Mallett plc

Preliminary results for the year ended 31 December 2010

Mallett Plc ("Mallett" or the "Company" or the "Group"), dealer in high quality antique furniture and works of art, announces its results for the year ended 31 December 2010.

Highlights

- Turnover of £13.3m, the same as prior year after excluding the one-off auction of 59 pieces at Christie's in the prior year.
- Operating loss decreased by 30% to £1.3m, reflecting management's continued focus on costs.
- Net debt of £0.7m at 31 December 2010
- No final dividend recommended

Giles Hutchinson Smith, Chief Executive, said:

"We have continued the process of re-engineering Mallett's business model and cost base in order to align them with the changing demands of the global art market. The art market showed renewed strength in 2010, and whilst this has not filtered through to the decorative arts as yet, we are encouraged that there are signs of demand growth in the arts and that this may well bolster the appeal of the decorative arts."

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Chairman's statement

As expected, the trading environment for antique furniture showed little improvement in 2010. We have, therefore, continued our policy of tight cost control, pro-active inventory management and cash focus, which has led to an encouraging 30% reduction in our operating losses and a small net debt funding position at the year end.

Our operating loss decreased by £0.6m from the prior year to £1.3m in 2010 on a small reduction in turnover to £13.3m. This was the product of further reductions in our operating costs, continuing the process started at the beginning of 2009 of re-aligning our cost base with the evolving marketplace for antiques furniture and objets d'art. The majority of the savings in 2010 related to staff costs. Property costs remain the last significant cost to be re-aligned and this will happen when appropriate value for our lease on the Bond Street showroom is achieved.

Our balance sheet remains strong with net assets of £15.0m. We looked to maintain our inventory level at a similar level to the prior year following two years of significant reductions. Reducing our capital invested in stock and replacing such stock with stock on consignment has been an integral part of our successful tight cash management policy. However, greater flexibility in marketing to achieve greatest profit is available with owned items of stock and hence we are keen to maintain a strong level of owned stock which will be one of the key drivers to returning the Group to profitability.

We are delighted to have been one of the founding members that created the Masterpiece Fair in London in June 2010. The fair was extremely well received by exhibitors and visitors and the success of the 2010 fair is shown by the increase in applicants for the 2011 fair which is now expected to have over 30% more exhibitors. The fair was loss-making in 2010, as was expected in the first year of operations, but the operating experience gained, together with the increase in the size of the fair, is expected to turn this around in 2011.

Thomas Woodham-Smith has played a major part in setting up the Masterpiece Fair and creating this exciting new business. At the end of 2010 he resigned from Mallett and stepped down from the Board in order to concentrate more fully on the Masterpiece project. I would like to thank Thomas for his enormous contribution to the Company over 25 years. I am also pleased that he will continue as a consultant to Mallett in the purchase of continental and 20th century furniture which is his particular sphere of expertise.

Whilst the Company is loss-making, the Board do not feel it is financially prudent for the Company to pay a dividend. The Board did not declare an interim dividend for 2010 and it is not recommending a final dividend for the year.

Chief Executive's report

Market conditions

The global art market proved to be strong in 2010 with Christie's recording its highest annual sales total in its history and Sotheby's recording significant improvements on 2009. However, the main focus of collectors remains on Impressionist and Modern Art and on Contemporary Art. The interest in antique furniture and the decorative arts remained low, although one highlight was the highest price ever achieved at auction for the sale of a piece of English antique furniture - a George III commode, attributed to Thomas Chippendale, for £3.8m.

Mallett enjoyed a similar trading experience during the year. It was a quiet year of trading interspersed with a few high value sales of exceptional pieces, including two sales over £1m. This confirms my comment from last year that purchasers are now tending to focus on single exceptional, individual pieces and reinforces our inventory strategy of taking in exceptional, high value pieces on consignment.

Trading performance

The Group made an operating loss for the year to 31st December 2010 of £1.3m (2009: £1.8m). This represents a 30% improvement from the previous year and is primarily the result of further reductions in operating costs.

There was a 5% reduction in Group turnover to £13.3m (2009: £14.0m). 2009 included £0.7m from the proceeds of a sale of 59 items in an auction at Christie's, which was not repeated in 2010. Excluding this one-off event from 2009, turnover is flat year on year. The US and UK continue to be our largest markets for sales, with 39% (2009: 47%) and 33% (2009: 29%) of our sales being into those countries respectively. The majority of the rest of our sales are to Continental Europe, but we are seeing more visitors to our showrooms from the emerging markets and we hope that this will translate into increased sales into those regions in the future.

Our marketing strategy continues to focus on exhibiting at fairs and the distribution of our catalogues, as well as maintaining appealing and eclectic displays of all our pieces throughout the year in our showrooms in Bond Street, London and Madison Avenue, New York.

We believe the major art and antiques fairs around the world represent the best and most effective form of targeted marketing with up to 30,000 visitors attending a fair over the course of a week. In 2010 we exhibited at four fairs – the American International Fine Art Fair in Palm Beach in February; the European Fine Art Fair in Maastricht in March, the Masterpiece Fair in London in June; and the International Fine Art and Antique Dealers Fair in New York in October. We made sales at all these fairs, but the exposure to a large audience focusing on art and antiques is as important in order to maintain the visibility of our brand as exhibiting the finest antique furniture and objets d'art in the world.

We also sent out two catalogues in the year, in the Spring and Autumn, displaying over 200 items and had four exhibitions of specific artists or specific themes in our showrooms covering watercolours, drawings, jewellery and tribal art.

Subsidiaries and associates

James Harvey British Art Limited ("JHBA") had another active and profitable year. Although turnover fell to £1.1m (2009: £1.6m), operating profit was maintained at a similar level to 2009. JHBA held five exhibitions of specific artists in its gallery in Chelsea during the year, and also exhibited at the Masterpiece Fair. At the start of the year Mallett sold a 40% stake in JHBA to James Harvey, with the sale of up to a further 10% dependent on JHBA profits in 2010 and 2011, for a total consideration of £54,000. This did not include any picture stock which was all owned by Mallett. The majority of this stock is now consigned to JHBA to sell on Mallett's behalf. During the year JHBA purchased some pictures from the revenues it had generated in the year and it will look to strengthen its balance sheet in this way going forward.

I am pleased to report that Hatfields returned to profitability in 2010. Turnover increased by 19% to £1.0m (2009: £0.8m) with, most encouragingly, all of the increase attributable to third party sales. Management has looked to reduce its fixed staff cost during the year and rely on a core of high quality full time craftsmen supplemented by freelance craftsmen as and when business dictates. Now the Hatfields business has been stabilised, we can look to grow the business as opportunities in the market appear.

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. In 2010 it attended the Masterpiece Fair where it launched a new product – Carina, a very elegant Carrara marble dining table. Otherwise, costs were kept to a minimum which has allowed it to make a small profit in 2010 on a low level of sales.

In June 2010 Masterpiece London Limited, of which Mallett is a founding member, put on the first Masterpiece Fair in London. The fair was extremely well received by exhibitors and visitors, with over 18,000 visitors to the fair over six days viewing products from 116 exhibitors ranging from classic cars to contemporary art to watches to antique furniture. Mallett has, to date, injected £150,000 into the venture but it is not expected that Masterpiece London will require any further funding.

On 23 December 2010 one of the five founding shareholders, Asprey Holdings Limited, sold its 20% stake in Masterpiece London Limited to the other four shareholders equally, for £5,000. Therefore, Mallett acquired a 5% shareholding from Asprey Holding Limited for £1,250, increasing its shareholding Masterpiece London Limited to 25%.

Costs

Following the severe economic downturn at the end of 2008, we stated that we would review all our costs to establish an appropriate cost base for the business for the future. In 2009 we reduced our operating costs by £2.0m and in 2010 we have continued this process by reducing operating costs by a further £0.6m. It is encouraging that our turnover has remained relatively constant throughout this overhaul.

The majority of the cost savings in 2010 have been to staff costs. Average staff numbers have reduced by seven employees, including four at Hatfields, and have generated costs savings of £0.5m.

In addition, our annual assessment of the carrying value of our non-current assets has concluded that the carrying values are reasonable, whilst the same exercise in 2009 led to an impairment of the value of our freehold property in Clapham by £0.2m which was charged to the Income Statement in 2009.

Against these savings, the costs of exhibiting at the four fairs we attended in 2010 increased. As well as an increase in shipping costs, we spent more on the presentation of our stands at all the fairs in order to increase our visibility and showcase the brand to maximum effect in the current marketplace.

The remaining significant cost to be re-aligned is our property cost. We remain committed to reducing our rental cost by relocating our showroom in London but we will only do this when we can realise appropriate value for the lease on our current premises. We are now solely a destination business with almost none of the casual footfall that created sales from the earlier business model which was dependent on a high profile retail presence. The new premises will still showcase Mallett as the finest antique dealer in London but with a more exclusive approach. There has been an encouraging increase in interest in large Bond Street premises in recent months and it is hoped this will enable us to realise the value of our lease during the course of the year.

Balance sheet

Shareholders' equity at 31 December 2010 was £15.0m (2009: £18.6m). The £3.6m reduction in the year represents the loss for the year, actuarial losses from the Group's defined benefit pension scheme and a write off of the deferred tax asset in respect of the actuarial losses, offset by favourable exchange rate movements. The loss for the year includes a tax charge of £1.2m in respect of a write off of the deferred tax asset relating to unutilised tax losses and the costs of Group's defined benefit pension scheme. The directors have decided to no longer carry forward a deferred tax asset due to the uncertain nature of the antique furniture and decorative art market and the timing of its recovery.

Inventory value has reduced slightly to £12.1m at 31 December 2010 (2009: £12.3m). We have reduced the amount of capital invested in our inventory significantly since 2007 and successfully supplemented it with consignment stock in order to maintain the level, range and quality of stock for which Mallett is renowned. Ownership of the item does, however, allow much greater flexibility in marketing the piece for greatest profit and we are aware it is the most important area in which the Group must invest, as cash dictates, in order to drive Mallett back to profitability and growth.

Cashflow

Our cash position has worsened during the year to a net debt position of £0.7m at 31 December 2010 (2009: £0.8m cash surplus). The negative cash movement reflects the operating loss for the year as we have looked to maintain the Group's inventory level at a similar level to the previous year. We have renewed our £2.5m overdraft limit with Coutts & Co and we remain very focused on cash management to ensure we have resources available when good buying opportunities materialise.

Outlook

We remain cautious about the prospect of growth, although we do sense a greater level of energy in the market and more interest being shown by clients than this time last year. We will continue to focus on our core markets in the UK and US but we are also very aware of the growing number of collectors in the emerging markets and will look at opportunities to access these markets and increase the awareness of Mallett in them.

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) Banking crisis/financial shock to the global system

Loss of confidence in the banking sector by our clients will make them much less likely to spend on high value luxury items such as our goods.

(iii) 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.

(iv) 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.

(v) Competition

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

(vi) 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.

(vii) Availability and access to good buying opportunities

The availability of high quality items for Mallett to purchase is very important in being able to maintain Mallett's reputation for exhibiting the best pieces.

(viii) 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.

(ix) 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.

(x) Financial Risk Management

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

MALLETT PLC

Unaudited Consolidated Income Statement
Year ended 31 December 2010

	Notes	**2010** *£'000*	2009 *£'000*
Revenue	5	**13,255**	13,980
Cost of sales		**(13,009)**	(13,952)
Gross profit		**246**	28
Other operating income		**21**	40
Distribution costs		**(215)**	(214)
Administrative expenses		**(1,321)**	(1,677)
Operating loss	6	**(1,269)**	(1,823)
Share of operating loss in associate		**(131)**	(33)
Investment income		**3**	126
Finance costs		**(21)**	(44)
Loss before income tax		**(1,418)**	(1,774)
Income tax		**(1,137)**	166
Loss for the year		**(2,555)**	(1,608)
Loss attributable to:			
Owners of the parent company		**(2,502)**	(1,649)
Minority interests		**(53)**	41
		(2,555)	(1,608)
Basic and diluted earnings per share	8	**(19.08)p**	(11.92)p

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

Unaudited Consolidated Statement of Comprehensive Income
Year ended 31 December 2010

	2010 *£'000*	2009 *£'000*
Loss for the year	**(2,555)**	(1,608)
Other comprehensive income:		
Exchange differences on translation of foreign operations	**147**	(398)
Actuarial loss on the defined benefit pension scheme	**(329)**	(698)
Movement of deferred tax on actuarial loss	**(895)**	195
Total other comprehensive income for the year, net of tax	**(1,077)**	(901)
Total comprehensive income for the year	**(3,632)**	(2,509)
Total comprehensive income attributable to:		
Owners of the parent company	**(3,579)**	(2,550)
Minority interests	**(53)**	41
	(3,632)	(2,509)

MALLETT PLC
Unaudited Consolidated Balance Sheet
at 31 December 2010

	2010	2009
	£'000	*£'000*
Non-current assets		
Property, plant and equipment	**4,235**	4,412
Investment in associate	**-**	-
Deferred tax	-	2,137
	4,235	6,549
Current assets		
Inventories	**12,081**	12,342
Trade and other receivables	**4,510**	3,182
Cash and cash equivalents	**1,337**	1,950
	17,928	17,474
Total assets	**22,163**	24,023
Equity		
Share capital	**690**	690
Capital redemption reserve	**5,168**	5,168
Own shares	**(492)**	(476)
Retained profits	**9,699**	13,172
Minority interests	**(46)**	34
Total equity	**15,019**	18,588
Current liabilities		
Trade and other payables	**3,476**	2,746
Bank overdrafts and loans	**1,987**	1,131
	5,463	3,877
Non current liabilities		
Retirement benefit pension obligations	**1,681**	1,558
Total liabilities	**7,144**	5,435
Total equity and liabilities	**22,163**	24,023

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MALLETT PLC

Unaudited Consolidated Statement of Changes in Equity
at 31 December 2010

Group

	Share capital *£'000*	Capital redemption reserve *£'000*	Own shares *£'000*	Retained profits *£'000*	Minority Interests *£'000*	Total equity *£'000*
At 1st January 2009	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 loss				(398)		(398)
At 31st December 2009	690	5,168	(476)	13,172	34	18,588
Retained loss for the year				(2,555)		(2,555)
Minority interest				53	(53)	-
Actuarial losses				(329)		(329)
Deferred tax movement on actuarial loss				(895)		(895)
Disposal of interest in subsidiary				81	(27)	54
Net movement in own shares			(16)	25		9
Net exchange gain				147		147
At 31st December 2010	**690**	**5,168**	**(492)**	**9,699**	**(46)**	**15,019**

MALLETT PLC

Unaudited Consolidated Cash Flow Statement
Year ended 31 December 2010

	2010	2009
	£'000	*£'000*
Operating loss	**(1,269)**	(1,823)
Adjustments for:		
Depreciation	**288**	282
Freehold property impairment	**-**	200
Share-based payments	**(89)**	73
Defined benefit pension adjustment	**(206)**	(594)
Net exchange adjustments	**(79)**	235
Movements in working capital:		
Decrease in inventories	**261**	3,743
(Increase)/decrease in receivables	**(1,329)**	547
Increase in payables	**768**	435
Cash (used)/generated by operations	**(1,655)**	3,098
Tax received	**113**	505
NET CASH FROM OPERATING ACTIVITIES	**(1,542)**	3,603
INVESTING ACTIVITIES		
Interest received	**3**	126
Interest paid	**(21)**	(44)
Purchase of shares in associate	**(1)**	(5)
Purchase of property, plant and equipment	**(31)**	(4)
Proceeds from sale of investments	**54**	-
NET CASH FROM INVESTING ACTIVITIES	**4**	73
FINANCING ACTIVITIES		
Purchases of own shares	**(78)**	(193)
B share scheme payments	**-**	(2)
NET CASH USED IN FINANCING ACTIVITIES	**(78)**	(195)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(1,616)**	3,481
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**819**	(2,264)
Effect of foreign exchange rate changes	**147**	(398)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**(650)**	819

MALLETT PLC

Notes to the Accounts
Year ended 31 December 2010

1 GENERAL INFORMATION

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

This announcement was approved by the Board of directors on 29 March 2011.

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 2009 have been delivered to the Registrar of Companies, and those for the year ended 31 December 2010 will be delivered in due course. The auditors have reported on the accounts for the year ended 31 December 2009; 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 sections 498(2) or (3) of the Companies Act 2006.

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 2010.

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 2010 and therefore have not been applied in preparing these accounts:

Amendment to IFRS 1 Additional Exemptions for First-time Adopters resulting from May 2010 Annual Improvements to IFRSs which is effective for periods commencing on or after 1 Janaury 2011.

Amendment to IFRS 3 Business Combinations effective for periods commencing on or after 1 July 2010.

Amendment to IFRS 7 Financial Instruments: Disclosures effective for periods commencing on or after 1 January 2011.

IFRS 9 Classification and Measurement of Financial Instruments effective for periods commencing on or after 1 Janaury 2013.

Revised IAS 1 Presentation of Financial Statements resulting from May 2010 Annual Improvements to IFRSs which is effective for periods commencing on or after 1 Janaury 2011.

Revised IAS 12 Income Taxes, which is effective for periods commencing on or after 1 January 2012.

Revised IAS 24 Related Party Transactions, which is effective for periods commencing on or after 1 January 2011.

Amendments to IAS 27 Consolidated and Separate Financial Statements resulting from May 2010 Annual Improvements to IFRSs which is effective for periods commencing on or after 1 July 2011.

Amendments to IAS 34 Interim Financial Reporting which is effective for periods commencing on or after 1 January 2011.

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

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 cash flows 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 cash flows 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 instruments**
Financial assets and financial liabilities are recognised on the Group’s balance sheet when the group has become party to the contractual provisions of the instrument.

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment is made where there is objective evidence of impairment (including customers in financial difficulty or seriously in default against agreed payment terms). There is no material variance between carrying and fair values.

Significant financial difficulties of the trade receivables, probability that the trade receivables will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the Income Statement.

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

Trade payables
Trade payables are initially recognised at cost and subsequently measured at amortised cost using the effective interest method. There is no material variance between book and fair values.

Borrowings
Bank loans and overdrafts are recorded initially at their fair value, net of direct transaction costs and finance charges are recognised in the Income Statement over the term of the instrument. There is no material variance between book and fair values.

Equity instruments
Equity instruments are recorded at the proceeds received, net of direct issue costs.

m) **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 cash flows expected to arise from the asset, by applying an appropriate discount rate to the timing and amount of future cash flows.

The directors are required to make judgements regarding the timing and amount of future cash flows 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 have decided to no longer carry forward a deferred tax asset due to the uncertain nature of the antique furniture and decorative arts market and the timing of its recovery.

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 EBITDA. 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

2010

	Mallett UK	USA	JHBA	Meta	Hatfields	Other	Intra group	Total
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Income & expenses information								
External revenue by sales outlet	6,281	5,354	1,101	160	359	-	-	13,255
Inter segment revenue	2,370	-	-	-	534	-	(2,904)	-
EBITDA	(1,049)	(261)	42	65	48	-	174	(981)
Depreciation and amortisation	(88)	(156)	-	-	-	(44)	-	(288)
Freehold property impairment	-	-	-	-	-	-	-	-
Share of operating loss in associate	-	-	-	-	-	(131)	-	(131)
Interest revenue & expense	134	(152)	-	-	-	-	-	(18)
Pofit/(loss) before tax	(1,003)	(569)	42	65	48	(175)	174	(1,418)
Balance Sheet information								
Capital expenditure	16	15	-	-	-	-	-	31
Total assets	10,327	9,086	608	113	218	1,811	-	22,163
Total liabilities, excluding tax	5,495	1,419	71	74	85	-	-	7,144
Investment in associate	-	-	-	-	-	-	-	-

2009

	Mallett UK	USA	JHBA	Meta	Hatfields	Other	Intra group	Total
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'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)	-
EBITDA	(1,078)	(385)	87	26	(142)	-	151	(1,341)
Depreciation and amortisation	(84)	(154)	-	-	-	(44)	-	(282)
Freehold property impairment	-	-	-	-	-	(200)	-	(200)
Share of operating loss in associate	-	-	-	-	-	(33)	-	(33)
Interest revenue & expense	192	(110)	-	-	-	-	-	82
Profit/(loss) before tax	(970)	(649)	87	26	(142)	(277)	151	(1,774)
Balance Sheet information								
Capital expenditure	-	4	-	-	-	-	-	4
Total assets	12,020	9,221	176	188	564	1,854	-	24,023
Total liabilities, excluding tax liabilities	4,844	338	103	48	102	-	-	5,435
Investment in associate	-	-	-	-	-	-	-	-

The sales by destination of goods is as follows:

	2010				
	Mallett	**JHBA**	**Meta**	**Hatfields**	**Total**
	£'000	***£'000***	***£'000***	***£'000***	***£'000***
United Kingdom	**3,287**	**747**	**20**	**354**	**4,408**
Rest of Europe	**2,933**	**205**	**-**	**3**	**3,141**
United States of America	**4,975**	**90**	**140**	**2**	**5,207**
Other	**499**	**-**	**-**	**-**	**499**
	11,694	**1,042**	**160**	**359**	**13,255**

MALLETT PLC
Notes to the Accounts
Year ended 31 December 2010

	Mallett	JHBA	Meta	Hatfields	Total
			2009		
	£'000	*£'000*	*£'000*	*£'000*	*£'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
	11,751	1,573	429	227	13,980

6 LOSS FROM OPERATIONS

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

	2010	2009
	£'000	*£'000*
Depreciation of property, plant and equipment	**288**	282
Freehold property impairment	**-**	200
Auditors' remuneration		
- Audit fees	**14**	16
- Other non-audit services		
- Tax services (advisory and compliance)	**15**	21
- Other services*	**9**	12
- Audit of group undertakings	**40**	40
- Review of interim accounts	**2**	2
Net foreign exchange (losses)/gains	**(37)**	26
Lease payments	**1,522**	1,684
Inventory provision	**180**	352

* Other services includes work relating to a pension scheme audit work and general consultancy work.

7 STAFF COSTS

	2010	2009
	£'000	*£'000*
Staff costs		
- wages and salaries	**1,790**	2,025
- compensation for loss of office	**56**	293
- social security costs	**160**	201
- share based payments	**74**	73
- pension scheme costs*	**193**	174
	2,273	2,766

*Includes £119,000 (2009 - £128,000) in respect of contributions to the defined contribution pension scheme.

	Number	Number
Average number of persons (including directors and part-time employees) employed by the company		
- restoration	**8**	11
- selling and distribution	**22**	26
- administration	**4**	4
- non-executive directors	**2**	2
	36	43

8 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are based on the loss after tax of £2,555,000 (2009 - loss of £1,608,000) divided by the weighted average number of shares in issue during the year of 13,385,695 (2009 - 13,496,538).