

FINAL RESULTS

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Swallowfield PLC

20 September 2016

This announcement contains inside information for the purposes of Article 7 of Regulation 596/2014 (MAR)

Swallowfield plc
("Swallowfield" or the "Group")
Final results for the year-ended June 2016

Swallowfield plc, a market leader in the development, formulation, and supply of personal care and beauty products, is pleased to announce a strong set of final results for the 52 weeks ended 25 June 2016.

Financial highlights

- Revenue growth of 10.1% at £54.5m (2015: £49.4m). Revenues were 10.5% higher than prior year on a constant currency basis.
- Adjusted operating profit increased by 79% in the period to £1.79m (2015: £1.00m).
- Profit before tax and exceptional items more than doubled to adjusted £1.63m (2015: £0.81m).
- Earnings per share increased by 91% to adjusted 12.6p (2015: 6.6p).
- Defined benefit pension scheme closed to future accrual, generating a one-off, exceptional gain of £0.65m.
- Net debt position of £4.3m (2015: £5.4m), compares favourably to the prior year and is after absorbing growth related investments in capital equipment and inventory to support our owned brands.
- Proposed final dividend of 2.3p per share (2015: 2.0p), in addition to the interim dividend of 0.8p already paid, to give a full year dividend of 3.1p (2015: 2.0p), an increase of 55%.
- Significantly oversubscribed Placing to raise £8.6m post year-end for acquisition of Brand Architekts Ltd.

Operational highlights

- Strong sales and margin growth in both our 'drive' and 'build' product categories.
- Strong contribution from core business new products - boosting volume but also reputational value in delivering major product launches for global brands.
- Growing sales contribution from Swallowfield owned brands as retail distribution builds.
- The Real Shaving Company brand fully integrated and performing to expectations.
- Cost optimisation projects helping to deliver strong growth in contribution margin.
- Acquisition of The Brand Architekts Ltd (post-closing event) expected to significantly accelerate owned brands growth.

Brendan Hynes, Non-Executive Chairman commented:

"The Group has delivered another significant improvement in business performance in the year just ended. We continue to make good progress against our clear strategic goals and this gives us confidence that we are well positioned to continue building shareholder value in the short, medium and long term."

Chris How, Chief Executive commented:

"It has been a busy and successful year for the Group with the continued execution of our stated strategy driving strong sales growth and profitability increasing significantly and slightly ahead of expectations.

Over the course of the year we have strengthened both sides of our business with an improved ability to deliver the innovation, quality and service requirements of our core business customers alongside the good progress made on our owned brands. The acquisition, post year-end, of Brand Architekts, has enabled us to build on this positive momentum and accelerates our growth."

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Chairman's statement

I am delighted to be able to report another year of considerable progress for Swallowfield and one in which we have started to reap the benefits of the foundations put in place since 2013, when we launched our 'Building a Better Swallowfield' strategy. Sales, profitability, earnings per share and shareholder

value have increased significantly, through a combination of both organic growth and successful acquisition activity.

Results

£m unless otherwise stated	2016	2015
Reported Results ¹		
Revenue	£54.5m	£49.4m
Adjusted revenue (constant currency) ²	£54.6m	£49.4m
Operating profit ¹	£1.79m	£1.00m
Adjusted earnings per share ¹	12.6p	6.6p
Statutory Results		
Revenue	£54.5m	£49.4m
Operating profit	£2.44m	£1.00m
Basic earnings per share	17.7p	6.6p
Total Dividend per share	3.1p	2.0p
Net debt	£4.3m	£5.4m

¹ Adjusted operating profit and adjusted earnings per share are calculated before exceptional items.

² Revenue translated at 2015 exchange rates.

Our business comprises two complementary streams and it is pleasing that both have performed well over the course of the year. The core of our business remains the development, formulation, and supply of personal care and beauty products for customers which include many of the world's leading brands. Through continued investment and execution of our Product Category Focus our offering has become increasingly differentiated, which has the dual benefit of a positive impact on margin contribution and also improving our competitive advantage, thereby making the Group more resilient.

Alongside this core business, we continue to increase the sales of brands that are owned by the Group and which we control from formulation through to distribution. A number of our internally developed products were either launched or their distribution was extended during the year, and we also completed the integration of The Real Shaving Company (which was acquired in 2015) and expansion of its product range.

Acquisition and fundraising

Post year-end, the Group acquired The Brand Architekts Ltd which we believe will prove transformational for our owned brands business. Based in Teddington, London, Brand Architekts has achieved considerable success in a short space of time and we welcome them to the Group and look forward to a prosperous future together.

The acquisition was financed, in part, through raising £8.6 million in a heavily oversubscribed placing with both existing and new institutional shareholders and on behalf of the Board I welcome those new shareholders to Swallowfield. It is pleasing to see such a strong level of interest and demand in the Group and underlines the amount of progress that has been made since the strategic review just three years ago. It was also pleasing to note that a number of Swallowfield Directors participated in the fundraising which I believe highlights our confidence in being able to continue to execute against our stated strategy of building a better Swallowfield for the benefit of all stakeholders.

Dividend

Further evidence of our confidence in the business can be seen in the Board's intention to propose a final dividend of 2.3 pence. Together with the interim dividend already paid of 0.8p this represents a total dividend for the year of 3.1p, an improvement of 55% over the prior year (2015: 2.0p).

As previously advised, it is the directors' intention to align future dividend payments to the underlying earnings and cash flow of the business, taking in to account the gearing and the operational requirements of the business.

Outlook

We have delivered a strong performance in the last financial year and we are confident that our clear strategy leaves us well placed to navigate any potential macro uncertainty in the UK following the result of the referendum on membership of the European Union.

Our success in winning a number of new contracts to support product launches in the core contract manufacturing business over the last 18 months provides us with a strong pipeline as we move into the new financial year, particularly in H1.

The integration into our business model of Brand Architekts is progressing very well. Trading momentum across the Brand Architekts portfolio (and indeed our other brands) is in line with our expectations.

Over the course of the year we have strengthened both sides of our business with an improved ability to deliver the innovation, quality and service requirements of our core business customers alongside the progress made on our owned brands. This, combined with the acquisition post year-end of Brand Architekts, which is transformational for our owned brands, gives us confidence that we are well positioned to continue building shareholder value in the short, medium and long term.

Chief Executive's review

We are pleased to report that we have made good progress throughout the Group during the year.

Our core contract manufacturing business delivered strong growth in both sales and contribution margin, and we were particularly pleased to deliver a number of new product launches for some of our global brand owners. Successfully delivering these launches not only brought strong sales and margin growth but also enhanced our reputation with these customers as strong partners supporting their key needs of innovation, quality and service.

Within Swallowfield owned brands we successfully integrated The Real Shaving Company brand (acquired in May 2015) and executed the launches of our Bagsy and MR. brands into Debenhams and Boots respectively. Each of these brands are continuing to build their contribution to company sales and margin and were supported by innovative marketing initiatives including sports sponsorship and digital campaigns.

The acquisition of The Brand Architekts Ltd ("Brand Architekts") was completed on 27 June 2016 and therefore had no impact on the financial year just ended. Work has already started on opportunities to accelerate the impressive growth of the acquired business, as we bring the complementary capabilities and resources of Swallowfield and Brand Architekts together. We are pleased to report that initial feedback from key customers and suppliers has been positive and supportive.

Executing our strategy

'Creating for Tomorrow, Delivering for Today'

Our business strategy is developed on two complimentary platforms:

- the first 'Creating for Tomorrow' identifies the strategic pillars that we believe will help us create a stronger business in the mid and long term.
- the second 'Delivering for Today' identifies some key operational focus areas that we need to drive in order to deliver our more immediate (i.e. current fiscal) performance.

The four strategic pillars of 'Creating for Tomorrow' are:

Product category focus

The business is focusing on a select number of 'drive' and 'build' product categories where Swallowfield has an existing and sustainable competitive advantage. Investment of both human and financial resources is prioritised to drive higher growth and profitability in each of these categories at the expense of our 'service' product categories which we are seeking to de-prioritise/exit.

Our 'drive' categories include personal care aerosols, hot pour products (for lips, face, hair and underarm) and roll-ons. Our 'build' categories include cosmetic pencils, fragrance, gifting and premium liquids.

In the reporting period our drive and build categories posted sales growth of 17% and 9% respectively, with a combined sales growth of 13% versus the prior year. Contribution margin growth, in absolute terms, was ahead of sales growth in both cases.

As a result of our success in focusing so strongly on the drive and build categories, we have reduced our proportion of sales on 'service' categories down to 2% (from 10% in FY14). This target has been met ahead of schedule. Virtually all of our business is now in product categories where we feel we have a strong competitive position and therefore we can expect reasonable margins and higher customer loyalty.

The next phase of our Product Category Focus will now concentrate on investing wisely to further extend our leadership positions across our drive and build categories by strengthening our capabilities in terms of product formulation technology, packaging formats and production cost efficiency. It is also an appropriate time to slightly recalibrate which categories sit in which cluster. This recalibration will primarily be used to guide our investment priorities. In the mid-term, we expect broadly similar growth rates across our drive and build categories.

Core business innovation

Our core customers are brand owners who require a constant stream of product innovation to remain competitive and we have built a reputation as a valuable partner to them in this process.

During the reporting period we were pleased to introduce a number of new products across a range of key customers and also secure agreements for future supply of several innovative haircare products to major premium brand owners which will continue to positively impact business performance in fiscal year 2017.

We have also seen growth in volumes of the innovative 'world first' plastic aerosol foaming shower gel which was successfully introduced last year.

Furthermore, we delivered our first orders under a partnership arrangement entered into with a leading US aerosol manufacturer. This arrangement enables the production of Swallowfield formulations in the USA adapted to US regulatory requirements in a cost effective way to allow our European based customers to launch their products into North America. Swallowfield receives a commission and satisfies an increasingly common customer need, thereby strengthening customer relationships.

Swallowfield owned brands

As well as our core work we have been utilising our product development, manufacturing, and distribution expertise to create innovative ranges of products which are being taken to market under our own brand names. These are positioned to avoid any direct conflict with our existing valued customer base. Through highly targeted campaigns and the use of cost-effective customer engagement channels such as social media, we believe we can build strong brand awareness to support product sales with moderate and sustainable investment levels.

The Real Shaving Company brand (acquired in May 2015) has been fully integrated into the business and sales and margins are contributing positively. A new aerosol product was added to the range and launched in October 2015 in the UK and Canada in Spring 2016. The addition of the aerosol is a great example of how Swallowfield can add value to brands through applying its existing product expertise and intellectual property. A new sampling campaign was executed in the second half and we entered into an exciting sponsorship package with Somerset County Cricket Club on the T20 Blast, which ran through the 2016 season. Subsequent to this we have secured listings of a range of gift and travel packs with a major high street health & beauty retailer.

Our premium beauty brand, 'Bagsy', was successfully rolled out in October 2015 to 38 Debenhams stores on full display units. Sales have been building steadily and we have executed a number of interesting in-store promotions through the spring and summer which have been backed up by digital advertising and PR. Further distribution extensions are being worked on, both in the UK and internationally, and we were excited to announce that we have entered into an exclusive agreement with the well-known fashion designer Savannah Miller. We will be co-developing a number of new products to be launched in October 2016 under the 'Savannah Miller for Bagsy' name. As part of the collaboration Savannah is now promoting the Bagsy brand on QVC.

Our premium and innovative new male haircare brand, 'MR.', was launched into 350 Boots stores in October 2015 and sales have also been building steadily. Again, a range of in-store promotions and digital advertising / promotion were executed through the spring and summer and built further consumer awareness and sales.

Our value brand, Tru, continues to generate sales in existing outlets and we are seeking to extend its retail distribution further at the same time as exploring other product categories.

The Brand Architekts Ltd

The synergistic acquisition of Brand Architekts has provided us with an opportunity to accelerate the 'owned brands' strategic pillar of Swallowfield's strategy significantly.

Brand Architekts owns and manages a strong and growing portfolio of mid-premium beauty and personal care brands. The majority of sales of these brands are through major UK high street retailers, many of which are already existing customers of Swallowfield. Further sales are made through export, notably in North America, Australia, the Nordics and Turkey.

Brand Architekts' key brands include Dirty Works, Kind Natured, Argan, Happy Naturals, DrSalts, Superfacialist and Senspa and together these accounted for approximately 78% of Brand Architekts's sales in their last financial year to 31 January 2016. Brand Architekts currently outsources its production to suppliers in the UK and China.

The acquisition, which completed on 27 June 2016 provides Swallowfield with a transformational opportunity to bring critical mass to its 'owned brand' portfolio. At the same time, the acquisition has also added a proven, experienced London-based brand management team which will bring further expertise to the Group.

For the financial year to 31 January 2016 Brand Architekts generated net sales of £10.7m (after adjustment for promotional activity), achieved a 35 per cent contribution margin, £2.0m EBITDA and £2.0m of profit before tax. This continued the strong growth momentum that Brand Architekts had achieved over the previous two financial years during which time Brand Architekts achieved a CAGR for EBITDA of 47% from FY14 to FY16. We believe that this growth momentum can be further enhanced by the support of Swallowfield's existing established resources, including its international footprint, digital marketing, online sales, product development and supply chain.

In the medium term, the Directors consider that the acquisition will provide further opportunities for accelerated growth. Brand Architekts has an existing pipeline of new products and the Directors anticipate that further new products will also be driven from Swallowfield's already established areas of expertise. At the same time, there is scope for both UK and international distribution growth, particularly through Swallowfield's existing international sales offices. An important additional benefit is that Swallowfield will be able to sell its current owned brands through Brand Architekts' distributor network thereby generating additional revenues for Swallowfield's existing stable of owned brands. Finally, it is anticipated that the acquisition will generate benefits through economies of scale in areas such as logistic costs, sourcing synergies (particularly in China), finance and administration/customer service functions as well as giving Swallowfield's owned brand portfolio critical mass when buying public relations, media and display exposure.

Cost base optimisation

Growth through innovation, quality and service is our core focus. However, we also recognise that the more efficient we can become in our operations then the more resources we will have to invest in innovation and growth opportunities and the more competitive we can be in winning price sensitive business.

There have been a number of successful projects to increase labour efficiency, line speeds and automation across our manufacturing sites and they have contributed to the increase in % contribution margin we have seen in the reporting period.

We have installed a new compressor and boiler system at our Wellington site which has helped reduce our energy consumption by 8%.

Financial review

Revenue showed growth of 10.1% at £54.5m (2015: £49.4m). The strength of the euro has reduced sales revenue by £0.5m, offset by a £0.4m gain on the US dollar, so net revenue growth on a constant currency basis would have been 10.5%. This strong revenue growth has been bolstered by a number of significant product launches where we have partnered with major global brand owners that required initial launch volumes to be produced and sold in our H2.

Direct contribution margins - defined as net sales less materials, direct labour, and other direct costs - increased by 310 basis points to 31.9% (prior year 28.8%). This reflects the success of our Product Category Prioritisation, the introduction of a number of innovative new products in our core business and the growing contribution from our portfolio of Swallowfield owned brands.

The overall re-shaping of the business towards stronger growth and margins has enabled us to increase profitability at a time when we have also increased investment in organisational capability and brand support.

The net effect is that the Group made an adjusted operating profit of £1.79m (2015: £1.00m). Adjusted profit before tax increased to £1.63m (2014: £0.81m).

The overall effective rate of Group taxation for the period was 12% of pre-tax profits (2015: 8%). This represents the current tax payable in the Czech Republic and also that, in the UK, the taxable profit in the current year exceeded the £1.3m of brought forward tax losses which will be fully utilised as a consequence. This results in an adjusted earnings per share of 12.6p (2015: 6.6p).

The Group's strategic investment of a 19% shareholding in Shanghai Colour Cosmetics Technology Company Limited (SCCTC) was re-valued upwards by £0.17m during the period, to fair value based on SCCTC's June 2016 net assets. The initial cost of this investment was £0.14m and this is now valued at £0.56m. This improved valuation is in addition to the dividend income received since acquisition. A dividend of £0.05m was received in the year (2015: £0.02m).

Net debt and cash flow

Our balance sheet continued to strengthen with improved control of working capital leading to a net debt position of £4.3m as at 25 June 2016, which is ahead of expectations, and compares favourably to the prior year at £5.4m. This figure is after absorbing growth related investments in capital equipment and inventory to support our owned brands. Our success in winning a number of pieces of new business in the core contract manufacturing business has created a peak in new product launches around the reporting date, impacting the individual components of working capital versus the prior year.

Financing costs of £0.22m (2015: £0.20m) comprised interest expense of £0.13m (2015: £0.11m) plus a pension scheme finance charge of £0.09m (2015: charge £0.09m).

Capital expenditure was £1.2m which was in line with depreciation. Over a rolling three year cycle we expect capital expenditure to be broadly in line with depreciation and amortisation, although fast payback projects to support incremental new contracts will also be considered.

Defined benefit pension scheme

During the reporting period the Group closed the existing defined benefit scheme to future accrual.

The defined benefit pension scheme underwent its last triennial valuation on 5 April 2014. The deficit on a statutory funding basis was £1.3m and the Group entered into a revised deficit recovery plan and schedule of contributions in July 2015. The deficit reduction payment will be £108k per annum (previously £111.5k per annum) for ten years.

Subsequent to finalising the valuation the Group entered into a formal consultation with the members to close the scheme to future accrual with effect from 31 December 2015, and this negotiation was concluded in the period, and as a consequence we have recognised a credit of £0.87m (2015: £nil) relating to a curtailment gain, which represents a reduction in liabilities on closure to future accrual and is accounted for as a past service credit under IAS 19. One-off costs of £0.22m were incurred during this process which have been netted against this gain. We have therefore excluded the net amount of £0.65m from adjusted Group operating profit, as this is a one-off gain and is unrelated to the underlying performance of the Group.

For accounting purposes at June 2016, the Group recognised under IAS19 'employee benefits', a deficit of £4.50m (June 2015: £2.66m). The Accounting Standards require the discount rate to be based on yields on high quality (usually AA-rated) corporate bonds of appropriate currency, taking into account the term of the relevant pension scheme's liabilities. Corporate bond indices are used as a proxy to determine the discount rate. At the reporting date, the yields on bonds of all types were lower than they were at June 2015. This has resulted in lower discount rates being adopted for accounting purposes compared to last year, offset by a reduction in expectations of long term inflation. Coupled with the volatile market conditions at the accounting date impacting fair value asset valuations, this has translated into an increased deficit under IAS19.

Dividends

The Board is pleased to announce that it will be proposing a final dividend of 2.3 pence for approval at this year's Annual General Meeting on 10 November 2016 (2015: 2.0p). This is in addition to the interim dividend of 0.8p already paid to give a total dividend of 3.1p (2015: 2.0p), an increase of 55%. If approved, the final dividend will be paid on 2 December 2016 to shareholders on the register on 11 November 2016. The shares will go ex-dividend on 10 November 2016.

Group Statement of Comprehensive Income

For the 52 weeks ending 25 June 2016 and 27 June 2015

	Notes	2016 £'000	2015 £'000
Revenue	5	54,455	49,447
Cost of sales		(46,393)	(43,609)
Gross profit		8,062	5,838
Commercial and administrative costs		(6,269)	(4,842)
Operating profit before exceptional items		1,793	996
Exceptional items	6	645	-
Operating profit		2,438	996
Finance income		55	18
Finance costs		(219)	(200)
Profit before taxation	7	2,274	814
Taxation	8	(273)	(68)
Profit for the year		2,001	746
Other comprehensive income/(loss):			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit liability		(2,160)	(316)
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		162	(137)
Gain on available for sale financial assets			
		170	68
Other comprehensive (loss) for the year		(1,828)	(385)
Total comprehensive income for the year		173	361
Profit attributable to:			
Equity shareholders		2,001	746
Total comprehensive income attributable to:			

Earnings per share

- basic	9	17.7p	6.6p
- diluted	9	17.4p	6.5p

Dividends

Paid in year (£'000)		317	-
Paid in year (pence per share)		2.8p	-
Proposed (£'000)		388	226
Proposed (pence per share)		2.3p	2.0p

Group Statement of Financial Position

For the 52 weeks ending 25 June 2016 and 27 June 2015

	2016	2015
	£'000	£'000
ASSETS		
Non-current assets		
Property, plant and equipment	10,852	10,743
Intangible assets	1,167	1,200
Deferred tax assets	710	378
Investments	560	390
Total non-current assets	13,289	12,711
Current assets		
Inventories	9,043	6,493
Trade and other receivables	15,358	10,839
Cash and cash equivalents	798	148
Current tax receivable	104	-
Total current assets	25,303	17,480
Total assets	38,592	30,191
LIABILITIES		
Current liabilities		
Trade and other payables	20,540	13,823
Interest-bearing loans and borrowings	141	137
Current tax payable	122	9
Total current liabilities	20,803	13,969
Non-current liabilities		
Interest-bearing loans and borrowings	442	583
Post-retirement benefit obligations	4,495	2,662
Deferred tax liabilities	60	53
Total non-current liabilities	4,997	3,298
Total liabilities	25,800	17,267
Net assets	12,792	12,924
EQUITY		
Share capital	566	566
Share premium	3,830	3,830
Revaluation of investment reserve	416	246
Capital reserve	-	-
Exchange reserve	(290)	(452)
Pension re-measurement reserve	(2,197)	(37)
Retained earnings	10,467	8,771
Total equity	12,792	12,924

Group Statement of Changes in Equity

For the 52 weeks ending 25 June 2016 and 27 June 2015

Share	Share	Available	Exchange	Net	Retained	Total
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Group	Capital £'000	Premium £'000	for Sale Financial Assets £'000	Reserve £'000	defined benefit liability /(asset) £'000	Earnings £'000	Equity £'000
Balance as at June 2015	566	3,830	246	(452)	(37)	8,771	12,924
Dividends	-	-	-	-	-	(317)	(317)
Share based payments	-	-	-	-	-	12	12
Transactions with owners	-	-	-	-	-	(305)	(305)
Profit/(loss) for the year	-	-	-	-	-	2,001	2,001
<i>Other comprehensive income:</i>							
Re-measurement of defined benefit liability/(asset)	-	-	-	-	(2,160)	-	(2,160)
Exchange difference on translating foreign operations	-	-	-	162	-	-	162
Gain on available for sale financial assets	-	-	170	-	-	-	170
Total comprehensive income for the year	-	-	170	162	(2,160)	2,001	173
Balance as at June 2016	566	3,830	416	(290)	(2,197)	10,467	12,792

Group	Share Capital £'000	Share Premium £'000	Available for Sale Financial Assets £'000	Exchange Reserve £'000	Net defined benefit liability /(asset) £'000	Retained Earnings £'000	Total Equity £'000
Balance as at June 2014	566	3,830	178	(315)	279	8,022	12,560
Dividends	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	3	3
Transactions with owners	-	-	-	-	-	3	3
Profit/(loss) for the year	-	-	-	-	-	746	746
<i>Other comprehensive income:</i>							
Re-measurement of defined benefit liability/(asset)	-	-	-	-	(316)	-	(316)
Exchange difference on translating foreign operations	-	-	-	(137)	-	-	(137)
Gain on available for sale financial assets	-	-	68	-	-	-	68
Total comprehensive income for the year	-	-	68	(137)	(316)	746	361
Balance as at June 2015	566	3,830	246	(452)	(37)	8,771	12,924

Cash Flow Statement

For the 52 weeks ending 25 June 2016 and 27 June 2015

	Group	
	2016 £'000	2015 £'000
Cash flow from operating activities		
Profit/(loss) before taxation	2,274	814
Depreciation	1,152	1,101
Amortisation	67	48
(Profit)/loss on disposal of property, plant and equipment	41	-
Non-cash pension scheme curtailment gain	(870)	-
Finance income	(55)	(18)
Finance cost	219	200
(Increase)/Decrease in inventories	(2,550)	572
(Increase)/Decrease in trade and other receivables	(4,956)	2,108
Increase/(Decrease) in trade and other payables	7,374	(2,249)
Contributions to defined benefit plans	(321)	(399)
Current service cost of defined benefit plan	305	361

Cash generated from operations	2,680	2,538
Finance expense paid	(134)	(112)
Taxation (refunded)	(10)	(80)
Net cash flow from operating activities	2,536	2,346
Cash flow from investing activities		
Finance income received	55	18
Purchase of property, plant and equipment	(1,181)	(1,543)
Purchase of intangible assets	(34)	(1,134)
Sale of property, plant and equipment	-	-
Net cash flow from investing activities	(1,160)	(2,659)
Cash flow from financing activities		
(Repayment) on invoice discounting facility	(272)	(792)
(Repayment) / proceeds of loans	(137)	720
Dividends paid	(317)	-
Net cash flow from financing activities	(726)	(72)
Net increase / (decrease) in cash and cash equivalents	650	(385)
Cash and cash equivalents at beginning of year	148	533
Cash and cash equivalents at end of year	798	148

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 June 2016 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 June 2015 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 2016 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. 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 2016 are consistent with those disclosed in the Group's audited accounts for the year ended 30 June 2015.

5. Segmental Analysis

Management have determined that there is only one operating segment of the group 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 to the Chief Operating Decision Maker 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 and attributable to individual countries based on the location of the customer.

	2016	2015
	£'000	£'000
UK	31,868	30,308
Other European Union countries	20,577	16,700
Rest of the World	2,010	2,439

In the year ended 30 June 2016, the Group had two customers that exceeded 10% of total revenues, being 19% and 18% respectively. In 2016 the Group had non-current assets held overseas of £1,565,000 (2015: £1,304,000).

6. Exceptional items

Under exceptional Items we have recognised a credit of £0.87m (2015: £nil) relating to a curtailment gain, which represents a reduction in liabilities on closure of the defined benefit scheme to future accrual. One-off costs of £0.22m were incurred during this closure process, which have been netted against this gain. We have therefore excluded the net amount of £0.65m from adjusted Group operating profit, as this is a one-off gain and is unrelated to the underlying performance of the Group.

7. Profit before taxation

	2016	2015
	£'000	£'000
(a) This is stated after charging/ (crediting)		
Depreciation of property, plant and equipment of purchased assets	1,152	1,101
Amortisation of intangible assets	67	48
Research and development	920	810
Foreign exchange losses / (gains)	49	79
Operating leases:		
Hire of plant and machinery	73	73
Rent of buildings	552	594
Loss on disposal of property, plant and equipment	41	-
(b) Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the Company financial statements	42	42
Fees payable to the auditors of the subsidiary undertakings	6	6
Fees payable to the Company's auditors for other services:		
Merger and acquisition advice	-	-
Other services pursuant to legislation	2	20
Other services relating to taxation	8	8
(c) Earnings before interest, taxation, depreciation and amortisation ('EBITDA')		
Operating profit before exceptional items	1,793	996
Depreciation of property, plant and equipment	1,152	1,101
Amortisation of intangible assets	67	48
Loss on disposal of property, plant, and equipment	41	-
EBITDA before exceptional operating items	<u>3,053</u>	<u>2,145</u>
Exceptional operating items-	645	-
EBITDA after exceptional operating items	<u>3,698</u>	<u>2,145</u>

The exceptional item is a non-cash curtailment gain arising from the closure of the company's Defined Benefit pension scheme to further accrual.

8. Taxation

	2016	2015
	£'000	£'000
(a) Analysis of tax charge in the year		
UK corporation tax:		
- on profit for the year	116	-
- adjustment in respect of previous years	-	-
-foreign tax	16	91
-double tax relief	-	-
Total current tax charge	<u>132</u>	<u>91</u>
Deferred tax:		
-current year charge	138	48
-prior year (credit)	(19)	(84)
-effect of tax rate change on opening balance	22	13
Total deferred tax	<u>141</u>	<u>(23)</u>
Tax charge	<u>273</u>	<u>68</u>

(b) Factors affecting total tax charge for the year

The tax assessed on the profit before taxation for the year is lower (2015: lower) than the standard rate of UK corporation tax of 20% (2015: 20.75%). The differences are reconciled below:

	2016	2015
	£'000	£'000
Profit before taxation	<u>2,274</u>	<u>814</u>
Tax at the applicable rate of 20% (2015: 20.75%)	455	168
Effect of:		
Adjustment in respect of previous years	(19)	-
Adjustment to deferred tax	(147)	(71)
Differences between UK and foreign tax rates	4	(6)
Permanent differences and other	-	(2)
R&D tax credit	(20)	(21)

Actual tax charge	273	68
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9. Earnings per share

	2016	2015
Basic and Diluted		
Profit for the year (£'000)	2,001	746
Basic weighted average number of ordinary shares in issue during the year	11,306,416	11,306,416
Diluted number of shares	11,531,535	11,531,535
Basic earnings per share	17.7p	6.6p
Diluted earnings per share	17.4p	6.5p

Basic earnings per share has been calculated by dividing the profit for each financial year by the weighted average number of ordinary shares in issue at 25 June 2016 and 27 June 2015 respectively. There is a difference at June 2016 between the basic net earnings per share and the diluted net earnings per share of 0.3p due to the 225,119 share options awarded.

	2016	2015
Adjusted earnings per share		
Adjusted Profit for the year (£'000)	1,430	746
Basic weighted average number of ordinary shares in issue during the year	11,306,416	11,306,416
Diluted number of shares	11,531,535	11,531,535
Basic earnings per share	12.6p	6.6p
Diluted earnings per share	12.4p	6.5p

Adjusted profit for the current year of £1.43m is shown after deducting £0.57m in respect of exceptional items (exceptional gain of £0.65m less notional tax credit of £0.08m on those items). Adjusted earnings per share has been calculated by dividing the adjusted profit of £1.43m by the weighted average number of ordinary shares in issue at 25 June 2016 respectively.

10. Note to Cash Flow Statement

Group

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

	2016	2015
	£'000	£'000
Increase/(Decrease) in cash and cash equivalents	650	(385)
Net cash outflow from increase in borrowings	409	72
Change in net debt	1,059	(313)
Opening net debt	(5,390)	(5,077)
Closing net debt	(4,331)	(5,390)

(b) Analysis of net debt:

	Closing 2015	Cash Flow	Non-Cash Movement	Closing 2016
	£'000	£'000	£'000	£'000
Cash at bank and in hand	148	572	78	798
Secured debt facility	(4,818)	272	-	(4,546)
Borrowings due within one year	(137)	(4)	-	(141)
Borrowings due after one year	(583)	141	-	(442)
	(5,390)	981	78	(4,331)

11. Annual General Meeting

The Annual General Meeting will be held on Thursday 10 November 2016 at the Company's Registered Office, at 12.00 noon.

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