

Mallett plc

Preliminary results for the year ended 31 December 2009

Mallet Plc, dealer in high quality antique furniture and works of art, announces its results for the year ended 31 December 2009.

Highlights

- Turnover increased by 15% to £14.0m, despite difficult market conditions, reflecting £0.7m stock sale and increase in consignment stock of exceptional quality
- Operating loss decreased by £4.2m to £1.8m.
- Cash position significantly improved from net debt of £2.3m at the start of the year to a net cash surplus of £0.8m at the year end
- No final dividend recommended
- Business stabilised following extensive reorganisation in 2009
- Further significant restructuring under way in order to restore the business to profitability on a sustainable basis

Giles Hutchinson Smith, Chief Executive, said:

“Faced with the extremely challenging market conditions that persisted in 2009, Mallett made strategic and operational progress. We said in March that establishing an appropriate cost base was a priority, and we succeeded in reducing our operating costs by £2m in the course of the year. However, we are only part of the way through the task of re-engineering Mallett’s business model and cost base in order to align them with the demands of a rapidly evolving marketplace. We are committed to continuing with this process and to reinforce Mallett’s reputation as the prime dealer in the finest items of furniture in the market.”

For further information contact:
Giles Hutchinson Smith
020 7499 7411

Chairman's statement

Against the background of one of the most difficult years for the UK retail sector in generations, Mallett made strategic and operational progress. We had anticipated a very tough year. We planned our business on lower sales and focused on cash management. We reduced our cost base significantly and managed our inventory more pro-actively to decrease the amount of capital invested in inventory while retaining the outstanding quality and range that the Mallett brand represents.

Our operating loss decreased by £4.2m from the prior year to £1.8m in 2009, and our cash position improved by £3.1m, from net debt of £2.3m at the start of the year to a net cash surplus of £0.8m at the end of the year. We said in March 2009 that establishing an appropriate cost base was a strategic priority, and we made good progress towards achieving this aim by reducing our operating costs by £2m in the year. We are as yet only part of the way through the task of re-engineering Mallett's business model in order to align its proposition and organisational structure with the demands of a rapidly evolving marketplace. We are committed to pursuing this process during 2010.

Our balance sheet remains strong with net assets of £18.6m. Our inventory level reduced from £16.1m at the start of the year to £12.3m at the end of the year. However, we are now accepting many more items on consignment to sell on behalf of the owner, rather than purchasing the item ourselves. At the end of the year we had approximately £8m of items in our showrooms which we are selling on consignment. This strategy has been very successful in maintaining a freshness and high quality to our stock whilst at the same time reducing capital investment.

Whilst we successfully stabilised the business after the sharp decline in sales and market confidence in the last quarter of 2008, we recognise that 2009 was still a loss-making year and further progress needs to be made. The Board did not declare an interim dividend for 2009 and it is not recommending a final dividend for the year. We are, however, committed to returning to paying a dividend once it is financially prudent to do so.

We are cautious about expecting any significant growth in 2010. The collapse of confidence in the banking sector at the end of 2008 made our clients a great deal more cautious in their spending and the pace at which that confidence can be rebuilt remains uncertain. We will continue to focus on costs and cash management whilst reinforcing our reputation for having the finest 18th and 19th century English and Continental furniture and objets d'art through selected marketing and well-chosen items of stock, both purchased and taken on consignment.

Chief Executive's report

Market conditions

The decorative arts market was, as expected, a difficult market to operate in during 2009. According to independent research commissioned by TEFAF, the market for fine and decorative art fell by 26%, with auction sales slipping even further, down 32% on 2008. The high point of the year came early, when Yves Saint Laurent's furniture and furnishings were auctioned in Paris in February, achieving the highest ever total sale value of furniture sold at auction. This included the world's most expensive chair, Eileen Gray's "dragon chair", sold at £19.6m. The changing nature of the market was highlighted by the announcement in June that the Grosvenor House Art and Antiques Fair, the world-renowned fair for English antique furniture, was closing after 75 years, and the announcement in July that Partridge Fine Art, a direct competitor of Mallett, was being placed in administration.

Against this background, Mallett outperformed expectations, increasing turnover, significantly improving its cash position and moving to a more stable financial base from which to trade during these constrained times and grow when the opportunity arises.

Trading performance

The Group made an operating loss for the year to 31st December 2009 of £1.8m (2008: £6.0m). This represents a £4.2m improvement from the previous year and is primarily the result of £3.0m lower inventory provisions charged this year compared to the prior year and a decrease of £2.0m in operating costs this year compared to the prior year, offset by a reduction in margins.

Group turnover increased by 15% to £14.0m (2008: £12.1m). The US continues to be our largest market for sales, with 47% (2008: 53%) of our sales being to US clients. UK clients are our next largest market, at 29% (2008: 27%), and clients from Continental Europe represent 18% (2008: 16%). Total turnover included the proceeds of the sale of 59 items at a Christie's auction in July (£0.7m, in line with book value).

We continued to experience increasing pressure on margins, due both to market conditions and to a consciously different approach to stock management. We believe that it is essential to reinforce Mallett's reputation for excellence in a market that is becoming more specialised, with purchasers now tending to focus increasingly on exceptional, individual pieces rather than on furnishing entire houses from one source. During the year we therefore accepted many more items on consignment to sell on behalf of the owner, rather than purchasing the items ourselves. This has the benefit of enabling us to offer our clients exceptional pieces of furniture and objets d'art without having to invest any further cash. Sales of these items are generally at lower margins, reflecting the significantly lower risk attributed to Mallett from pursuing this strategy.

Costs

One of our stated aims for 2009 was to establish an appropriate cost base for the business for the future. In pursuit of this objective, we reduced our operating costs by £2m in the year through a combination of minimal additional spend on Meta, reduced marketing spend and staff reductions. Average staff numbers have reduced by 10 employees from the prior year to 43 employees (2008: 53); this included a number of redundancies made in the first quarter of the year. Another of our stated aims for 2009 was to put in place a better remuneration structure linked to performance against expectations. I feel that the successful implementation of this objective was a key driver of performance and I am delighted that we were able to pay a small level of bonus to staff as a result.

We reduced our marketing spend in order to focus more closely on the key fairs of the year. Our sales mix was reflected in our marketing campaign: during the year we exhibited at 3 fairs in the US, 1 fair in the UK and 1 in Continental Europe. We also held specialist exhibitions in our showrooms of jewellery, wallpaper and Willy Rizzo ballet photographs, all of which generated significantly increased footfall, and we published

one catalogue. We made a number of improvements to our website, bearing in mind that, as the speed and quality of images sent over the internet increases, pre-selection of items to view becomes easier and footfall in showrooms decreases. We plan to continue to align our marketing spend with market conditions.

We continue to work on improving our cost base in order to return Mallett to profitability on a sustainable basis. In line with this strategy and as previously stated, we remain committed to reducing our rental costs by relocating; we will take action to do so as soon as the net cash cost/benefit is acceptable.

Subsidiary businesses

James Harvey British Art had a successful year, increasing turnover by 27% to £1.6m (2008: £1.2m) and achieving a small operating profit (2008: £0.2m loss). I am pleased to report that since the year end James Harvey has agreed to purchase a 40% stake in James Harvey British Art from Mallett, underlining his commitment to the business and ensuring that Mallett's pictures continue to be marketed by a respected expert in the field of British paintings.

Meta costs were scaled back significantly in 2009, with its products being sold through the Mallett showrooms and its marketing included within the Mallett marketing. This has resulted in an increase in turnover to £0.4m (2008: £0.3m) and a small operating profit (2008: £1.9m loss). Hatfields, however, had a disappointing year. Third party turnover remained flat but the level of work from Mallett decreased, and this led to a small operating profit in 2008 becoming an operating loss of £0.1m in 2009. Staff numbers have been reduced and the management structure re-organised to better reflect the level of work anticipated in 2010 and hence improve operating performance.

This year, Mallett will be a founder member, with four equal partners, of Masterpiece 2010, a new fair in London in June that aims to showcase the "best of the best" from around the world.

Balance sheet

Shareholders' equity at 31 December 2009 was £18.6m (2008: £21.2m). The £2.6m reduction in the year represents the loss for the year, adverse exchange rate movements and actuarial losses from the Group's defined benefit pension scheme.

Inventory value reduced to £12.3m at 31 December 2009 (2008: £16.1m). This reflects our focus on cash management during the year and our expectation of lower sales in the year, which meant that we purchased significantly fewer items than in previous years. Our strategy of accepting more items on consignment, however, has maintained the number and quality of items for sale, and at 31 December 2009 we had approximately £8m worth of consignment stock items in our showrooms. This amount is not included in our inventory value as we do not have any ownership over the items and have no significant risk attached to the items.

The deficit in the Group's defined benefit pension scheme has increased slightly to £1.6m (2008: £1.5m). £0.6m of actuarial losses were incurred in the year due to the worsening market conditions but these were offset by contributions made in the year. In addition, a number of members transferred their benefits out of the scheme during the year which has helped reduce the present value of the liabilities in the scheme by £2.6m to £5.4m (2008: £8.1m). The scheme was closed to future accrual in 2008 and we are comfortable that the liability of the scheme is contained.

Cashflow

Our cash position has improved significantly during the year to a cash surplus of £0.8m at 31 December 2009 (2008: £2.3m net debt). The primary driver behind this improvement of £3.1m was the reduced level of inventory purchases we made during the year. Due to our improved cash position we decided not to renew the additional £1m overdraft facility we obtained from Coutts & Co at the end of 2008 and have reverted to an overdraft facility of £2.5m. This was renewed with Coutts & Co in March 2010 for 12 months with a

fixed and floating charge over the Group's UK assets, which reflects the more cautious approach of banks to offer lending facilities following the banking crisis.

Outlook

We are cautious about the prospect of growth in 2010 as concerns remain about the strength of the economy in both the UK and the US. Our strategy will continue to focus on optimising our cost base whilst carefully targeting our marketing in order to highlight Mallett's unique strengths in selecting and offering the very best 18th and 19th century English and Continental furniture and objets d'art.

Principal risks and uncertainties

The Group's operating results and liquidity are significantly influenced by a number of risk factors, many of which are not within its control. These factors, which are not ranked in any particular order, include:

(i) The Strength of the UK and US economies and financial markets

The antique and fine art market in which the Group operates is centred on London and New York and is influenced by the overall strength of the UK and US economies. Historically, over 70% of the Group's sales are to UK and US clients.

(ii) The demand for antique furniture and works of art

The demand for antique furniture and works of art is influenced not only by the economic conditions but also by changing trends in the art market as to which kinds of property are most sought after and by the collecting preferences of individual collectors, all of which can be unpredictable.

(iii) Key personnel

The knowledge and expertise of the Group's buyers in acquiring pieces of high quality and good value is critical to maintaining the Company brand and to the success of the Group. The ability of the Group's sales team to develop and maintain relationships with potential buyers of antique furniture and works of art is critical to the success of the Group. Accordingly, the Group is highly dependent upon attracting and retaining appropriately qualified personnel.

(iv) Competition

The art market is highly competitive, including competition with other art dealers and with auctioneers.

(v) Value of artworks

The antique furniture and works of art market is not a highly liquid trading market, as a result of which the realisable value of inventory is relatively subjective and often fluctuates over time.

(vi) Foreign Currency exchange rate movements

A significant proportion of the Group's sales are in US Dollars and a number are in Euros. Accordingly, fluctuations in exchange rates can have significant impact on the Group's results.

(vii) Retirement benefit pension obligations

Future costs and obligations relating to the Group's defined benefit pension scheme are significantly influenced by changes in interest rates, investment performance in the debt and equity markets and actuarial assumptions, each of which is unpredictable.

(viii) Financial Risk Management

The main financial risks to the Group relate to the availability of funds to meet the business needs.

MALLET PLC
Unaudited Consolidated Income Statement
Year ended 31 December 2009

	2009	2008
	£'000	£'000
Revenue	13,980	12,109
Cost of sales	(13,952)	(16,095)
Gross profit/(loss)	28	(3,986)
Other operating income	40	1
Distribution costs	(214)	(300)
Administrative expenses	(1,677)	(1,702)
Operating loss	(1,823)	(5,987)
Share of operating loss in associate	(33)	-
Investment income	126	89
Finance costs	(44)	(75)
Loss before income tax	(1,774)	(5,973)
Income tax expense	166	1,694
Loss for the year	(1,608)	(4,279)
Profit attributable to:		
Owners of the parent company	(1,649)	(4,273)
Minority interests	41	(6)
	(1,608)	(4,279)
Basic and diluted earnings per share	11 (11.92)p	(31.47)p

All of the activities of the Group are classed as continuing.

Unaudited Consolidated Statement of Comprehensive Income

Loss for the year	(1,608)	(4,279)
Other comprehensive income:		
Exchange differences on translation of foreign operations	(398)	1,091
Actuarial loss on the defined benefit pension scheme	(698)	(1,332)
Movement of deferred tax on actuarial loss	195	380
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Total other comprehensive income for the year, net of tax	(901)	139
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Total comprehensive income for the year	(2,509)	(4,140)
Total comprehensive income attributable to:		
Owners of the parent company	(2,550)	(4,134)
Minority interests	41	(6)
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	(2,509)	(4,140)
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MALLET PLC

Unaudited Consolidated Balance Sheet at 31 December 2009

	2009 £'000	2008 £'000
Non-current assets		
Property, plant and equipment	4,412	5,126
Investment in associate	-	-
Deferred tax	<u>2,137</u>	<u>1,763</u>
	<u>6,549</u>	<u>6,889</u>
Current assets		
Inventories	12,342	16,085
Trade and other receivables	3,182	4,294
Cash and cash equivalents	<u>1,950</u>	<u>273</u>
	<u>17,474</u>	<u>20,652</u>
Total assets	<u>24,023</u>	<u>27,541</u>
Equity		
Share capital	690	3,243
Capital redemption reserve	5,168	2,615
Own shares	(476)	(442)
Retained profits	13,172	15,795
Minority interests	<u>34</u>	<u>(7)</u>
Total equity	<u>18,588</u>	<u>21,204</u>
Current liabilities		
Trade and other payables	2,746	2,346
Bank overdrafts and loans	<u>1,131</u>	<u>2,537</u>
	<u>3,877</u>	<u>4,883</u>
Non current liabilities		
Retirement benefit pension obligations	<u>1,558</u>	<u>1,454</u>
Total liabilities	<u>5,435</u>	<u>6,337</u>
Total equity and liabilities	<u>24,023</u>	<u>27,541</u>

MALLET PLC

Unaudited Consolidated Statement of Changes in Equity at 31 December 2009

Group	Share capital £'000	Capital redemption reserve £'000	Own Shares £'000	Retained profits £'000	Minority Interests £'000	Total equity £'000
At 1 st January 2008	3,243	2,615	(468)	20,761	(1)	26,150
Retained loss for the year				(4,279)		(4,279)
Minority interest				6	(6)	-
Dividends paid in year				(832)		(832)
Actuarial losses				(1,332)		(1,332)
Deferred tax movement on actuarial loss				380		380
Net movement in own shares			26			26
Net exchange gain				1,091		1,091
At 31 st December 2008	3,243	2,615	(442)	15,795	(7)	21,204
Retained loss for the year				(1,608)		(1,608)
Minority interest				(41)	41	-
Dividends paid in year				(2)		(2)
Actuarial losses				(698)		(698)
Deferred tax movement on actuarial loss				195		195
Cancellation of B shares	(2,553)	2,553				-
Net movement in own shares			(34)	(71)		(105)
Net exchange gain				(398)		(398)
At 31 st December 2009	690	5,168	(476)	13,172	34	18,588

MALLET PLC
Unaudited Consolidated Cashflow Statement
Year ended 31 December 2009

	2009	2008
	£'000	£'000
Operating loss	(1,823)	(5,987)
Adjustments for:		
Depreciation	282	262
Freehold property impairment	200	-
Share-based payments	73	125
Net exchange adjustments	235	(442)
Movements in working capital:		
Decrease in inventories	3,743	2,287
Decrease in receivables	547	26
Decrease in payables	(159)	(249)
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Cash generated/(used) by operations	3,098	(3,978)
Tax received/(paid)	505	(279)
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NET CASH FROM OPERATING ACTIVITIES	<u>3,603</u>	<u>(4,257)</u>
INVESTING ACTIVITIES		
Interest received	126	89
Interest paid	(44)	(75)
Purchase of shares in associate	(5)	-
Purchase of property, plant and equipment	(4)	(197)
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NET CASH FROM/(USED IN) INVESTING ACTIVITIES	<u>73</u>	<u>(183)</u>
FINANCING ACTIVITIES		
Purchases of own shares	(193)	(83)
Dividends paid	-	(832)
B share scheme payments	(2)	(47)
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NET CASH USED IN FINANCING ACTIVITIES	<u>(195)</u>	<u>(962)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>3,481</u>	<u>(5,402)</u>

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	(2,264)	2,047
Effect of foreign exchange rate changes	(398)	1,091
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CASH AND CASH EQUIVALENTS AT END OF YEAR	819	(2,264)
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MALLETT PLC

Notes to the Accounts

Year ended 31 December 2009

1 GENERAL INFORMATION

Mallett plc ("the Company") is a public limited company incorporated in the United Kingdom. The address of its registered office is 141 New Bond Street, London W1S 2BS

2 SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting and consolidation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial information set out in this document does not constitute the Company's statutory accounts. Statutory accounts for the year ended 31 December 2008 have been delivered to the Registrar of Companies, and those for the year ended 31 December 2009 will be delivered in due course. The auditors have reported on the accounts for the year ended 31 December 2008; their report was (i) unqualified, (ii) did not include any references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The Group accounts, which include the accounts of the Company and its subsidiaries, are presented on the basis of the historical cost convention. All companies' accounts are made up to 31st December 2009.

The Group accounts are prepared on a going concern basis which the Directors believe to be appropriate. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group has sufficient financial resources. As a consequence the Directors have a reasonable expectation that the Company and Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future, despite the current uncertain global economic outlook. Accordingly, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

b) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been issued by the IASB and are not effective for 2009 and therefore have not been applied in preparing these accounts:

Amendment to IFRS 1 Additional Exemptions for First-time Adopters which is effective for periods commencing on or after 1st July 2009.

Amendment to IFRS 2 - Group Cash-settled Share-based Payment Transactions, which is effective for periods commencing on or after 1st January 2010.

IFRS 3 Business Combinations (revised), which is effective for periods commencing on or after 1st July 2009.

IAS 24 Related Party Transactions (revised), which is effective for periods commencing on or after 1st January 2011.

IAS 27 Consolidated and Separate Financial Statements (revised), which is effective for periods commencing on or after 1st July 2009.

Amendment to IAS 32 - Classification of Rights Issues, which is effective for periods commencing on or after 1st February 2010.

Amendment to IAS 39 Eligible Hedged Items, which is effective for periods commencing on or after 1st July 2009.

Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement, which is effective for periods commencing on or after 1st January 2011.

IFRIC 17 Distributions of Non-cash Assets to Owners, which is effective for periods commencing on or after 1st July 2009.

IFRIC 18 Transfers of Assets from Customers, which is effective for periods commencing on or after 1st July 2009.

The Group does not anticipate that the adoption of these standards or interpretations will have a significant impact or relevance on the Group's accounts in the period of initial application.

c) Revenue

Revenue represents the total amount receivable by the Group for goods sold and services rendered during the year, exclusive of value added tax.

For manufactured goods the Group recognises revenue when the goods in question have finished production and passed any applicable factory and customer acceptance tests. Where goods remain on the Group's premises at the year end at the request of the customer, management consider the detailed criteria for the recognition of revenue from the sale of goods as set out in IAS 18. In particular, consideration is given as to whether the significant risk and reward of ownership are considered to have transferred to the buyer.

d) Leased assets

Rentals under operating leases are charged to the Income Statement as incurred.

e) Inventories

Inventories are valued at cost except where, in the directors' opinion as experts, the net realisable value is likely to be lower. In such circumstances inventories are valued at estimated net realisable value.

f) Depreciation

Property, plant and equipment are depreciated by equal instalments over their expected useful lives at the following rates:

Freehold land & buildings	-	2%
Long leasehold property	-	2%
Fixtures & fittings	-	10%
Motor vehicles	-	25%
Short leasehold property	-	over the term of the lease

g) Impairment of non-current assets

At each balance sheet date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of fair value less selling costs and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cashflows have not been adjusted. An impairment loss is recognised in the Income Statement whenever the carrying amount of the asset exceeds its recoverable amount.

h) Foreign currencies

Assets and liabilities of the overseas subsidiary undertaking are translated at the rates of exchange ruling at the Balance Sheet date. The results of the overseas subsidiary are translated at a reasonable approximation of the date of transaction. Differences arising on translation of the net assets of the subsidiary undertaking are taken direct to reserves.

i) Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits ("temporary differences"), and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Where there are taxable temporary differences arising on subsidiaries, deferred tax liabilities are recognised.

Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Where there are deductible temporary differences arising on subsidiaries, deferred tax assets are recognised only where it is probable that they will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

j) Pension costs

The Group operates a defined benefit pension scheme which is closed to new entrants and closed to future accrual. The funds of the scheme are administered by trustees and are separate from the Group. The scheme is valued by a qualified actuary every three years and contributions are paid in accordance with the recommendations of the actuary. The most recent valuation of this scheme was at 1st May 2007.

Pension costs are charged against profits in the year they arise. Actuarial gains and losses are recognised in Other Comprehensive Income.

The Group also operates a defined contribution pension scheme. Pension payments to defined contribution schemes are charged to the Income Statement as they become due.

k) Share based payments

The Group issues equity settled share-based payments through a Share incentive Plan to all employees and through a Long Term Incentive Plan to directors. The payments are measured at fair value at the date of grant and the fair value is expensed on a straight line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. The fair value of payments under the Share Incentive Plan is measured as the cost at the date of the award. The fair value of the payments under the Long Term Incentive Plan is measured using the Black Scholes model.

The investment in shares is carried at the cost of the shares held and this investment in own shares is presented as a deduction from shareholders funds.

l) Accounting for financial assets

The Group has financial assets in the following categories:

- loans and receivables
- financial assets at fair value through profit or loss

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognised in profit or loss or directly in equity.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through the profit and loss are recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the Income Statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised on profit and loss. Mallett plc's trade and other receivables fall into this category of financial instrument. Discounting, however, is omitted where the effect of discounting is immaterial.

Significant receivables are considered for impairment on a case by case-by-case basis when they are past due at the Balance Sheet date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics, if any. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

m) Accounting for financial liabilities

Financial liabilities represent a contractual obligation for the Group to deliver cash or other financial assets. Financial liabilities are initially recognised at fair value, net of issue costs, when the Group becomes party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the Income Statement line items "finance costs" or "finance income".

The Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortised cost using the effective interest rate method.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts, where they form an integral part of the Group's cash management.

o) Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the the Group are recorded at the proceeds received, net of direct issue costs. The only equity instrument applicable to the Group is its issued share capital.

p) Interest

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset or liability and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. Risk management is carried out by the board, who review the exposures of the Group on an ongoing basis and put in specific procedures to mitigate this risk where it is felt appropriate to do so.

a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar and the UK pound. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group manages its holding of foreign currency, specifically US dollars, to ensure that the impact of currency fluctuations on the Group are reduced. The use of forward contracts has been considered, as a further measure to mitigate this risk. However the Group has not entered into any contracts of this nature during the year.

b) Credit risk

The Group considers that there is low credit risk exposure. The majority of the Group's sales are made to high net worth individuals with good credit worthiness. The combination of this factor and the repeat sales to regular customers limit the amount of credit exposure of the Group.

c) Liquidity risk

The Group maintains sufficient cash and availability of funding through an adequate amount of committed credit facilities to ensure that resources are available to take advantage of new business opportunities as they arise.

d) Capital management risk

The Group policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual result. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial period are discussed below.

a) Retirement benefit pension obligations

The Group's defined benefit pension scheme liability is based on key assumptions including return on scheme assets, discount rates, mortality rates, inflation, future salary and pension costs. The Group takes advice from independent actuaries as to the appropriateness of the assumptions, but these assumptions may, individually or collectively, be different to actual outcomes.

b) Value of inventory

Inventory is valued at the lower of cost and net realisable value. The directors regularly review the carrying value of all items in inventory and where their estimate of the market value of the item, based on market conditions at the time and trends in customer demand, is lower than the cost of the item, a provision is made to reduce the carrying value of the item to the estimated market value.

c) Value of non-current assets

Non-current assets are valued at the lower of cost and the estimated recoverable amount. The estimated recoverable amount is the higher of fair value less selling costs and the value in use. The value in use calculation requires an estimate of the present value of future cashflows expected to arise from the asset, by applying an appropriate discount rate to the timing and amount of future cashflows.

The Directors are required to make judgements regarding the timing and amount of future cashflows applicable to the asset, based on current budgets and forecasts and extrapolated for an appropriate period taking into account growth rates and expected changes in prices and costs. The Directors estimate the appropriate discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual asset.

d) Taxation

The Group is subject to income taxes in the UK and US. At each financial period end judgement is required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax issues based on the best estimates at the Balance Sheet date. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the corporation tax and deferred tax provisions in the period in which such determination is made.

The amount of the deferred tax asset included in the Balance Sheet of the Group is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In estimating the amount of the deferred tax asset that may be recognised, the Directors make judgements, based on current budgets and forecasts, about the amount of future taxable profits and the timings of when these will be realised. The Directors consider the Group will become tax paying in the future at which time the asset will begin to unwind.

5 SEGMENTAL ANALYSIS

The Group's operating segments have been determined based on the management accounts reviewed by the Board of Directors (the Chief Operating Decision Maker). The Group's activities are split into four business segments: dealing in antique furniture and objets d'art through Mallett, dealing in fine art through James Harvey British Art (JHBA), designing and manufacturing contemporary furniture and works of art through Meta, and providing restoration services through Hatfields. The operations of Mallett are further split into two geographical regions, UK and US, reflecting the location of a Mallett showroom in each of those regions.

The Board assesses the performance of the operating segments based on turnover and operating profit. Sales are reported by location of sales outlet. The accounting policies of the reportable segments are the same as described in note 2 and no segment is reliant on any one major external customer.

Transfer pricing between segments are set on an arm's length basis. Segmental assets and liabilities consist of property, plant and equipment, trade receivables, payables, cash at bank and inventories.

Segmental analysis – continuing operations

2009

	Mallett						Intra group £'000	Total £'000
	UK £'000	USA £'000	JHBA £'000	Meta £'000	Hatfields £'000	Other £'000		
Income & expenses information								
External revenue by sales outlet	6,748	5,004	1,572	429	227	-	-	13,980
Inter segment revenue	4,058	21	-	-	523	-	(4,602)	-
Depreciation and amortisation	(128)	(154)	-	-	-	-	-	(282)
Freehold property impairment	(200)	-	-	-	-	-	-	(200)
Operating profit/(loss)	(1,407)	(539)	87	26	(142)	-	151	(1,824)
Share of operating loss in Associate	-	-	-	-	-	(33)	-	(33)
Interest revenue & expense	192	(110)	-	-	-	-	-	82
Balance sheet information								
Capital expenditure	-	5	-	-	-	-	-	5
Total assets	52,336	4,183	321	203	320	-	(33,340)	24,023
Total liabilities, excluding tax liabilities	25,071	4,247	388	176	406	-	(24,849)	5,439
Investment in associate	-	-	-	-	-	-	-	-

2008

	Mallett						Intra group £'000	Total £'000
	UK £'000	USA £'000	JHBA £'000	Meta £'000	Hatfields £'000	Other £'000		
Income & expenses information								
External revenue by sales outlet	6,247	4,088	1,239	305	230	-	-	12,109
Inter segment revenue	1,580	50	-	-	851	-	(2,481)	-
Depreciation and amortisation	(128)	(134)	-	-	-	-	-	(262)
Operating profit/(loss)	(3,432)	(474)	(168)	(1,941)	21	-	7	(5,987)
Interest revenue & expense	11	3	-	-	-	-	-	14

Balance sheet information

Capital expenditure	140	57	-	-	-	-	-	197
Total assets	55,306	4,222	146	213	280	-	(32,626)	27,541
Total liabilities, excluding tax liabilities	26,439	4,148	274	149	263	-	(24,936)	6,337

The sales by destination of goods is as follows:

	Mallett £'000	JHBA £'000	2009 Meta £'000	Hatfields £'000	Total £'000
United Kingdom	2,705	869	249	216	4,039
Rest of Europe	2,328	132	-	10	2,470
United States of America	5,840	572	180	1	6,593
Other	878	-	-	-	878
	<u>11,751</u>	<u>1,573</u>	<u>429</u>	<u>227</u>	<u>13,980</u>
	Mallett £'000	JHBA £'000	2008 Meta £'000	Hatfields £'000	Total £'000
United Kingdom	2,426	467	120	199	3,212
Rest of Europe	1,864	53	33	29	1,979
United States of America	5,573	719	152	-	6,444
Other	472	-	-	2	474
	<u>10,335</u>	<u>1,239</u>	<u>305</u>	<u>230</u>	<u>12,109</u>

6 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are based on the loss after tax of £1,608,000 (2008 - loss of £4,279,000) divided by the weighted average number of shares in issue during the year of 13,496,538 (2008 - 13,593,840).