
Share capital	**566**	566
Share premium	**3,830**	3,830
Other components of equity	**48**	48
Exchange reserve	**(224)**	66
Retained earnings	**9,487**	8,936
Total equity	**13,707**	13,446

Group Statement of Changes in Equity
As at 30 June 2012

	Share Capital	Share Premium	Exchange Reserve	Retained Earnings	Available for Sale Financial Assets	Total Equity
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance as at 1 July 2011	**566**	**3,830**	**66**	**8,936**	**48**	**13,446**
Dividends	-	-	-	(712)	-	(712)
Transactions with owners	-	-	-	(712)	-	(712)
Profit for the year	-	-	-	1,263	-	1,263
Other comprehensive income:						
Exchange difference on translating foreign operations	-	-	(290)	-	-	(290)
Gain on available for sale financial assets	-	-	-	-	-	-
Total comprehensive income for the year	-	-	(290)	1,263	-	973
Balance as at 30 June 2012	**566**	**3,830**	**(224)**	**9,487**	**48**	**13,707**

	Share Capital	Share Premium	Exchange Reserve	Retained Earnings	Available for Sale Financial Assets	Total Equity
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance as at 1 July 2010	**566**	**3,830**	**(2)**	**8,566**	**-**	**12,960**
Dividends	-	-	-	(712)	-	(712)
Transactions with owners	-	-	-	(712)	-	(712)
Profit for the year	-	-	-	1,082	-	1,082
Other comprehensive income:						
Exchange difference on translating foreign operations	-	-	68	-	-	68
Gain on available for sale financial assets	-	-	-	-	48	48
Total comprehensive income for the year	-	-	68	1,082	48	1,198
Balance as at 30 June 2011	**566**	**3,830**	**66**	**8,936**	**48**	**13,446**

Group Cash Flow Statement
For the year ended 30 June 2012

	Notes	2012 £'000	2011 £'000
Cash flow from operating activities			
Profit before taxation		**1,556**	1,329
Depreciation		**1,225**	1,172
Amortisation		**51**	38
Loss on disposal of property, plant and equipment		**5**	-
Finance income		**(143)**	(60)
Finance cost		**155**	140
Decrease/(increase) in inventories		**131**	110
Decrease / (increase) in trade and other receivables		**121**	(1,678)
(Decrease) / Increase in trade and other payables		**(190)**	1,373
Contributions to defined benefit plans		**(371)**	(353)
Current service cost of defined benefit plan		**333**	311
Cash generated from operations		**2,873**	2,382
Finance expense paid		**(155)**	(140)
Taxation paid		**(127)**	(247)
Net cash flow from operating activities		**2,591**	1,995
Cash flow from investing activities			
Finance income received		**29**	51
Purchase of property, plant and equipment		**(1,240)**	(1,510)
Purchase of intangible assets		**(84)**	(85)
Purchase of available for sale financial assets		**-**	(98)
Net cash flow from investing activities		**(1,295)**	(1,642)
Cash flow from financing activities			
Proceeds from new loans		**420**	-
(Repayment of) / proceeds from new debt facility		**(743)**	4,869
Repayment of loans		**(524)**	(1,968)
Dividends paid		**(712)**	(712)
Net cash flow from financing activities		**(1,559)**	2,189
Net (decrease) / increase in cash and cash equivalents	9	**(263)**	2,542
Cash and cash equivalents at beginning of year		**1,186**	(1,356)
Cash and cash equivalents at end of year		**923**	1,186

Cash and cash equivalents consist of:		
Cash	**923**	1,186
Overdraft	**-**	-
Cash and cash equivalents at end of year	**923**	1,186

NOTES:

1. Statutory Accounts

The financial information does not constitute statutory accounts as defined in section 435 of the Companies Act 2006, but has been extracted from the statutory accounts for the year ended 30 June 2012 on which an unqualified audit report has been issued and which will be delivered to the Registrar following their adoption at the Annual General Meeting.

The statutory accounts for the financial year ended 30 June 2011 have been delivered to the Registrar of Companies with an unqualified audit report and did not contain a statement under section 498 of the Companies Act 2006.

Copies of the 2012 Annual Report and Accounts will be posted to shareholders with the notice of the Annual General Meeting. Further copies may be obtained by contacting the Company Secretary at Swallowfield plc, Swallowfield House, Station Road, Wellington, Somerset, TA21 8NL. An electronic copy will be available on the Group's web site (www.swallowfield.com).

2. Basis of preparation

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and also in accordance with IFRS issued by the International Accounting Standards Board. These financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain non-current assets and financial instruments.

The Directors have considered trading and cash flow forecasts prepared for the Group, and based on these, and the confirmed banking facilities, are satisfied that the Group will continue to be able to meet its liabilities as they fall due for at least one year from the date of signing of these accounts. On this basis, they consider it appropriate to adopt the going concern basis in the preparation of these accounts.

The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

3. Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings and include the net assets of subsidiary undertakings. The results and net assets of undertakings acquired or disposed of during a financial year are included in the Group Statement of Comprehensive Income and Group Statement of Financial Position from the effective date of acquisition or to the effective date of disposal. Subsidiary undertakings have been consolidated using the purchase method of accounting. In accordance with the exemptions given by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income.

4. Accounting Policies

The principal accounting policies which apply in preparing the financial statements for the year ended 30 June 2012 are consistent with those disclosed in the Group's audited accounts for the year ended 30 June 2011.

5. Segmental Analysis

The Group operates in one reportable segment as all sales, purchasing, production and operational decisions are taken based on the overall Group operating performance. The results of this segment are as reported through the Group Statement of Comprehensive Income, Group Statement of Financial Position and Group Cash Flow Statement.

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

	2012 £'000	2011 £'000
UK	**45,284**	46,176
Other European Union countries	**11,172**	10,191
Rest of the World	**1,423**	1,085
	57,879	57,452

In the year ended 30 June 2012, the Group had two customers that exceeded 10% of total revenues, being 25% and 16% respectively.

6. Profit before taxation

	2012 £'000	2011 £'000
(a) This is stated after charging/ (crediting)		
Depreciation of property, plant and equipment of purchased assets	**1,225**	1,172
Amortisation of intangible assets	**51**	38
Research and development	**773**	725
Foreign exchange losses / (gains)	**15**	(32)
Operating leases:		
Hire of plant and machinery	**106**	111
Rent of buildings	**562**	512
Loss on disposal of property, plant and equipment	**5**	-

	2012	2011
(b) Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the Company financial statements	**38**	39
Fees payable to the auditors of the subsidiary undertakings	**14**	-
Fees payable to the Company's auditors for other services:		
Other services pursuant to legislation	**6**	6
Other services relating to taxation	**10**	12
Other services	**-**	10

	2012	2011
(c) Earnings before interest, taxation, depreciation and amortisation ('EBITDA')		
Operating profit	**1,568**	1,409
Depreciation of property, plant and equipment	**1,225**	1,172
Amortisation of intangible assets	**51**	38
Loss on disposal of property, plant, and equipment	**5**	-
EBITDA	**2,849**	2,619

7. Taxation

	2012	2011
	£'000	£'000
(a) Analysis of tax charge in the year		
UK corporation tax:		
-on profit for the year	**309**	275
-adjustment in respect of previous years	**(69)**	(147)
-foreign tax	**10**	16
-double tax relief	**(10)**	(9)
Total current tax charge	**240**	135
Deferred tax:		
Origination and reversal of temporary differences		
-current year charge / (credit)	**63**	(33)
-prior year (credit) / charge	**(12)**	52
-losses utilised in subsidiary	**-**	99
-effect of tax rate change on opening balance	**2**	(6)
Total deferred tax	**53**	112
Tax charge	**293**	247

(b) Factors affecting total tax charge for the year

The tax assessed on the profit before taxation for the year is lower (2011: lower) than the standard rate of UK corporation tax of 25.5% (2011: 27.5%). The differences are reconciled below:

	2012	2011
	£'000	£'000
Profit before taxation	**1,556**	1,329
Tax at the applicable rate of 25.5% (2011: 27.5%)	**397**	365
Effect of:		
Expenses not deductible for tax purposes	**18**	13
Capital allowances for the year in excess of depreciation	**(11)**	54
Other temporary differences	**(53)**	(17)
Deferred tax movement	**65**	(40)
Foreign tax not recoverable	**-**	6
Adjustment in respect of previous years	**(69)**	(147)
Adjustment to deferred tax in previous years	**(12)**	52
Differences between UK and foreign tax rates	**(24)**	(39)
R&D tax credit	**(18)**	-
Actual tax charge	**293**	247

8. Earnings per share

	2012	2011
Basic and Diluted		
Profit for the year (£'000)	**1,263**	1,082
Basic weighted average number of ordinary shares in issue during the year	**11,306,416**	11,306,416
Dilutive potential ordinary shares	**-**	-
	11,306,416	11,306,416
Basic earnings per share	**11.2p**	9.6p
Diluted earnings per share	**11.2p**	9.6p

9. Note to Group Cash Flow Statement

Group

(a) Reconciliation of cash and cash equivalents to movement in net debt:

	2012	2011
	£'000	£'000
(Decrease)/ increase in cash and cash equivalents	**(263)**	2,542
Net cash outflow / (inflow) from increase in borrowings	**847**	(2,901)
Change in net debt	**584**	(359)
Net debt at 1 July 2011	**(4,691)**	(4,332)
Net debt at 30 June 2012	**(4,107)**	(4,691)

(b) Analysis of net debt:

	1 July 2011	Cash Flow	Non-Cash Movement	30 June 2012
	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	1,186	(281)	18	**923**
Secured debt facility	(4,869)	743	-	**(4,126)**
Borrowings due within one year	(508)	37	-	**(471)**
Borrowings due after one year	(500)	67	-	**(433)**
	(4,691)	566	18	**(4,107)**

10. Annual General Meeting

The Annual General Meeting will be held on Thursday 15 November 2012 at the Company's Registered Office, at 12.00 noon.