

# MALLETT PLC

## Interim report for the six months ended 30<sup>th</sup> June 2011

### Chairman's Statement

Dear Shareholder

Our interim results for the six months ended 30<sup>th</sup> June 2011 maintain our trend of continuous improvement in results since 2008, with an operating loss of £0.3m (2010 - £0.7m). Turnover for the six month period is lower than for the same period last year at £6.4m (2010 - £7.1m) but our gross margin shows a 6% improvement on the same period for last year reflecting the benefits of the cost reductions and the highly selective and focused stock buying we have implemented in the last two years.

As we reported in June, we have also taken a significant step forward with our property relocation plans by agreeing to assign our lease on our London premises at 141 New Bond Street to Fendi UK Limited. We have identified our preferred property to relocate to and are in advanced negotiations on securing the lease of the property. We expect the relocation to be completed in January 2012.

### Mallett

Mallett Antiques' turnover for the six months ended 30<sup>th</sup> June 2011 was 11% lower than for the same period last year at £5.4m (2010 - £6.1m). However, sales have been at a much more consistent level month on month in 2011, except for April which was affected by a number of public holidays, than in 2010 when excellent trading in June offset some low sales in the previous five months. It is hoped this consistency of monthly sales is a sign of some confidence returning to the decorative arts market.

Despite the lower level of turnover, Mallett Antiques' operating loss has improved to £0.5m (2010 - £0.7m). This improvement is predominantly due to higher margins being achieved on sales which is primarily a reflection of a number of excellent buying opportunities which we have been able to take advantage of in the last two years.

### Other businesses

Meta has had an encouraging first half of the year with items across its product range being sold for a total of £0.4m (2010 - £0.1m). James Harvey British Art has had a quiet first half of the year with turnover slightly reduced compared to the same period for last year at £0.5m (£0.6m). However, a number of exciting pictures have recently been obtained which, it is

hoped, will improve sales in the second half of the year. Hatfields also has seen lower activity this year than for the same period last year.

Masterpiece London, of which Mallett owns 23.75%, put on its second fair at the end of June at the Royal Hospital, London. There were 152 exhibitors at the fair and 28,000 visitors over the six days it was open which represent a 29% and 58% increase on last year's fair respectively. In addition, the fair raised £450,000 for the charity Clic Sargent through a Midsummer party during the fair. The reaction to the fair was again very favourable and the number of applications for next year's fair are already encouraging. The increase in exhibitors and visitors is expected to create a profit for the fair and we have estimated that Mallett's share of the profit to be £64,000.

## **Costs**

Administrative expenses have reduced by 6% to £746,000 (2010 - £794,000) for the six months ended 30<sup>th</sup> June 2011, whilst distribution costs show a small increase. This is a pleasing result and a reflection of the cost control measures we have implemented in the last two years.

We were delighted to report in June that we had signed an agreement to assign our lease on our London premises of 141 New Bond Street to Fendi UK Ltd, subject only to landlord's consent for the assignment, hence making real progress on re-aligning the final major cost – our property cost – to the current market conditions. Fendi UK limited will pay £1.7m at completion, which is expected to be in January 2012. We will use the funds from the sale of the lease to cover any refurbishment costs on the new premises and for general working capital requirements.

We have identified our preferred property to relocate to which fits perfectly with the Mallett brand. We believe it will showcase our products in the optimum setting whilst reducing our rental cost substantially. We are in advanced negotiations on securing the lease of the property, which is in Mayfair, and will provide further information on this when those negotiations are finalised.

## **Balance sheet**

Shareholders' equity at 30<sup>th</sup> June 2011 was £14.5m (31<sup>st</sup> December 2010 - £15.0m) which represents a reduction of £0.5m since the start of the year. This is due to losses after tax of £0.3m, actuarial losses of £0.1m and exchange losses of £0.1m.

The value of inventory at 30<sup>th</sup> June 2011 has reduced slightly from the start of the year at £11.8m (31<sup>st</sup> December 2010 - £12.1m), as we continue to manage our cash position very carefully, whilst not wanting to miss any further good stock buying opportunities that continue to materialise. Our cash position has improved slightly from a net debt position at the start of the year of £0.7m to a net debt position at 30<sup>th</sup> June 2011 of £0.3m.

## **Dividends**

The loss after tax for the six months ended 30<sup>th</sup> June 2011 was £0.3m and therefore the Board has decided not to declare an interim dividend.

## **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 have not changed from those set out in the Annual Report and Accounts for 2010. These include the strength of the UK and US economies and financial markets, a banking crisis/financial shock to the global system, the demand for antique furniture and works of art, the ability to attract and retain key personnel, competition, the value of artworks, foreign currency exchange rate movements and retirement benefit pension obligations. A full disclosure of these risks can be found on page 12 of Mallett's Annual Report and Accounts for 2010, a copy of which can be downloaded from [www.mallettantiques.com](http://www.mallettantiques.com).

## **Outlook for the second half**

We are encouraged that the greater level of energy we perceived in the market at the start of the year has been maintained throughout the first half of the year and it is hoped this will continue in the second half of the year. We are excited to be making our first venture into the Far East market by taking a stand at the Fine Art Asia fair in Hong Kong in October and we will continue to look at other cost effective ways of accessing the emerging markets and increasing the awareness of Mallett in them.

Lord Daresbury  
Chairman

For further information please contact:

Giles Hutchinson Smith, Chief Executive	020 7499 7411
Michael Smyth-Osbourne, Finance Director	020 7499 7411

# MALLET PLC

## Condensed Consolidated Income Statement (unaudited) for the six months ended 30th June 2011

	Six months ended 30th June 2011 £'000	Six months ended 30th June 2010 £'000
Revenue	6,434	7,086
Cost of sales	(5,894)	(6,929)
Gross profit	540	157
Other operating (expense)/income	(10)	1
Distribution costs	(113)	(105)
Administrative expenses	(746)	(794)
Operating loss	(329)	(741)
Share of operating profit/(loss) in associate	64	(47)
Investment income (net)	-	2
Finance costs	(15)	(7)
Loss before income tax	(280)	(793)
Income tax expense	(2)	86
Loss for the period	(282)	(707)
Loss attributable to:		
Owners of the parent company	(263)	(683)
Minority interests	(19)	(24)
	(282)	(707)
Basic and diluted earnings per share	(2.12)p	(5.25)p

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

# MALLET PLC

## Condensed Consolidated Statement of Comprehensive Income (unaudited) for the six months ended 30th June 2011

	Six months ended 30th June 2011 £'000	Six months ended 30th June 2010 £'000
Loss for the period	(282)	(707)
Other comprehensive income:		
Exchange differences on translation of foreign operations	(139)	407
Actuarial loss on the defined benefit pension scheme	(52)	-
Movement of deferred tax on actuarial loss	-	-
Total other comprehensive income for the year, net of tax	<u>(191)</u>	<u>407</u>
<b>Total comprehensive income for the period</b>	<b><u>(473)</u></b>	<b><u>(300)</u></b>
Total comprehensive income attributable to:		
Owners of the parent company	(454)	(276)
Minority interests	(19)	(24)
	<b><u>(473)</u></b>	<b><u>(300)</u></b>

# MALLET PLC

## Condensed Consolidated Balance Sheet (unaudited) at 30th June 2011

	<b>30th June 2011 £'000</b>	31st December 2010 £'000
<b>Non-current assets</b>		
Property, plant and equipment	3,790	4,235
Investment in associate	-	-
	<u>3,790</u>	<u>4,235</u>
<b>Current assets</b>		
Inventories	11,837	12,081
Trade and other receivables	4,859	4,510
Cash and cash equivalents	797	1,337
	<u>17,493</u>	<u>17,928</u>
<b>Non-current Asset Held for Sale</b>	235	-
<b>Total assets</b>	<u>21,518</u>	<u>22,163</u>
<b>Equity</b>		
Share capital	690	690
Capital redemption reserve	5,168	5,168
Own shares	(514)	(492)
Retained profits	9,245	9,699
Minority interests	(65)	(46)
<b>Total equity</b>	<u>14,524</u>	<u>15,019</u>
<b>Current liabilities</b>		
Trade and other payables	4,130	3,476
Bank overdrafts and loans	1,132	1,987
Tax liabilities	-	-
	<u>5,262</u>	<u>5,463</u>
<b>Non current liabilities</b>		
Retirement benefit pension obligations	1,732	1,681
<b>Total liabilities</b>	<u>6,994</u>	<u>7,144</u>
<b>Total equity and liabilities</b>	<u>21,518</u>	<u>22,163</u>

# MALLET PLC

## Condensed Consolidated Statement of Changes in Equity (unaudited) for the six months ended 30th June 2011

	Share Capital £'000	Capital Redemption Reserve £'000	Own Shares £'000	Retained profits £'000	Minority Interests £'000	Total £'000
At 1st January 2010	690	5,168	(476)	13,172	34	18,588
Loss in 6 months to 30th June 2010				(707)		(707)
Minority interest				24	(24)	-
Disposal of interest in subsidiary				61	(27)	34
Net movement in own shares			(32)	32		-
Net exchange gain				407		407
<b>At 30th June 2010</b>	<b>690</b>	<b>5,168</b>	<b>(508)</b>	<b>12,989</b>	<b>(17)</b>	<b>18,322</b>
Loss in 6 months to 31st December 2010				(1,848)		(1,848)
Minority interest				29	(29)	-
Disposal of interest in subsidiary				20		20
Actuarial gains				(329)		(329)
Deferred tax movement on actuarial gain				(895)		(895)
Net movement in own shares			16	(7)		9
Net exchange loss				(260)		(260)
<b>At 31st December 2010</b>	<b>690</b>	<b>5,168</b>	<b>(492)</b>	<b>9,699</b>	<b>(46)</b>	<b>15,019</b>
Loss in 6 months to 30th June 2011				(282)		(282)
Minority interest				19	(19)	-
Actuarial losses				(52)		(52)
Net movement in own shares			(22)			(22)
Net exchange gain				(139)		(139)
<b>At 30th June 2011</b>	<b>690</b>	<b>5,168</b>	<b>(514)</b>	<b>9,245</b>	<b>(65)</b>	<b>14,524</b>

# MALLETT PLC

## Condensed Consolidated Cash Flow Statement (unaudited) for the six months ended 30th June 2011

	Six months ended 30th June 2011 £'000	Six months ended 30th June 2010 £'000
Operating loss	(329)	(741)
Adjustments for:		
Depreciation	141	145
Share-based payments	(7)	14
Defined benefit pension adjustment	-	(153)
Net exchange adjustments	74	(147)
Movements in working capital:		
Decrease in inventories	244	342
Increase in receivables	(349)	(1,191)
Increase in payables	725	408
Cash generated/(used) by operations	<u>499</u>	<u>(1,323)</u>
Tax paid	(1)	59
<b>Net Cash from Operating Activities</b>	<u>498</u>	<u>(1,264)</u>
<b>Investing Activities</b>		
Interest received	-	2
Interest paid	(15)	(7)
Purchase of shares in associate	-	34
Purchase of property, plant and equipment	(4)	(32)
<b>Net Cash (used in)/from Investing Activities</b>	<u>(19)</u>	<u>(3)</u>
<b>Financing Activities</b>		
Purchases of own shares	(23)	(61)
<b>Net Cash used in Financing Activities</b>	<u>(23)</u>	<u>(61)</u>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>	<b>456</b>	<b>(1,328)</b>
<b>Cash and Cash Equivalents at the beginning of the period</b>	<b>(650)</b>	<b>819</b>
Effect of foreign exchange rate changes	(140)	407
<b>Cash and Cash Equivalents at the end of the period</b>	<u><b>(334)</b></u>	<u><b>(102)</b></u>

# MALLETT PLC

## Statement of Directors' Responsibilities for the six months ended 30th June 2011

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The directors confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

## Notes to the Condensed Consolidated Financial Statements for the six months ended 30th June 2011

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### 1 BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union. They are unaudited and do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 (the "Act"). The accounts for the year ended 31st December 2010 have been filed with the Registrar of Companies and have been reported on by auditors in accordance with Chapter 3 of Part 16 of the Act. The auditor's report on those accounts was not qualified.

### 2 SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements are presented on the basis of the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

### 3 NEW ACCOUNTING POLICY

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

### 4 SEGMENTAL REPORTING

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.



# MALLETT PLC

## 5 TAX

Taxation has been provided for at an estimated rate of 27% (2010 – 28%).

## 6 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share have been calculated on the losses for the period after taxation and divided by the weighted average number of shares in issue during the period of 13,319,028 (2010 - 13,474,038).

## 7 DIVIDENDS

The directors have not declared an interim dividend (2010 – nil).

## Company Information

DIRECTORS	Lord Daresbury (Chairman)
<i>*Non-executive</i>	Giles H. Hutchinson Smith (Chief Executive)
	James Heneage*
	M. Henry G. Neville
	Michael Smyth-Osbourne (Secretary)

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COMPANY NUMBER 1838233

WEBSITE [www.mallettantiques.com](http://www.mallettantiques.com)