

# MALLETT

LONDON ♦ NEW YORK

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Interim Report  
2010

# MALLETT PLC

## Interim report for the six months ended 30<sup>th</sup> June 2010

### Chairman's Statement

Dear Shareholder

Our interim results for the six months ended 30<sup>th</sup> June 2010 show a slight improvement on the same period for last year, with an operating loss of £0.7m (2009 - £0.8m) on turnover of £7.1m (2009 - £6.8m). Having reported in our interim management statement on 19<sup>th</sup> May 2010 that performance at that stage was behind the same period for last year, it is pleasing to report that trading picked up in the second quarter of this year to enable us to show an improvement on the first six months of trading last year.

### Mallett

The antiques trade has been soft during the first half of 2010. There have been 3 private collection auction sales in the antique furniture field in the first half of the year. It was evident in these sales that the prices being paid were significantly down on those achieved for similar items before the economic downturn, but, in general, the best items sold well and it is clear that there is demand for pieces with excellent provenance and in good condition which are fresh to the market.

Mallett Antiques turnover for the six months ended 30<sup>th</sup> June 2010 was at a similar level to the same period at £6.1m. Whilst this is just below management expectations, given the continued unsettled nature of the UK and US economies, particularly in the property market, we are encouraged by the result as last year's turnover included £0.6m from the sale of a group of items through an auction at Christies. May and June saw a significant improvement in sales from the first quarter of this year and it is hoped that this will be continued after the summer holidays.

### Other businesses

James Harvey British Art has had a successful first half of the year increasing turnover by 45% compared to the same period for last year, to £0.6m. The re-organisation of the management structure at Hatfields has also proved successful with the business returning to profitability on increased turnover both from Mallett and from third parties. Meta has had a quiet first half of the year but it launched a new product onto the market at the Masterpiece fair in June – Carina, a very elegant Carrara marble dining table designed by Klauser & Carpenter.

Masterpiece London, which Mallett owns in equal shares with 4 other partners, put on its first fair in June at Chelsea Barracks, London and the reaction from exhibitors and visitors to the fair has been extremely positive. One of the most pleasing aspects is that applications for exhibitor space for the 2011 fair already exceed the space used in the 2010 fair, as new exhibitors want to be part of the fair and those who exhibited in 2010 want to return next year. Masterpiece London has made an operating loss in the first six months of the year, which is as expected for the first year of trading, and Mallett has incurred a small charge as its share of the losses.

### **Costs**

Administrative expenses have reduced by 11% to £794,000 (2009 - £897,000) for the six months ended 30<sup>th</sup> June 2010 and distribution costs also show a small reduction. This is a reflection of the cost control measures we implemented last year and we are pleased that we have been able to maintain our turnover levels on the smaller cost base. We remain committed to reducing our rental costs by relocating and we will take action to do so when the cost/benefit is acceptable.

### **Balance sheet**

Shareholders' equity at 30<sup>th</sup> June 2010 was £18.3m (31<sup>st</sup> December 2009 - £18.6m) which represents a reduction of £0.3m since the start of the year. This is due to losses after tax of £0.7m and exchange gains of £0.4m.

The value of inventory at 30<sup>th</sup> June 2010 has reduced slightly from the start of the year at £12.0m (31<sup>st</sup> December 2009 - £12.3m), reflecting the significant sales completed in May and June which have not yet been completely replaced with new stock. We are continuing our policy of growing our consignment stock levels which is allowing us to exhibit some exceptional, rare pieces, but we are also keen to maintain a good level of owned stock on which better margins are normally available.

Our cash surplus of £0.8m at the start of the year has reduced to a small net debt position of £0.1m at 30<sup>th</sup> June 2010, reflecting the losses for the first six months of trading plus an increase in debtors from the June sales which had not been paid for at 30<sup>th</sup> June 2010. We are comfortable with our cash position which we aim to maintain at around cash neutral over the medium term, with the ability to use our overdraft facility to take advantage of good buying opportunities as and when they materialise.

### **Dividends**

The loss after tax for the six months ended 30<sup>th</sup> June 2010 was £0.7m 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 2009. These include the strength of the UK and US economies and financial markets, the demand for antique furniture and works of art, 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 10 of Mallett's Annual Report and Accounts for 2009, a copy of which can be downloaded from [www.mallettantiques.com](http://www.mallettantiques.com)

## **Outlook for the second half**

Our outlook has changed little since the start of the year. Trading requires patience and an excellent selection and quality of stock which we believe we have. We will continue to look at ways to market such stock effectively and productively whilst carefully monitoring costs and cash.

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 2010

	Six months ended 30th June 2010 £'000	Six months ended 30th June 2009 £'000
Revenue	7,086	6,784
Cost of sales	(6,929)	(6,606)
Gross profit	157	178
Other operating income	1	1
Distribution costs	(105)	(122)
Administrative expenses	(794)	(897)
Operating loss	(741)	(840)
Share of operating loss in associate	(47)	-
Investment income	2	51
Finance costs	(7)	(31)
Loss before income tax	(793)	(820)
Income tax expense	86	147
Loss for the period	(707)	(673)
Loss attributable to:		
Owners of the parent company	(683)	(702)
Minority interests	(24)	29
	(707)	(673)
Basic and diluted earnings per share	(5.25)p	(4.98)p

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

# MALLET PLC

## Condensed Consolidated Statement of Comprehensive Income (unaudited) for the six months ended 30th June 2010

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	Six months ended 30th June 2010 £'000	Six months ended 30th June 2009 £'000
Loss for the period	(707)	(673)
Other comprehensive income:		
Exchange differences on translation of foreign operations	407	(492)
Actuarial loss on the defined benefit pension scheme	-	(36)
Movement of deferred tax on actuarial loss	-	11
Total other comprehensive income for the year, net of tax	<u>407</u>	<u>(517)</u>
<b>Total comprehensive income for the period</b>	<b><u>(300)</u></b>	<b><u>(1,190)</u></b>
Total comprehensive income attributable to:		
Owners of the parent company	(277)	(1,219)
Minority interests	(24)	29
	<u>(300)</u>	<u>(1,190)</u>

# MALLET PLC

## Condensed Consolidated Balance Sheet (unaudited) at 30th June 2010

	Notes	30th June 2010 £'000	31st December 2009 £'000
<b>Non-current assets</b>			
Property, plant and equipment		4,446	4,412
Investment in associate		-	-
Deferred tax	4	2,275	2,137
		<u>6,721</u>	<u>6,549</u>
<b>Current assets</b>			
Inventories		12,000	12,342
Trade and other receivables		4,375	3,182
Cash and cash equivalents		1,127	1,950
		<u>17,502</u>	<u>17,474</u>
<b>Total assets</b>		<u>24,223</u>	<u>24,023</u>
<b>Equity</b>			
Share capital		690	690
Capital redemption reserve		5,168	5,168
Own shares		(508)	(476)
Retained profits		12,989	13,172
Minority interests		(17)	34
<b>Total equity</b>		<u>18,322</u>	<u>18,588</u>
<b>Current liabilities</b>			
Trade and other payables		3,268	2,746
Bank overdrafts and loans		1,229	1,131
		<u>4,497</u>	<u>3,877</u>
<b>Non current liabilities</b>			
Retirement benefit pension obligations		1,404	1,558
<b>Total liabilities</b>		<u>5,901</u>	<u>5,435</u>
<b>Total equity and liabilities</b>		<u>24,223</u>	<u>24,023</u>

Company Number 1838233

# MALLET PLC

## Condensed Consolidated Statement of Changes in Equity (unaudited) at 30th June 2010

	Share capital £'000	Capital redemption reserve £'000	Own Shares £'000	Retained profits £'000	Minority Interests £'000	Total equity £'000
At 1 <sup>st</sup> January 2009	3,243	2,615	(442)	15,795	(7)	21,204
Loss in six months to 30 <sup>th</sup> June 2009				(673)		(673)
Minority interest				(29)	29	-
Dividends paid in year				(2)		(2)
Actuarial losses				(36)		(36)
Deferred tax movement on actuarial loss				11		11
Net movement in own shares			(20)			(20)
Net exchange loss				(492)		(492)
<b>At 30<sup>th</sup> June 2009</b>	<b>3,243</b>	<b>2,615</b>	<b>(462)</b>	<b>14,574</b>	<b>22</b>	<b>19,992</b>
Loss in six months to 31 <sup>st</sup> December 2009				(935)		(935)
Minority interest				(12)	12	-
Actuarial losses				(662)		(662)
Deferred tax movement on actuarial loss				184		184
Cancellation of B shares	(2,553)	2,553				-
Net movement in own shares			(14)	(71)		(85)
Net exchange gain				94		94
<b>At 31<sup>st</sup> December 2009</b>	<b>690</b>	<b>5,168</b>	<b>(476)</b>	<b>13,172</b>	<b>34</b>	<b>18,588</b>
Loss in six months to 30 <sup>th</sup> 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 30<sup>th</sup> June 2010</b>	<b>690</b>	<b>5,168</b>	<b>(508)</b>	<b>12,989</b>	<b>(17)</b>	<b>18,322</b>

# MALLET PLC

## Condensed Consolidated Cash Flow Statement (unaudited) for the six months ended 30th June 2010

	Six months ended 30th June 2010 £'000	Six months ended 30th June 2009 £'000
Operating loss	(741)	(840)
Adjustments for:		
Depreciation	145	144
Share-based payments	14	-
Defined benefit pension adjustment	(153)	-
Net exchange adjustments	(147)	297
Movements in working capital:		
Decrease in inventories	342	2,477
Decrease in receivables	(1,191)	(88)
Increase/(decrease) in payables	408	(217)
Cash generated/(used) by operations	<u>(1,323)</u>	<u>1,773</u>
Tax received	59	308
<b>Net Cash from Operating Activities</b>	<u>(1,264)</u>	<u>2,081</u>
<b>Investing Activities</b>		
Interest received	2	51
Interest paid	(7)	(31)
Disposal of share in subsidiary	34	-
Purchase of property, plant and equipment	(32)	-
<b>Net Cash (used in)/from Investing Activities</b>	<u>(3)</u>	<u>20</u>
<b>Financing Activities</b>		
Purchases of own shares	(61)	(100)
B share scheme payments	-	(2)
<b>Net Cash used in Financing Activities</b>	<u>(61)</u>	<u>(102)</u>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>	<b>(1,328)</b>	<b>1,999</b>
<b>Cash and Cash Equivalents at the beginning of the period</b>	<b>819</b>	<b>(2,264)</b>
Effect of foreign exchange rate changes	407	(492)
<b>Cash and Cash Equivalents at the end of the period</b>	<u><b>(102)</b></u>	<u><b>(757)</b></u>

# MALLETT PLC

## Statement of Directors' Responsibilities for the six months ended 30th June 2010

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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 (unaudited) for the six months ended 30th June 2010

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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 2009 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 2009.

### 3 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.

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.

# MALLETT PLC

## 3 Segmental Reporting (continued)

Segmental analysis – continuing operations

	Mallett						Intra	Total
	UK	USA	JHBA	Meta	Hatfields	Other	group	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Income &amp; expenses information for six months ended 30th June 2010</b>								
External revenue by sales outlet	4,163	1,998	633	88	204	-	-	7,086
Inter segment revenue	756	-	-	-	294	-	(1,050)	-
EBITDA	(413)	(325)	98	42	57	-	(55)	(596)
Depreciation	(44)	(79)	-	-	-	(22)	-	(145)
Share of operating loss in Associate	-	-	-	-	-	(47)	-	(47)
Net interest	69	(74)	-	-	-	-	-	(5)
Profit/(loss) before tax	(388)	(478)	98	42	57	(69)	(55)	(793)

### Balance Sheet information at 30th June 2010

Capital expenditure	16	16	-	-	-	-	-	32
Total assets	13,206	8,203	498	151	332	1,832	-	24,223
Total liabilities, excluding tax	5,028	413	277	92	93	-	-	5,902
Investment in associate	-	-	-	-	-	-	-	-

	Mallett						Intra	Total
	UK	USA	JHBA	Meta	Hatfields	Other	group	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Income &amp; expenses information for six months ended 30th June 2009</b>								
External revenue by sales outlet	3,258	2,631	435	331	129	-	-	6,784
Inter segment revenue	1,832	-	-	-	201	-	(2,033)	-
EBITDA	(247)	(341)	(1)	54	(91)	-	(70)	(696)
Depreciation	(64)	(80)	-	-	-	-	-	(144)
Net interest	78	(58)	-	-	-	-	-	20
Loss before tax	(233)	(479)	(1)	54	(91)	-	(70)	(820)

### Balance Sheet information at 31st December 2009

Capital expenditure	-	4	-	-	-	-	-	4
Total assets	12,020	9,221	176	188	564	1,854	-	24,023
Total liabilities, excluding tax	4,844	338	103	48	102	-	-	5,435

# MALLETT PLC

## 4 **Deferred Tax**

The deferred tax asset reflects the tax recoverable on the defined benefit obligations and accelerated tax

## 5 **Tax**

Taxation has been provided for at an estimated rate of 28% (2009 – 28%) taking into account £24,000 movement on deferred tax to the income statement.

## 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 13,474,038 (2009 - 13,529,409).

## 7 **Dividends**

The directors have not declared an interim dividend (2009 – nil).

## 8 **Disposal of Interest in Subsidiary**

With effect from 1st January 2010 the Group sold of 40% of its interest in James Harvey British Art Limited to James Harvey, reducing its continuing interest to 60%. The proceeds from the sale of £34,000 were received in cash. The gain on disposal of £61,000 has been recognised directly in equity.

## **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 (Finance Director & Company Secretary)
	Thomas E. Woodham-Smith

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COMPANY NUMBER 1838233

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