

MALLET

LONDON • NEW YORK

Interim Report
2008

MALLETT PLC

Chairman's Statement

Dear Shareholder

Our interim results for the six months ended 30th June 2008 show an operating loss of £328,000 (2007 – profit of £1,143,000). Whilst it is disappointing to report a trading loss for the group, these results have been significantly impacted by the launch of two exciting new ventures in the period which, it is hoped, will take Mallett forward into the next stage of the development of the group.

Launch of two businesses

Firstly, we launched Meta, our contemporary designs business, and its first range of products to the press at the Salone Internazionale del Mobile in Milan on 15th April. This was followed by a sales exhibition in New York from 12th to 16th May. The range features nine products from five leading contemporary designers – Hani Rashid, Tord Boontje, Matali Crasset, Barber Osgerby and Wales & Wales – and coverage in the media has been exceptional with over 100 articles in international press and specialist magazines. Interest has been encouraging with sales in the 1½ months since the sales launch in New York totalling £182,000. However, the complexity of some of the designs, combined with the use of rare materials and traditional production techniques which is a key aspect to all of Meta's products, led to a delay in the launch and an increase in the overall cost of the project to the launch in May from £1,000,000 to £1,300,000. Costs of £1,032,000 have been charged to the income statement in the first six months of this year and £482,000 is included in inventories.

Secondly, we launched James Harvey British Art in April as our picture gallery in new premises in Chelsea, London. Separating out our picture department from Mallett in this way gives it a separate platform from which to market itself and grow under the leadership of James Harvey. James has been with Mallett for eighteen years and has established himself as a knowledgeable and respected expert on British artists from the 17th century to the present day. The fit-out of the new premises took three months at a cost of £150,000, but since the launch in April the gallery has had total sales of £1,010,000 which is a 35% increase on the group's picture sales for the six months ended 30th June 2007.

Core business

Excluding Meta, the group made an operating profit of £522,000 (2007 – £1,143,000) on turnover of £7,983,000 (2007 – £10,666,000). The 54% reduction in operating profit compared to the same period for last year reflects the difficult trading conditions currently seen in the

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antique art market and more generally in the retail sector. In addition, it reflects a 50% increase in the rent on our Bond Street showroom. The operational review being undertaken by the Board is focussing both on our sales strategy to improve revenues and our cost base. We anticipate being able to report our conclusions from the review in the course of the second half of the year.

Dividend

As mentioned above, the significant launch costs of Meta has meant that the group has made a loss for the six months to 30th June 2008. The loss after tax for the group is £197,000 (2007 – profit of £1,035,000) and basic and diluted earnings per share is –1.45 pence (2007 – 7.60 pence). The Board has therefore decided not to declare an interim dividend for the six month period to 30th June 2008 (2007 – 2.4 pence).

Outlook for the second half

We expect little change in the trading conditions in the antique art market for the rest of the year. We will continue to market the finest antique furniture and works of art with a catalogue and two fair exhibitions in the second half of the year, whilst focusing on cost efficiencies. Meta intends to send out a catalogue featuring all nine of its products and have a London exhibition of the pieces in our Bond Street showroom during Frieze week, the most prestigious contemporary art fair in London, in October. We then plan to bring the two businesses together at Art Basel Miami Beach in December, the most important contemporary art and design show in the United States, with a combined Mallett/Meta exhibition showing the finest furniture designs through the ages.

G.M. Magan

Chairman

13th August 2008

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Unaudited Consolidated Interim Income Statement

for the 6 months ended 30th June 2008

		6 months ended 30th June 2008 £'000	<i>6 months ended 30th June 2007 £'000</i>
	Notes		
Revenue		8,165	10,666
Operating (loss)/profit		(328)	1,143
Investment income (net)		31	303
(Loss)/Profit before tax		(297)	1,446
Tax	3	100	(411)
(Loss)/Profit for the period		(197)	1,035
Attributable to:			
Equity holders of the parent		(184)	1,037
Minority Interest		(13)	(2)
		(197)	1,035
Basic and diluted earnings per share	4	(1.45)p	7.60p

Unaudited Consolidated Statement of Recognised Income and Expenses

		6 months ended 30th June 2008 £'000	<i>6 months ended 30th June 2007 £'000</i>
(Loss)/Profit for the period		(197)	1,035
Exchange differences on translation of foreign operations		147	(109)
Actuarial (losses)/gains on the defined benefit pension scheme		(403)	193
Movement of deferred tax on actuarial gains		121	–
Merger investment costs		–	(52)
Total recognised income and expenses for the period		(332)	1,067

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Unaudited Consolidated Balance Sheet

at 30th June 2008

	30th June 2008 £'000	31st December 2007 £'000
	Notes	
Non-current assets		
Property, plant and equipment	4,790	4,749
Current assets		
Inventories	19,858	18,372
Trade and other receivables	5,360	3,701
Cash and cash equivalents	940	2,410
	26,158	24,483
Total assets	30,948	29,232
Equity		
Share capital	690	690
Capital redemption reserve	5,168	5,168
Own shares	(438)	(468)
Retained profits	19,610	20,761
Minority interests	(14)	(1)
Total equity	25,016	26,150
Current liabilities		
Trade and other payables	3,753	2,447
Bank overdrafts and loans	1,519	363
Tax liabilities	131	86
	5,403	2,896
Non-current liabilities		
Retirement benefit pension obligations	687	204
Deferred tax	2 (158)	(18)
	529	186
Total liabilities	5,932	3,082
Total equity and liabilities	30,948	29,232

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Unaudited Consolidated Cash Flow Statement

for the 6 months ended 30th June 2008

	6 months ended 30th June 2008 £'000	<i>6 months ended 30th June 2007 £'000</i>
Net cash from operating activities	(1,581)	1,898
Returns on investment and servicing of finance	31	305
Tax paid	(222)	(3,102)
Capital expenditure and financial investment	(169)	(224)
B Share Scheme payments	–	(8,173)
Merger investment costs	–	(52)
Equity dividends paid	(832)	(1,628)
Effect of foreign exchange rate changes	147	(274)
Net decrease in cash for the period	(2,626)	(11,250)

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Unaudited Consolidated Interim Statement of changes in Shareholders' Equity

for the 6 months ended 30th June 2008

	<i>Share Capital £'000</i>	<i>Capital Redemption Reserve £'000</i>	<i>Retained Profits £'000</i>	<i>Own Shares £'000</i>	<i>Minority Interests £'000</i>	<i>Total £'000</i>
At 1st July 2007	690	5,168	21,065	(457)	38	26,504
Loss in 6 months to 31st December 2007	–	–	(161)	–	–	(161)
Minority interest	–	–	(1)	–	(39)	(40)
Dividends paid in period	–	–	(332)	–	–	(332)
Actuarial gains	–	–	547	–	–	547
Deferred tax movement on actuarial gain	–	–	(222)	–	–	(222)
Return of cash to shareholders through B share scheme	–	–	(6)	–	–	(6)
Net movement in own shares	–	–	–	(11)	–	(11)
Net exchange loss	–	–	(129)	–	–	(129)
At 31st December 2007	690	5,168	20,761	(468)	(1)	26,150
Loss in 6 months to 30th June 2008	–	–	(197)	–	–	(197)
Minority interest	–	–	13	–	(13)	–
Dividends paid in period	–	–	(832)	–	–	(832)
Actuarial losses	–	–	(403)	–	–	(403)
Deferred tax movement on actuarial gain	–	–	121	–	–	121
Net movement in own shares	–	–	–	30	–	30
Net exchange gain	–	–	147	–	–	147
At 30th June 2008	690	5,168	19,610	(438)	(14)	25,016

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Statement of Directors' Responsibilities

The directors confirm that to the best of their knowledge:

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

Notes to the Interim Report

1. These accounts have been prepared in accordance with IAS 34. They are unaudited and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the “Act”). The accounts for the year ended 31st December 2007 have been filed with the Registrar of Companies and have been reported on by auditors under Section 235 of the Act. The auditor's report on those accounts was not qualified and did not contain a statement under Section 237 (2) or (3) of the Act.
2. The deferred tax asset reflects the tax recoverable on the defined benefit obligations.
3. Taxation has been provided for at an estimated rate of 30% (2007 – 30%) taking into account £19,000 movement on deferred tax to the income statement.
4. Basic and diluted earnings per share have been calculated on the profits for the period after taxation and divided by the weighted average number of shares in issue during the period of 13,604,465.
5. The directors have not declared an interim dividend (2007 – 2.4p).

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Company Information

DIRECTORS

**Non-executive*

George M. Magan, F.C.A.*

Lanto M. Syngé

Lord Daresbury*

James Heneage*

Giles H. Hutchinson Smith

Eloy Michotte*

M. Henry G. Neville

Michael Smyth-Osbourne

Thomas E. Woodham-Smith

Chairman

Group CEO

Secretary

REGISTERED OFFICE

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COMPANY NUMBER

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WEBSITE

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