

Swallowfield plc

Notice of the 2006 Annual General Meeting

This document is important and requires your immediate attention.

If you have any doubts about what action you should take, you should immediately contact your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised pursuant to the Financial Services and Markets Act 2000.

If you have sold or transferred all of your holding of ordinary shares you should pass this document and any accompanying documents to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

4 October 2006

Dear Shareholder

I am pleased to enclose the Company's Report and Accounts for the year ended 30 June 2006.

Annual General Meeting

This year's Annual General Meeting of the Company will be held on Thursday 2 November 2006, at 12 noon, at Swallowfield House, Station Road, Wellington, Somerset. The notice of the AGM is set out on pages 2 and 3 of this document. This letter summarises the items of business to be transacted at the meeting and on pages 4 and 5 of this document there are notes explaining these resolutions.

Ordinary Business

Resolutions 1 to 7 deal with:

- the Directors' Report and financial statements for the year ended 30 June 2006 (Resolution 1);
- the Directors' Remuneration Report (Resolution 2);
- re-election of Directors (Resolutions 3, 4, 5 and 6); and
- granting of authority to Directors to determine the auditors' remuneration (Resolution 7).

Special Business

Resolution 8 deals with the appointment of the Company's auditors.

Resolutions 9 and 10 deal with the Directors' authority to allot new shares (Resolution 9) and the authority to disapply normal pre-emption rights on the issue of a limited number of further shares (Resolution 10).

Resolution 11 deals with the authority of the Company to purchase its own shares.

Action

If you are unable to attend the meeting or wish to register your proxy votes now in relation to the resolutions proposed you should complete the enclosed Form of Proxy and return it to the Company's Registrars, Computershare Investors Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8FB, no later than noon on Tuesday 31 October 2006, following the instructions on the form.

Recommendation

Your Board considers each of the proposed resolutions to be in the best interests of the Company and its shareholders as a whole. Accordingly, your Directors unanimously recommend that you vote in favour of the resolutions, as they intend to do in respect of their own beneficial shareholdings.

Yours sincerely

S J Winning
Chairman

Notice of Annual General Meeting

Notice is hereby given that the Twentieth Annual General Meeting of the Company will be held at Swallowfield House, Station Road, Wellington, Somerset on Thursday 2 November 2006, at 12 noon, for the following purposes:

As Ordinary Business

1. To receive and adopt the annual statement of accounts and the reports of the Directors and auditors for the year ended 30 June 2006.
2. To approve the Directors' Remuneration Report for the year ended 30 June 2006.
3. To re-elect S J Winning as a Director.
4. To re-elect I A Mackinnon as a Director
5. To re-elect R T Organ as a Director.
6. To re-elect P R V Houston as a Director.
7. To authorise the Directors to determine the remuneration of the auditors.

As Special Business

8. As an Ordinary Resolution, to appoint RSM Robson Rhodes LLP as auditors to hold office until the conclusion of the next Annual General Meeting of the Company.

9. To consider and if thought fit pass the following resolution as an Ordinary Resolution:

"That the Directors of the Company be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the 'Act') 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 £190,106. This authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2007 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 Act shall henceforth cease to have effect."

10. To consider and if thought fit pass the following resolution as a Special Resolution:

"That the Directors of the Company 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 24 October 2005) 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 provided that the Directors shall have the right to make exclusions or other arrangements in connection with the offer as they deem necessary or expedient:

- (i) to deal with equity securities representing fractional entitlements; and
- (ii) to deal with legal or practical problems arising in any overseas territory or by virtue of shares being represented by depository receipts, the requirements of any regulatory body or any stock exchange, or any other matter whatsoever;

(b) 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

(c) The allotment (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities for cash up to an aggregate nominal value of £28,141.

This power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2007 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 this power had not expired; and all previous authorities under Section 95 of the Act shall henceforth cease to have any effect.”

11. To consider and if thought fit pass the following resolution as a Special Resolution:

“That the Company be and is hereby generally and unconditionally authorised in accordance with Part V of the Companies Act 1985 (the ‘Act’), to make market purchases (within the meaning of Section 163 of the Act) of its own ordinary shares on such terms and in such manner as the Directors of the Company shall determine provided that:

(a) The maximum number of ordinary shares hereby authorised to be purchased is 1,125,000;

(b) The minimum price which may be paid for each ordinary share is its nominal value exclusive of any expenses payable by the Company; and

(c) The maximum price which may be paid for each ordinary share is an amount equal to 105 per cent of the average of the closing middle market quotations for the ordinary shares of the Company (derived from the AIM Index of the Daily Official List of the London Stock Exchange) on the five business days immediately preceding the day on which the ordinary share is purchased.

This power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2007, save that the Company may after such expiry make a purchase of ordinary shares in execution of a contract of purchase that was made under and before expiry of such authority.”

By order of the Board
Alan Farrer-Halls
Secretary

4 October 2006

Registered office:
Swallowfield House
Station Road
Wellington, Somerset

Members should refer to the explanatory notes that accompany this notice.

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 on a poll vote instead of him/her.

Forms of proxy must be deposited at Computershare Investor Services PLC, Registrars, The Pavilions, Bridgwater Road, Bristol, BS13 8FB, not less than 48 hours before the time fixed for the meeting.

Only members entered in the register of members of the Company as at 6.00 p.m. on Tuesday 31 October 2006 shall be entitled to attend and vote at the above meeting. Changes to entries in the register of members after 6.00 p.m. on Tuesday 31 October 2006 shall be disregarded in determining the rights of a person to attend and vote at the meeting. These requirements reflect Regulation 41 of the Uncertificated Securities Regulations 2001.

The register of the Directors’ interests in the capital of the Company, and copies of the Directors’ contracts of service with the Company and the non-executive Directors’ letters of appointment will be available for inspection at the Registered Office from the date of this notice until the conclusion of the Annual General Meeting.

Explanatory notes to the resolutions as proposed at the 2006 Annual General Meeting:

Ordinary Business:

Resolution 2 (Remuneration Report)

All companies quoted on the Official List of the London Stock Exchange are required by law to produce for each financial year a Directors' Remuneration Report which sets out the Remuneration Committee's policy in relation to Directors' remuneration, together with the remuneration and benefits paid to Directors during the year. Such companies are also required to put an ordinary resolution to shareholders approving the report at the meeting at which the Company's Report and Accounts for that year are laid.

The Company was admitted to trading on the Alternative Investment Market of the London Stock Exchange during the year, and is no longer required to produce a Directors' Remuneration Report. In meeting their commitment to high standards of corporate governance, the Directors have voluntarily prepared a Directors' Remuneration Report for this financial year, and Resolution 2 seeks the approval of this Directors' Remuneration Report, which is set out on pages 14 to 16 of the Report and Accounts 2006.

Resolutions 3, 4, 5 and 6 (Re-election of Directors)

In accordance with the Company's articles of association the number closest to one-third of the Directors are required to submit themselves for re-election each year, being those Directors who have been longest in office since their last re-election or appointment. Accordingly, S J Winning and I A Mackinnon are submitting themselves for re-election.

Due to his length of service the combined code requires that R T Organ now retires and offers himself for re-election annually. In the opinion of the Directors, R T Organ's length of service does not impair his objectivity and independence as is shown by the challenging and constructive thinking he brings to the Board.

In addition, P R V Houston is submitting himself for re-election in accordance with article 90 of the Company's articles of association as he was appointed to the Board after the last Annual General Meeting.

Special Business:

Resolution 8 (To appoint RSM Robson Rhodes LLP as auditors)

Ernst & Young LLP resigned during the year and RSM Robson Rhodes LLP, having been appointed as auditors during the year, have expressed their willingness to continue in office as auditors. In their letter of resignation Ernst & Young LLP confirmed that there were no circumstances connected with their resignation which they considered should be brought to the attention of the members or creditors of the Company. Special notice of the resolution has been given to the Company in accordance with sections 379 and 388(3)(b) of the Companies Act 1985.

Resolution 9 (Directors' power to allot securities)

Resolution 9 seeks to renew the Directors' general authority under section 80 of the Companies Act 1985 to allot new shares in the capital of the Company. This general authority is of shares up to an aggregate nominal value of £190,106, representing approximately one-third of the nominal value of the issued ordinary share capital of the Company as shown in the latest audited accounts of the Company in addition to the allotment of shares to satisfy existing employee share options. Unless renewed, revoked, varied or extended, this authority will expire at the conclusion of the Annual General Meeting of the Company in 2007.

The Directors do not have any present intention of exercising this authority but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities.

Resolution 10 (Disapplication of pre-emption rights)

Resolution 10 seeks approval for the renewal of the authority given at last year's Annual General Meeting to permit the Directors to (i) allot equity shares in connection with rights issues without having to obtain prior approval from shareholders on each occasion, and (ii) to allot a small number of shares for cash without first being required to offer such shares to existing shareholders. In accordance with current guidelines, the maximum nominal amount of shares that may be issued for cash under this authority is limited to £28,141. This represents approximately five per cent of the nominal value of the issued share capital of the Company as shown in the latest audited accounts of the Company. Unless renewed, revoked, varied or extended, this authority will expire at the conclusion of the Annual General Meeting of the Company in 2007.

The Directors consider that the power proposed to be granted by Resolution 10 is necessary to retain flexibility, although they currently have no intention of exercising such power.

Resolution 11 (Market purchase of shares)

Under its articles of association and Section 163 of the Companies Act 1985 the Company has power to purchase its own shares. Resolution 11 is proposed to renew the general authority given at last year's Annual General Meeting to enable the Company, subject to certain limitations, to purchase shares in the market for cancellation and/or for holding in treasury. This authority would last for the period until conclusion of the Company's Annual General Meeting in 2007. Such authority would allow for purchases to be made on the terms set out in the Resolution of up to a maximum number of 1,125,000 ordinary shares (representing just under ten per cent of the present issued ordinary share capital). (A purchase of the proposed maximum of 1,125,000 ordinary shares at the share price of £0.455 on 30 June 2006 would involve the Company in the expenditure of approximately £511,875 before stamp duty and commissions, and at the minimum permitted price would involve the expenditure, on the same basis, of £56,250.)

As at 14 September 2006, there were outstanding options to subscribe for a total of 50,000 ordinary shares in the Company, representing approximately 0.4 per cent of the Company's issued share capital at that time. If the Company was to exercise in full the proposed authority to purchase its own shares and prior to such purchase the Company's issued share capital remained unchanged, the shares for which there are outstanding options to subscribe would represent approximately 0.5 per cent of the Company's issued ordinary share capital as reduced by those purchases.

The Directors would use the share purchase authority with discretion and purchases would only be made from funds not required for other purposes and in the light of market conditions prevailing at the time. In reaching a decision to purchase any shares, your Directors would take account of the Company's cash resources and capital, the effect of such purchase on the Company's business, any impact on earnings per share or on net tangible assets per share. No announcement will be made by the Company in advance of market purchases but any purchases made by the Company would be announced by 8.30 a.m. on the business day next following the transaction.

In renewing this authority the Board is not indicating any commitment to purchase ordinary shares. The authority, if conferred, will only be exercised if to do so would be in the best interests of shareholders generally.