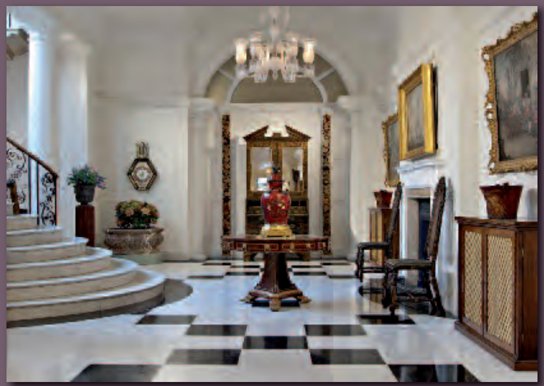
MALLETT PLC

ANNUAL REPORT & ACCOUNTS 2012

ELY HOUSE

The magnificent interiors of Ely House, built in the 1770s by renowned architect Robert Taylor as the London palace of the Bishop of Ely, retain much of their original stucco work and provide the type of setting for which much of our furniture and objects were originally created. The stylish rooms and hallways provide an elegance that allow our stock to be exhibited in the finest possible environment. These include:



FRONT COVER
THE HALLWAY AND STAIRCASE ON THE GROUND FLOOR

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THE DINING ROOM ON THE GROUND FLOOR

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THE BARREL ROOM ON THE FOURTH FLOOR

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THE VENETIAN ROOM ON THE FIRST FLOOR

Contents

Mallett is one of the oldest established antiques dealers in the United Kingdom specialising in the finest pieces of furniture and works of art, primarily from the 18th century and Regency periods

2012 Highlights

OPERATIONS

→ Encouraging first half of the year, not sustained in second half

→ Clients enjoying the experience of visiting Ely House

→ Decision taken to exit from James Harvey British Art Limited

→ Planning permission sought to redevelop our freehold property in Clapham, London into residential flats. This was granted in March 2013

FINANCIAL

→ Underlying trading performance improved to a loss before tax of £0.3m (2011 – loss before tax of £0.9m)

→ A slight drop in inventory at £11.9m (2011 – £12.3m)

→ Net debt reduced to £0.7m (2011 – £1.1m)

A RARE CHINESE EXPORT REVERSE PAINTED MIRROR

The Vauxhall bevelled mirror plates are painted with a tranquil scene of a vignette of finely attired figures in a parkland setting, framed by upright stems of bamboo and oak. China, circa 1770.

A PAIR OF KANGXI TRUMPET VASES

A fine pair of late 17th century Kangxi trumpet vases each with a highly decorative blue pattern of stylised peonies within a foliate setting, on a white ground within a stylised lattice framework. China, circa 1670.

THE WESTPORT HOUSE DINING TABLE

A Regency period mahogany Imperial dining table of exceptional colour and condition, attributed to Gillows of Lancaster, supplied for Westport House, County Mayo, one of the great Georgian houses of Ireland. The extending action of the dining table with nine original leaves on twenty elegant turned, reeded and tapering legs, terminating in brass cups and casters means it is capable of extending beyond 30 feet. England, circa 1810

Chairman's Statement

2012 proved to be another challenging year for the decorative arts market. Nevertheless, our results for 2012 show an improvement on the previous year with an underlying trading loss before tax of £0.3m compared to an underlying trading loss before tax in 2011 of £0.9m. The reported loss before tax is £0.1m (2011 – profit before tax of £0.4m) but this includes a one-off impairment write back of £0.2m on the value our Clapham property (2011 – includes the profit on the assignment of our Bond Street lease of £1.3m) which we have excluded to arrive at the underlying trading performance of the Group.

Lord Daresbury *Chairman*

The first half of the year showed much promise, with increased interest from clients and more energy in the market. This generated a 19% improvement in Mallett Antiques' turnover for the first six months compared to the same period for 2011. However, the second half of 2012 saw a significant reduction in activity, highlighting the continued fragility of the market.

In light of this, your Board is continuing its strategy of improving margins and reducing costs, entering new geographical areas (particularly in the growing economies of the Far East and South America), expanding our client base and developing our product range using the glamorous setting of Ely House to exhibit an eclectic mix of high quality works of art to attract the broadest range of collectors.

The Board is committed to this strategy and, for 2013, is pursuing a range of further initiatives to both drive sales and reduce the cost base. Firstly, Henry Neville will be relocating to London from New York, where he will continue in his role as head of sales and marketing, and the Company intends to reduce substantially its fixed costs in New York by subletting two floors of the Madison Avenue showroom. Secondly, significant investment is planned on the Mallett website to create an engaging and effective marketing vehicle into new market areas and which will also allow on-line purchasing. Thirdly, a series of major events is planned at Ely House, beginning with a major English Furniture exhibition in May showcasing two important US collections.

In addition, the Company has enhanced the value of its freehold property in Clapham, South London, currently occupied by Hatfields Restoration, by gaining planning permission to redevelop it into seven residential flats. Planning permission was granted on 11 March 2013 and the Board is now considering the options for the Group with regard to this property to maximise value.

Other cost reductions will be made where possible without reducing Mallett's ability to maintain the exceptional levels of service expected by our clients.

Due to a loss after tax of £0.3m for the year, the Board is not recommending a final dividend for the year. No interim dividend was declared. The Company's Annual General Meeting will take place on 30 May 2013.

Finally, I am sad to announce that our Finance Director, Michael Smyth-Osbourne will be leaving Mallett in June 2013. Michael has been an excellent Finance Director and the company will miss him. I would like to take this opportunity to thank Michael for his service and to wish him well in his next appointment. We are not planning to find a replacement at this time and his role will be undertaken by the existing Financial Controller, Iain Hutchinson.

Lord Daresbury
Chairman

Chief Executive's Report

Giles Hutchinson Smith
Chief Executive

The decorative arts market is a very difficult market to predict. It is not a fashionable market, not attracting the interest and high prices that the contemporary art market can. However, people are still buying in our market and it is a question, more than ever, of having the right product at the right price.

The range of initiatives for 2013 set out in the Chairman's Statement is aimed at achieving this. The most significant of these are the return of Henry Neville to the UK and the reduction in the size and hence the cost of the New York showroom. We are planning to move the showroom into the top two floors of the building and sub-let the ground floor and basement for a rental income approximately equivalent to the rent we are paying on the whole building. This will significantly reduce the cost of the New York operation and maintain our presence in a very important market for us in a location which our clients already know.

We will invest significantly in our website to create a more engaging and flexible site which will allow for items to be purchased online

The return of Henry to the UK will allow him, as head of sales and marketing, to drive sales from our exciting new showroom at Ely House. He will look to put on a succession of events to ensure a high level of visitors to the premises and his return will enable me to focus on sourcing the right, high quality pieces at the right prices. Joao Magalhaes, who has been the second salesman in the New York showroom for the last 2½ years, will take over the running of the New York showroom.

The other key initiative is to invest significantly in our website to create a more engaging and flexible site which can be educational as well as a sales tool, and will allow for items to be purchased online. We will continue to focus more of our time and resources on the development of our website as it becomes a progressively more important platform for sales and marketing.

2012 Trading performance

Our results for the year to 31 December 2012 show a loss before tax of £0.1m. Included within this result is a write back of an impairment provision we made in 2009 against the value of our freehold property in Clapham, London of £0.2m. Underlying trading performance for 2012, therefore, produced a loss before tax of £0.3m (2011 – £0.9m).

In addition, these figures exclude the loss before tax of James Harvey British Art Limited ("JHBA") of £0.1m (2011 – profit before tax of £0.1m) which has been separated out into discontinued operations as the Board has decided that it is in the best interests of shareholders for Mallett to exit from JHBA.

Overall, Group turnover was flat at £10.2m (2011 – £10.2m), excluding JHBA, but gross profit improved significantly to £1.1m (2011 – £0.5m) reflecting the good buying opportunities we have been able to benefit from and cost savings we have achieved particularly on our property costs.

A RARE GEORGE II CEREMONIAL CHAIR

An extremely unusual and oversize walnut armchair with concave vase-shaped splat and broad sloping shoulders ornamented with carved and gilt acanthus and volute terminals. The central splat inlaid with floral marquetry and motto, 'FOR OUR COUNTRY', the side rails further inlaid with husk pendants. The arms terminate in finely carved lions' masks, above compass seat supported by cabriole legs ending in pad feet. Possibly by Francis Brodie of Edinburgh.
England, circa 1730

UK turnover increased by 14% to £6.5m (2011 – £5.7m) which is encouraging particularly as it included the disruption on moving premises in February. Clients have enjoyed the experience of visiting our new premises at Ely House and moving off Bond Street does not appear to have had an adverse impact. Turnover from our US showroom fell to £3.0m (2011 – £3.7m) and it was particularly weak in the second half of the year which included the US presidential elections and Superstorm Sandy. US margins, however, were improved which meant its EBITDA loss was much improved at £0.03m (2011 – £0.9m)

I visited China twice in the year and made some important contacts, establishing relationships with a number of key influencers, collectors and museum curators in Shanghai and Beijing

Costs

The move from New Bond Street to Ely House has resulted in a saving in our property costs of £0.7m. Coupled with reduced staff costs through no bonuses being paid for the year and savings elsewhere in the business, operating costs were reduced by a further £1.0m in 2012.

We maintained our marketing spend at £0.7m for the year, exhibiting at four fairs again in the year and producing one high quality catalogue. We did not attend the Fine Art Asia fair in Hong Kong again in 2012, but, instead, I visited China twice in the year, each being a 10 day trip, and made some important contacts, establishing relationships with a number of key influencers, collectors and museum curators in Shanghai and Beijing.

In November, after an extensive pre-planning exercise to assess the viability of the project, we submitted an application to Lambeth Council for planning permission to redevelop our freehold premises in Clapham into seven residential flats. The property

Chief Executive's Report continued

currently is let to our restoration subsidiary, Hatfields. In 2009 we impaired the cost of the property, which we purchased in 2007 for £2m, by £0.2m reflecting the fall in property values at that time, particularly in commercial property. Obtaining planning permission to redevelop into residential flats, we believe, will enhance the value of the property significantly and therefore we have written back the £0.2m impairment in these results. On 11 March 2013, planning permission was granted and the Board is now considering the options for the Clapham property to maximise value for the Group.

Subsidiaries and associates

JHBA had a difficult year resulting in a trading loss before tax of £0.1m (2011 – profit of £0.1m). Without sufficient funding to grow stock levels, JHBA is reliant on finding high quality consignment stock paintings to sell and this creates a very volatile trading result year on year. It is unlikely that Mallett will wish to provide significant funds to JHBA in the near future and therefore the Board has decided to exit from its remaining interest in JHBA. Negotiations are ongoing with James Harvey regarding the sale of Mallett's stake to him and therefore the results of JHBA for 2012 and 2011, and costs associated with the exit from JHBA of £0.1m have been reported as discontinued operations.

Hatfields had a good year with its third party revenue increasing by 27%, resulting in it returning to profitability. With the planning permission for redevelopment granted on the Clapham property it is likely Hatfields will have to relocate in 2013. However,

A PAIR OF 19TH CENTURY ELEPHANTS

A charming pair of mid 19th century carved ornamental elephants, their bodies painted with faux pearls, flowers and beads their heads with floral comparisons and their backs with stylised rugs adorned with bells, their feet and husks with gold bangles, each holding forest fruits in their trunks. Their Mahout's equally dressed in enriched silk stylised gowns. Anglo-Indian, circa 1860

Hatfields continues to provide a vital service to Mallett in ensuring Mallett's pieces are restored and maintained to the highest quality and we will look to relocate to premises that allow it to maintain its high quality service and improve its profitability further.

Masterpiece London Limited put on its third fair at the end of June at the Royal Hospital, London. It was again regarded as a successful fair and Mallett's share of the profit was £50,000 (2011 – £86,000). No significant change in the format of the fair is expected for 2013.

Meta had a very quiet year and it has been agreed to mothball any further development and trade its existing portfolio of products within Mallett.

Balance Sheet and Cashflow

Shareholders' equity at 31 December 2012 was £14.5m (2011 – £15.4m). The £0.9m decrease in the year represents £0.3m loss for the year, £0.3m actuarial losses from the Group's defined benefit pension scheme and £0.2m exchange loss in the year.

Inventory value reduced slightly to £11.9m at 31 December 2012 (2011 – £12.3m) as we have looked to maintain our inventory level in the knowledge that greatest profit is achieved from owned stock that has been purchased well. We continue to take more items on consignment, the total cost of which now exceeds £16m, which allows us to exhibit some exceptional pieces.

Net debt at 31 December 2012 was £0.7m (2011 – £1.1m). We received £1.7m from the assignment of the New Bond Street lease in February 2012. £1.3m of this was used to cover professional fees, the costs of moving out of the New Bond Street property and refurbishing Ely House with the remaining balance being retained for stock purchases when excellent opportunities arise. Coutts & Co are currently undertaking their annual review of our £2.5m overdraft facility and we are confident we will have adequate facilities in place to cover our cashflow requirements for the foreseeable future.

The deficit in our defined benefit pension scheme has remained constant at £1.6m (2011 – £1.6m) under IAS19. Low gilt yields continue to increase the pension scheme liabilities and offset the £0.3m the Company is contributing annually to reduce the deficit.

Outlook

The decorative arts market remains unpredictable and challenging and we are continually adapting our approach to meet these challenges. Clients are attracted more to the smaller, fantasy objects at present and our stock buying will focus in this area. Our cost base is becoming more flexible whilst still centred around the key hubs of London and New York, and our marketing will make use of our website to a greater and greater degree. We are striving to generate consistent profit growth and we believe our strategy will deliver this.

Giles Hutchinson Smith
Chief Executive

Subsidiaries & Associates

JAMES HARVEY BRITISH ART
A MALLETT COMPANY

British art from the 17th century to the present day with an emphasis on less established names of the 18th and 19th centuries.

ESTABLISHED 1834
HATFIELDS

One of the world's longest established restorers of furniture and works of art.

MASTERPIECE
2012 | LONDON

Organiser of a major art and antiques fair in London for exhibitors to display the best of the best from a wide spectrum of art and design.

Meta

Contemporary objects and furniture, designed in the 21st century but crafted with exquisite materials and master craftsmanship from the 18th century.

A GILT BRONZE LOUIS XVI CLOCK

A highly unusual gilt bronze and rouge griotte clock in the early neo-classical style. The clock face flanked by fluted and reeded pilasters with foliate enriched scrolls. The maker of the clock, Jean Léonard Roque, was an ingenious mechanic and specialised in the production of luxury clocks. France, circa 1770

A PAIR OF GILT METAL LANTERNS

A pair of late 19th century circular, rococo revival lanterns of large-scale, the 'C' and 'S' scroll-shaped canopy supporting five glass panels, each of serpentine form, bordered by decorative foliate scroll gilt frames with a central foliate motif, each with a five branch chandelier. France, circa 1880

AN EARLY 20TH CENTURY TABRIZ CARPET

A fine Tabriz carpet woven in commemoration of the 50th birthday of the Grand Duke George Mikhailovich, presented to him by the 81st regiment, of which he was Colonel-in-Chief. Around the central medallion reads the Russian inscription: "To our beloved Colonel-in-Chief, from the 81st Apsheronski infantry Regiment; 1863-1913". The Grand Duke's initials are in the centre of the medallion under a crown. On either side of the central medallion are two smaller cartouches in which the initials of his two daughters appear. Grand Duke George Mikhailovich of Russia (23 August 1863-28 January 1919), was a son of Grand Duke Michael Nicolaievich of Russia and a first cousin of Emperor Alexander III. Persia, circa 1913

A PAIR OF CARVED ROCOCO GILTWOOD GIRANDOLES

A pair of magnificent Chippendale carved giltwood girandoles of large size, retaining their original mirror plates, the borders formed of elaborately entwined foliate and 'C' scrolls, with leafy branches, urns of flowers and icicles, each with two curving candle arms. In the manner of Thomas Johnson. England, circa 1760

A FINE QUALITY GEORGE III GILTWOOD SETTEE

This archetypal late eighteenth century model of settee was popularised by the neo-classical architect Robert Adam for his affluent clients. The model, with sweeping moulded back rail and down swept arms supported on a shallow curved apron and four fluted front legs has similarities with a number of documented works by the London cabinet maker John Linnell and currently exhibited at Osterly Park, Middlesex. England, circa 1775

A SET OF SIX EARLY 19TH CENTURY SIDE CHAIRS IN KYRELIAN BIRCH

This set of chairs utilise the rare highly figured indigenous blond wood that is so typical of Russian furniture from this period. The design of the chairs, however, looks very much to Vienna for inspiration and the work of Joseph Danhauser who is known for his broadly classical style but fanciful chair backs including interlocking scrolls and fan shapes, as can be observed in these chairs. Russia, circa 1825

Board of Directors

Lord Daresbury

Non-Executive Chairman, aged 59

Lord Daresbury joined the Company as a Non-Executive Director in 2007 and was appointed Non-Executive Chairman of the Company on 1 January 2009. He is currently Non-Executive Director of Jockey Club Racecourses, Non-Executive Chairman of Nastar plc and Non-Executive Chairman of Stellar Diamonds plc. Formerly, he was Chief Executive of The Greenalls Group plc and following the sale of the Pubs and Restaurant Division to Scottish & Newcastle at the end of 1999, he became Non-Executive Chairman of the Company, which was re-named De Vere Group plc. He retired from De Vere Group in April 2006.

Giles H. Hutchinson Smith

Chief Executive, aged 50

Giles joined the Company in 1983 before leaving in 1987 to spend time in America and at Aspreys in London. He re-joined the Company in 1993 and became a director of the Company in 1999. He was appointed Chief Executive in January 2009 and is actively involved in the buying and selling of stock for the Group. He is currently Vice Chairman of the British Antique Dealers Association and also serves on numerous vetting committees of international art and antique fairs.

Michael A. Smyth-Osbourne

Finance Director and Company Secretary, aged 46

Michael joined the Company, as Finance Director, in 2006. Previously he was Head of Corporate Finance at National Grid plc and Lattice Group plc, having qualified as a Chartered Accountant with Deloitte & Touche in 1992.

M. Henry G. Neville

Sales & Marketing Director, aged 53

Henry joined the Company in 1984 and became a director of the Company in 1999. He is currently President of Mallett, Inc. with responsibility for the Group's New York showroom having moved to New York in 2006, as well as being responsible for the Group's sales and marketing. He has been Chairman of the British Antique Dealers Association and President of the International Trade Federation CINOA. He has published a number of articles on the decorative arts, particularly with reference to food and dining in the 18th and 19th centuries.

James Heneage

Independent Non-Executive Director and Chairman of the Audit and Remuneration Committees, aged 55

James was the founder of the Ottakar's chain of bookshops which he created in 1987, floated on the London Stock Exchange in 1998 and sold to Waterstone's, part of HMV UK, in 2006. Prior to that he spent five years in the advertising industry, ending as an Account Director at Ogilvy and Mather.

Report of the Directors

Year ended 31 December 2012

The directors of Mallett plc have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2012.

Activities and Business and Financial Review

The principal activities of the Group during the year were dealing in high quality antique furniture and works of art. A review of the activities of the Group is given in the Chairman's Statement on page 5 and the Chief Executive's Report on pages 6 to 9.

Results

The results for the year are set out in full on page 26. The operating loss from continuing activities, before interest and tax, amounts to £136,000 (2011 – profit of £365,000). After incurring net interest payable of £9,000 (2011 – £25,000) and gaining a share of profit in associate of £50,000 (2011 – £86,000), the loss on ordinary activities before taxation amounts to £95,000 (2011 – profit of £426,000). After taxation of £1,000 (2011 – £29,000) and a loss from discontinuing operations, net of tax, of £222,000 (2011 – profit of £61,000) there remains a loss of £318,000 (2011 – profit of £458,000).

Principal Risk 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:

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. To manage this risk we monitor our cashflow and costs closely to ensure security in times of low demand.

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. To manage this risk we monitor our cashflow and costs closely to ensure security in times of low demand.

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. To manage this risk we focus on strong client relations to maintain our awareness of changing tastes and we take this into account when buying stock.

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. A strongly incentivised bonus structure is in place to reward success.

Competition

The art market is highly competitive, including competition with other art dealers and with auctioneers. Strong client relationships maintain loyalty to Mallett.

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. Our team is very aware of market conditions to know the value of an item at any one time. On a periodic basis we consult with external parties in our consideration of the carrying value of inventories.

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. Our team maintains strong relationships with collectors and other dealers to ensure awareness of when good quality items become available.

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 a significant impact on the Group's results. US Dollars are exchanged into £ Sterling on a regular basis to match cash received with sales made.

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. An actuarial valuation is performed every three years with a recovery plan agreed with the trustees to eliminate any deficit.

Financial Risk Management

The main financial risks to the Group relate to the availability of funds to meet it's business needs. Further disclosure on the Group's financial risk management can be found in note 3 and note 19 to the accounts.

Key Performance Indicators

The directors consider the following to be key performance indicators of the Group:

Financial	2012	2011
Turnover (£'000)	**£10,183**	£10,222
Gross margin	**11.65%**	5.14%
Operating profit/(loss) (£'000)	**(£136)**	£365
Net debt (£'000)	**(£659)**	(£1,121)
Net assets per share	**£1.07**	£1.11

Non financial

Customer satisfaction

We strive to improve our service to new and existing customers, ensuring high standards of customer satisfaction. The directors regularly talk to existing clients to gauge the level of satisfaction in the services provided.

Report of the Directors continued

Year ended 31 December 2012

Employee development and turnover
We are committed to attracting and retaining the highest calibre of employees and developing their professional careers. The directors undertake staff reviews at the end of each year to assess the calibre and development of staff and review staff turnover at the end of each year.

Dividends
There was no interim dividend paid in 2012 (2011 – nil) and the directors do not recommend a final dividend for 2012 (2011 – nil).

Directors
The names of the directors who served the Company during the year are shown below. Details of their biographies are on page 14.

Lord Daresbury*
J.A. Heneage*
G.H. Hutchinson Smith
M.H.G. Neville
M.A. Smyth-Osbourne

* non-executive

Directors' Interests
Details of the directors' interests in the Company's share capital are included in the Directors' Remuneration Report on pages 20 to 23.

Apart from service contracts, none of the directors had a material beneficial interest in any contract in which the Company or any of its subsidiaries was a party during the year.

There were no changes in the interests of the directors between 31 December 2012 and 27 March 2013.

Share Capital and Control
The issued share capital of the Company consists of 13,800,060 ordinary shares of 5 pence each. There are no restrictions on the transfer of securities in the Company other than those imposed by law and regulations and pursuant to the Listing Rules of the Financial Services Authority whereby directors and senior employees of the Group may require the approval of the Company to deal. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities in the Company.

The full rights and obligations attached to each class of share, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary. The Articles of Association also set out the rules governing the appointment and replacement of the board members. Any changes to the Articles of Association must be approved by special resolution of the Company. Further details of the share capital of the Company are set out in note 24 to the accounts.

The Group operates a Share Incentive Plan for the benefit of all its employees. The shares are held in a trust on behalf of the employees. As at 31 December 2012 the trust held 466,042 ordinary shares and any voting or other similar decisions relating to those shares would be taken by the trustees, who may take account of the recommendations of the Company and the employees.

The Group also operates a Long Term Incentive Plan for the benefit of its directors. The shares are held in a trust on behalf of the directors. As at 31 December 2012 the trust held 94,436 ordinary shares and any voting or other similar decisions relating to those shares would be taken by the trustees, who may take account of the recommendations of the Company and the employees.

At the Company's 2012 Annual General Meeting shareholder authority was given to purchase up to 10% of the Company's ordinary shares. The Directors intend to seek shareholder approval to renew this authority at this year's Annual General Meeting.

There are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of a change of control of the Company. There are also no agreements providing for compensation for directors or employees on change of control.

Substantial Shareholdings
As at 27 March 2013, the Company has received notification of the following substantial shareholdings amounting in each case to more than 3 per cent of the issued share capital of the Company:

	5p Ordinary Shares	%
The Weinstock Trust Additional Fund	4,130,000	29.93
Peter Gyllenhammar	3,627,000	26.30
Church House Investments	1,150,000	8.33
Stichting Value Partners	676,000	4.90
Mrs. S. Fenwick	534,000	3.87
Mallett Share Incentive Plan	466,042	3.38

Close Company Status
The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Creditor Payment Policy
Whilst the Group does not follow any published code or standard on payment practice, it continues to be the Group's policy to pay its suppliers in the middle of the month following receipt of the invoice except in certain cases where the Group agrees special terms, in which case it is the Group's policy to ensure the supplier is aware of them and to abide by those terms provided the supplier has performed in accordance with the relevant terms and conditions. As at the financial year end the number of days' purchases outstanding was thirty days, excluding transactions with special credit terms.

Approval of Directors' Remuneration Report
In accordance with the Companies Act 2006, directors of quoted companies are required to prepare a remuneration report which must be approved by the members of the company at the meeting at which the company's annual accounts are to be laid.

The Directors' Remuneration Report contains inter alia details of the directors, a forward looking statement of the Company's policy on directors' remuneration for subsequent financial years, a performance graph showing the Company's total shareholder return and the return on a hypothetical holding of similar shares to those on which a broad equity market index is calculated, details of the directors' service contracts and specific disclosures relating to each director's remuneration.

Resolution 2 will be proposed at the 2013 Annual General Meeting as an ordinary resolution to approve the Directors' Remuneration Report for the year ended 31 December 2012 as set out on pages 20 to 23 of the these accounts.

Corporate Governance
The Group's statement on corporate governance can be found in the Corporate Governance Report on pages 18 to 19 of these financial statements. The Corporate Governance Report forms part of the Report of the Directors and is incorporated by cross reference.

Auditors and Disclosure of Information to Auditors
Each of the directors confirms that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that he has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting
The 2013 Annual General Meeting will be held at Ely House, 37 Dover Street, London W1S 4NJ on 30 May 2013 at 4.30 p.m. The notice for the 2013 Annual General Meeting is included in these accounts on page 53. The business to be transacted at the Annual General Meeting includes the following:

Resolution 6 – Authority to allot shares or grant subscription or conversion rights (ordinary resolution)
Resolution 6 asks shareholders to grant the directors authority under section 551 of the Companies Act 2006 (the "Act") to allot shares or grant such subscription or conversion rights as are contemplated by sections 551(1)(a) and (b) respectively of the Act up to a maximum aggregate nominal value of £230,001, being approximately one-third of the nominal value of the issued ordinary share capital of the Company as at 27 March 2013. The authority will expire five years from the date of the passing of the resolution (unless previously revoked or varied by the Company in general meeting). The resolution replaces a similar resolution passed at the Annual General Meeting of the Company held on 31 May 2012. The directors have no present intention of exercising such general authority.

Resolution 7 – Purchase of own shares by the Company (special resolution)
Resolution 7 seeks authority from holders of ordinary shares of 5p in the capital of the Company ("Ordinary Shares") for the Company to make market purchases of its own Ordinary Shares, such authority being limited to the purchase of 10% of the Ordinary Shares in issue as at 27 March 2013. The maximum price (exclusive of expenses) payable for the purchase by the Company of its own Ordinary Shares will be limited to 5% above the average price at which deals are done in the Ordinary Shares taken from the Appendix to The London Stock Exchange Daily Official List for the five business days before the purchase is made. The minimum price payable by the Company for the purchase of its own Ordinary Shares will be 5p per share (being the amount equal to the nominal value of an Ordinary Share). The authority to purchase the Company's own Ordinary Shares will only be exercised if the directors consider that there is likely to be a beneficial impact on earnings per Ordinary Share and that it is in the best interests of the Company at the time.

There were no options to subscribe for Ordinary Shares outstanding as at 27 March 2013.

Resolution 8 – Calling of general meetings (special resolution)
Resolution 8 to be proposed at the Annual General Meeting seeks authority from shareholders to hold general meetings (other than Annual General Meetings) on 14 days' clear notice. This is permissible under the Company's Articles of Association and the Act. However, pursuant to the EU Shareholders' Rights Directive, the Company must offer the facility, accessible to all shareholders, to vote by electronic means and must obtain specific shareholder approval on an annual basis in order to retain this ability. The directors believe that there may be circumstances in which it will be important for the Company to be able to call meetings at such short notice. Accordingly, the directors believe that it is important for the Company to retain this flexibility.

The Board believes that the resolutions to be put to the Annual General Meeting are in the best interests of the shareholders as a whole and accordingly recommends that shareholders vote in favour of the resolutions, as the directors intend to do in respect, where applicable, of their beneficial holdings in the Company.

Auditors' Independence and Objectivity
The Board recognises the importance of ensuring the independence and objectivity of the Company's auditors. It reviews the nature and extent of the services provided by them, the level of their fees and the element comprising non-audit fees. Details of these are disclosed in note 7 to the accounts. The Board also receives annual confirmation from the auditors of their independence.

A resolution will be proposed at the 2013 Annual General Meeting to re-appoint BDO LLP as auditors to the Company for the ensuing year and authorising the directors to fix their remuneration.

By order of the Board
M.A. Smyth-Osbourne ACA
Secretary

27 March 2013

Corporate Governance

Year ended 31 December 2012

Application of Combined Code Principles
Throughout the year, except where indicated in this report, the Company complied with the provisions of the UK Corporate Governance Code (2010 edition) issued by the Financial Reporting Council. The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code (as applicable) and aims to comply with established best practice whenever possible and when it is in the Company's best interests. Further information on the UK Corporate Governance Code which currently applies to the Company can be found at the Financial Reporting Council's website at www.frc.org.uk.

The Board
Throughout the year the Board consisted of a non-executive Chairman, separate Chief Executive, one independent non-executive director and two other executive directors. Please refer to page 14 for further details on the directors, including their roles and for the non-executive directors, their other commitments.

The Board considers the non-executive director to be independent of management and free from any business or other relationship which could interfere with the exercise of his independent judgement. He has not previously been employed by the Company and the Board believes that his interest in receiving fees as a director does not prejudice his independence. He brings an independent judgement to bear on issues of strategy, performance, resources, the appointment of executive directors and other key appointments, and standards of conduct. He is also the senior independent non-executive director. The Board recognises that having only one independent non-executive director throughout the period under review is not in compliance with B.1.2 of the UK Corporate Governance Code which requires the Company to have two independent non-executive directors. However, the Board believes the current make-up of the Board is appropriate for Mallett given its size and operational characteristics.

The Board met twelve times during the year. Lord Daresbury, James Heneage and Michael Smyth-Osbourne attended all the meetings, Giles Hutchinson Smith attended eleven of the meetings and Henry Neville attended ten of the meetings in the year.

The Board has a formal schedule of matters specifically reserved to it for decisions. This includes the determination of strategy, the approval of business plans and budgets, the approval of acquisitions, disposal and major capital purchases, and the approval of the annual and interim reports of the Company, including the interim dividend and recommendation of the final dividend to shareholders, and the appointment of directors.

The directors have the right to obtain external independent professional advice at the Company's expense. The Company Secretary is responsible to the Board, inter alia, for ensuring that Board procedures are followed and for compliance with applicable rules and regulations including the UK Corporate Governance Code.

The Board has formal and informal procedures to monitor its performance both as individuals at annual appraisals and as a Board or Committee.

Full details of the directors' service contracts and remuneration are given in the Directors' Remuneration Report on pages 20 to 23.

Relations with Shareholders
The Board is responsible for ensuring the Company maintains a satisfactory dialogue with shareholders. A number of meetings were held during the year between members of the Board and the major shareholders of the Company, including a presentation of the Group's 2011 results in April 2012.

The directors consider significant shareholdings to be holdings where an individual holds a direct or indirect shareholding of greater than 20% of the Company's ordinary share capital.

To the extent that the Company is aware, the significant shareholdings identified in the substantial shareholdings section of the Report of the Directors are held by those individuals for the purpose of investment potential.

The Board welcomes as many shareholders as possible to attend the Annual General Meeting and encourages discussion on issues of concern or areas of uncertainty. Questions from shareholders are welcomed. A separate resolution will be proposed at the Annual General Meeting in respect of each substantially separate issue. There will also be a separate resolution proposed in respect of the report and financial statements.

Audit Committee
The Audit Committee is made up of all the non-executive directors and is chaired by James Heneage. Two Audit Committee meetings were held during the year which were attended by all the members of the Audit Committee. Those meetings were also attended by the Chief Executive, the Finance Director and the external auditors.

The Audit Committee has written terms of reference, which deal clearly with its authority and duties. The duties of the Audit Committee include keeping under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditors.

Nominations Committee
No formal Nominations Committee has been set up by the Board. All matters regarding the appointment of directors are made by the Board as a whole. In view of the size of the Company the Board considers it appropriate to undertake this function as a whole. This is not in compliance with the UK Corporate Governance Code which requires a nominations committee, with the majority of members being independent non-executive directors to lead the process of Board appointments.

Directors' Conflicts of Interest
In compliance with the conflicts of interest regime under the Act, the Company's Articles of Association contain procedures to deal with directors' conflicts of interest which the Board fully implements. The Board considers that these have operated effectively throughout the year.

Internal Control and Financial Reporting
The Company complies with the current requirements for reporting and controls and has had an Audit Committee throughout the year, which is made up of all the non-executive directors.

The Board has overall responsibility for the Group's system of internal control and has reviewed the effectiveness of the Group's system of financial control during the year. The system is designed to provide reasonable but not absolute assurance against material misstatement or loss.

The Group operates a comprehensive annual reporting and financial operating system which involves a review of the results with projections on a monthly basis. At each of its meetings the Board reviews the performance of the major business units across the Group.

The Group has put in place an operational structure with clearly defined lines of authority and accountability, particularly in the areas of capital and stock expenditure. Due to the small size of the Group, there is no separate internal audit function. A key control procedure is the day to day supervision of the business by the executive directors, supported by the senior managers with responsibility for key operations.

The effectiveness of the Group's systems of internal control is monitored by the Board and the Audit Committee. The Audit Committee will undertake a detailed review covering all controls, including financial, operational and compliance controls and risk management during the year to ensure the effectiveness of the controls.

Going Concern
In consideration of going concern, the directors have reviewed the Group's future cashflow forecasts and revenue projections which they believe are based on a realistic assessment of future business performance.

The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group should be able to operate within the level of its agreed facilities. Therefore, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Corporate Social Responsibility
The Company adopts a responsible attitude to Social Environmental and Ethical (SEE) issues. The Board has concentrated on suitable training and health and safety measures to ensure compliance with best practice. The Company is adopting a clear Whistleblowing Policy and is undertaking an exercise to ensure all staff are aware of it and in particular its confidential nature.

Directors' Remuneration Report

Year ended 31 December 2012

This report has been prepared in accordance with the Act. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to the directors' remuneration in the UK Corporate Governance Code. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. This report has therefore been divided into separate sections for audited and unaudited information.

PART 1 – UNAUDITED INFORMATION

The Remuneration Committee

The role of the Remuneration Committee is to establish Board policy in respect of terms of employment, including remuneration packages, for each executive director and certain senior managers, and to monitor their development programmes. The Remuneration Committee seeks to encourage the enhancement of the Group's performance and to ensure that directors are fairly, and responsibly, rewarded for their individual contributions. Accordingly, it can confirm that it has taken into account the provisions of the UK Corporate Governance Code in framing its remuneration policy. The Remuneration Committee consults with the Chief Executive and Finance Director, who may be invited to attend some meetings, and it has access to professional advice from both internal and external sources in order to determine and develop its policies.

During the year the Remuneration Committee comprised of James Heneage as Chairman and Lord Daresbury, being both the non-executive directors, who are not paid for their services relative to the amount of work undertaken and do not receive any share options, bonuses or pension entitlements. It met five times in the year and both members attended the meetings.

Directors' Remuneration Policy

The Company's current and ongoing policy on remuneration is to ensure that the remuneration packages for executive directors are competitive and designed to attract, retain and motivate individuals of the highest calibre, whilst at the same time having regard to the pay and employment conditions of employees throughout the Group.

The Remuneration Committee's policy is that remuneration packages should be competitive but not extravagant, and should be broadly in line with the average packages in the market in which the Company operates. In addition, there should be a clear link between performance and remuneration.

Reward Package

The remuneration policy is applied in respect of each component part of the total remuneration package as follows:

Basic Salary

Basic salaries, including benefits, are set at levels consistent with individual performance, and the market rate applicable to jobs of similar complexity and responsibility. To measure this, the Remuneration Committee reviews the basic salaries of the executive directors annually.

Benefits

The term "benefits" includes the payment of a car allowance, private health insurance and other non-cash taxable benefits.

Bonuses

All executive directors are eligible to receive performance bonuses based on the profitability of the Group. Performance bonuses are at the sole discretion of the Remuneration Committee. For 2013, stretching targets for profit before tax have been set on a sliding scale basis.

Pensions

The executive directors, except M.A. Smyth-Osbourne, are members of the Group's defined benefits pension scheme, which will provide them, at normal retirement age (of 65 years old), with a pension of up to two thirds of their salary, subject to length of service, HM Revenue and Customs limits and other statutory rules. Spouses become entitled to 50% of the director's pension entitlement following the death of the director. This scheme is closed to new entrants and closed to future accrual.

Those executive directors now contribute into the Mallett Group Personal Pension Plan, a defined contribution pension scheme open to all employees. The Group contributes up to 10% of salary into the scheme dependent on the level of contribution by the employee.

The company contributes to a separate defined contribution scheme for M.A. Smyth-Osbourne.

Share Incentive Plan

The Group operates a share incentive plan to benefit all employees. Under this plan each director has been awarded Mallett plc ordinary shares ("Shares") with a value of £3,000 in 2012 (Free Shares). These Shares are held in trust and the directors only become entitled to them if they remain in employment for at least three years from the date of the award.

The plan also entitles employees, including directors, to acquire at their own expense up to £1,500 worth of Shares (Partnership Shares) in any one year to be held in trust under a partnership agreement. The Company has agreed to provide two matching Shares for every Partnership Share purchased on behalf of the employee (Matching Shares).

Any dividends received by the trustees on behalf of employee shares held under the Share Incentive Plan are reinvested as Dividend Shares.

Details of the directors' interests held under the Share Incentive Plan are shown on page 23.

The entitlement of the directors under the Share Incentive Plan is not subject to any performance conditions (though they are subject to service conditions). This is because the Share Incentive Plan is a plan for all employees of the Company and no employees' entitlement under it is subject to performance conditions. Additionally, the aim of the plan is to encourage employee shareholding in the Company.

Long Term Incentive Plan ("LTIP")

The LTIP provides for the Remuneration Committee to grant conditional awards over Shares to executive directors and other employees of the Group, selected at the discretion of the Remuneration Committee.

There are no LTIP awards currently in operation. The 2013 LTIP Award has been withdrawn.

Fees for Non–Executive Directors

The Board as a whole determines the remuneration of the non–executive directors.

Service Agreements

The Remuneration Committee reviews the position in respect of the length of notice of termination under directors' service agreements and it is current policy for the Company to appoint executive directors subject to a service agreement requiring not more than 12 months' notice to be given by either party. The Remuneration Committee considers that the period of notice of termination under directors' service agreements is appropriate in order to retain and recruit directors of a suitable calibre. These appointments are subject to election and re–election at the relevant Annual General Meeting according to the Company's Articles of Association.

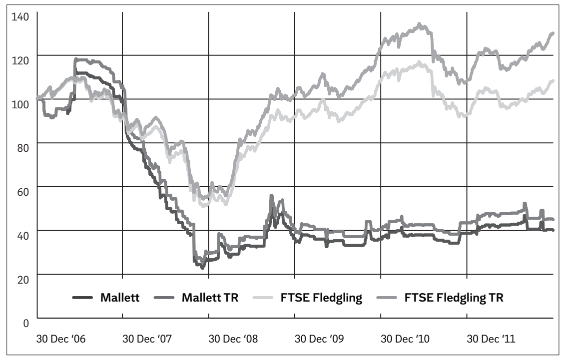
G.H. Hutchinson Smith and M.H.G. Neville entered into director's service contracts on 31 August 1999 and each has a notice period of twelve months. M.A. Smyth-Osbourne entered into a director's service agreement on 6 November 2006 and has a notice period of twelve months.

The executive directors have no contractual provisions for compensation upon early termination (with notice) of the contract. There is an entitlement to receive salary and benefits during the period of notice, which may be paid 'in lieu' of all or part of any period of notice. There are no entitlements to payments of any sort in the event that the Company summarily terminates an executive director's employment.

Independent non-executive directors do not have service agreements and, in accordance with the Company's Articles of Association, their appointment may be terminated at any time without compensation.

Performance Graph

As required by legislation regarding the Directors' Remuneration Report, this graph illustrates the performance of the Company measured by total shareholder return (share price growth plus dividend paid) against a "broad equity market index" over the past 5 years. The Company has been a constituent of the FTSE Fledgling index throughout this period, therefore this is considered to be the most appropriate benchmark.



Notes

1) The graph shows total shareholder return of a nominal holding of £100 of Mallett plc shares measured against the total shareholder return of an initial nominal holding £100 in the FTSE Fledgling index over a 5 year period.
2) Dividends have been reinvested.

Directors' Remuneration Report continued

Year ended 31 December 2012

PART 2 – AUDITED INFORMATION

Directors' Emoluments

The emoluments of the directors were as follows:

	2012 £'000	2011 £'000
Salaries and benefits	**435**	596
Share based payments	**15**	31
Payments made to non-executive directors	**80**	80
	530	707
Company pension contributions and payments	**53**	52
	583	759

	2012 Basic salary and fees £'000	2012 Performance related bonus £'000	2012 Benefits £'000	**2012 Total £'000**	2011 Total £'000	**2012 Pension contributions £'000**	2011 Pension contributions £'000
Executive Directors:							
G.H. Hutchinson Smith	137	-	22	**159**	212	**14**	13
M.H.G. Neville	134	-	1	**135**	191	**11**	11
M.A. Smyth-Osbourne	129	-	11	**141**	193	**28**	28
Non–Executive Directors:							
Lord Daresbury	40	-	-	40	40	-	-
J. Heneage	30	-	-	30	30	-	-

£10,000 (2011 – £10,000) was paid to Daresbury Properties Limited, a company controlled by Lord Daresbury, for office expenses incurred in his role as non-executive director of the Company.

Directors' Pensions

G.H. Hutchinson Smith and M.H.G. Neville are deferred members of the Group's defined benefits pension scheme and the table below shows their accrued benefit at the year end.

	Current age	Director contributions during year £'000	Accumulated total annual benefit on leaving service: Increase in year £'000	Accumulated total annual benefit on leaving service: At end of year £'000	Transfer Value as at 31 December 2012 £'000	Transfer Value as at 31 December 2011 £'000	Movement in Transfer Value £'000
G.H. Hutchinson Smith	50	-	-	27	375	378	(3)
M.H.G. Neville	53	-	-	40	450	443	7

During the year the Group contributed £13,000 (2011 – £13,000) into the Group's defined contribution pension scheme for G.H. Hutchinson Smith, £28,315 (2011 – £28,315) into a separate defined contribution pension scheme for M.A. Smyth-Osbourne and gave a pension entitlement of £10,760 (2011 – £10,760) to M.H.G. Neville.

Directors' Interests

At 31 December 2012 the directors of the Company and persons connected to them had the following interests in the Company's share capital:

	31 December 2012 5p ordinary shares Non-beneficial	**31 December 2012 5p ordinary shares Beneficial**	31 December 2011 5p ordinary shares Non-beneficial	31 December 2011 5p ordinary shares Beneficial
Lord Daresbury	-	**-**	-	-
James Heneage	-	**10,000**	-	10,000
G.H. Hutchinson Smith	-	**107,876**	-	36,843
M.H.G. Neville	-	**101,191**	-	43,292
M.A. Smyth-Osbourne	-	**87,849**	-	24,316

Directors' Interests in the Share Incentive Plan

During the year the executive directors were awarded Free Shares with a value of £3,000 (2011 – £3,000). G.H. Hutchinson Smith and M.A. Smyth-Osbourne acquired, at their own expense, Partnership Shares to the value of £1,500 (2011 – £1,500) and, under the two for one matching arrangement, the Group therefore purchased Matching Shares to the value of £3,000 (2011 – £3,000) for each of those directors.

The table below gives details of the directors' holdings of shares awarded under the Share Incentive Plan.

		G.H. Hutchinson Smith	M.H.G. Neville	M.A. Smyth-Osbourne
Total interest as at 1 January 2012	Number of ordinary shares	45,812	17,779	40,691
Number of Shares granted/(exercised) during the year				
Free	granted	3,822	3,822	3,822
	exercised	(1,253)	(1,253)	-
Partnership Shares	granted	1,955	-	1,955
	exercised	(689)	-	-
Matching Shares	granted	3,911	-	3,911
	exercised	(1,378)	-	-
Dividend Shares	granted	-	-	-
	exercised	-	-	-
Total interest as at 31 December 2012	Number of ordinary shares	52,180	20,348	50,379
End of the period of latest qualifying conditions		01/05/2016	01/05/2016	01/05/2016

The market price of the Shares exercised in the year at the date of exercise was 71 pence per share.

Approved by the board and signed on its behalf on 27 March 2013:

M.A. Smyth-Osbourne A.C.A. *Secretary*

Statement of Directors' Responsibilities

Year ended 31 December 2012

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements and have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- prepare a director's report and director's remuneration report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication
The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4
The directors confirm to the best of their knowledge:

- the Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- the annual report includes a fair review of the development and performance of the business and the financial position of the Group and the Parent Company, together with a description or the principal risks and uncertainties that they face.

Independent Auditor's Report to the Members of Mallett plc

Year ended 31 December 2012

We have audited the financial statements of Mallett plc for the year ended 31 December 2012 which comprise the Consolidated and Parent Company Balance Sheet, the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 24 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 19, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Sophia Bevan (Senior Statutory Auditor)
For and on behalf of
BDO LLP Statutory Auditors
United Kingdom

27 March 2013

BDO LLP is a Limited Liability Partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement
Year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Revenue	5	**10,183**	10,222
Cost of sales		**(8,996)**	(9,681)
Gross profit		**1,187**	541
Other operating income	6	**(4)**	1,324
Distribution costs		**(205)**	(222)
Administrative expenses		**(1,114)**	(1,278)
Operating (loss)/profit	7	**(136)**	365
Net interest	9	**(9)**	(25)
Share of operating profit in associate	16	**50**	86
(Loss)/profit before income tax		**(95)**	426
Income tax	10	**(1)**	(29)
(Loss)/profit for the year		**(96)**	397
(Loss)/profit on discontinued operation, net of tax	11	**(222)**	61
		(318)	458
(Loss)/profit attributable to:			
Owners of the parent company		**(273)**	470
Non controlling interest		**(45)**	(12)
		(318)	458
Earnings per share attributable to the ordinary equity holders of the parent			
Basic earnings per share	12	**(2.39)p**	3.44p
Diluted earnings per share	12	**(2.29)p**	3.28p
Earnings per share from continuing operations			
Basic earnings per share	12	**(0.72)p**	2.98p
Diluted earnings per share	12	**(0.69)p**	2.84p

Consolidated Statement of Comprehensive Income
Year ended 31 December 2012

	2012 £'000	2011 £'000
(Loss)/profit for the year	**(318)**	458
Other comprehensive income:		
Exchange differences on translation of foreign operations	**(162)**	-
Actuarial loss on the defined benefit pension scheme	**(349)**	(196)
Total other comprehensive loss for the year, net of tax	**(511)**	(196)
Total comprehensive (loss)/income for the year	**(829)**	262
Total comprehensive (loss)/income attributable to:		
Owners of the parent company	**(784)**	274
Non controlling interest	**(45)**	(12)
	(829)	262

Consolidated Balance Sheet
At 31 December 2012

	Notes	2012 £'000	2011 £'000
Non-current assets			
Property, plant and equipment	14	**4,741**	4,608
Investment in associate	16	-	-
Deferred tax	21	-	-
		4,741	4,608
Current assets			
Inventories	15	**11,906**	12,304
Trade and other receivables	17	**3,302**	5,200
Cash and cash equivalents		**798**	325
		16,006	17,829
Assets in disposal groups classified as held for sale	22	**387**	-
		16,393	17,829
Total assets		**21,134**	22,437
Equity			
Share capital	24	**690**	690
Capital redemption reserve	25	**5,168**	5,168
Own shares	25	**(438)**	(513)
Retained profits		**9,214**	10,072
		14,634	15,416
Non controlling interest		**(89)**	(58)
Total equity		**14,545**	15,359
Current liabilities			
Trade and other payables		**3,196**	4,003
Bank overdrafts and loans		**1,457**	1,446
	18	**4,653**	5,449
Liabilities directly associated with assets in disposal groups classified as held for sale	22	**296**	-
		4,949	5,449
Non current liabilities			
Retirement benefit pension obligations	20	**1,640**	1,629
Total liabilities		**6,589**	7,078
Total equity and liabilities		**21,134**	22,437

The financial statements were approved by the board of directors and authorised for issue on 27 March 2013.

They were signed on its behalf by:

G.H. Hutchinson Smith *Director* M.A. Smyth-Osbourne *Director*

Company Number 1838233

Company Balance Sheet

At 31 December 2012

	Notes	2012 £'000	2011 £'000
Non-current assets			
Investments	*16*	**8,482**	8,482
Deferred tax	*21*	**-**	-
		8,482	8,482
Current assets			
Trade and other receivables	*17*	**5,955**	14,616
Cash and cash equivalents		**28**	8
		5,983	14,624
Total assets		**14,465**	23,106
Equity			
Share capital	*24*	**690**	690
Special capital reserve	*25*	**1,761**	1,761
Capital redemption reserve	*25*	**5,168**	5,168
Own shares	*25*	**-**	(100)
Retained profits		**6,797**	15,554
Total equity		**14,416**	23,073
Current liabilities			
Trade and other payables	*18*	**49**	33
		14,465	23,106

The financial statements were approved by the board of directors and authorised for issue on 27 March 2013.

They were signed on its behalf by:

G.H. Hutchinson Smith *Director* M.A. Smyth-Osbourne *Director*

Company Number 1838233

Statements of Changes in Equity

At 31 December 2012

Group	Share capital £'000	Capital redemption reserve £'000	Own shares £'000	Retained profits £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2011	690	5,168	(492)	9,699	15,065	(46)	15,019
Retained profit for the year				470	470	(12)	458
Total other comprehensive loss for the year				(196)	(196)		(196)
Disposal of interest in subsidiary				9	9		9
Net movement in own shares			(21)	90	69		69
At 31 December 2011	690	5,168	(513)	10,072	15,417	(58)	15,359
Retained loss for the year				(273)	(273)	(45)	(318)
Total other comprehensive loss for the year				(511)	(511)		(511)
Disposal of interest in subsidiary				(14)	(14)	14	-
Own shares exercised			149	(61)	88		88
Own shares purchased			(74)		(74)		(74)
At 31 December 2012	**690**	**5,168**	**(438)**	**9,214**	**14,634**	**(89)**	**14,545**

Company	Share capital £'000	Special capital reserve £'000	Capital redemption reserve £'000	Own shares £'000	Retained profits £'000	Total equity £'000
At 1 January 2011	690	1,761	5,168	(100)	15,703	23,222
Retained loss for the year					(174)	(174)
Net movement in own shares					16	16
At 31 December 2011	690	1,761	5,168	(100)	15,554	23,073
Retained loss for the year					(8,657)	(8,657)
Own shares exercised				100	(100)	-
At 31 December 2012	**690**	**1,761**	**5,168**	**-**	**6,797**	**14,416**

The share premium, capital redemption reserve and special capital reserve are not available for distribution.

Consolidated Cash Flow Statement

Year ended 31 December 2012

	Note	2012 £'000	2011 £'000
(Loss)/profit before income tax		**(95)**	508
Adjustments for:			
Net interest		**9**	25
Share of operating profit in associate		**(50)**	(86)
Operating (loss)/profit		**(136)**	447
Adjustments for:			
Depreciation		**348**	270
Freehold property impairment		**(200)**	-
Share-based payments		**(60)**	76
Defined benefit pension adjustment		**(338)**	(248)
Net exchange adjustments		**(86)**	6
Loss from discontinued operations		**(222)**	-
Movements in working capital:			
Decrease/(increase) in inventories		**272**	(223)
Decrease/(increase) in receivables		**1,751**	(690)
(Increase)/decrease in payables		**(460)**	895
Cash generated by operations		**869**	533
Tax paid		**(1)**	(28)
Net Cash from Operating Activities		**868**	505
Investing Activities			
Purchase of property, plant and equipment		**(357)**	(875)
Net Cash used in Investing Activities		**(357)**	(875)
Financing Activities			
Interest paid		**(9)**	(25)
Purchases of own shares		**74**	(76)
Net Cash used in Financing Activities		**65**	(101)
Net decrease in Cash and Cash Equivalents		**576**	(471)
Cash and Cash Equivalents at beginning of year		**(1,121)**	(650)
Cash and Cash Equivalents at end of year	*27*	**(545)**	(1,121)

Company Cash Flow Statement

Year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Loss before income tax		**(8,657)**	(173)
Intercompany bad debt provision		**8,411**	-
		(246)	(173)
Adjustments for:			
Share-based payments		**-**	16
Movements in working capital:			
Decrease in receivables		**250**	156
Increase/(decrease) in payables		**16**	(10)
Net Cash from Operating Activities		**20**	(11)
Financing Activities			
Dividends reclaimed		**-**	9
Net Cash used in Financing Activities		**-**	9
Net increase in Cash and Cash Equivalents		**20**	(2)
Cash and Cash Equivalents at beginning of year		**8**	10
Cash and Cash Equivalents at end of year	*27*	**28**	8

Notes to the Accounts

Year ended 31 December 2012

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 Ely House, 37 Dover Street, London W1S 4NJ.

The principal activities of the Company and its subsidiaries (together "the Group") are described in the Chairman's Statement, Chief Executive's Review, Report of the Directors' and note 5.

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) endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The Group accounts, which include the accounts of the Company and its subsidiaries, are presented on the basis of the historical cost convention except for equity settled share-based payments that have been measured at fair value. All companies' accounts are made up to 31 December 2012. Subsidiaries are included in the consolidation up to the date at which they ceased to be controlled, either by way of sale or other means.

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. Coutts & Co are currently undertaking their annual review of the Company's £2.5m overdraft facility and the directors are confident that the Company will have adequate facilities in place to cover the Group's cashflow requirements for the foreseeable future. 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. 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 2012 and therefore have not been applied in preparing these accounts:

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities which is effective for periods commencing on or after 1 January 2013.

IFRS 9 Financial Instruments which is effective for periods commencing on or after 1 January 2013.

IFRS 10 Consolidated Financial Statements which is effective for periods commencing on or after 1 January 2014.

IFRS 11 Joint Arrangements effective for periods commencing on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities effective for periods commencing on or after 1 January 2013.

IFRS 13 Fair Value Measurement effective for periods commencing on or after 1 January 2013.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income, which is effective for periods commencing on or after 1 July 2012.

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets, which is effective for periods commencing on or after 1 January 2012.

IAS 19 Employee Benefits which is effective for periods commencing on or after 1 January 2013.

IAS 27 Separate Financial Statements which is effective for periods commencing on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures which is effective for periods commencing on or after 1 January 2013.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities which is effective for periods commencing on or after 1 January 2014.

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. Revenue is recognised in the consolidated Income Statement when the significant risks and rewards of ownership have been transferred to the purchaser. This is generally considered to be the point at which an invoice is issued for the sale, except where the sold item requires manufacture, where the Group recognises revenue at the later of the issue of the invoice or when the goods in question have finished production and have passed any applicable factory and customer acceptance tests.

Where sold 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 purchaser.

d) Leased assets
Rentals under operating leases are charged to the Income Statement as incurred. Lease incentives received are recognised as an integral part of total lease expense, over the term of the lease.

The sale of a leased asset is recognised when all conditions relating to the sale agreement have been satisfied and the transaction becomes unconditional. This may be different to the date of completion of the transaction.

e) Inventories
Inventories are valued at cost, including purchase price and any restoration costs, 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.

Where inventory is held under consignment and the risks and rewards of ownership have not been considered transferred to the Group, no inventory or corresponding liability is recorded.

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

Freehold buildings	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
Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their functional currency) are recorded at rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rate ruling at one reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement.

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 recognised or reduced to the extent that it is 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 1 May 2010.

Defined benefit scheme surpluses and deficits are measured at:

- the fair value of plan assets at the reporting date; less
- plan liabilities calculated using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities; plus
- unrecognised past service costs; less
- the effect of minimum funding requirements agreed with scheme trustees.

Any difference between the expected return on assets and that actually achieved, and any changes in the liabilities over the year due to changes in assumptions or experience within the scheme, are recognised in other comprehensive income in the period in which they arise.

Past service costs are recognised directly in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time. In this case, the past service costs are amortised on a straight line basis over the vesting period.

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.

Notes to the Accounts continued

Year ended 31 December 2012

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 market price 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.

l) Own shares
Consideration paid/received for the purchase/sale of own shares is recognised directly in equity. The cost of own shares held is presented as a separate reserve (the "own share reserve"). Any excess of the consideration received on the sale of own shares over the weighted average cost of the shares sold is credited to retained earnings.

m) 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 cost of sales. 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 cost of sales 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. Note 18 provides details of the applicable interest rates. 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.

n) 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.

o) Investment in associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Income Statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in associate.

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 Euro. 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 ordinarily 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) Carrying value of trade receivables
The directors regularly assess the recoverability of trade receivables and where there is objective evidence to indicate that the Group will not be able to collect all amounts due according to the original terms of the receivables a provision for impairment is made and this recognised in the Income Statement within cost of sales.

e) 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 not to carry forward a deferred tax asset in respect of unused tax losses 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 in the year were split into four business segments: dealing in antique furniture and objets d'art through Mallett, dealing in fine art through James Harvey British Art Limited (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.

During the year the Board decided to exit from JHBA and negotiations are ongoing with James Harvey regarding the sale of Mallett's remaining stake in JHBA to him. Accordingly, the operations of JHBA and any costs associated with the exit have been included in discontinued operations for 2012 and 2011.

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. Sales to one client in Mallett UK represented more than 10% of turnover of the Group.

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.

Notes to the Accounts continued

Year ended 31 December 2012

5 Segmental Analysis continued

Segmental analysis – continuing operations

2012	Mallett UK £'000	Mallett USA £'000	Meta £'000	Hatfields £'000	Other £'000	**Total £'000**	Discontinued operations £'000
Income & expenses information							
Total revenue	7,302	3,040	133	777	-	**11,252**	844
Inter segment revenue	(772)	-	-	(297)	-	**(1,069)**	-
External revenue by sales outlet	6,530	3,040	133	480	-	**10,183**	844
EBITDA	(14)	(33)	(54)	15	31	**(55)**	(176)
Depreciation and amortisation	(106)	(148)	-	-	(27)	**(281)**	(67)
Freehold property impairment write back	-	-	-	-	200	**200**	-
Operating profit/(loss)	(120)	(181)	(54)	15	204	**(136)**	(243)
Share of operating profit in associate	-	-	-	-	50	**50**	-
Interest revenue	(10)	-	-	-	-	**(10)**	-
Interest expense	94	(93)	-	-	-	**1**	-
Profit/(loss) before tax	(36)	(274)	(54)	15	254	**(95)**	(243)
Income tax	-	(1)	-	-	-	**(1)**	20
Profit/(loss) for the year	(36)	(275)	(54)	15	254	**(96)**	(222)
Balance Sheet information							
Capital expenditure	355	2	-	-	-	**357**	
Total assets	11,428	6,846	183	301	1,989	**20,747**	
Total liabilities, excluding tax liabilities	5,631	319	226	117	-	**6,293**	
Investment in associate	-	-	-	-	-	**-**	

2011	Mallett UK £'000	Mallett USA £'000	JHBA £'000	Meta £'000	Hatfields £'000	Other £'000	**Total £'000**	Discontinued operations £'000
Income & expenses information								
Total revenue	8,191	3,693	-	415	759	-	**13,058**	2,443
Inter segment revenue	(2,454)	-	-	-	(382)	-	**(2,836)**	-
External revenue by sales outlet	5,737	3,693	-	415	377	-	**10,222**	2,443
EBITDA	166	(928)	-	205	(90)	-	**(647)**	82
Depreciation and amortisation	(88)	(150)	-	-	-	(32)	**(270)**	-
Profit on assignment of property lease	1,282	-	-	-	-	-	**1,282**	-
Operating profit/(loss)	1,360	(1,078)	-	205	(90)	(32)	**365**	82
Share of operating profit in associate	-	-	-	-	-	86	**86**	-
Interest revenue	129	-	-	-	-	-	**129**	-
Interest expense	(24)	(130)	-	-	-	-	**(154)**	-
Profit/(loss) before tax	1,465	(1,208)	-	205	(90)	54	**426**	82
Income tax	(2)	(27)	-	-	-	-	**(29)**	(21)
Profit/(loss) for the year	1,463	(1,235)	-	205	(90)	54	**397**	61
Balance Sheet information								
Capital expenditure	870	5	-	-	-	-	**875**	
Total assets	12,634	7,152	519	93	260	1,779	**22,437**	
Total liabilities, excluding tax liabilities	5,859	807	217	106	89	-	**7,078**	
Investment in associate	-	-	-	-	-	-		

5 Segmental Analysis continued

The sales by destination of goods is as follows:

2012	Mallett £'000	Meta £'000	Hatfields £'000	**Total £'000**	Discontinued operations £'000
United Kingdom	3,213	-	456	**3,669**	685
Rest of Europe	1,208	50	11	**1,269**	24
United States of America	4,111	83	9	**4,203**	135
Other	1,038	-	4	**1,042**	-
	9,570	133	480	**10,183**	844

2011	Mallett £'000	Meta £'000	Hatfields £'000	Total £'000	Discontinued operations £'000
United Kingdom	1,802	29	375	2,206	1,481
Rest of Europe	2,644	55	2	2,701	833
United States of America	4,109	121	-	4,230	129
Other	875	210	-	1,085	-
	9,430	415	377	10,222	2,443

6 Other Operating Income

	2012 £'000	2011 £'000
Profit on assignment of property lease	**-**	1,282
Other operating income	**(4)**	47
	(4)	1,329

7 (Loss)/profit from Operations

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

	2012 £'000	2011 £'000
Depreciation of property, plant and equipment	**281**	270
Auditors' remuneration		
- Audit fees	**14**	14
- Other non-audit services		
- Tax services (advisory and compliance)	**-**	-
- Other services*	**2**	5
- Audit of group undertakings	**42**	46
- Review of interim accounts	**3**	2
Net foreign exchange losses	**26**	3
Freehold property impairment write back (see note 14)	**200**	-
Lease payments	**1,086**	1,628
Inventory provision release (see note 15)	**-**	(349)

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

Notes to the Accounts continued

Year ended 31 December 2012

8 Staff Costs

	2012 £'000	2011 £'000
Staff costs (including Directors)		
- wages and salaries	**1,502**	1,780
- social security costs	**137**	186
- share based payments	**72**	76
- pension scheme costs* (note 20)	**108**	205
	1,819	2,247

* Includes £140,000 (2011 – £137,000) in respect of contributions to defined contribution pension schemes and the Pension Protection Fund levy for the year.

Average number of persons (including directors and part-time employees) employed by the company	Number	Number
- restoration	**8**	8
- selling and distribution	**21**	22
- administration	**4**	4
- non-executive directors	**2**	2
	35	36

Details of directors' emoluments are given in the Directors' Remuneration Report on page 20. The Group believes that the directors of Mallett plc are the only key management personnel under the definition of IAS 24 "Related party disclosures".

9 Net Interest

	2012 £'000	2011 £'000
Bank interest receivable	**-**	-
Interest payable on bank loan and overdrafts within five years not by instalments	**(9)**	(25)
	(9)	(25)

10 Tax

	2012 £'000	2011 £'000
Current taxation		
UK corporation taxation	**-**	21
Foreign tax	**1**	29
Prior year adjustment	**-**	-
	1	50
Deferred tax (note 21):		
Current year	**-**	-
	1	50

UK corporation tax is calculated at 24.5% (2011 – 26.5%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

10 Tax continued

The credit for the year can be reconciled to the loss per the Income Statement as follows:

	2012 £'000	2011 £'000
(Loss)/profit before tax	**(95)**	508
Tax at the UK corporation tax rate of 24.5% (2011 – 26.5%)	**(23)**	135
Effected by the tax impact of the following items:		
Income not taxable	**-**	(23)
Expenses not deductible for tax purposes	**41**	18
Depreciation in excess of capital allowances	**2**	53
Increase in tax losses	**136**	171
Non taxable income	**(70)**	(340)
Foreign tax	**1**	29
Other timing differences	**(86)**	7
	1	50
Deferred tax (note 21):		
Current year	**-**	-
Total current tax	**1**	50

In addition to the amount credited to the Income Statement, deferred tax relating to actuarial gains and losses of the pension scheme amounting to £nil (2011 – £nil credit) has been debited directly to the equity reserve.

11 Discontinued Operations

In November 2012 the board agreed to exit from James Harvey British Art Limited, in its entirety, to James Harvey. Negotiations are ongoing with James Harvey regarding the sale of Mallett's remaining stake in JHBA to James Harvey. The results of JHBA for 2012 and 2011 and costs associated with the exit have been separated out from the rest of the Group and included in discontinued operations as follows:

	2012 £'000	2011 £'000
Revenue	**844**	2,443
Expenses other than finance costs	**(1,086)**	(2,361)
Tax credit/(charge)	**20**	(21)
(Loss)/Profit for the year	**(222)**	61
Basic (loss)/earnings per share	**(1.67)p**	0.46p
Diluted (loss)/earnings per share	**(1.60)p**	0.44p

Statement of cashflows

The statement of cash flows includes the following amounts relating to discontinued operations.

	2012	2011
Operating activities	**(34)**	(144)
Net cash from discontinued operations	**(34)**	(144)

Notes to the Accounts continued

Year ended 31 December 2012

12 Basic and Diluted Earnings per Share

	Continuing operations 2012 £'000	Discontinued operations 2012 £'000	**Total 2012 £'000**	Continuing operations 2011 £'000	Discontinued operations 2011 £'000	Total 2011 £'000
(Loss)/profit for the year and earnings used in basic EPS	(96)	(222)	**(318)**	397	61	458
Earnings used in diluted EPS	(96)	(222)	**(318)**	397	61	458
	'000	'000	**'000**	'000	'000	'000
Weighted average number of shares used in basic EPS	13,334	-	**13,334**	13,319	-	13,319
Effects of:						
Group share incentive plan	603	-	**603**	657	-	657
Weighted average number of shares used in diluted EPS	13,937	-	**13,937**	13,976	-	13,976

13 Loss for the Financial Year

The loss dealt within the accounts of the Company, which includes dividends received from subsidiaries, was £8,657,000 (2011 – £174,000). As permitted by section 408 of the Companies Act 2006 an Income Statement of the Company is not presented with these accounts.

14 Property, Plant and Equipment

	Freehold property £'000	Short leasehold property £'000	Furniture, fixtures & motor vehicles £'000	Total £'000
Cost or valuation:				
At 1 January 2011	2,185	4,447	356	6,988
Additions	-	875	-	875
Disposals	-	(1,391)	(119)	(1,510)
At 31 December 2011	2,185	3,931	237	6,353
Additions	37	307	13	357
Exchange adjustments	-	(129)	(3)	(132)
At 31 December 2012	**2,222**	**4,109**	**247**	**6,578**

14 Property, Plant and Equipment continued

	Freehold property £'000	Short leasehold property £'000	Furniture, fixtures & motor vehicles £'000	Total £'000
Depreciation:				
At 1 January 2011	376	2,179	198	2,753
Charged	32	204	34	270
Released	-	(1,185)	(98)	(1,283)
Exchange adjustments	-	4	1	5
At 31 December 2011	408	1,202	135	1,745
Charged on continuing operations	27	226	28	281
Charged on discontinued operations	-	41	26	67
Impairment write back	(200)	-	-	(200)
Exchange adjustments	-	(54)	(2)	(56)
At 31 December 2012	**235**	**1,415**	**187**	**1,837**
Net book value:				
At 31 December 2012	**1,987**	**2,693**	**61**	**4,741**
At 31 December 2011	1,777	2,729	102	4,608

In 2009 the Directors decided to write down the value of the Company's freehold property at 49 Clapham High Street, London by £200,000 reflecting the market conditions for commercial property in that area at that time. On the 27 November 2012 the Group applied for planning permission to redevelop the property into seven residential flats and the Directors consider that this will enhance the market value of the property sufficiently to enable the release of the historical impairment. The planning permission was granted on 11 March 2013.

The directors assessed the carrying value of each of the Group's non-current assets at the balance sheet date by estimating the recoverable amount of each asset in accordance with the accounting policy in note 2. Based on market value assessments and a value in use assessment, using a discount rate of 9.5%, the directors believe the values shown of the non-current assets are recoverable.

15 Inventories

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Goods for resale	**11,906**	12,304	**-**	-

An external independent valuation of all inventory was undertaken at the end of 2011 and the Directors have assessed the value of the inventory for 2012 based on that independent valuation and any market movements since that date. This has resulted in a net release of previously made inventory provisions of £nil (2011 – provision of £349,000). During the year £5,816,000 (2011 – £6,638,000) was recognised as a cost of sales expense in the Income Statement.

As at 31 December 2012 the Group held consignment inventory with a cost of £16,800,000 (2011 – £13,400,000). The benefits and risks of holding this inventory had not passed to the Group at the year end and accordingly neither the inventory nor related creditor has been recognised.

Notes to the Accounts continued

Year ended 31 December 2012

16 Investments

Investment in subsidiaries	2012 £'000	2011 £'000
Company		
Shares in Group undertakings		
At cost		
At 1 January 2012 and 31 December 2012	**8,482**	8,482

The subsidiary undertakings are as follows:	Nature of business	Percentage of ordinary shares held
Mallett & Son (Antiques) Limited	Antique dealers	100%
Mallett Overseas Limited	Antique dealers	100%
Mallett, Inc.	Antique dealers	100%
Mallett at Bourdon House Limited	Dormant	100%
James Harvey British Art Limited	Fine Art dealers	50%
MadebyMeta Limited	Dormant	100%
MadebyMeta, Inc.	Contemporary design	100%
H.J. Hatfield & Sons Limited	Restorers	60%

Subsidiary undertakings are registered and operate in England with the exception of Mallett, Inc. and MadebyMeta, Inc., which are incorporated and operates in the United States of America.

James Harvey owns 50% of James Harvey British Art Limited ("JHBA"). This shareholding increased from 40% with effect from 1 January 2012 when the Group transferred 10% of its shareholding in JHBA to James Harvey as a result of the operating profit of JHBA for the period 1 January 2010 to 31 December 2011 exceeding a target set when the initial 40% of JHBA was sold to James Harvey in 2010. Mallett has retained control of JHBA through the ability to appoint a majority of directors and therefore the results of JHBA are still consolidated into the Group accounts.

Gurr Johns Limited own 40% of H.J. Hatfield & Sons Limited.

Investment in associates	2012 £'000	2011 £'000
Group		
As at 1 January	-	-
Additions	-	-
Goodwill	-	-
Share of losses	-	-
At 31 December	-	-

The investment in associates represents a 23.75% interest in Masterpiece London Limited ("Masterpiece"), a company which is registered and operates in England and which organises an antique trade fair.

The Group's share of the results of Masterpiece for the year ended 31 December 2012 was revenue of £1,187,000 (2011 -£1,267,000) and profit of £50,000 (2011 – profit of £86,000). In accordance with IAS28, the profit has been offset against prior year losses, the value of the investment and the value of the loans. As at 31 December 2012 the Group's share of Masterpiece's assets was £85,000 (2011 – £166,000) and liabilities of £138,000 (2011 – £262,000).

17 Trade and Other Receivables

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Trade receivables	**2,028**	2,250	-	-
Loan to associate	-	-	-	-
Other receivables	**497**	145	-	-
Tax and social security recoverable	-	-	**6**	4
Prepayments and accrued income	**777**	2,805	-	-
Amounts due from subsidiary undertakings	-	-	**5,949**	14,612
	3,302	5,200	**5,955**	14,616

Included in the Group's trade receivables balance are debtors with a carrying value of £1,304,000 (2011 – £1,434,000) which are past due at the balance sheet date. The directors have reviewed the recoverability of these debtors and are satisfied, due to client relations and past payment experience, that the debtors are fully recoverable. The ageing of these debtors is as follows:

Days past due:	2012 £'000	2011 £'000
0 – 60 days	**59**	198
61 – 120 days	**201**	91
121+ days	**1,044**	1,145
Total	**1,304**	1,434

In addition, trade receivable balances totalling £244,000 (2011 – £448,000), which are over 120 days past their due date have been provided for. This amount relates to the sale of one item in 2010 which was fully provided against in 2011. During 2012 the client paid £196,000 in respect of this outstanding debt and this amount has been included in cost of sales in the Income Statement. The Directors remain concerned about the recoverability of the remaining outstanding balance and so continue to provide against the whole of the remaining balance.

Amounts due from subsidiary undertakings totalling £8,411,000 (2011 – £nil) have been provided for. This is due to the unpredictability of future profits in the trading companies arising from the uncertain nature of the antique furniture and decorative arts market and the timing of their recovery.

18 Current Liabilities

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Amounts falling due within one year:				
Bank overdraft	**1,457**	1,446	-	-
Trade payables	**1,106**	2,008	**20**	18
Taxation and social security	**32**	26	-	-
Other payables	**72**	89	-	-
Amounts due by associate	**25**	57	-	-
Accruals and deferred income	**1,961**	1,823	**29**	15
	4,653	5,449	**49**	33

The bank overdraft is repayable on demand. The overdraft facility at the balance sheet date was £2,500,000. The facility is secured with a fixed and floating charge on the Group's UK assets. The average effective interest rate on the bank overdraft approximated to 2.13% (2011 – 2.13%), which is determined based on 1.5% above the Coutts & Co. base rate. Coutts & Co are currently undertaking their annual review of the Company's overdraft facility and the directors are confident that the Company will have adequate facilities in place to cover the Group's cashflow requirements for the foreseeable future.

Notes to the Accounts continued

Year ended 31 December 2012

19 Financial Instruments

Capital risk management
The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders.

The Group manages its capital through the optimisation of the debt and equity balance and by pricing products and services commensurately with the level of risk. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to Owners of the parent, comprising issued capital, reserves and retained earnings.

	2012 £'000	2011 £'000
Debt	**(1,457)**	(1,446)
Cash and cash equivalents	**798**	325
Net debt	**(659)**	(1,121)
Equity	**14,545**	15,359

The Group is not subject to externally imposed capital requirements, other than the minimum capital requirements and duties regarding a serious reduction in capital, as imposed by the Companies Act 2006 on all public limited companies.

The Group held the following categories of financial instruments:

	2012 £'000	2011 £'000
Financial Assets		
Loans and receivables:		
Trade receivables	**2,028**	2,250
Other receivables	**497**	145
Accrued income	**97**	2,047
Cash and cash equivalents	**798**	325
	3,420	4,767
Financial liabilities		
Trade and other payables – held at amortised cost		
Trade payables	**1,106**	2,008
Other payables	**72**	89
Accruals	**1,961**	1,823
Borrowings	**1,457**	1,446
	4,596	5,366

The fair value of the financial instruments set out above is not materially different from their book value.

Financial risk management objectives
Management monitor and manage the financial risks relating to the operations of the Group through regular reports to the Board. These risks include liquidity risk, credit risk and currency risk. The Group does not enter into or trade financial instruments.

Credit risk
The Group's credit risk is primarily attributable to its trade receivables. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer. The Group's management estimate the level of allowances required for doubtful debts based on prior experience and their assessment of the current economic environment.

19 Financial Instruments continued

Liquidity risk
The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

At 31 December 2012, all the Group's liabilities had contractual maturities of less than six months (2011 – less than six months) and the Group had undrawn borrowing facilities available of £1,043,000 (2011 – £1,054,000). The Group also maintains foreign currency denominated bank accounts that earn interest based on Coutts & Co. base rate applicable to that currency.

Interest rate risk
The Group finances its operations where necessary through bank overdrafts.

If interest rates had been 1.0% higher/lower and all other variables were held constant, the impact on the results in the Income Statement and equity would be an increase/decrease of £4,000 (2011 – £12,000).

Foreign currency risk
The Group receives payment for its products and incurs costs and inventory purchases in Pounds Sterling, US Dollars and Euros. After netting off foreign currency receipts and payments there is a net exposure to the risk of currency movements in both US Dollars and Euros.

The carrying amounts of the Group's foreign currency denominated monetary financial liabilities at the reporting date are as follows:

Functional currency of individual entity

	Sterling		Discontinued Sterling		US Dollar		Total	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Net foreign currency financial assets/(liabilities)								
Sterling	**-**	-	**61**	42	**-**	-	**61**	42
Euro	**2**	5	**-**	-	**-**	-	**2**	5
US Dollar	**36**	25	**-**	-	**67**	-	**103**	25
	38	30	**61**	42	**67**	-	**167**	72

Foreign currency sensitivity
The Group is principally exposed to the US Dollar and Euro currency movements.

The following table details the Group's sensitivity to a 5% decrease in Pound Sterling against the relevant foreign currencies:

	Euro currency impact 2012 £'000	Euro currency impact 2011 £'000	US Dollar currency impact 2012 £'000	US Dollar currency impact 2011 £'000
Profit	**-**	-	**46**	22

The use of a 5% weakening in exchange rates is considered appropriate given recent movements in exchange rates.

The above analysis represents the Group's exposure to foreign currency risk based financial assets and liabilities outstanding at the year end. A significant amount of the Group's sales and purchases are made in foreign currencies. The exposure to foreign exchange rates varies throughout the year depending on the volume and timing of transactions in foreign currencies.

Notes to the Accounts continued

Year ended 31 December 2012

20 Retirement Benefit Pension Obligations

The Group operates a defined benefit pension scheme, providing benefits based on final pensionable salary. This scheme is closed to new entrants and, on the 30 June 2008 was closed to future accrual, with effect from that date. The assets of the scheme are held separately from those of the Group and are administered by the pension scheme trustees. The pension cost relating to the scheme is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. Actuarial valuations of the scheme are carried out tri-annually with the latest actuarial valuation of the scheme as at 1 May 2010.

The principal actuarial assumptions at the Balance Sheet date were as follows:

Financial Assumptions	**2012 p.a.**	2011 p.a.	2010 p.a.
Rate of increase in salaries	**N/A**	N/A	N/A
Rate of increase of pensions:			
LPI 5%	**2.70%**	2.90%	3.40%
LPI 2.5%	**2.50%**	2.50%	2.50%
Rate of revaluation of deferred pensions in excess of the GMP	**2.70%**	2.90%	3.40%
Discount rate	**4.10%**	4.70%	5.40%
Inflation assumption	**2.70%**	2.90%	3.40%

The assumed life expectancy for a retiree at age 65 is:

	2012		2011	
	Male years	**Female years**	Male years	Female years
Today	**22.5**	**24.6**	22.4	24.5
In 20 years	**24.8**	**27.0**	24.6	26.9

The 2012 rates are based in the SAPS tables adjusted for each individual's year of birth and allowing for long cohort future mortality improvements (i.e. the S1PMA YOB CMI2009/S1PFA YOB CMI2009 tables for male and female members respectively) (2009 S1PMA YOB LC/S1PFA YOB LC tables for male and female members respectively).

The market value of the pension scheme assets and the expected rate of return were:

	2012		2011		2010	
	Expected long term rate of return	**£'000**	Expected long term rate of return	£'000	Expected long term rate of return	£'000
Equities	**6.30%**	**730**	7.20%	405	n/a	-
Bonds	**4.70%**	**1,042**	5.40%	1,110	5.40%	1,260
Insurance policies	**4.70%**	**2,832**	5.40%	2,719	5.40%	2,603
Cash	**0.50%**	**75**	0.50%	24	0.50%	1
Weighted Average Return	**5.66%**		6.48%		6.48%	
Total market value of assets		**4,679**		4,258		3,864

The expected return on scheme assets is based on market expectations at the beginning of the year for return over the entire life of the defined benefit obligation.

	2012 £'000	2011 £'000	2010 £'000
Actual return on scheme assets	**420**	432	43

The value of the defined benefit obligations are analysed as follows:	**2012 £'000**	2011 £'000	2010 £'000
Actuarial value of financial obligations	**6,319**	5,887	5,545
Actuarial value of unfunded obligations	**-**	-	-
	6,319	5,887	5,545

20 Retirement Benefit Pension Obligations continued

Income statement impact	**2012 £'000**	2011 £'000
Interest on obligation	**272**	291
Expected return on pension scheme assets	**(241)**	(249)
Liabilities extinguished on settlements	**(186)**	-
Assets distributed on settlements	**125**	-
Total included in pension scheme cash (see note 8)	**(30)**	42

Actuarial loss which arose in the year have been recognised immediately in the Statement of Comprehensive Income:

	2012 £'000	2011 £'000
Difference between expected and actual return on scheme assets	**179**	183
Experience gains on scheme liabilities	**(23)**	(262)
Changes in assumptions	**(505)**	(117)
Actuarial loss	**(349)**	(196)
Cumulative actuarial gains and losses recognised in equity at start of year	**(401)**	(205)
Cumulative actuarial gains and losses recognised in equity at end of year	**(750)**	(401)

Balance Sheet impact:	**2012 £'000**	2011 £'000	2010 £'000
Present value of defined benefit obligation	**6,319**	5,887	5,545
Fair value of scheme assets	**(4,679)**	(4,258)	(3,864)
Deficit in scheme at 31 December	**1,640**	1,629	1,681

Movement in scheme's deficit for the year:	**2012 £'000**	2011 £'000	2010 £'000
Deficit in scheme at 1 January	**(1,629)**	(1,681)	(1,558)
Movement in year:			
Contributions	**308**	290	307
Net return on investments	**(31)**	(42)	(101)
Actuarial loss	**(349)**	(196)	(329)
Settlement loss	**61**	-	-
Deficit in scheme at 31 December	**(1,640)**	(1,629)	(1,681)

Notes to the Accounts continued

Year ended 31 December 2012

20 Retirement Benefit Pension Obligations continued

Reconciliation of Present Value of scheme liabilities and assets

Change in present value of defined benefit obligation:	2012 £'000	2011 £'000	2010 £'000
Present value of defined benefit obligation at start of year	**5,887**	5,545	5,440
Interest on obligation	**272**	291	300
Actuarial losses on obligations	**528**	379	173
Benefits paid	**(182)**	(328)	(368)
Liabilities extinguished on settlements	**(186)**	-	-
Present values of defined benefit obligation at end of year	**6,319**	5,887	5,545

Change in fair value of plan assets:			
Fair value of plan assets at start of year	**4,258**	3,864	3,882
Expected return of plan assets	**241**	249	199
Actuarial losses/(gains) on plan assets	**179**	183	(156)
Contributions by employer	**308**	290	307
Benefits paid	**(182)**	(328)	(368)
Assets distributed on settlements	**(125)**	-	-
Fair values of plan assets at end of year	**4,679**	4,258	3,864

The five year history of experience adjustments is as follows:

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of defined benefit obligations	**6,319**	5,887	5,545	5,440	8,078
Fair value of scheme assets	**4,679**	4,258	3,864	3,882	6,624
Deficit in the scheme	**1,640**	1,629	1,681	1,558	1,454
Experience adjustments on scheme liabilities					
Amount (£)	**(23)**	(262)	50	(102)	109
Percentage of scheme liabilities (%)	**-0.36%**	-4.45%	0.90%	1.90%	1.30%
Actual return less expected return on plan assets:					
Amount (£)	**179**	183	(156)	(88)	(1,472)
Percentage of scheme assets (%)	**3.83%**	4.30%	4.00%	2.30%	22.20%

The contributions that are expected to be paid into the scheme during the current financial year are £283,500 by the Group. The current arrangements as regards to contribution levels are in accordance with the Schedule of Contributions agreed between the Group and the trustees dated 15 June 2011.

21 Deferred Tax

At 31 December 2012 the Group had no deferred tax liabilities (2011 – £nil).

As at 31 December 2012 the Group had deductible temporary differences available for offset against future profits:

	2012 £'000	2011 £'000
Retirement benefit obligations	**1,640**	1,629
Unused tax losses	**7,608**	7,189
Other timing differences	**451**	82
	9,699	8,900

No deferred tax asset has been recognised in respect of these amounts due to the unpredictability of future profits arising from the uncertain nature of the antique furniture and decorative art market and the timing of its recovery.

UK tax losses of £6,440,000 can be carried forward indefinitely, and US tax losses of £1,168,000 can be carried forward for up to 20 years.

22 Assets and Liabilities Classified as Held for Sale

In November 2012 the board agreed to exit from James Harvey British Art Limited, in its entirety, to James Harvey. Negotiations are ongoing with James Harvey regarding the sale of Mallett's remaining stake in JHBA to James Harvey. The results of JHBA for 2012 and 2011 have been separated out from the rest of the Group and included in discontinued operations and the following major classes of assets and liabilities relating to this operation has been classified as held for sale in the consolidated balance sheet as at 31 December:

	2012 £'000
Inventories	**126**
Trade and other receivables	**147**
Cash and cash equivalents	**114**
	387
Trade and other payables	**296**
	296

Notes to the Accounts continued

Year ended 31 December 2012

23 Share Based Payments

The Group operates two share based plans – a Share Incentive Plan ("SIP") and a Long Term Incentive Plan ("LTIP"). Details of these plans are given in the Directors' Remuneration Report on pages 20 to 23.

Share incentive plan
Ordinary shares in Mallett plc are held by the trustees of the Mallett Share Incentive Plan to provide long-term benefits to employees. The costs associated with the purchase of own shares for the trust are deducted from equity.

Long Term Incentive plan
There are no LTIP Awards outstanding at 31 December 2012.

The number and value of the ordinary shares in Mallett plc held under the SIP and LTIP are as follows:

	LTIP		SIP		Total	
	No.	£'000	No.	£'000	No.	£'000
At 1 January 2011	111,308	100	469,793	392	581,101	492
Purchased	-	-	128,874	76	128,874	76
Exercised	-	-	(52,906)	(55)	(52,906)	(55)
At 31 December 2011	111,308	100	545,761	413	657,069	513
Purchased	-	-	114,495	74	114,495	74
Exercised	(111,308)	(100)	(57,357)	(49)	(168,665)	(149)
At 31 December 2012	**-**	**-**	**602,899**	**438**	**602,899**	**438**

24 Called Up Share Capital

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Authorised:				
24,000,000 Ordinary shares of 5p each	**1,200**	1,200	**1,200**	1,200
13,800,060 non-cumulative non-voting preference shares of 37.45p each	**5,168**	5,168	**5,168**	5,168
	6,368	6,368	**6,368**	6,368
Allotted and fully paid:				
13,800,060 Ordinary shares of 5p each	**690**	690	**690**	690

All holders of ordinary shares have the right to vote at general meetings of the Company and to distributions from dividends or on winding up of the Company.

25 Share Premium and Reserves

Capital redemption reserve
The capital redemption reserve represents amounts transferred from share capital on the redemption of issued shares.

Own shares
Own shares represents the weighted average cost of own shares held in trust for the LTIP and SIP.

Special capital reserve
The special capital reserve represents amounts transferred from the share premium account for offset against goodwill.

26 Lease Commitments

Group	**2012 £'000**	2011 £'000
Present value of the future minimum operating lease payments under non-cancellable operating leases:		
Less than one year	**994**	1,204
Between two and five years	**3,927**	3,939
After more than five years	**9,863**	11,065

The lease commitments relate to the rent of the Group's various showrooms.

27 Reconciliation of Net Cash Flow to Movements in Net Funds and Analysis of Net Funds

Group	At 1 January 2012 £'000	Cash flow £'000	**At 31 December 2012 £'000**	Less cash held in discontinued operation £'000	Continued operation £'000
Cash in hand and at bank	325	587	**912**	(114)	798
Bank overdrafts	(1,446)	(11)	**(1,457)**	-	(1,457)
	(1,121)	576	**(545)**	(114)	(659)

Company	At 1 January 2012 £'000	Cash flow £'000	Exchange movement £'000	**At 31 December 2012 £'000**
Cash at bank	8	20	-	**28**

28 Related Party Transactions

Key Management personnel
The Group's key management personnel comprises of the Board executive and non-executive directors. The remuneration, benefits and share incentive plan details of these key personnel are set out in the Directors' Remuneration Report on page 20 to 23.

The cost recognised through the income statement in relation to the directors interests in the SIP and LTIP is £15,000 (2011 – £31,000).

Group	**2012 £'000**	2011 £'000
During the year the Group entered into transactions with Companies in the Group that are less than 100% owned, the net amount of which is as follows for each of those Companies:		
James Harvey British Art Limited	**190**	970
H.J. Hatfield & Sons Limited	**257**	372
Masterpiece London Limited	**62**	31
At the year end the following balances were outstanding to the Group from Companies less than 100% owned:		
James Harvey British Art Limited	**373**	277
H.J. Hatfield & Sons Limited	**351**	340
Masterpiece London Limited	**17**	18

Notes to the Accounts continued

Year ended 31 December 2012

28 Related Party Transactions continued

Company	2012 £'000	2011 £'000
At the year end the following balances were outstanding to the Company:		
Mallett & Son (Antiques) Limited	**5,586**	14,252
Mallett Overseas Limited	**363**	360
	5,949	14,612

During the year the Group made the following transactions with directors:	2012 £'000	2011 £'000
Sales:		
Lord Daresbury	**3**	60
Purchases:		
Lord Daresbury	**73**	-

At the year end the following balances with Executive and Non-executive Directors were outstanding:	2012 £'000	2011 £'000
Lord Daresbury	-	49

29 Post Balance Sheet Events

On 11 March 2013 the Group was granted planning permission by Lambeth Council to redevelop its freehold property at 49 Clapham High Street, London into seven residential flats.

Notice of Annual General Meeting

MALLETT PLC

(Incorporated in England and Wales with registered number 1838233)

NOTICE IS HEREBY GIVEN that the twenty eighth annual general meeting of the members of Mallett plc (the "Company") will be held at Ely House, 37 Dover Street, London W1S 4NJ on 30 May, 2013 at 4.30pm when the resolutions set out below will be proposed:

To consider and, if thought fit, to pass the following resolutions, of which numbers 1-6 will be proposed as ordinary resolutions and numbers 7 and 8 will be proposed as special resolutions:

1 To receive and adopt the Company's audited accounts for the year ended 31 December 2012, together with the directors' and auditors' reports on those accounts and on the auditable part of the Directors' Remuneration Report.

2 To approve the Directors' Remuneration Report for the year ended 31 December 2012, as set out in the 2012 Annual Report and Accounts.

3 To re-appoint Mr M.H.G. Neville as a Director.

4 To re-appoint Mr M.A. Smyth-Osbourne as a Director.

5 To re-appoint BDO LLP as auditors to the Company until the conclusion of the next annual general meeting of the Company and to authorise the Directors to fix their remuneration.

6 That for the purposes of section 551 of the Companies Act 2006 (the "Act") (and so that expressions used in this resolution shall bear the same meanings as in the said section 551):

6.1 the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot shares and to grant such subscription and conversion rights as are contemplated by sections 551(1)(a) and (b) of the Act respectively up to a maximum nominal amount of £230,001 to such persons and at such times and on such terms as they think proper during the period expiring at the end of five years from the date of the passing of this resolution (unless previously revoked or varied by the Company in general meeting); and

6.2 the Company be and is hereby authorised to make prior to the expiry of such period any offer or agreement which would or might require shares to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution;

so that all previous authorities of the Directors pursuant to the said section 551 be and are hereby revoked.

7 That the Company be and is hereby generally and unconditionally authorised for the purpose of section 701 Companies Act 2006 to make market purchases (as defined in section 693 of the said Act) of ordinary shares of 5p each in the capital of the Company ("ordinary shares") provided that:

7.1 the maximum number of ordinary shares hereby authorised to be purchased is 10% of the issued share capital of the Company (1,380,006 ordinary shares);

7.2 the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 5p per share, being the nominal amount thereof;

7.3 the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall be an amount equal to the higher of (i) 5% above the average of the middle market quotations for such shares taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made and (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System SETS;

7.4 the authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the end of the next Annual General Meeting of the Company and the date which is 18 months after the date on which this resolution is passed; and

7.5 the Company may make a contract to purchase its own ordinary shares under the authority conferred by this resolution prior to the expiry of such authority, and such contract will or may be executed wholly or partly after the expiry of such authority, and the Company may make a purchase of its own ordinary shares in pursuance of any such contract.

8 That a general meeting of the Company other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By Order of the Board,
M.A. Smyth-Osbourne
Director and Secretary

19 April 2013

Notes

1 A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to exercise all or any of the rights of the member to attend and speak and vote on his or her behalf. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person. The right to appoint a proxy does not apply to any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "Act") to enjoy information rights (a "Nominated Person").

2 A form of proxy is enclosed which shareholders of the Company are invited to complete and return. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

3 The instrument appointing a proxy, together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be completed, signed and returned so as to reach, by hand or by post, Capita Registrars, The Proxy Department, The Registry, 34 Beckenham Road, Kent BR3 4TU no later than 4.30 p.m. on 28 May 2013. Any member or his proxy has the right to ask any questions at the Meeting relating to the business at the Meeting.

4 The Company, pursuant to Section 360B of the Act and Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), specifies that only shareholders whose names appear on the register of members of the Company as at 6.00 p.m. on 28 May 2013 shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at such time. If the Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned Meeting is 6.00 p.m. on the day preceding the date fixed for the adjourned meeting. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

5 Copies of the following documents will be available for inspection at the Registered Office of the Company during usual business hours on any weekday from the date of this Notice until the date of the Annual General Meeting and thereafter at the place of the Meeting for at least fifteen minutes prior to the meeting and during the Meeting:

(a) the register of interests of the Directors and their families in the share capital of the Company; and

(b) copies of the Directors' service contracts and the letter of appointment for the Non-Executive Directors.

6 As at 19 April 2013 the Company's issued share capital consists of 13,800,060 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company as at 19 April 2013 are 13,800,060.

7 The information required to be published by s.311(A) of the Act (information about the contents of this Notice and numbers of shares in the Company and voting rights exercisable at the Meeting and details of any members' statements, members' resolutions and members' items of business received after the date of this notice) may be found at www.mallettantiques.com

8 Members representing 5% or more of the total voting rights of all the members or at least 100 persons (being either members who have a right to vote at the Meeting and hold shares on which there has been paid up an average sum, per member, of £100 or persons satisfying the requirements set out in s.153(2) of the Act) may require the Company, under s.527 of the Act to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.

9 A Nominated Person may under an agreement between him/her and the member who nominated him/her, have a right to be appointed (or to have someone else appointed) as a proxy entitled to attend and speak and vote at the Meeting. Nominated Persons are advised to contact the member who nominated them for further information on this and the procedure for appointing any such proxy.

10 If a Nominated Person does not have a right to be appointed, or to have someone else appointed, as a proxy for the Meeting, or does not wish to exercise such a right, he/she may still have the right under an agreement between himself/herself and the member who nominated him/her to give instructions to the member as to the exercise of voting rights at the Meeting. Such Nominated Persons are advised to contact the members who nominated them for further information on this.

Form of Proxy

For Company Use Only	
Holding of share	Number

For use at the Annual General Meeting
To be held at 4.30pm on 30 May 2013.

Please insert full name(s) and address(es)

I/We ______________________________

(IN BLOCK CAPITALS)

of ______________________________

being (a) member(s) of the above-named Company HEREBY APPOINT the Chairman of the Meeting

or ______________________________

as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the company to be held on 30 May 2013 and at any adjournment thereof and in respect of the resolutions set out in the Notice of the annual general meeting to vote as indicated below.

		For	Against	Vote Withheld
1.	To receive and adopt the audited accounts.			
2.	To approve the Directors' Remuneration report.			
3.	To re-appoint Mr M.H.G. Neville as a Director.			
4.	To re-appoint Mr M.A. Smyth-Osbourne as a Director.			
5.	To re-appoint BDO LLP as auditors and to authorise the directors to fix their remuneration.			
6.	To authorise the allotment of shares.			
7.	To authorise the Company to make market purchases of its own shares (Special Resolution)			
8.	To permit general meetings to be called on 14 days clear notice (Special Resolution)			

Please sign and insert date. A Corporation should execute under its common seal or under the hand of a duly authorised attorney.

Dated this ______________ day of ______________ 2013

Signed ______________________________

Notes

1. In the case of joint holdings the signature of any holder is sufficient but the vote of the senior holder who tenders a vote (whether in person or by proxy) shall be accepted to the exclusion of the other joint holders; for this purpose seniority shall be determined by the order in which the names stand in the register of members.
2. If you wish to appoint one or more a proxies other than the Chairman you should delete the words "the Chairman of the Meeting or", insert your own choice in the space provided and initial the amendment. A proxy need not be a member of the Company. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. On any other business which properly comes before the Meeting (including any motion to amend any resolution or to adjourn the meeting) the proxy will vote or abstain at his or her discretion.
3. Please indicate by marking "X" in the appropriate space how you wish your votes to be cast. Unless so instructed the proxy will vote or abstain as he/she thinks fit.
4. To be valid this Form of Proxy and power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be returned to Capita Registrars, The Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time fixed for the Meeting.
5. A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" or "Against" the Resolution.
6. If you appoint as your proxy a person who is himself a member of the Company or who is already appointed by more than one member of the Company, such person will be able to cast your vote only on a poll, not on a show of hands.
7. Completion and return of this proxy will not prevent you attending and voting at the annual general meeting if you so wish.

Third fold and tuck in

Business Reply
Licence Number
RSBH - UXKS - LRBC

PXS
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Second fold

First fold

Five Year Record

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Revenue	**10,183**	12,665	13,255	13,980	12,109
Profit/(Loss) Before Taxation	**(95)**	508	(1,418)	(1,774)	(5,973)
Profit/(Loss) After Taxation	**(96)**	458	(2,555)	(1,608)	(4,279)
Dividends	-	(9)	-	2	832
Key Ratios					
Basic earnings per share	**(2.39p)**	3.44p	(19.08p)	(11.92p)	(31.47p)
Net assets per share	**£1.07**	£1.13	£1.09	£1.37	£1.56

Financial Calendar

Interim Management Statement released	May 2013
Half-year results announced	August 2013
Interim Management Statement released	November 2013
Preliminary announcement of results for the year to 31 December 2013	March 2014

Company Advisers

Secretary
Michael A. Smyth-Osbourne

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Ely House
37 Dover Street
London W1S 4NJ

Company Number
1838233

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London WC2R 0QS

Auditors
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55 Baker Street
London W1V 7EU

Solicitors
Travers Smith LLP
10 Snow Hill
London EC1A 2AL

Registrars
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www.mallettantiques.com

AN EXCEPTIONAL GILTWOOD TROPHY ATTRIBUTED TO SEFFERIN NELSON

Standing over seven feet tall and representing the victory of Peace over War, with elaborate flamed torches, spears, fruits, garlands and two doves perched on a central quiver of arrows, this trophy has the same dimensions and is ornamented with similar carving and motifs to the Carlton House trophies, a long set of giltwood trophies commissioned by the Prince of Wales, later George IV, for the throne room at Carlton House. Four of these trophies can be identified with those now in the Throne Room at Buckingham Palace. England, circa 1795