

# Mallett PLC

## Results for the year ended 31 December 2006

Mallett PLC has delivered a sound financial performance for the year ended 31 December 2006, which was dominated by the restructuring of the business around the highly successful sale of Bourdon House.

### *Trading performance*

Despite challenging market conditions throughout the year, adjusted operating profit\* has increased by 9% from last year to £2,175,000 (2005: £1,995,000) on the back of a 12% increase in revenue to £16,642,000 (2005: £14,925,000). This is our highest level of turnover for 4 years and confirms our strategy of focussing increasing attention on marketing at fairs, and through catalogues and our website. The latter part of the year also benefited from our principal sales director, Henry Neville, relocating to New York in September.

After taking account of interest and tax, adjusted profit for the year\* is £1,508,000 (2005: £1,401,000) which gives an adjusted earnings per share\* figure of 11.06p. This represents a 9% increase on last year (2005: 10.15p). Your Board is recommending a final dividend of 6.8p making a total for the year of 9.2p (2005: 9.2p).

### *Bourdon House sale and related restructuring*

On 21<sup>st</sup> December 2006 we completed the sale of Bourdon House to Richemont Holdings (UK) Limited for an consideration of £14,250,000 which, after expenses, estimated taxes and related restructuring costs, gave net cash proceeds of £11,070,000 and a net profit of £8,419,000.

The profit of £8,419,000 is after taking account of a provision of £1,533,000 for losses made in the one-off sale of over 550 items of Bourdon House stock through an auction at Sothebys on 9<sup>th</sup> March 2007. Pleasingly, 95% of the items were sold and the net proceeds from the sale of £2,249,000 were within Sothebys pre-sale estimated range. The satisfactory sale of this slow-moving stock allows us to continue the realignment our core business around our two outlets in New Bond Street, London and Madison Avenue, New York with fresh stock acquisitions.

As well as providing showroom space, Bourdon House provided workshop space for our restoration team and storage facilities for our stock. Therefore, on 7<sup>th</sup> December 2006 we exchanged contracts on the purchase of a property in Clapham, London for £1,910,000 in which to relocate our restoration team and stock in store. The relocation was successfully completed prior to the completion of the Bourdon House sale and the purchase of the Clapham property successfully completed on 10<sup>th</sup> January 2007.

### *Outlook for 2007*

We will continue to invest strongly in our core business of buying and selling high quality antique furniture and works of art. In addition, we are looking to develop two new ventures during 2007.

### *Core business*

This will continue to be focussed on our London and New York outlets plus specific major art and antiques fairs in Europe and America, catalogues and our website. We are looking to significantly improve the quality of our website as the internet increasingly becomes a source of sales.

### *Contemporary Designs*

We are looking to develop a new line of contemporary furniture and decorative arts to respond to increasing demand within the broader art market for contemporary art and design. We are commissioning an international group of leading contemporary architects and designers to develop a range of products exclusively for Mallett. The designs will be produced using traditional materials which reflect the high quality furniture and works of art we have traditionally offered to our clients. The initial set-up of the venture and the development of the first range of products is estimated to cost £1,000,000 and it is currently anticipated that the first range of products will be launched in December 2007.

### *Development of our restoration team*

We are also looking to develop our restoration team into a profitable business unit. To this end we announced in December that we had signed a Memorandum of Understanding with Gurr Johns Limited to merge our restoration business with Gurr Johns' restoration business, H.J. Hatfield & Sons Limited ("Hatfields"), a long

established and highly respected restoration business. We currently expect to sign a merger agreement with Gurr Johns and complete the merger at the end of this month.

The combination of fresh investment in our well established core business and the development of new operations is intended to provide a sound platform for future growth.

### ***Return of cash***

As previously announced, we expect to return to shareholders a substantial proportion of the net cash proceeds from the successful sale of Bourdon House. The Board has been investigating in detail for some time the appropriate cash requirements of the company for investment in the current business, including the company's pension scheme, and for investment in future opportunities, including the contemporary designs venture and the merger with Hatfields. We hope to reach a conclusion in the near future and expect to be able to make an announcement on how much of the net cash proceeds we propose to return to shareholders by the end of April.

### ***Board composition***

During the year two executive directors, Peter Dixon and Paula Hunt, left the Board and Michael Smyth-Osbourne joined the Board as Finance Director in succession to Peter Dixon. In addition, three non-executive directors, Sir Keith Stuart, the Hon. Mrs Laura Weinstock and Simon de Zoete, left the Board and we are actively looking to recruit at least two new independent non-executive directors in their place. It is hoped that we will be in a position to make an announcement regarding those appointments by the Annual General Meeting which has been set for 6<sup>th</sup> June 2007.

*\* Excludes the impact of the sale of Bourdon House and related restructuring*

**MALLET PLC**  
**CONSOLIDATED INCOME STATEMENT**  
for the year ended 31st December 2006

	<i>Notes</i>	<i>2006</i> <i>£'000</i>	<i>2005</i> <i>£'000</i>
Revenue		16,642	14,925
Cost of sales		<u>(12,997)</u>	<u>(11,683)</u>
Gross profit		3,645	3,242
Other operating income		2	2
Distribution costs		(270)	(126)
Administrative expenses		<u>(1,202)</u>	<u>(1,123)</u>
Operating profit before restructuring	1	2,175	1,995
Restructuring	3	<u>10,404</u>	<u>-</u>
Operating profit		12,579	1,995
Investment income		95	28
Finance costs		<u>(3)</u>	<u>(15)</u>
Profit before tax		12,671	2,008
Tax		<u>(2,744)</u>	<u>(607)</u>
Profit for the year		<u>9,927</u>	<u>1,401</u>
Basic and diluted earnings per share		<u>72.78p</u>	<u>10.15p</u>
Basic and diluted earnings per share before restructuring		<u>11.06p</u>	<u>10.15p</u>

All operations of the group are continuing.

### Consolidated Statement of Recognised Income and Expenses

	<i>2006</i> <i>£'000</i>	<i>2005</i> <i>£'000</i>
Profit for the year	9,927	1,401
Exchange differences on translation of foreign operations	64	(62)
Actuarial gains/(losses) on the defined benefit pension scheme	653	(97)
Movement of deferred tax on actuarial (gains)/losses	(196)	29
Release of deferred tax on revalued property	<u>9</u>	<u>9</u>
<b>Total recognised income and expenses for the year</b>	<u>10,457</u>	<u>1,280</u>

**MALLET PLC**  
**Consolidated Balance Sheet**  
at 31st December 2006

	<i>2006</i> <i>£'000</i>	<i>2005</i> <i>£'000</i>
<b>Non-current assets</b>		
Property, plant and equipment	<u>4,656</u>	<u>5,601</u>
<b>Current assets</b>		
Inventories	19,033	21,776
Trade and other receivables	4,103	2,527
Foreign tax recoverable	-	256
Cash and cash equivalents	<u>16,175</u>	<u>1,410</u>
	<u>39,311</u>	<u>25,969</u>
<b>Total assets</b>	<u>43,967</u>	<u>31,570</u>
<b>Equity</b>		
Share capital	690	690
Share premium account	5,168	5,168
Revaluation reserve	-	1,024
Own shares	(494)	(480)
Revenue reserve	<u>29,897</u>	<u>20,673</u>
<b>Total equity</b>	<u>35,261</u>	<u>27,075</u>
<b>Current liabilities</b>		
Trade and other payables	4,914	1,958
Tax liabilities	<u>2,934</u>	<u>311</u>
	<u>7,848</u>	<u>2,269</u>
<b>Non current liabilities</b>		
Retirement benefit pension obligations	1,126	2,208
Deferred tax	<u>(268)</u>	<u>18</u>
	<u>858</u>	<u>2,226</u>
<b>Total liabilities</b>	<u>8,706</u>	<u>4,495</u>
<b>Total equity and liabilities</b>	<u>43,967</u>	<u>31,570</u>

**MALLET PLC**  
**Consolidated Cash Flow Statement**  
for the year ended 31st December 2006

	<i>2006</i> <i>£'000</i>	<i>2005</i> <i>£'000</i>
Operating profit	12,579	1,995
Adjustments for:		
Depreciation	246	230
Profit on disposal of property	(11,938)	-
Movements in working capital:		
Decrease in inventories	2,743	1,699
Decrease/(increase) in receivables	(1,320)	699
Increase/(decrease) in payables	1,548	(1,144)
	3,858	3,479
Cash generated by operations	3,858	3,479
Tax paid	(513)	(570)
	3,345	2,909
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>3,345</b>	<b>2,909</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	95	28
Interest paid	(3)	(15)
Proceeds from sale of property, plant and equipment	14,250	-
Purchases of property, plant and equipment	(2,008)	(228)
	12,334	(215)
<b>NET CASH FROM/ (USED) IN INVESTING ACTIVITIES</b>	<b>12,334</b>	<b>(215)</b>
<b>FINANCING ACTIVITIES</b>		
Purchases of own shares	(14)	(54)
Dividends paid	(1,270)	(1,270)
	(1,284)	(1,324)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(1,284)</b>	<b>(1,324)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>14,395</b>	<b>1,370</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,410</b>	<b>102</b>
Effect of foreign exchange rate changes	64	(62)
	15,869	1,410
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>15,869</b>	<b>1,410</b>

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# MALLETT PLC

## Notes to the Accounts

### 1 OPERATING PROFIT

Operating profit has been arrived at after charging/(crediting):

	<i>2006</i>	<i>2005</i>
	<i>£'000</i>	<i>£'000</i>
Depreciation of property, plant and equipment	246	230
Auditors' remuneration		
- Audit fees	14	14
- Other non-audit services		
- Audit of group undertakings	20	19
- Review of interim accounts	2	2
- Tax services (advisory and compliance)	36	18
- Other services	42	12
Net Foreign exchange losses/(gains)	69	(138)
Restructuring (note 3)	10,404	-
Lease payments	1,090	1,046
	1,090	1,046

### 2 STAFF COSTS

	<i>2006</i>	<i>2005</i>
	<i>£'000</i>	<i>£'000</i>
Staff costs		
- wages and salaries	1,745	1,721
- compensation for directors loss of office	150	-
- social security costs	158	155
- share based payments	68	54
- pension scheme costs*	(62)	259
	2,059	2,189

\*Includes past service costs – vested benefits credit of £376,000 (2005 - £nil)

### 3 RESTUCTURING

On 21<sup>st</sup> December 2006 the group completed the sale of Bourdon House to Richemont Holdings (UK) Limited for an aggregate consideration of £14,250,000. As part of the restructuring following the sale of Bourdon House, the group sold over 550 selected items of Bourdon House stock through an auction at Sothebys on 9<sup>th</sup> March 2007. The value as at 31<sup>st</sup> December 2006 of those items that sold for less than their book value has been written down to the sales value achieved in the auction. This has resulted in a total impairment of £1,533,000 to the value of those stock items.

The net profit from the restructuring of the business around the sale of Bourdon House is as follows:

	<i>£'000</i>
Proceeds from disposal	14,250
Legal and other costs	(593)
Historic cost value	(1,720)
Stock impairment	(1,533)
	10,404
Profit before tax from restructuring	10,404

The total tax charge relating to the restructuring was £2,587,000 of which £602,000 had been provided for previously as deferred tax. Therefore, the tax charge to the Income Statement for the year related to restructuring is £1,985,000 and the profit after tax for the year related to the restructure is £8,419,000.