1975376

Contents

Group Information

Directors
N W Otley FCA (Chairman) (Non-Executive)
J A Wardell (Group Managing Director)
P A Bowser
J A Bryant-Pearson (Non-Executive)
R A Conchie
A P Dowsett
C A Graves FCA
C C Jenner
R T N Organ (Non-Executive)

Secretary
C A Graves FCA

Registered Office
Swallowfield House
Station Road
Wellington
Somerset
TA21 8NL

Auditors
Ernst & Young
One Bridewell Street
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BS1 2AA

Bankers
National Westminster Bank PLC
12 Fore Street
Wellington
Somerset
TA21 8AL

Registrars
The Royal Bank of Scotland plc
Registrar's Department
PO Box 92
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Redcliffe Way
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BS99 7NH

Stockbrokers
Granville Davies Limited
Mint House
77 Mansell Street
London
E1 8AF

NatWest Wood Mackenzie & Co Limited
135 Bishopsgate
London
EC2M 3XT

Merchant Bankers
NatWest Markets
Corporate Finance Limited
135 Bishopsgate
London
EC2M 3UR

Solicitors
Osborne Clarke
30 Queen Charlotte Street
Bristol
BS99 7QQ

Registered Number 1975376

Chairman's Statement

In 1996 your company made considerable progress in all areas and is in an excellent position to take advantage of the markets in which we operate.

Sales increased by 17% to £43m and profit before taxation increased by 31% to a record figure of £3.5m. Earnings per share amounted to 18.1p compared with 13.8p in the previous year. Further, the net borrowings of the Group have decreased by £0.7m and now represent 32% of shareholders' funds compared with 42% at the previous year end. This is after spending some £2.1m on capital projects to improve and expand our facilities. Your directors are recommending the payment of a final dividend of 4.3p per share (compared with 3.8p per share last year) which together with the interim dividend of 3p already paid makes a total for the year of 7.3p compared with 6.5p.

The year under review has seen a major reorganisation of the management and operational structure of the Group. Swallowfield Consumer Products was formed to carry out the sales and marketing functions of the three operating companies. This reorganisation enables the full product range of the Group to be offered to customers through one team with the obvious benefit of enhanced customer service and greater professionalism. As part of these changes there is a centralised technical and development department whose role is to co-ordinate these functions at all three sites and to lead the Group into new products and improvements to the existing ranges. This department enables us to take a major role in the development of new products for our retail store and similar customers. We have continued to invest in all our plants to improve the quality of our products and to meet modern hygiene requirements both for our current markets and those where our improved technical expertise will lead us.

Our factory in Brussels has now reached the required levels of operational quality to take on contracts similar to those of the UK operations with the result that our order book in that country is growing. Whilst last year's result at Parbel indicates only a marginal improvement on the previous year, I am confident that the small improvement will gather pace from now on not only as a result of operational improvements on site but from the sales and marketing drive of Swallowfield Consumer Products.

My predecessor, Terry Organ, retired from the Board last September after chairing the Board for some eleven years from the time of the original management buy-out from Cadbury Schweppes. In that time, as well as joining the stock market, sales increased by 3 times and more importantly, the business evolved from the formulation and manufacture of aerosol products to high quality cosmetic and skin care products on an international basis.

There have also been a number of Board changes at both executive and non-executive level. Following the appointment in the early part of the year of Rob Conchie as Group Sales and Marketing Director we have appointed Dr. Paul Bowser, as Group Technical Director. Paul joins us from Unilever where he had responsibility for product design and development. As a result of the initiatives with regard to the formation of Swallowfield Consumer Products there have been consequential changes in some of the responsibilities of some of the other executive directors.

We have further strengthened the Board by the appointment of two non-executive directors. Jennifer Bryant-Pearson is Managing Director of JBP Associates, a prominent regional public relations consultancy. Richard Organ is a director of Jaeger, a significant manufacturing and retail business in the quality fashion industry. The skills of these two will assist markedly in the Group's drive to further exploit the markets in which we operate.

1997 has commenced well across the Group's operations and your board is confident that the considerable progress made in 1996 will continue into 1997.

The Group now employs some 850 people and goes to great lengths to maintain and improve staff welfare. It is clear from the results of the business last year that their efforts have been considerable and I would also like to record the significant contribution of the executive directors and senior management under Tony Wardell's leadership.

N W Otley
Chairman
8 April 1997

Group Managing Director's Report

Another good year from the Group has seen profits before tax rise from £2.7m to £3.5m on increased turnover up from £37m to £43m. A positive cash generation has further improved gearing to 32% from 42% last year.

Most of our main market areas in Europe and mainland North America have seen very little or no growth in sales volumes and against excess capacity amongst our competitors in these areas we have maintained our positive approach to innovation and greatly increased our new product development departments.

It repeats my assertions in last year's report that we play to our strengths in that our growth can clearly be demonstrated to arise from the ongoing ability to offer new and interesting products that our customers can sell and which attract that important repeat purchase. This is particularly applicable to the cosmetics business and the demand for bicompartmentalised packs in the aerosol business (mainly shaving gels) has continued to grow.

Nothing has changed much in the High Street during the year except, perhaps, to see the conflict between the major food retailers intensify. This is not helpful to us and increases margin pressure all round. That our margins have generally been maintained is a credit to the skills of our sales team.

The major reorganisation started in 1995 and now completed, from the Main Board down, has helped focus our group strengths and the latter half of the year saw considerable activity in re-presenting our capabilities to our major customers in Europe. Undoubtedly this has stimulated new interest which we will turn into orders during 1997 and onwards.

Briefly, the new management structure now gives all main board Directors direct responsibilities across the Group. The major moves involve increasing the responsibility of Tony Dowsett from Managing Director of Aerosols International Limited to Group Operations Director with direct responsibility for all three production sites; and the centralisation of Accounts, Sales and Technical under Colin Graves, Rob Conchie and Paul Bowser respectively who now have direct responsibility for these functions across all the sites. This reorganisation also takes into account the impending retirement (in 24 months) of Colin Jenner whose excellent personal performance at Bideford has transformed our cosmetics interests into a very profitable business for which the Board is grateful. Colin Jenner is now based at Wellington Head Office as Group Business Development Director reporting to myself with a brief to help me to expand the Group base of Swallowfield plc.

Aerosols International

Sales volume increased dramatically during the year and turnover rose to £26.2m from £22.0m. A large part of the increase in volume was brand overflow shaving gel. This business was taken on an 'all materials supplied free-of-charge' basis and so turnover did not increase in proportion to contribution. Contract and overflow volumes therefore increased to 72% from 60% last year and dramatically altered the usual proportions of business mix.

Own label sales were generally static and we continued to work hard to maintain the interest of our customers. Development costs of the generation of ideas and new products have increased significantly as we fight to maintain our volumes and margins. Volumes of own label sales are comparable with last year although total contribution at 39% this year again compares favourably with 46% last year, after taking into account the significant growth in contract sales.

During the year we strengthened our middle and junior management to provide a better skills base within the Company and provide a reserve for future succession and acquisitions.

The significant increase in manufactured volumes also generated another large intake of production operatives and total employees on the Wellington site rose from 299 to 385 during the year.

Cosmetics Plus

Yet another dramatic increase in turnover to £14.2m from £11.3m last year against continually weak markets for colour cosmetics is the hallmark of this year's performance. The operating profit also increased from £1.5m to £1.6m this year confirming that Cosmetics Plus is now a very strong and positive profit earner and cash contributor to the Group.

Volumes are difficult to compare but showed increases in all areas from gifts to lipsticks to pencils. In pencils we increased volumes by 21% and our order book remains buoyant into 1997.

Cosmetics Plus has achieved the coveted ISO 9001 certification to match that of Aerosols International Limited and we continue to use our innovative and creative skills to win new business for cosmetics at both Bideford and Brussels.

We have spent money during the year on machinery to clean and cap pencils to good effect but increasing order levels still required additional employees taking the total at Bideford to 421 from 323 last year.

Parbel

Turnover was again disappointing at £3.0m compared to £3.8m last year and the forecast recovery in this year was weaker and later than predicted.

The new line for our major Dutch customer, however, was filled and delivered on time and is leading a recovery which, although slow, is now clearly visible for 1997.

We are focusing our sales effort on Parbel's major customers and this important re-presentation of the business as part of Swallowfield Consumer Products has brought fresh confidence to their customers.

The Group now employs over 850 people at our three manufacturing centres and we have a considerable number of new and young employees. It is our policy regardless of age and previous experience to continue to train and provide lifetime learning opportunities for all employees. During 1996, although we clearly employed significant extra numbers to help with the large increase in business volumes, the increase in levels of activity were still very high across all sites and great praise and credit should go to all employees for their efforts in producing an exemplary set of results for Swallowfield plc during 1996.

1997 has started well and we are looking to continue our performance this year. We believe that all employees will have the opportunity to contribute to our future success and gain increased job satisfaction and rewards.

J A Wardell
Group Managing Director
8 April 1997


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YOU ARE
COMMITTED
TO INNOVATION
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CTMS AUGUST/SEPTEMBER 1995
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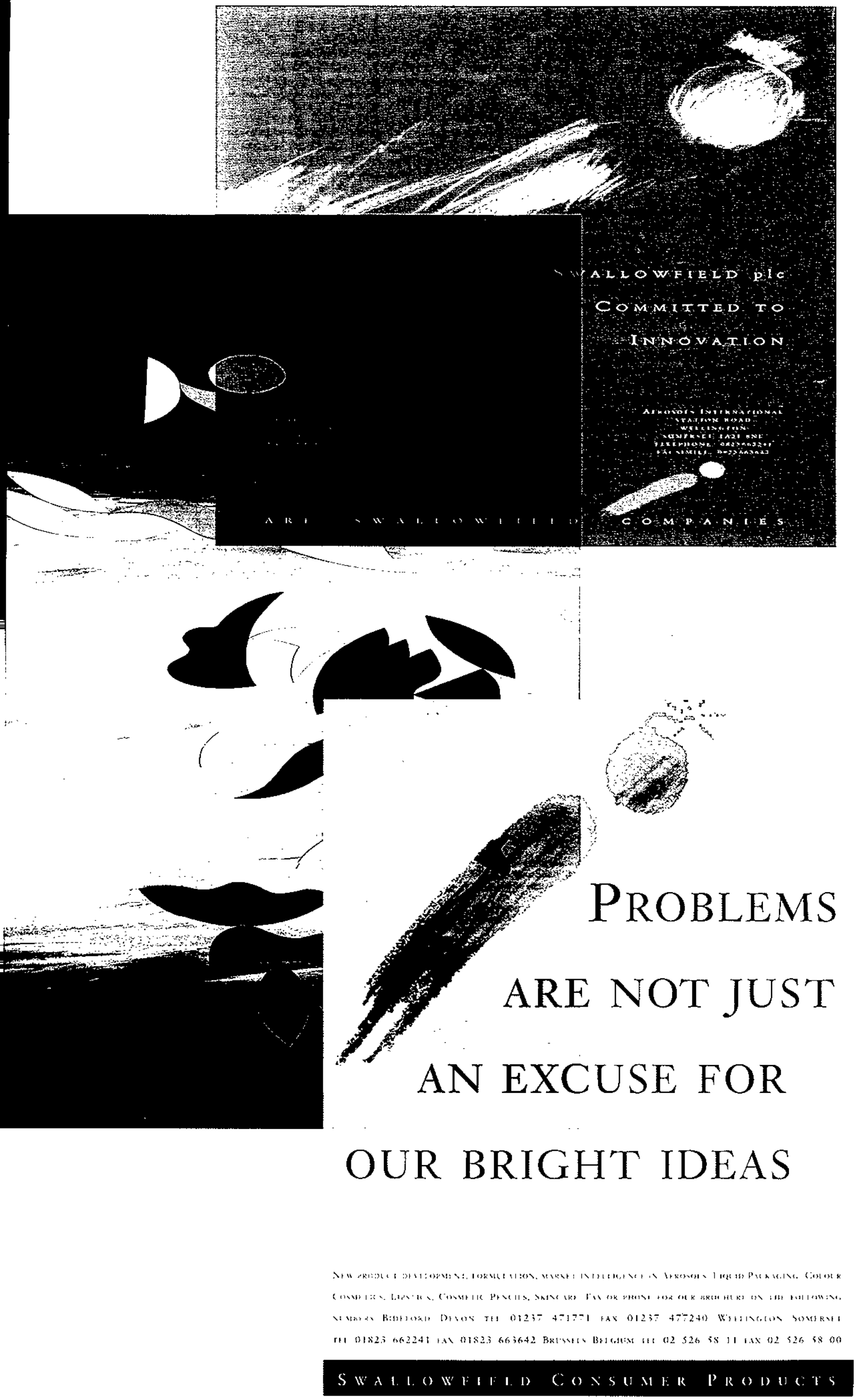
CONSUMER PRODUCTS AND ASK FOR A CORPORATE BROCHURE. IN LINE TIDDLES NOW!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New product development, formulation, market intelligence in Aerosols, Liquid Packaging, Colour Cosmetics, Lipsticks, Cosmetic Pencils, Skincare. Fax or phone for our brochure on the following numbers: Bideford Devon tel 01237 471771 fax 01237 477240 Wellington Somerset tel 01823 662241 fax 01823 663642 Brussels Belgium tel 02 526 58 11 fax 02 526 58 00
SWALLOWFIELD CONSUMER PRODUCTS

Group Financial Review

Group Results

	1996	1995	
	£'000	£'000	%
Turnover	**43,374**	37,042	+17
Operating Profit	**3,905**	3,134	+25
Profit before Taxation	**3,524**	2,692	+31
Earnings per Share	**18.1p**	13.8p	+31
Dividend per Share	**7.3p**	6.5p	+12
Net Gearing	**32%**	42%	-24

Interest

Net interest payable at £381,000 has fallen by 14% in the year, partially due to the reduction in gross debt but also due to the lower utilisation of the Group overdraft facility during the year. Interest cover remains strong having risen to 10 times for 1996.

Taxation

The effective rate of tax for the two UK subsidiaries is approximately 33%. However, the overall Group rate has risen slightly to 43.2% (1995 42.5%). This is due to the ongoing impact of the losses in Parbel not being available for group relief against UK profits. As Parbel moves into profit, these losses will be available for offset and should further enhance Group earnings.

Earnings and Dividend

The Group earnings of £1,950,000 up from £1,448,000 in 1995 have resulted in earnings per share up 31% to 18.1p. The Board are recommending an increase in the final dividend of 0.5p per share to 4.3p giving a total dividend for the year of 7.3p (1995 6.5p).

Share Capital

In July 1996 the Company issued a notice of redemption to the holder of the Convertible Cumulative Redeemable Preference Shares. In response the holder notified the Company of its intention to convert its holding into ordinary shares. Therefore, in accordance with the conditions attached to the Preference Shares, using the conversion price of 185.19 pence per share, they were converted into 540,000 ordinary shares in September, 1996 which were eligible to receive the interim dividend of 3.0p paid on 31 October 1996.

Balance Sheet and Cashflow

The Group had a net increase in cash and cash equivalents of £792,000. The net inflow from operating activities amounted to £5,032,000, which was after a net increase in working capital of £428,000. There has been significant growth in all areas of working capital as a result of the increased level of activity, especially in the UK. This situation was exacerbated by the stock holding requirements of the own label sector where the introduction of a number of new ranges has resulted in a significant rise in the number of stock keeping units. The additional sales activity has resulted in debtors increasing by £1,155,000; the growth in stock and debtors has been partially offset by an increase in creditors of £2,261,000.

There was a significant level of capital expenditure during the year which at £2,161,000 continues the Group policy of re-investing in the business. The majority of the expenditure was in respect of plant and machinery. There was major investment at Aerosols International to improve line capacity with £600,000 being spent on new filling equipment. At Cosmetics Plus additional pencil production capacity was achieved through the automation of a number of manual processes and the installation of tube filling equipment has extended the product range that can be offered to customers.

The cash outflow in respect of capital expenditure was £1.6m with an additional £0.5m funded through finance leases. The gross borrowings at 31 December amounted to £4.8m (1996 £5.2m). UK term borrowings of £4.2m were rescheduled during the year to smooth the repayment profile into equal instalments over seven years; these loans were previously repayable over four years. Cash at bank amounted to £2.0m, resulting in the net gearing of the Group at 31 December 1996 being 32% (1995 42%). Net gearing is expected to remain at this level during 1997 as the Group continues its programme of capital investment.

C A Graves

Group Financial Director

8 April 1997.

Five Year Summary

The financial information set out below is based on the audited accounts of the Group for the five financial years ended 31 December 1996.

	1996	*1995*	*1994*	*1993*	*1992*
	£'000	£'000	£'000	£'000	£'000
Profit and Loss Account					
Turnover	**43,374**	37,042	34,870	28,643	23,197
Operating profit	**3,905**	3,134	3,037	2,103	1,947
Exceptional item	**–**	–	–	155	–
Interest	**(381)**	(442)	(474)	(628)	(678)
Profit before taxation	**3,524**	2,692	2,563	1,630	1,269
Taxation	**(1,524)**	(1,144)	(1,071)	(532)	(408)
Dividends	**(869)**	(789)	(748)	(643)	(559)
Retained profit	**1,131**	759	744	455	302
Earnings per 5p ordinary share	**18.1p**	13.8p	13.3p	9.6p	7.3p
Dividends per 5p ordinary share	**7.3p**	6.5p	6.2p	5.2p	4.4p
Balance Sheet					
Fixed assets	**10,783**	10,580	10,406	10,322	10,392
Net current assets	**3,713**	3,325	2,459	1,821	2,837
Total assets less current liabilities	**14,496**	13,905	12,865	12,143	13,229
Long-term creditors:					
Loans and lease finance	**(3,670)**	(3,962)	(3,947)	(3,978)	(5,484)
Deferred tax	**(45)**	(64)	(139)	(202)	(154)
	10,781	9,879	8,779	7,963	7,591

The Board of Directors

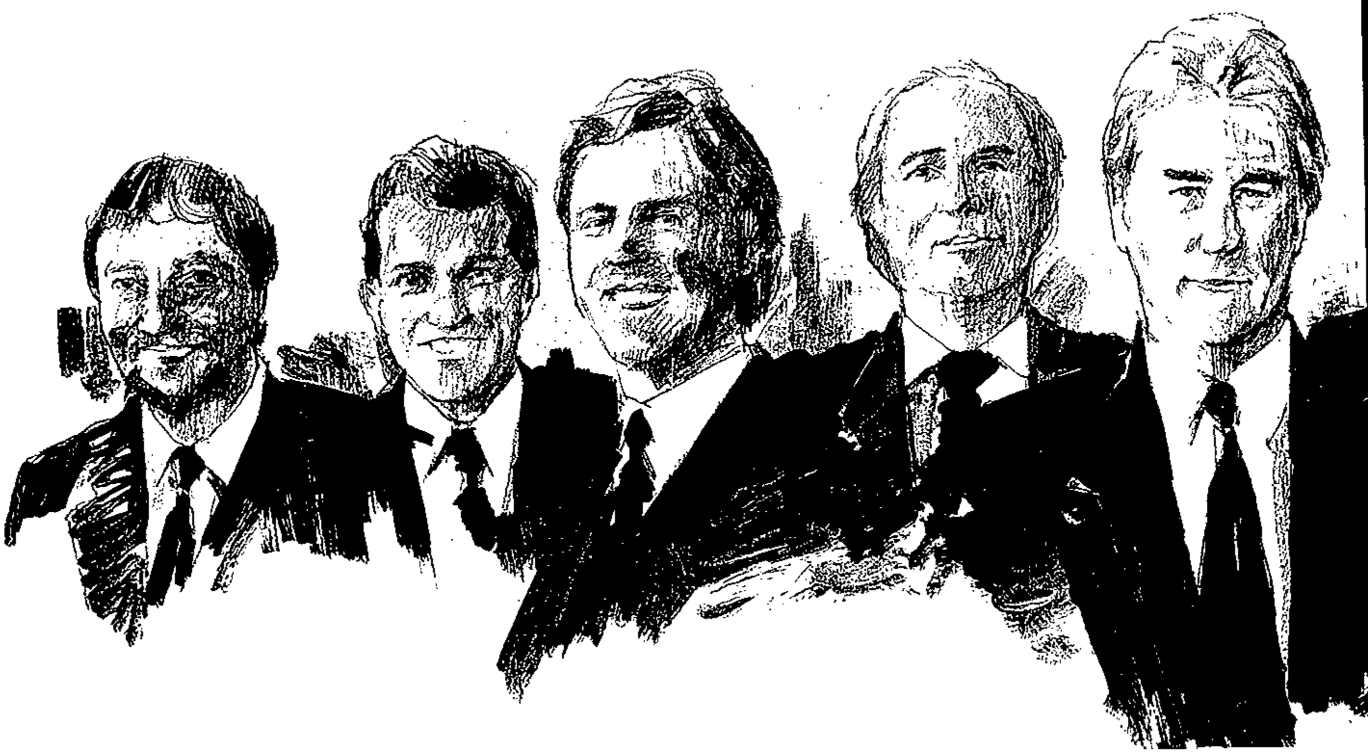
Bill Otley, FCA
Aged 54, Chairman, joined the Company as a non-executive Director in 1986. He is a non-executive Director of Sharpe & Fisher plc and a number of other companies.

Tony Wardell, M.Inst.Pkg
Aged 50, Group Managing Director, joined the business in 1963 and has held a number of senior positions, becoming a director and general manager of Aerosols International in 1984 while still part of Cadbury Schweppes. In 1986 he led the management buy-out and was appointed Managing Director of the Company. He is a Director of Somerset TEC.

Paul Bowser, BSc PhD
Aged 43, Group Technical Director, joined the Group in 1995. Previously he was with Unilever for 15 years in research and product development.

Jennifer Bryant-Pearson
Aged 41, joined the Company as a non-executive director in 1996, she is Managing Director of J.B.P. Associates Limited, a company specialising in corporate public relations.

Rob Conchie
Aged 43, Group Sales and Marketing Director, joined the Group in 1991. Previously he was with L'Oréal where he held a number of management positions in sales and marketing and gained considerable experience in the personal care markets and high street retailing.



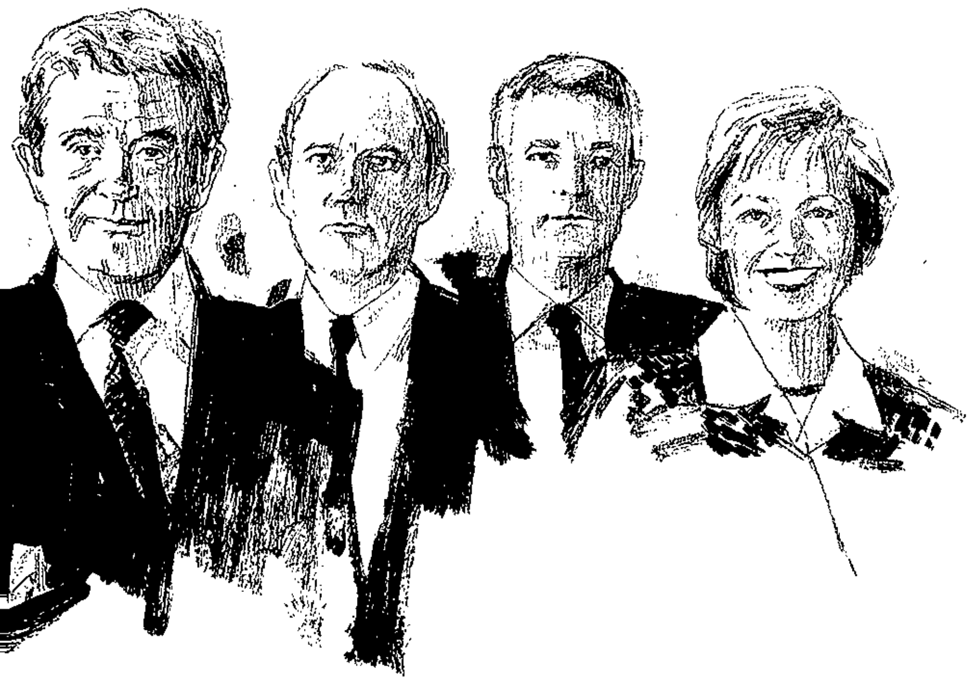
Paul Bowser *Richard Organ* *Rob Conchie* *Colin Jenner* *Tony Wardell*

Tony Dowsett, BSc (Eng)
Aged 54, Group Operations Director, joined Aerosols International in 1974 as Production Manager, becoming Works Manager in 1978 and Operations Director in 1985.

Colin Graves, FCA
Aged 45, Group Financial Director, joined the Company in January 1988, having previously been with UBM Group and Norcros. Before then he was with KPMG.

Colin Jenner
Aged 60, Group Business Development Director, joined the Group in 1989. He has many years experience in the cosmetics industry including positions at Max Factor where he was Production Manager and Jean Sorrelle where he was Production Director.

Richard Organ, MA Oxon
Aged 44, joined the Company in 1996 as a non-executive director. He is Managing Director of Jaeger Manufacturing, having previously held a number of senior positions with C & J Clark Limited.



Bill Otley *Tony Dowsett* *Colin Graves* *Jennifer Bryant-Pearson*

Corporate Governance

Statement of Compliance with the Code of Best Practice

The Board considers that it has complied with the Code of Best Practice, issued in December 1992 by the Cadbury Committee on the Financial Aspects of Corporate Governance, except for the provisions contained in paragraphs 2.3 and 4.3 of the Code.

The Board is in agreement with the aims and objectives of the Committee and has always been committed to the principles of sound corporate governance. Paragraph 4.3 requires the Audit Committee to comprise at least three non-executive directors. The Company complied with this requirement from December 1996 with the appointment of two new non-executive directors.

Formal contracts covering the specified term of appointment for the new non-executive directors are currently being drawn up. The term of appointment of the new non-executive Chairman remains regulated by the Articles of Association which require the re-election of directors on a triennial basis.

Audit Committee

The Audit Committee comprises the Chairman and the other two non-executive directors. It meets at least twice a year to review the Company's accounting policies, financial and other reporting procedures and other relevant matters with the Financial Director and external auditors in attendance as appropriate.

Remuneration Committee

The Remuneration Committee comprises the Chairman, the Group Managing Director and the other two non-executive directors. It reviews the terms and conditions of service of executive directors and it ensures that the salaries, bonuses and share option awards satisfy the performance criteria.

Nomination Committee

The Nomination Committee comprises the non-executive directors and the Group Managing Director. The Committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board.

Internal Financial Control

The Board is responsible for establishing and maintaining the Group's system of internal financial control. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material mis-statement or loss. The key procedures which the directors have established with a view to providing effective internal financial control are as follows:

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each executive director has been given responsibility for specific aspects of the Group's affairs.

Responsibility levels are communicated throughout the Group. The communication includes the ethos of the Group, the delegation of authority and other control procedures, together with appropriate accounting policies.

Each year the Board approves the budget and other performance targets key to the success of the business, the components of which form the financial and operating objectives for individual operating divisions. Performance against these targets is reported to the Board and monitored monthly and appropriate action is taken. The executive directors participate in the day-to-day management of the operating companies.

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks. Discussions have also been held with the external auditors in conjunction with the review of business risks by the directors.

The Group appoints experienced and professional staff of the necessary calibre, both through promotion and recruitment, to fulfil their allotted responsibilities. The Group also carries out comprehensive training programmes for staff.

The Audit Committee of the Board, comprising non-executive directors, considers significant control matters.

The Board of Directors has reviewed the effectiveness of the system of internal financial control as it operated during the year.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Auditors' Report

The auditors, Ernst & Young, have reviewed the above statement insofar as it relates to the paragraphs of the Code specified by the London Stock Exchange for their review and their report is set out on page 14.

Report by the Auditors to Swallowfield plc on Corporate Governance Matters

In addition to our audit of the accounts we have reviewed the directors' statements on page 12 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with listing rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board and assessed whether the directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group to continue in operational existence.

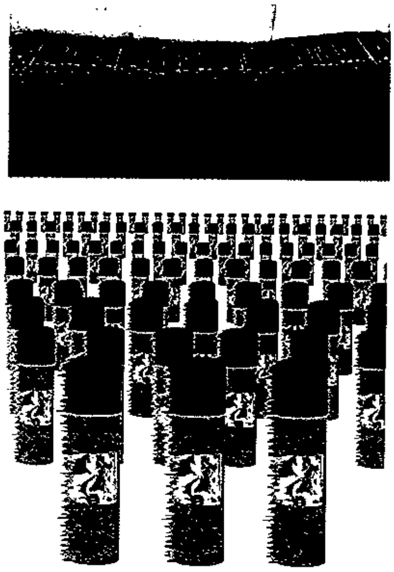
Opinion

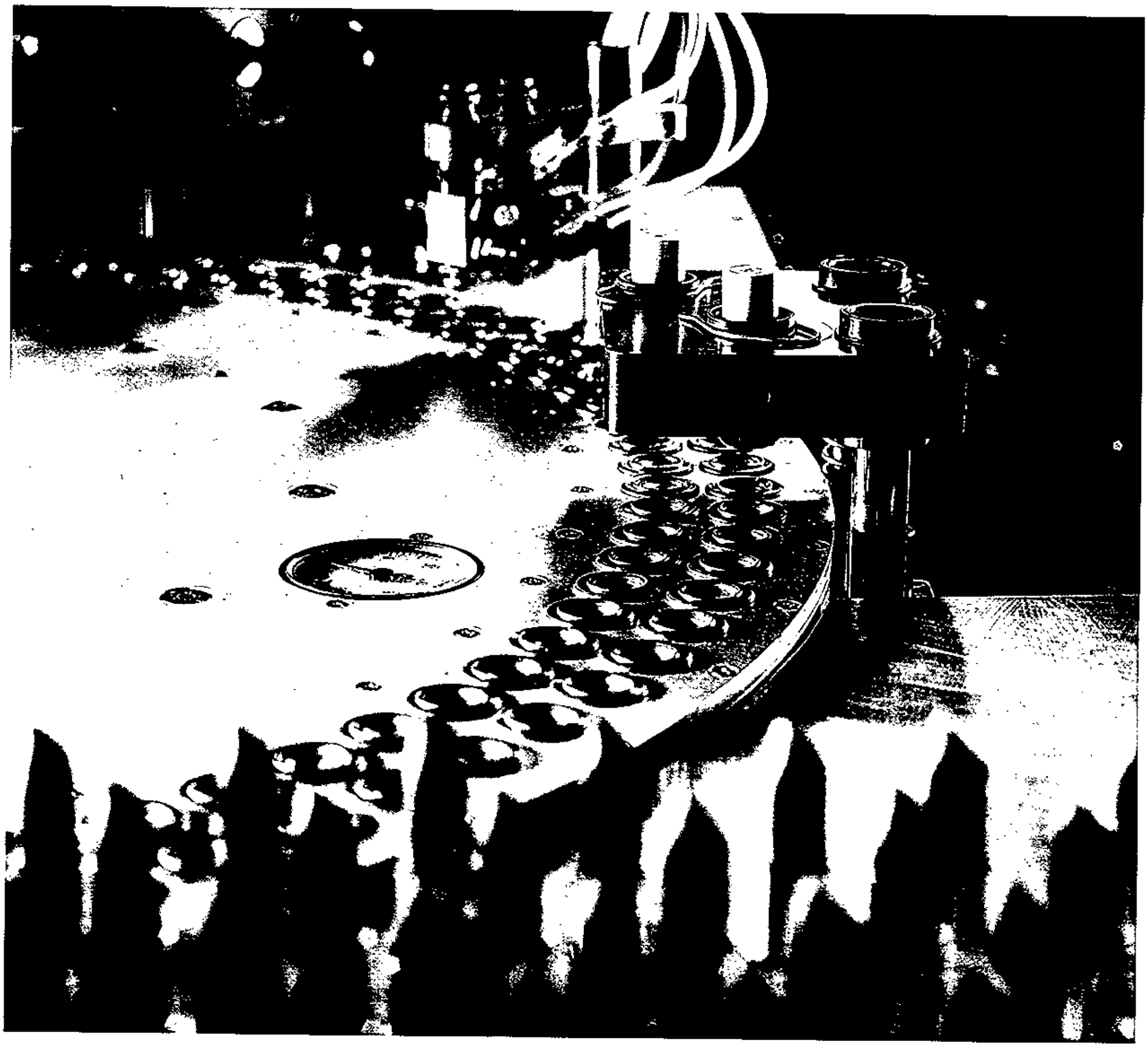
With respect to the directors' statements on internal financial control on pages 12 and 13 and going concern on page 13, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 12 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

Ernst & Young
Chartered Accountants
Bristol

8 April 1997





Directors' Report

The directors submit their report together with audited accounts for the year ended 31 December 1996.

Results and Dividends

The Group profit after taxation for the year amounted to £2,000,000 (1995 £1,548,000). The directors propose a final dividend of 4.3p per ordinary share which, together with the interim dividend of 3.0p per ordinary share paid on 31 October 1996, makes a total dividend of 7.3p per ordinary share for the year. After the preference dividend of £50,000 this leaves a profit of £1,131,000 to be carried forward.

Review of the Business and Future Developments

The principal activities of the Group are the formulation and manufacture of aerosol and non-aerosol products for retail distributors, the contract-filling of aerosols and the manufacture of cosmetic pencils and other cosmetic products. A review of the business and future developments is set out in the reports on pages 3 to 8.

Research and Development

The Group develops formulations for new products using its own laboratories and technical staff.

Disabled Employees

The Group always carefully considers an application for employment by any registered disabled person. If an employee becomes disabled, it is standard practice to offer an alternative job in all but the most extreme circumstances and to provide retraining where necessary. The Group's training, development and promotion policies provide for equal opportunities for minority groups, including the disabled.

Employee Involvement

The policy of informing and consulting with employees has continued by means of regular briefing groups and consultative committees. Employees are encouraged to present their views and suggestions in respect of the Group's performance. All employees are formally advised of the Group's progress at least once a year, and manager and employee representatives are invited to share detailed Group performance figures on a quarterly basis.

Supplier Payment Policy

The Group policy is to set the terms for each supplier account, including terms of payment, when the account is established; to ensure that the supplier is aware of these terms; and to abide by them. The Group does not follow any specific code or standard.

Directors and their Interests

The directors who served during the year and their interests in the Company's share capital are as follows:

	31 December 1996		*31 December 1995*	
	Ordinary Shares	***Options to Subscribe***	*Ordinary Shares*	*Options to Subscribe*
N W Otley	15,500	–	10,500	–
J A Wardell	1,325,166	8,389	1,325,166	–
P A Bowser	–	8,389	–	–
J A Bryant-Pearson	–	–	–	–
R A Conchie	–	31,740	–	31,740
A P Dowsett	436,135	8,389	486,135	–
	–	–	34,545(i)	–
C A Graves	31,175	8,389	19,461	33,660
C C Jenner	–	–	–	–
R T N Organ	107,000	–	–	–

(i) Non-beneficial.

There have been no changes in the above interests since 31 December 1996.

In addition T J Organ retired from the Board on 6 September 1996.

P A Bowser, who was appointed as a director on 9 September 1996, and J A Bryant-Pearson and R T N Organ, who were appointed as directors on 1 December 1996, retire at the Annual General Meeting and being eligible offer themselves for election.

In accordance with the Articles of Association, A P Dowsett and C C Jenner retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. P A Bowser, A P Dowsett and C C Jenner have contracts that may be terminated by the Company giving one year's notice.

During the year ended 31 December 1996 no director had a material interest in any contract of significance to which the Company or any of its subsidiaries was a party.

Substantial Shareholding

Except as disclosed under directors and their interests, at 31 March 1997 notification had been received of the following holdings of ordinary shares of the Company required to be recorded in the register under Section 211 of the Companies Act 1985.

	Number of Ordinary Shares Held	*% of Issued Ordinary Share Capital*
3i Plc	1,906,962	17.0
Hermes Investment Management Limited	1,175,000	10.5
Jupiter Asset Management Limited	876,500	7.8
Framlington Investment Management Limited	750,000	6.7
Prudential Corporation plc	395,000	3.5
M A Wardell	390,769	3.5

General Meeting

Resolution 10 at the Annual General Meeting will renew the general authority of the directors under Section 80 of the Companies Act 1985 to allot new shares. This general authority is, however, limited to the allotment of shares representing one-third of the present issued share capital in addition to the allotment of shares to satisfy existing employee share option schemes.

Resolution 11 proposes to permit the directors to allot for cash, otherwise than by rights issues, or to satisfy existing employee share option schemes, shares representing 5% of the issued share capital.

Donations

During the year, the Group made charitable donations amounting to £8,067. No contributions were made for political purposes.

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

By Order of the Board

C A Graves
Secretary

8 April 1997

Report of the Remuneration Committee

Statement of Compliance

Throughout the year the Company complied with Section A of the Best Practice Provision on remuneration committees as annexed to the Listing Rules except that the Group Managing Director is a member of the Committee; and has given full consideration to Section B of these Provisions.

Remuneration Committee

The Remuneration Committee comprises the Chairman N W Otley, the Group Managing Director, J A Wardell and the other two non-executive directors J A Bryant-Pearson and R T N Organ. The Committee determines an overall remuneration package for executive directors in order to retain and attract high quality executives capable of achieving the Group's objectives. The package consists of basic salary, benefits, profit related pay, performance related bonuses, pensions and share options. The work of the Remuneration Committee includes a review of the remuneration levels within the market place and particular attention is given to the remuneration levels of fully listed companies of a similar size. The individual components of the remuneration package are discussed below.

Salary and Benefits

Salary and benefits are reviewed annually and changes in the level of basic salary are made on the basis of the performance of individual directors in carrying out their duties. Benefits principally comprise a contributory pension scheme, a car, private healthcare and permanent health insurance.

Performance Related Bonuses

J A Wardell, R A Conchie, A P Dowsett and C A Graves participate in a profit related pay scheme.

Long Term Incentive Scheme

The Company introduced a deferred share ownership scheme during 1996. In accordance with the terms of the scheme, shares were purchased by a Trust on behalf of the executive directors. The number of shares purchased was based upon performance criteria set by the Committee related to the level of Group profit on ordinary activities before taxation. The shares will remain the property of the trust until 1999 at which time they will be transferred as fully paid shares to the executive directors on the condition that they have remained in employment with the Group until the date of transfer. Details of the shares purchased by the Trust and the notional entitlement of the individual directors is set out in note 4 to the accounts on pages 29 to 31.

Fees

The fees for the non-executive directors are determined by the Board.

Pensions

J A Wardell, A P Dowsett, P A Bowser, R A Conchie and C A Graves are members of the Swallowfield plc Directors Retirement Benefit Scheme. This is a defined contribution scheme which is funded with the objective of providing two-thirds of the final pensionable remuneration after 20 years service with a specified retirement age of 60. The level of the Company's contributions varies with each member. C C Jenner is a member of the Cosmetics Plus Limited Retirement Benefit Scheme which is also a defined contribution scheme.

Share Options

The Company operates an approved executive share option scheme under which, options based upon a percentage of the executive's salary, are granted at the market price at the date of grant. No options were granted under the scheme during the year.

The Company also operates an approved SAYE sharesave option scheme for all UK employees under which options are granted at a 20% discount to the market price. Options granted under the scheme may be exercised five years after the date granted and only while the employee is employed by the Group. Options were granted during the year and certain executive directors participated in the issue.

Full details of directors' remuneration for the year ended 31 December, 1996 including their entitlement to and exercise of options are given in note 4 to the accounts on pages 29 to 31.

On behalf of the Remuneration Committee,

N W Otley

8 April 1997

Statement of Directors' Responsibilities in Respect of the Accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing these accounts, the directors confirm that they have:

(a) selected suitable accounting policies and applied them consistently;

(b) made judgements and estimates that are reasonable and prudent; and

(c) followed applicable accounting standards.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors to the Members of Swallowfield plc

We have audited the accounts on pages 21 to 42, which have been prepared under the historical cost convention as modified by the revaluation of certain freehold land and buildings and on the basis of the accounting policies set out on pages 25 and 26.

Respective Responsibilities of Directors and Auditors

As described above, the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
Registered Auditor
Bristol

8 April 1997

Group Profit and Loss Account
for the year ended 31 December 1996

	Notes	1996	1995
		£'000	£'000
Turnover	2	43,374	37,042
Cost of sales		30,905	27,844
Gross Profit		12,469	9,198
Net operating expenses	3	8,564	6,064
Operating Profit	3	3,905	3,134
Interest receivable and similar income	6	19	33
Interest payable	7	(400)	(475)
Profit on Ordinary Activities before Taxation		3,524	2,692
Tax on profit on ordinary activities	8	1,524	1,144
Profit Attributable to Shareholders		2,000	1,548
Dividends on equity and non-equity shares	9	869	789
Retained Profit for the Year		1,131	759
Earnings per 5p Ordinary Share	10	18.1p	13.8p

Group Balance Sheet as at 31 December 1996	*Notes*	***1996***	*1995*
		£'000	£'000
Fixed Assets			
Tangible assets	11	**10,783**	10,580
Current Assets			
Stocks	13	**7,364**	5,954
Debtors	14	**7,224**	6,237
Cash at bank and in hand	15	**1,984**	1,313
		16,572	13,504
Creditors: Amounts falling due within one year	16	**12,859**	10,179
Net Current Assets		**3,713**	3,325
Total Assets less Current Liabilities		**14,496**	13,905
Creditors: Amounts falling due after more than one year	17	**3,670**	3,962
Provisions for Liabilities and Charges			
Deferred taxation	21	**45**	64
		10,781	9,879
Capital and Reserves			
Called up share capital	22	**560**	1,530
Share premium	23	**3,706**	2,659
Revaluation reserve	23	**245**	263
Capital reserve	23	**(8)**	(27)
Profit and loss account	23	**6,278**	5,454
Equity shareholders' funds		**10,781**	8,879
Non-equity shareholders' funds		**–**	1,000
		10,781	9,879

Approved by the Board on 8 April 1997

Directors
N W Otley
J A Wardell

Company Balance Sheet as at 31 December 1996	*Notes*	***1996***	*1995*
		£'000	£'000
Fixed Assets			
Investments	12	**6,072**	6,072
Current Assets			
Debtors	14	**5,298**	3,699
Creditors: Amounts falling due within one year	16	**4,052**	3,735
Net Current Assets/(Liabilities)		**1,246**	(36)
Total Assets less Current Liabilities		7,318	6,036
Creditors: Amounts falling due after more than one year	17	**2,040**	860
		5,278	5,176
Capital and Reserves			
Called up share capital	22	**560**	1,530
Share premium	23	**3,706**	2,659
Capital reserve	23	**467**	467
Profit and loss account	23	**545**	520
Equity shareholders' funds		5,278	4,176
Non-equity shareholders' fund		–	1,000
		5,278	5,176

Approved by the Board on 8 April 1997

Directors
N W Otley
J A Wardell

Group Statement of Cashflows
for the year ended 31 December 1996

	Notes	1996	1995
		£'000	£'000
Net Cash Inflow from Operating Activities	3(c)	5,032	4,406
Returns on Investments and Servicing of Finance			
Interest received		19	33
Interest paid		(363)	(452)
Interest element of finance lease rental payments		(37)	(23)
Dividends paid		(791)	(752)
Net Cash Outflow from Returns on Investments and Servicing of Finance		(1,172)	(1,194)
Taxation			
Corporation tax paid (including advance corporation tax)		(1,258)	(1,066)
Investing Activities			
Payments to acquire tangible fixed assets		(1,610)	(1,317)
Receipts from disposal of tangible fixed assets		15	77
Net Cash Outflow from Investing Activities		(1,595)	(1,240)
Net Cash Inflow before Financing		1,007	906
Financing			
Issue of share capital	22	(77)	(115)
New long-term loan	20	–	(1,527)
Repayment of long-term loans	20	158	2,265
Repayment of capital element of finance lease rentals	20	134	61
Net Cash Outflow from Financing		215	684
Increase in Cash and Cash Equivalents	15	792	222
		1,007	906

Group Statement of Total Recognised Gains and Losses
for the year ended 31 December 1996

	1996	1995
	£'000	£'000
Profit for the financial year	2,000	1,548
Currency translation differences on foreign currency net investment	(306)	226
Total recognised gains and losses relating to the year	1,694	1,774

Notes to the Accounts as at 31 December 1996

Note 1 Accounting Policies

(a) Accounting convention

The accounts are prepared under the historical cost convention, modified by the revaluation of certain freehold land and buildings, and in accordance with applicable accounting standards.

(b) Basis of consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings. In accordance with the exemptions given by S230 of the Companies Act 1985 the Company has not presented its own profit and loss account.

(c) Goodwill

Goodwill arising on consolidation is written off directly to capital reserve in the Group accounts; this is then transferred to profit and loss reserves in five equal annual instalments.

(d) Depreciation

Tangible fixed assets other than freehold land are depreciated over their useful lives to their estimated residual value on a straight-line basis. The principal rates of depreciation are as follows:

Short leasehold land and buildings	5% per annum
Freehold buildings	2% per annum
Plant	6.7% to 10% per annum
Vehicles	12.5%–33% per annum
Office equipment	20% per annum

(e) Stocks

Stocks are stated at the lower of cost and net realisable value as follows:
Cost incurred in bringing each product to its present location and condition:—

Raw materials	purchase cost on a first-in, first-out basis
Work in progress and finished goods	cost of direct materials and labour plus attributable overheads based on the normal level of activity.

Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

(f) Research and development expenditure

Expenditure is written off in the financial year in which it is incurred.

(g) Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that tax will be payable.

Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance. Any excess of recoverable ACT over the deferred tax balance is held as a current asset.

Notes to the Accounts as at 31 December 1996

(h) Foreign currencies

Trading transactions denominated in foreign currencies are recorded in sterling at actual rates as at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the middle market rates at the balance sheet date, except in the case of third party transactions covered forward where rates fixed in the contracts are used.

The accounts of the overseas subsidiary undertaking are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other exchange differences are taken to the profit and loss account.

(i) Leasing and hire purchase commitments

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

(j) Turnover

Turnover excludes value added tax and intra group sales and is stated net of discounts.

(k) Pensions costs

The cost of providing benefits under the Group's pension schemes is charged over the working lives of the members.

Notes to the Accounts as at 31 December 1996

Note 2 Turnover and Segmental Analysis

	1996 Turnover £'000	1996 Profit before Tax £'000	1996 Net Assets £'000	1995 Turnover £'000	1995 Profit before Tax £'000	1995 Net Assets £'000
Class of Business						
Aerosol products	**26,216**	**3,064**	**8,498**	21,965	2,453	7,384
Cosmetic products	**17,158**	**841**	**8,067**	15,077	681	8,213
	43,374		**16,565**	37,042		15,597
Operating profit		**3,905**			3,134	
Net interest payable		**(381)**			(442)	
Profit before tax		**3,524**			2,692	
Unallocated funds			**(5,784)**			(5,718)
Group net assets			**10,781**			9,879
Geographic Segment						
By source:						
UK	**40,407**	**4,618**	**8,332**	33,267	3,934	12,209
Continental Europe	**2,967**	**(713)**	**2,449**	3,775	(800)	3,388
	43,374	**3,905**	**10,781**	37,042	3,134	15,597
By destination:						
UK	**32,948**			26,889		
Continental Europe	**5,656**			6,940		
North America	**3,441**			1,768		
Far East	**984**			1,233		
Other	**345**			212		
	43,374			**37,042**		

Unallocated funds comprise bank loans, finance leases, proposed dividend and certain other holding company assets.

Notes to the Accounts as at 31 December 1996

Note 3 Operating Profit

	1996	1995
	£'000	£'000
(a) This is stated after charging:		
Depreciation of tangible fixed assets	**1,488**	1,412
Research and development	**656**	611
Operating leases		
Hire of plant and machinery	**151**	145
Rent of buildings	**37**	55
Auditors' remuneration		
Audit services	**65**	68
Non-audit services	**54**	20
(b) Net operating expenses are analysed as follows:		
Distribution costs	**2,392**	2,255
Administration expenses	**6,183**	3,854
Other operating income	**(11)**	(45)
	8,564	6,064
(c) Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit	**3,905**	3,134
Depreciation	**1,488**	1,412
Loss/(profit) on disposal of fixed assets	**67**	(8)
(Increase) in stocks	**(1,534)**	(205)
(Increase) in debtors	**(1,155)**	(610)
Increase in creditors	**2,261**	683
Net cash inflow from operating activities	**5,032**	4,406

Notes to the Accounts as at 31 December 1996

Note 4 Directors' Emoluments	***1996***	*1995*
	£'000	£'000
Fees	**28**	27
Other emoluments:		
Basic salaries	**346**	268
Benefits	**85**	51
Performance related bonuses	**19**	31
Pension contributions	**188**	137
	666	514

The remuneration of individual directors comprises:

Executive Directors	*J A Wardell*		*P A Bowser*		*R A Conchie*	
	1996	*1995*	***1996***	*1995*	***1996***	*1995*
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Basic salary	**102**	95	**17**	–	**43**	–
Benefits	**13**	13	**2**	–	**5**	–
Performance related bonuses	**5**	10	**–**	–	**4**	–
	120	118	**19**	–	**52**	–
Pension contributions	**44**	39	**11**	–	**18**	–
	164	157	**30**	–	**70**	–

Executive Directors	*A P Dowsett*		*C A Graves*		*C C Jenner*	
	1996	*1995*	***1996***	*1995*	***1996***	*1995*
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Basic salary	**67**	65	**59**	55	**58**	53
Benefits	**11**	12	**10**	10	**7**	5
Performance related bonuses	**5**	8	**5**	7	**–**	6
	83	85	**74**	72	**65**	64
Pension contributions	**40**	40	**31**	28	**44**	30
	123	125	**105**	100	**109**	94

Non-executive Directors	*N W Otley*		*J A Bryant-Pearson*		*R T N Organ*		*T J Organ*	
	1996	*1995*	***1996***	*1995*	***1996***	*1995*	***1996***	*1995*
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Fees	**16**	12	**1**	–	**1**	–	**10**	15
Benefits	**1**	–	**–**	–	**–**	–	**36**	11
	17	12	**1**	–	**1**	–	**46**	26

The emoluments of the Chairman excluding pension contributions were:

T J Organ (to 6 September 1996) £46,000, (1995 £26,000), N W Otley £8,000 (1995 Nil).

The amount paid to the highest paid director was £120,000 (1995 £118,000).

Notes to the Accounts as at 31 December 1996

Note 4 Directors' Emoluments (continued)

The emoluments excluding pension contributions of the directors fell within the following ranges:

	1996	*1995*
	No.	No.
£1 - £5,000	**2**	–
£10,001 - £15,000	–	1
£15,001 - £20,000	**2**	–
£25,001 - £30,000	–	1
£45,001 - £50,000	**1**	–
£50,001 - £55,000	**1**	–
£60,001 - £65,000	–	1
£65,001 - £70,000	**1**	–
£70,001 - £75,000	**1**	1
£80,001 - £85,000	**1**	–
£85,001 - £90,000	–	1
£115,001 - £120,000	**1**	1

In addition to the remuneration disclosed above the executive directors participate in the Swallowfield plc Deferred Share Plan which was implemented in 1996. Based upon the Group performance for 1996 the executive directors are notionally entitled to the following ordinary shares of 5p each:

	Number	*Market Value at 31 December 1996*
		£'000
J A Wardell	8,157	16
P A Bowser	4,477	9
R A Conchie	4,553	9
A P Dowsett	5,444	11
C A Graves	4,854	10
C C Jenner	4,553	9

The cost of the above shares amounting to £72,000 was charged against profit in the year.

The dividend on the above shares is payable to the Trust until such time as the shares are vested unconditionally in the directors.

The basis upon which the remuneration of executive directors is determined is included in the Report of the Remuneration Committee on page 19.

Notes to the Accounts as at 31 December 1996

Note 4 Directors' Emoluments (continued)

Directors' share options

	At 1 January 1996	*Number of Options Exercised*	*Granted*	*At 31 December 1996*	*Exercise Price*	*Date from which Exercisable*	*Expiry Date*
P A Bowser	–	–	8,389(iii)	8,389	178.8p	1:12:01	1:05:02
R A Conchie	31,740(ii)	–	–	31,740	165.0p	2:10:94	2:10:02
A P Dowsett	–	–	8,389(iii)	8,389	178.8p	1:12:01	1:05:02
C A Graves	33,660(i)	(33,660)	–	–	126.5p		
	–	–	8,389(iii)	8,389	178.8p	1:12:01	1:05:02
J A Wardell	–	–	8,389(iii)	8,389	178.8p	1:12:01	1:05:02

(i) Options granted under the Second Swallowfield Executive Share Option Scheme exercisable at 126.5p per share between August 1993 and August 2000.

(ii) Options granted under the Second Swallowfield Executive Share Option Scheme exercisable at 165p between September 1994 and September 2001.

(iii) Options granted under the Second Swallowfield Savings Related Share Option Scheme exercisable at 178.8p within six months of the date of maturity of the savings contract in December 2000.

C A Graves exercised his options under the Company's Executive Share Option Scheme. The share price on the date that the options were exercised was 195p and accordingly he was able to realise a gain of 68.5p per share.

The market price of the shares at 31 December 1996 was 219.5p and the range during the year was 152p to 233.5p.

Note 5 Staff Costs

	1996	*1995*
	£'000	£'000
Wages and salaries	**10,085**	8,921
Social security costs	**1,096**	1,072
Other pension costs	**727**	563
	11,908	10,556
The average weekly number of employees during the year was made up as follows:	**No.**	No.
Production	**666**	579
Distribution	**53**	40
Administration	**68**	64
	787	683

Notes to the Accounts as at 31 December 1996

Note 6 Interest Receivable and Similar Income

	1996	1995
	£'000	£'000
Non-bank interest	**19**	33

Note 7 Interest Payable

	1996	1995
	£'000	£'000
Bank loans and overdraft wholly repayable within 5 years	**120**	315
Bank loans not wholly repayable within 5 years	**243**	137
Finance lease interest	**37**	23
	400	475

Note 8 Tax on Profit on Ordinary Activities

	1996	1995
	£'000	£'000
Based on the profit for the year:		
UK corporation tax at 33% (1995 33%)	**1,522**	1,214
Deferred taxation	**–**	(65)
	1,522	1,149
Adjustments in respect of prior years:		
Corporation tax under/(over) provided	**2**	(5)
	1,524	1,144

The tax charge for the year excludes any relief for losses at Parbel. If full provision had been made for deferred tax for the year, the tax charge would have been reduced by £75,000 (1995 £90,000 increase) as follows:

	1996	1995
Capital allowances in advance of depreciation	**(72)**	54
Other timing differences	**(3)**	36
	(75)	90

Notes to the Accounts as at 31 December 1996

Note 9 Dividends

	1996	1995
	£'000	£'000
Ordinary – Interim paid 3.0p (1995 2.7p) per share	338	286
– Final proposed 4.3p (1995 3.8p) per share	481	403
	819	689
Preference – Net dividend of 5.0p (1995 10.0p) per share paid	50	100

Note 10 Earnings per Share

The calculation of earnings per share is based on 10,797,569 (1995 10,504,068) ordinary shares, being the weighted average number of ordinary shares in issue during the year, and the profit on ordinary activities after taxation and preference dividend of £1,950,000 (1995 £1,448,000).

Note 11 Tangible Fixed Assets

	Group			
	Freehold Land and Buildings	Short Leasehold Land and Buildings	Plant and Machinery	Total
	£'000	£'000	£'000	£'000
Cost or valuation:				
At 1 January 1996	4,214	2,514	13,946	20,674
Additions	169	2	1,990	2,161
Exchange adjustment	–	(403)	(107)	(510)
Disposals	–	–	(825)	(825)
At 31 December 1996	4,383	2,113	15,004	21,500
Depreciation				
At 1 January 1996	806	535	8,753	10,094
Provided during the year	147	143	1,198	1,488
Exchange adjustment	–	(86)	(36)	(122)
Disposals	–	–	(743)	(743)
At 31 December 1996	953	592	9,172	10,717
Net book value:				
At 31 December 1996	3,430	1,521	5,832	10,783
Net book value:				
At 1 January 1996	3,408	1,979	5,193	10,580

The net book value of plant and machinery at 31 December 1996 included an amount of £784,000 (1995 £345,000) after depreciation charged in the year of £112,000 (1995 £114,000) in respect of assets held under finance leases.

Notes to the Accounts as at 31 December 1996

Note 11 Tangible Fixed Assets (continued)

Certain of the freehold land and buildings were revalued in 1988 on an existing use basis to a total of £785,000. If none of the freehold land and buildings had been revalued they would be restated at the following amounts:

	Group 1996	Group 1995
	£'000	£'000
Historical cost at 31 December	**4,066**	3,897
Accumulated depreciation based on cost	**882**	753

Note 12 Investments

	Company 1996	Company 1995
	£'000	£'000
Cost at 1 January	**7,073**	4,049
Transfer of investment in Cosmetics Plus Limited	**–**	3,024
Provision for permanent diminution in value of investment in Parbel S.A.	**(1,001)**	(1,001)
Net book value at 31 December	**6,072**	6,072

The Group holds 100% of the voting rights and ordinary shares of the following principal subsidiary undertakings:

Name of Company	*Country of Registration and Operation*	*Nature of Business*
Aerosols International Limited	England	Formulation and manufacture of aerosol and non-aerosol products
Cosmetics Plus Limited	England	Manufacture of cosmetic pencils and other cosmetic products
Parbel S.A.	Belgium	Manufacture of mascaras, lipsticks and cosmetic powders
Swallowfield Consumer Products Limited	England	Agent for the sale of products manufactured by Swallowfield group companies

Notes to the Accounts as at 31 December 1996

Note 13 Stocks

	Group	
	1996	*1995*
	£'000	£'000
Raw materials and consumables	**2,910**	2,620
Work in progress	**1,215**	1,017
Finished goods for resale	**3,239**	2,317
	7,364	5,954

Note 14 Debtors

	Group		Company	
	1996	*1995*	**1996**	*1995*
	£'000	£'000	**£'000**	£'000
Trade debtors	**6,720**	5,526	–	–
Amounts owed by subsidiaries	–	–	**5,169**	3,598
Loans to employees:				
Receivable within one year	**18**	11	–	–
Receivable after more than one year	**24**	9	–	–
Advance corporation tax recoverable	–	–	**120**	101
Other debtors	**306**	423	**9**	–
Prepayments and accrued income	**156**	268	–	–
	7,224	6,237	**5,298**	3,699

Notes to the Accounts as at 31 December 1996

Note 15 Cash and Cash Equivalents

Analysis of changes in cash and cash equivalents during the year:

	Group 1996	Group 1995
	£'000	£'000
Balance at 1 January	**1,313**	1,001
Net cash inflow before adjustments for the effect of foreign exchange rate changes	**792**	222
Effect of foreign exchange rate changes	**(121)**	90
Balance at 31 December	**1,984**	1,313
The balance comprises:		
Cash at bank and in hand	**1,984**	1,313

Note 16 Creditors: Amounts falling due within one year

	Group 1996	Group 1995	Company 1996	Company 1995
	£'000	£'000	**£'000**	£'000
Current instalments due on loans (note 19)	**1,554**	1,430	**340**	120
Obligations under finance leases (note 18)	**188**	92	**–**	–
Trade creditors	**5,171**	3,763	**–**	–
Amount owed to subsidiary	**–**	–	**3,024**	3,024
Bills of exchange payable	**117**	155	**–**	–
Advance corporation tax payable	**204**	185	**204**	185
Current corporation tax	**1,578**	1,312	**3**	3
Other taxes and social security costs	**1,211**	951	**–**	–
Accruals and deferred income	**2,355**	1,888	**–**	–
Proposed dividend	**481**	403	**481**	403
	12,859	10,179	**4,052**	3,735

Notes to the Accounts as at 31 December 1996

Note 17 Creditors: Amounts falling due after more than one year

	Group		Company	
	1996	1995	**1996**	1995
	£'000	£'000	**£'000**	£'000
Loans (note 19)	**3,199**	3,806	**2,040**	860
Obligations under finance leases (note 18)	**471**	156	**–**	–
	3,670	3,962	**2,040**	860

Note 18 Obligations under Leases

	Group	
	1996	1995
	£'000	£'000
Finance Leases		
Amounts payable:		
Within one year	**231**	108
In the second to fifth years inclusive	**530**	163
	761	271
Finance charges allocated to future periods	**(102)**	(23)
	659	248
Finance leases are analysed as follows:		
Current obligations (note 16)	**188**	92
Non-current obligations (note 17)	**471**	156
	659	248

Operating Leases

The annual commitments under non-cancellable operating leases are as follows:

	Group			
	Plant and Machinery		Land and Buildings	
	1996	1995	**1996**	1995
	£'000	£'000	**£'000**	£'000
Operating leases which expire:				
Within one year	**97**	17	**17**	–
In the second to fifth years inclusive	**63**	106	**–**	34
Over five years	**6**	69	**17**	20
	166	192	**34**	54

Notes to the Accounts as at 31 December 1996

Note 19 Loans

	Group		Company	
	1996	1995	**1996**	1995
	£'000	£'000	**£'000**	£'000
Not wholly repayable within five years	**2,935**	1,708	**2,380**	980
Wholly repayable within five years	**1,818**	3,528	**–**	–
	4,753	5,236	**2,380**	980
Amounts due within one year	**1,554**	1,430	**340**	120
	3,199	3,806	**2,040**	860
Instalments not due within five years	**944**	762	**680**	380

Details of loans not wholly repayable within five years are as follows:

Unsecured loans at approximately 1% above LIBOR repayable in annual instalments	**2,380**	980	**2,380**	980
Secured loan at 8.2% repayable in annual instalments	**555**	728	**–**	–
	2,935	1,708	**2,380**	980

Amounts due at 31 December 1996 are repayable as follows:

After five years	**944**	762	**680**	380
Between two and five years	**1,664**	1,863	**1,020**	360
Between one and two years	**591**	1,181	**340**	120
	3,199	3,806	**2,040**	860
Within one year	**1,554**	1,430	**340**	120
	4,753	5,236	**2,380**	980

Loans amounting to £1,663,000 are secured variously by fixed and floating charges over certain of the Group's assets.

Notes to the Accounts as at 31 December 1996

Note 20 Analysis of Changes in Loan and Lease Financing during the Year

	Group	
	1996	1995
	£'000	£'000
Balance at 1 January	**5,484**	6,009
Cash movements:		
New long-term loan	**–**	1,527
Repayment of long-term loans	**(158)**	(2,265)
Repayment of capital element of finance leases	**(134)**	(61)
Non-cash movements:		
Inception of finance lease contracts	**551**	115
Effect of foreign exchange rate changes	**(331)**	159
Balance at 31 December	**5,412**	5,484

Note 21 Deferred Taxation

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	Group			
	Provided		Not Provided	
	1996	1995	**1996**	1995
	£'000	£'000	**£'000**	£'000
Capital allowances in advance of depreciation	**145**	145	**486**	558
Tax losses and other timing differences	**20**	20	**10**	13
	165	165	**496**	571
Advance corporation tax	**(120)**	(101)	**–**	–
	45	64	**496**	571

No account is taken in the not provided amounts of accumulated tax losses in Parbel which will be relievable against future profits of that company.

Notes to the Accounts as at 31 December 1996

Note 22 Share Capital

	1996	*1995*
	£'000	£'000
Authorised share capital		
Equity ordinary share capital		
25,800,000 ordinary shares of 5p each	**1,290**	1,290
Non-equity preference share capital		
1,000,000 convertible cumulative redeemable preference shares of £1 each	**–**	1,000
	1,290	2,290
Allotted, called-up and fully paid share capital		
Equity ordinary share capital		
At 1 January 1996 10,592,597 ordinary shares of 5p each	**530**	523
Exercise of 60,340 options (1995 134,948)	**3**	7
Conversion of 1,000,000 convertible cumulative redeemable preference shares of £1 each into 540,000 ordinary shares of 5p each	**27**	–
At 31 December 1996 11,192,937 ordinary shares of 5p each	**560**	530
Non-equity preference share capital		
At 1 January 1996 1,000,000 convertible cumulative redeemable preference shares of £1 each	**1,000**	1,000
Conversion into 540,000 ordinary shares of 5p each	**(1,000)**	–
At 31 December	**–**	1,000

On 9 September 1996 the holders of the 1,000,000 convertible cumulative redeemable preference shares exercised their right to convert these shares into 540,000 ordinary shares of 5p each. This is equivalent to a conversion price of 185.19p per ordinary share.

During the year 60,340 ordinary shares of 5p each were allotted following the exercise of options under the Second Executive Share Option Scheme. The option price of these shares was 126.5p and the proceeds of these allotments amounted to £76,330.

Share Options

At 31 December 1996, certain directors and employees held options to subscribe for shares in the Company as described below:

(i) 1990 Second Executive Share Option Scheme. Options to subscribe for 44,240 shares at 126.5p each exercisable in accordance with the rules between August 1993 and August 2000.

(ii) 1990 Second Executive Share Option Scheme. Options to subscribe for 31,740 shares at 165p each exercisable in accordance with the rules between September 1994 and September 2001.

(iii) 1990 Second Swallowfield Savings Related Share Option Scheme. On 27 November 1996 374,101 options were granted at 178.8p exercisable in accordance with rules within six months of the maturity date in December 2000. All of these options were outstanding at 31 December 1996.

Notes to the Accounts as at 31 December 1996

Note 23 Reserves

	Group			
	Share Premium	*Revaluation Reserve*	*Capital Reserve*	*Profit and Loss Account*
	£'000	£'000	£'000	£'000
At 1 January 1996	2,659	263	(27)	5,454
Issue of shares	74	–	–	–
Conversion of preference shares	973	–	–	–
Exchange loss on overseas investment	–	–	–	(306)
Goodwill transfer	–	–	19	(19)
Revaluation reserve transfer	–	(18)	–	18
Retained profit for the year	–	–	–	1,131
At 31 December 1996	3,706	245	(8)	6,278

The cumulative amount of goodwill written off at 31 December 1996 is £1,632,000 (1995 £1,632,000).

	Company		
	Share Premium	*Capital Reserve*	*Profit and Loss Account*
	£'000	£'000	£'000
At 1 January 1996	2,659	467	520
Issue of shares	74	–	–
Conversion of preference shares	973	–	–
Profit for the year	–	–	894
Dividends			(869)
At 31 December 1996	3,706	467	545

Notes to the Accounts as at 31 December 1996

Note 24 Reconciliation of Movement in Shareholders' Funds

	Group	
	1996	1995
	£'000	£'000
Profit attributable to shareholders	**2,000**	1,548
Dividends	**(869)**	(789)
	1,131	759
Unrealised exchange (loss)/gain	**(306)**	226
Net proceeds of share issue	**77**	115
Net addition to shareholders' funds	**902**	1,100
Shareholders' funds at 1 January	**9,879**	8,779
Shareholders' funds at 31 December	**10,781**	9,879

Note 25 Capital Commitments

	Group	
	1996	1995
	£'000	£'000
Contracted	**121**	379

Note 26 Pension Arrangements

The Group operates two defined contribution pension plans and a defined benefit plan, all of which are funded by the payment of contributions to separately administered funds.

For the Aerosols International Limited defined benefit scheme the pension cost is assessed in accordance with the advice of qualified actuaries, using the projected unit method. The most recent valuation was conducted as at 6 April 1996: the assumptions which have the most significant effects on results are the valuation rate of interest at 9.0% per annum, salary growth at 7.5% per annum, dividend income received by funds to increase by 4.5% and present and future pensions to increase by 4.5% on that part of the pension in excess of the members' guaranteed minimum pension.

The valuation showed that the market value of the scheme's assets was £3,877,000 and the actuarial value of the assets was sufficient to cover 113% of the benefits that had accrued to members, after allowing for future increases in earnings. The contribution rate of 14% is in accordance with the recommendation of the actuary.

Swallowfield plc operates a defined contribution pension scheme for directors and senior employees. The Cosmetics Plus Limited Pension Scheme is a defined contribution scheme. Pension arrangements in respect of Parbel employees are funded by Belgian state social security contributions.

Notice of Meeting

Notice is hereby given that the Eleventh Annual General Meeting of the Company will be held at Castle Hotel, Taunton, Somerset on Wednesday, 7 May 1997 at 12.30pm for the following purposes:

1. To receive and adopt the annual statement of accounts and the reports of the directors and auditors for the year ended 31 December 1996.

2. To declare a dividend.

3. To elect P A Bowser as a director.

4. To elect J A Bryant-Pearson as a director.

5. To elect R T N Organ as a director.

6. To re-elect A P Dowsett as a director.

7. To re-elect C C Jenner as a director.

8. To reappoint Ernst & Young as auditors.

9. To authorise the directors to fix the remuneration of the auditors.

10. Ordinary Resolution

THAT the directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 of the Act) up to the aggregate nominal amount of £209,053. This authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and accordingly the directors may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired; and all previous authorities under Section 80 of the Companies Act 1985 shall henceforth cease to have effect.

As special business to consider and, if thought fit, pass the following resolution:

11. Special Resolution

THAT the directors be and are hereby empowered under Section 95 of the Companies Act 1985 ("the Act") to allot equity securities within the meaning of Section 94 of the Act ("equity securities") for cash, pursuant to the authority under Section 80 of the Act granted by the preceding resolution, as if Section 89(1) of the Act did not apply to any such allotment, provided that this authority (which supersedes and replaces the authority granted to the directors under Section 95 of the Act on 8 May 1996) shall be limited to:

(a) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them;

Notice of Meeting

(b) the allotment of equity securities in connection with the exercise of the rights of conversion attaching to the convertible cumulative redeemable preference shares;

(c) the allotment of equity securities for the purpose of any option, incentive or profit sharing scheme (whether or not an employees' share scheme as defined in the Act) being a scheme approved by the shareholders in general meeting; and

(d) the allotment (otherwise than pursuant to sub-paragraphs (a) and (b) above of equity securities for cash up to an aggregate nominal value of £27,982.

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and accordingly the directors may allot equity securities pursuant to any such offer or agreement as if such authority had not expired; and all previous authorities under Section 95 of the Act shall henceforth cease to have any effect.

By Order of the Board
C A Graves
Secretary

8 April 1997

Swallowfield House
Station Road
Wellington
Somerset

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (whether members or not) to attend and vote instead of him.

Forms of proxy must be deposited at The Royal Bank of Scotland plc, Registrar's Department, P.O. Box No. 82, Caxton House, Redcliffe Way, Bristol BS99 7YA, not less than 48 hours before the time fixed for the meeting.

The register of the directors' interests in the capital of the Company, and copies of the directors' contracts of service with the Company will be available for inspection at the Registered Office from the date of this notice until 7 May 1997 and at the Annual General Meeting, from 15 minutes prior to the meeting.

Form of Proxy for use by Ordinary Shareholders

I/We ....
(Please use block capitals)

of...

....

hereby appoint the chairman of the meeting or*...

....

....

as my/our proxy and on a poll to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday, 7 May 1997 and at any adjournment thereof. I/We direct my/our proxy to vote on the resolutions to be proposed at the Annual General Meeting as follows:

Resolutions

	For	Against
1. To receive the report and accounts		
2. To declare a final dividend of 4.3p per ordinary share		
3. To elect P A Bowser as a director		
4. To elect J A Bryant-Pearson as a director		
5. To elect R T N Organ as a director		
6. To re-elect A P Dowsett as a director		
7. To re-elect C C Jenner as a director		
8. To reappoint Ernst & Young as auditors		
9. To authorise the directors to fix the remuneration of the auditors		
10. To authorise the directors to allot relevant securities		
11. As a special resolution, to authorise the directors to issue equity securities wholly for cash, subject to limitations		

Dated the.. day of 1997

Signature..

Please indicate your vote by an X in the appropriate boxes. Unless otherwise indicated, the proxy will abstain or vote on all business transacted at the meeting as he/she thinks fit.

Notes

1. This form of proxy must be deposited at The Royal Bank of Scotland at the address overleaf not later than 48 hours before the meeting.
2. In the case of a corporation, the proxy must be either under its common seal or under the hand of an officer or attorney duly authorised; evidence of such authority should accompany this proxy.
3. In the case of a joint holding, the vote of the senior holder who tenders a vote (seniority being determined by the order in which the names are registered) will be accepted to the exclusion of the votes of the other joint holders.

*If you wish to appoint a proxy other than the chairman of the meeting, please amend and insert the name and address of your proxy.

Second fold

BUSINESS REPLY SERVICE
Licence No. BS2282

1

The Royal Bank of Scotland plc,
Registrar's Department,
P.O. Box 82,
Caxton House,
Redcliffe Way,
Bristol,
BS99 7YA

First Fold

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