Galiform

Annual Report & Accounts

+£88.1m

+9.1p

+54

+13.8%

2007

HOWDENS

The Business review

The Financial statements

HOW we did in 2007

+£88.1m
Operating profit

Operating profit before exceptional items on a continuing operations basis grew from £65.7m in 2006 to £88.1m in 2007; an increase of 34.1%.

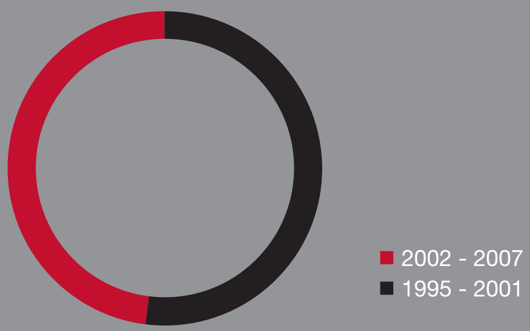
	2007 £m	2006 £m
Operating profit	52.7	33.5
Add back exceptional losses	35.4	32.2
Operating profit before exceptional losses	88.1	65.7

+9.1p
Earnings per share

Basic earnings per share before exceptional items on a continuing operations basis in 2007 was 9.1p, compared to 6.1p in 2006; an increase of 49.2%.

	2007 £m	2006 £m
Basic earnings	52.9	6.1
Add back exceptional losses	1.4	30.2
Earnings excluding exceptional loss	54.3	36.3
Weighted average shares	598.6m	594.4m
Earnings per shares	9.1p	6.1p

+54
Depot openings



54 Howden Joinery depots opened in 2007, compared to 40 openings in 2006. At the end of 2007, 48% of depots had opened in the last 6 years and are still maturing.

+13.8%
Sales growth

Sales growth from continuing operations in 2007, excluding sales by Supply to MFI and Hygena Cuisines, was 13.8%.

	2007 £m	2006 £m	%
Total turnover	976.5	733.0	–
Less supply sales	(200.1)	(50.8)	–
	776.4	682.2	13.8

2007
Results for the 52 weeks to 29 December

HOW we do business

This is the text of Howdens' mission statement, originally drafted by Matthew Ingle in 1995.

Since then, the expected number of depots has been revised upwards as the business has grown – but nothing else has changed.

To supply from local stock nationwide the small builders' routine joinery and kitchen requirements assuring the best local price and no call back quality.

Howdens solves problems for small builders doing joinery work, who in turn solve problems for people like us... It's all about fitting into their society and not letting them down... associating with people who run their own business... it means a lot. Who don't get paid until a job is complete and satisfactory. And that means: it looks good, meets standards, easy to fit, doesn't break, available locally and when required, can swap things, offers credit terms, gives a good margin using a confidential discount from a retail list, excludes retail, nice trade environment, maintains staff – always same faces – no room for fairy stories.

To achieve this means being very important to our suppliers so we can offer best prices, quality and always have stock available. It means having great suppliers who share our philosophy.

It means having extremely motivated and well paid staff... this is an entrepreneurial manager driven business.

Low central overheads... tradesmen entrepreneurs are not interested and do not benefit from a big central office.

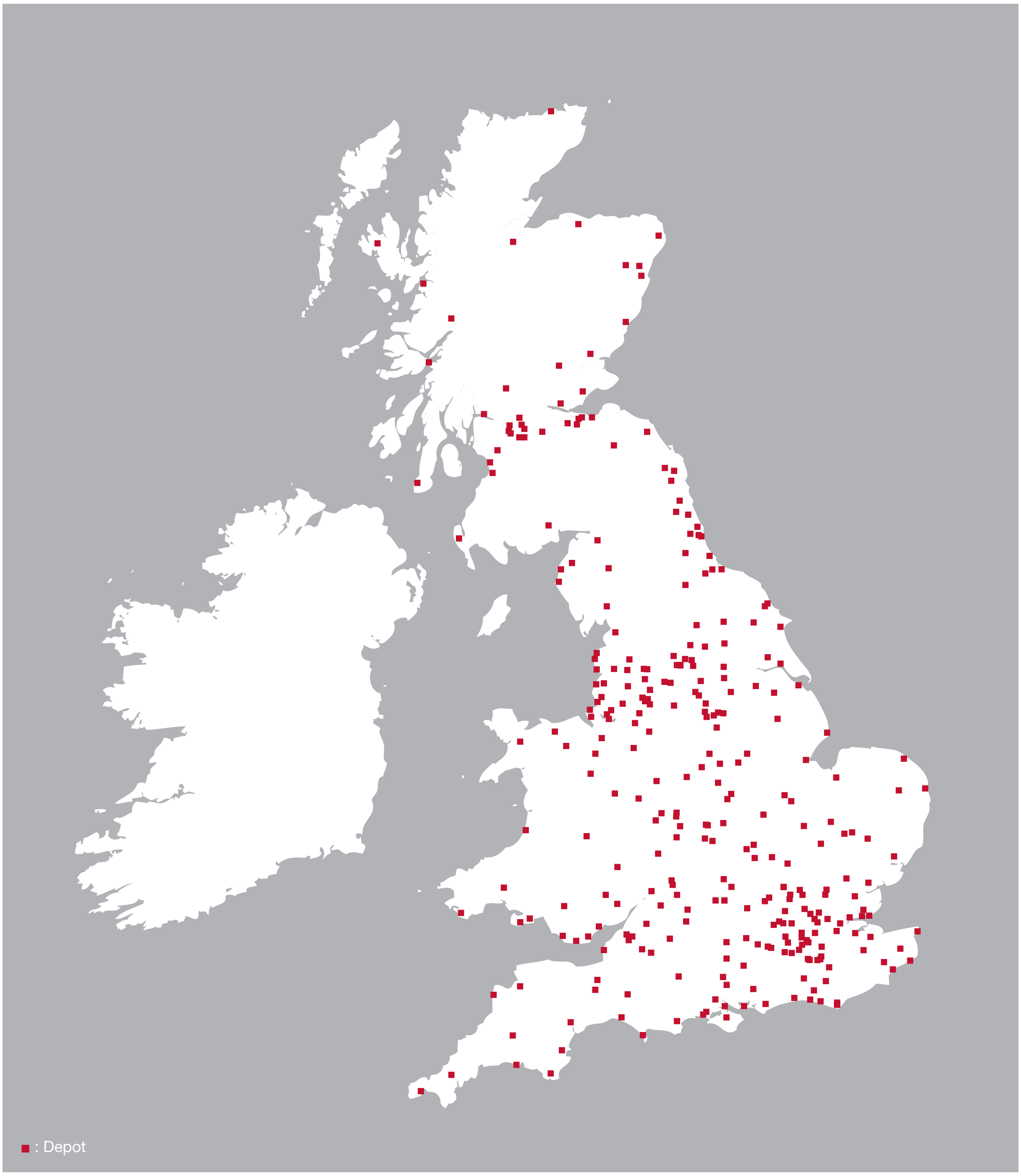
Howdens does not offer a huge hierarchy for the ambitious corporate politician mountaineer... rather an extremely satisfying well paid job for a small number of individuals.

Apart from being part of the trade fraternity, Howdens has grown from nothing... no name, no product, no building, no staff to over 6,000 staff, 400 locations and 180,000 accounts in 12 years.

A winning formula that everyone connected with can call their own and a philosophy that can grow. Anticipating over 600 sites in the next 3 years with more in prospect and Europe on the door step.

I set out to make Howdens feel like home. The sort of business our customers' fathers used and were proud to buy from: I hope our children and our customers' children use Howdens too and feel the same way.

As good as it ever was.



94

depots opened
in the last two years

- 48% stores still maturing
- Scope for at least 600 depots

Depots mature in

7th year

- Average size circa 10,000 square foot
- Rent £5 per annum per square foot
- Average 10 staff per depot

Local

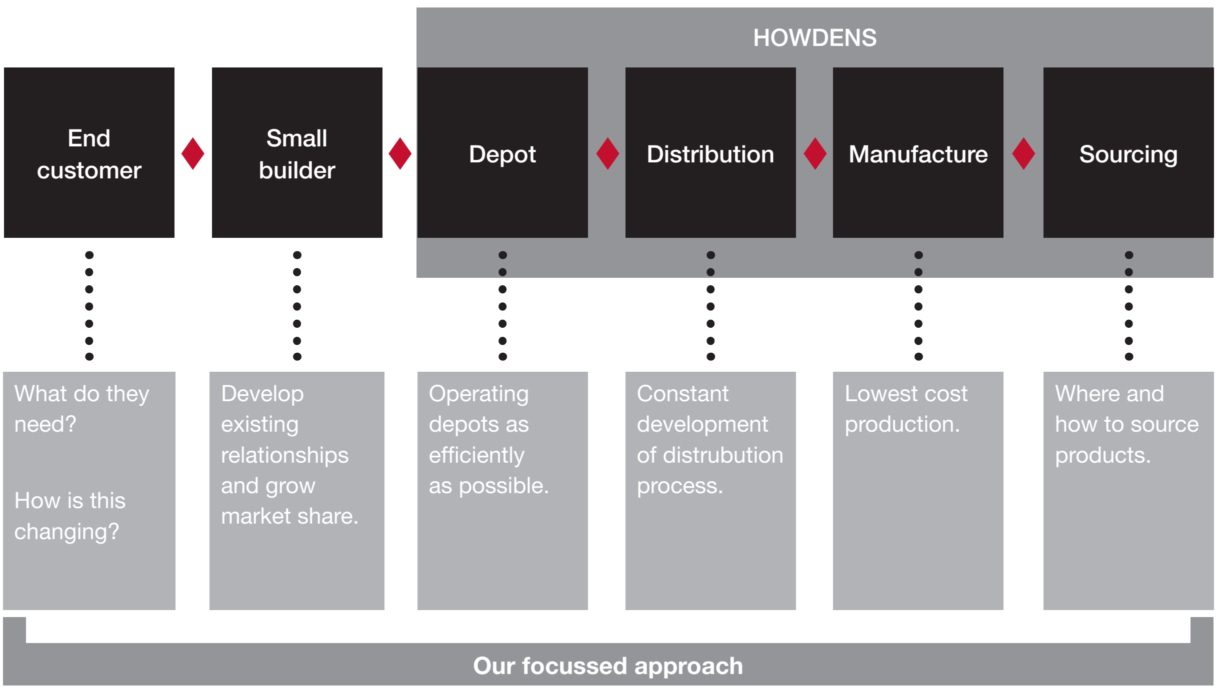
accountability

- Local depot manager recruits staff
- Incentives based on profits and margin
- Low staff turnover

HOW we make our business work

It's not just about product. It's about service as well. One item missing means the job is unfinished. When a builder buys from Howdens he can finish the job.

Howdens is a unique trade business model that has access to all market segments because we recognise that only the combination of Howdens and the small builder resolves the issues associated with today's fitted kitchens for users and owners alike, and provides margin for all concerned with that endeavour.



CAD plan

Builders' catalogue


Vegetarian

The kitchen

is the centre of the home

Kitchen shown from the new Studio Sicily range.

HOW we are doing

Chairman's statement

The small builder fits kitchens for both social and private housing. We believe we are therefore less cyclical and less reliant on private sector consumer expenditure than a kitchen retailer.

Results
I am pleased to report a very encouraging set of results for the 52 weeks to 29 December 2007. Turnover from continuing operations rose by £243.5m to £976.5m (2006: £733.0m), reflecting the increased sales of Howden Joinery (£92.1m) and third party sales to MFI (£149.2m). Profit before tax on continuing operations, pre exceptional items, increased by 39.5% to £79.8m (2006: £57.2m). Underlying earnings per share on a continuing operations basis advanced by 49.2% to 9.1p. The directors have recommended a final dividend of 0.5 pence per share (2006: nil).

Strategic developments
The sustained growth in sales and profits throughout the year reflects the robustness of our business model, the expansion of our depot network and our ability to provide added value to our customers. Our decision to bring our contract to supply products to MFI to an early conclusion in December 2007 will further increase our focus on our core market of small builders. In line with this strategy, we consolidated our manufacturing and logistics operations by transferring Hull manufacturing to our site at Howden in Yorkshire and closing one of our distribution centres in Northampton. Although these changes involved some redundancies, which are clearly regrettable, they were necessary in order for us to continue to grow the business – which by the end of 2007 employed 186 more people than at the beginning of the year.

In addition to our 436 depots in the UK, we have a small pilot of 11 depots in France. We continue to test the Howdens model in the French market, which differs from the UK in a number of ways, but affords us valuable development experience with only limited investment.

People and CSR
Galiform's continuing progress is the achievement of everyone in the business. We are grateful to all of them for their energy, enthusiasm and hard work.

Our commitment is to recruit the best people to deliver outstanding customer service. This includes the way we assist customers by providing the right products and services, whilst remaining knowledgeable in all aspects of their needs.

We continue to drive CSR, as well as aiming to improve our environmental performance; and we are particularly proud to continue to work in partnership with the Leonard Cheshire Foundation, where we have been voted best UK Charity/Corporate Partnership by the Third Sector Awards for Excellence.

Outlook

We plan to continue to build on our strong position in the sourcing, manufacture and distribution of high quality kitchens and accessories to professional customers. These are growing in numbers as the trend towards "done for you" installation continues to gather pace. Our principal customer – the small builder – fits kitchens for both social and private housing. Accordingly we believe that our activity is both less cyclical and less reliant on private sector consumer expenditure than a kitchen retailer.

The unique Howdens culture that has been nurtured in this business since it was founded is still fundamental to our success. Our entrepreneurial approach, our low cost production, the scale of our operations and our market-leading design expertise all present formidable barriers to entry.

Howdens also has the benefit of a substantial portfolio of still maturing depots – that is, depots which have been open for less than seven years and are still growing their customer base. This and the other factors I have mentioned give us confidence in our ability to continue to outperform our sector over the coming year.

Will Samuel
Chairman

5 March 2008

	2007	2006	2005
Continuing operations before exceptional items (£m)			
Revenue	976.5	733.0	621.8
Gross profit	456.2	362.5	322.5
Operating profit	88.1	65.7	54.1
Profit before tax	79.8	57.2	42.5
Net borrowings	(3.3)	(4.1)	(55.5)

HOW we create value

Chief Executive's statement

Our objective is to grow a profitable, worthwhile, clearly focussed business that is capable of continuing to deliver increasing value to all parties.

DIY has given way to DFY or 'done for you' – in other words, installation by a professional.

By the time you read this you will probably be aware that Galiform has reported a very successful year. 2007 was also an important year for the business in several respects. In a nutshell, we were able to demonstrate clearly that our strategy works.

Our objective is to grow a profitable, worthwhile, clearly focussed business that is capable of continuing to deliver increasing value to all parties – customers, staff, suppliers and shareholders.

Last year, we continued to develop Howdens against the background of the restructuring that was a necessary part of creating a focused commercial organisation. With the termination of our contract to supply MFI, we can concentrate on our core trade customers and ensure that the interests of all those involved in the business are properly aligned.

Howdens' unique skill is the ability to co-ordinate every element of what we do so that the outcome is a properly working kitchen, supplied complete, at the right price and when required – from stock.

To do this, we need to understand how to create value in every area – value delivered to end-users and builders, value generated in depots and in our supply activity.

End users
The kitchen is increasingly the centre of the home, not just a place where food is prepared. It needs to look good as well as work – good design, as well as quality, are now expected. As the kitchen itself becomes more sophisticated, both in form and function, it also becomes more complex to install. Add to this a constant stream of legislation and regulation concerning safety in the home, and it's easy to see why DIY has given way to DFY or 'done for you' – in other words, installation by a professional.

Economics and demographics drive the timing of the decision to install a new kitchen. As the population grows, so does the number of single-person households, which means more kitchens are needed. Local authorities and landlords are constantly renewing, repairing and adapting to meet the needs of tenants.

This is a business that is about trust, personal relationships and reliability.

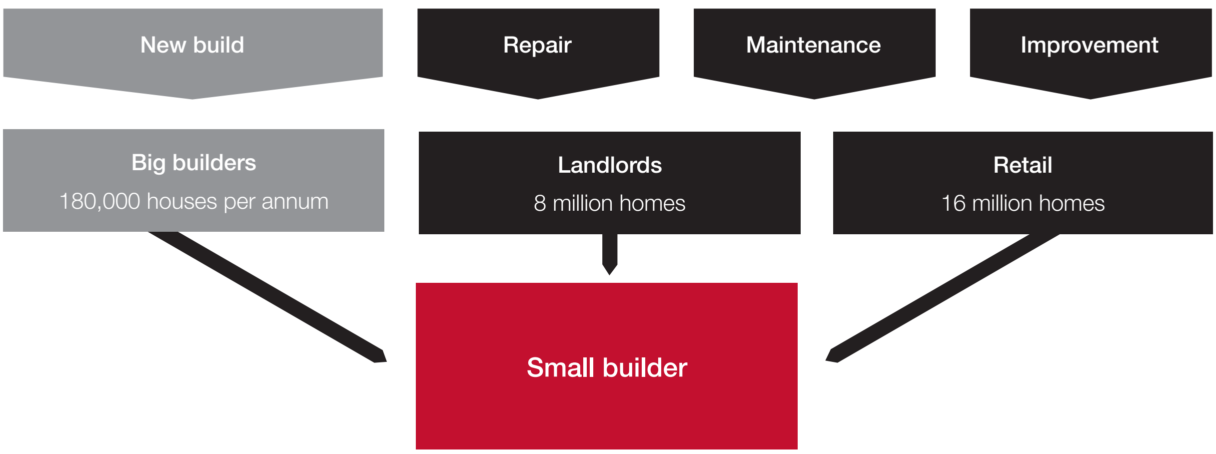
Interest rate uncertainties and lack of momentum in parts of the housing market tend to make homeowners think about home improvement, adding value to their existing property rather than moving house.

Local authorities, private landlords, developers and homeowners all increasingly use local professional builders to ensure that they have working kitchens fitted to budget and on time.

Builders

These local builders are Howdens' core customers – the people who use our depots every day. A builder acts as a project manager, with lots of projects on the go at any one time. As well as having a craft skill, builders are also business people who need to make money. Howdens helps them do this by supplying the product they want – rigid boxes, ready to install – from stock, locally, at the right price and on suitable terms. That means everyday low price rather than promotions, which helps builders to plan ahead; a trade discount, which represents their margin; and a net monthly account, which helps them to manage cash flow. This is a business that is about trust, personal relationships and reliability. Builders see the same faces in their local depot week in, week out. Around the country 200,000 builders know they can rely on Howdens to help solve their problems.

Routes to market



HOW we create value

Chief Executive's statement

continued

Each depot is set up so that it can maximise margins while minimising costs.

Depots
When builders go in to one of our depots, they can get what they want in a straightforward trade environment. Each depot is set up so that it can maximise margins while minimising costs. We have local accountability, so depot managers have real responsibility. They can tailor stock to what they know sells locally, and they can price and market it to suit local demand. Their bonus is based on a percentage of their own depot's profit, less any stock loss. Their staff are incentivised on local margin, too. Everyone's interests are aligned.

On average, it will take seven years for a depot to reach maturity, with its continuing growth driven by its manager and staff, who are responsible for building business in their local area. Over the past two years, we've opened 94 depots, bringing the total to 436 at the year-end. We are confident that our model, and market trends, will support the further expansion of our network to at least 600 depots.

We keep depot costs to a minimum. The average depot is around 10,000 square feet in size with a rental cost of approximately £5 per square foot. Rents are low because the depot is sited somewhere that's convenient for the trade customer, rather than in a smart retail location.

We don't advertise, but we do produce market-leading catalogues that show our entire product both in detail and in room sets so that builders, and their customers, can see how it works with other products. During the year, we opened our Expo Centre, in Kent, which showcases leading-edge designs, encouraging feedback from architects, project specifiers and developers as well as from staff and customers. We also have two large show-trailers that take the Expo concept around the country, visiting each depot so that everyone can get a flavour of what's current, and what's new, in kitchen design.


Trade Expo

Agility and speed to market are key to our success.

Our priority for the year ahead is to build on our strong market position... delivering even greater value to all involved.

Supply
As kitchens become more sophisticated, we are developing our product range, focussed on what builders' customers actually want. We have a test laboratory and prototype studio to learn, develop, look ahead and embrace failure as a route to success. Agility and speed to market are key to our success. We currently offer 42 kitchens, a wide range of doors, appliances and worktops, and two basic boxes – one white, and one brown.

We make what it makes sense to make, and we buy what it makes sense to buy. Since January 2006, the proportion of manufactured product has decreased from 50% to 30%, the amount of manufacturing and logistics space we occupy has decreased by 40%, and the number of stock keeping units we manufacture has gone down from 4,300 to 1,100.

Our Supply activity has to be cost-effective in every area. Our trucks run full to our depots, we are streamlining our use of space and we are constantly working on improving logistics and manufacturing efficiency. We build boxes because it isn't economic or sensible to ship them around the world.

We achieve lowest cost production because we have very long runs – 120,000 boxes a week at peak periods.

Howdens has a powerful but simple customer proposition:

- first class kitchens
- in volume
- from stock
- selling to 180,000 account customers
- on a repeat basis.

We now have a proven business model, operating at scale, supplying an increasingly demanding and supportive customer base. Our priority for the year ahead is to build on our strong market position, generating further efficiencies, improving our processes and delivering even greater value to all involved.

Matthew Ingle
Chief Executive

5 March 2008

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Depots at year end	14	24	56	86	116	171	228	269	300	320	342	382	436

HOW the year went

Review of operations and finance

Group results

Revenue rose by £243.5m to £976.5m, reflecting the increased sales of Howden Joinery (£92.1m) and third party sales of Supply (£149.3m). The growth of third party sales by Supply reflected MFI being an external customer in 2007, having been part of the Group until October 2006.

Excluding exceptional items, gross profit increased by £93.7m to £456.2m. With selling and distribution costs and administrative expenses increasing by £71.2m, operating profit before exceptional items was £88.1m (2006: £65.7m). The net interest charge fell £0.2m to £8.3m. The net result was profit before tax and exceptional items of £79.8m (2006: £57.2m).

Exceptional charges before tax totalled £35.4m, giving profit before tax of £44.4m (2006: £25.0m). These mainly comprised £36.5m relating to the restructuring of Supply and IT announced in June 2007. In addition provision for future business rates on vacant retail properties and professional fees associated with the disposal of retail have been shown as discontinued operations.

Basic earnings per share from continuing operations excluding exceptional items were 9.1p (2006: 6.1p). Earnings per share including exceptional items were 8.8p (2006: 1.0p).

Howden Joinery

Howden Joinery sells kitchen and joinery products to the building trade, predominantly small local builders, via a nationwide network of depots.

Results

	2007 £m	2006 £m
Revenue	768.4	676.3
Operating profit before exceptional items	145.1	132.6

Howden Joinery traded well throughout the year, the higher rate of sales growth seen in the summer being sustained to the end of the year. Revenue increased by 13.6% to £768.4m, up 8.9% on a same depot basis. This reflected a continuing increase in the turnover of mature depots, which have typically been operating for six years or more, the benefit of the maturing profile of sales from newer depots and new depot openings. Of particular note were the sales of doors and joinery products, which benefited from the introduction of a more extensive range of doors and a new joinery catalogue in the autumn of 2006. The increase in sales also reflected the benefit of improvements to the kitchen product range sold, both in terms of the scope of the kitchens offered, and new products introduced to meet the ever-higher aspirations of all end-consumers, such as 'range' cookers. This led to both increased volume and additional 'add-on' sales, increasing the average value of kitchen sales.

The rise in sales through existing and new depots, after allowing for sales-related cost increases, contributed £23.3m to the growth in operating profit. This was partly offset by an increase in non-depot costs of £4.9m and an increase of £5.9m in the provision for obsolete stock, primarily arising from a decision to conclude the bedroom test and the discontinuation of certain slow-selling kitchen ranges and joinery doors. The net result was that operating profit before exceptional items rose by £12.5m to £145.1m.

The main elements of the increase in non-depot costs related to increased expenditure on promotional material and expenditure incurred in relation to a major new product design initiative to help us meet market requirements beyond the short-term. In addition, costs were incurred in relation to the 'Trade Expo Centre', which opened in May, and two mobile display vehicles which were commissioned in the autumn.

Business developments

In 2007, 54 new depots were opened, bringing the total number to 436. In addition, two existing depots were relocated and five were extended.

A review of the opportunities for additional depots, taking account of demographic information and the locations of our existing network, has concluded that the number of depots could increase to more than 600 in the medium-term. Some of these will be in places where we have no presence. Others will be in conurbations that warrant more than one depot. This year, we are planning to open around 50 depots.

In May, Howden Joinery opened its 'Trade Expo Centre' (the Centre), the primary purpose of this new facility being to provide a showcase for the business. The Centre has an extensive range of existing products on display, in inspirational and innovative settings designed to inspire the visitor, which is not possible within the confines of the limited show area of a depot.

By the end of the year, nearly 6,000 people had visited the Centre. These included professionals from larger organisations that purchase kitchens and who may not have used Howden Joinery in the past, builders who already use Howdens and their customers, and Howdens' depot staff. This initiative gives us a focal point to engage with customers on their perception of Howden Joinery and their product requirements; and has enabled us to raise our profile as a supplier of kitchen and joinery products to the trade.

Since the autumn, the work of the Centre has been augmented by two mobile display vehicles, one of which focusses on products aimed at the local authority/housing association sector of the market, the other showcasing new products.

Supply

Supply primarily sources products for Howden Joinery. The products are either manufactured, in the case of kitchen cabinets and worktops, or sourced from third parties by Supply. As part of the transitional arrangements following the disposal of Hygena Cuisines and MFI in 2006, Supply has also sourced products for these businesses in 2007.

Results

External turnover of Supply was £200.1m (2006: £50.8m), reflecting sales to MFI and Hygena Cuisines as third parties, the former having been part of the Group for most of 2006.

The net cost of Supply before exceptional items decreased to £26.6m (2006: £39.6m). This reflected the move from manufacturing to buying-in fascias and own-brand appliances that was instigated in the first half of 2006 as part of the drive to bring a new commercial focus to Supply. The benefits of this change were indicated when it was announced in February 2006. In addition, there was an increased currency gain arising from the strengthening of the pound against the euro and the US dollar.

Business developments

The product supply and logistics services arrangements with MFI were successfully concluded on 21 December 2007. Galiform continues to provide certain IT and financial services to MFI until October 2008. In response to the ending of these arrangements with MFI, the restructuring of the manufacturing and logistics operations has proceeded to plan.

By the year end, manufacturing facilities at Hull had been closed with activities transferred to Howden; and 340 employees had left the operations. Further rationalisation has taken place since and, with the restructuring of logistics operations in Northampton due for completion by the end of March 2008, a further 190 employees will have left.

A key aspect of the restructuring has been the realignment of these operations with the requirements of Howden Joinery. Internally, 'flat pack' box manufacturing capacity at the Howden factory has been converted to 'rigid box' capacity. Externally, the supply base has been strengthened to enable better product design, new product opportunities and improved supply availability.

These changes will provide the flexibility to better manage the requirements of the Howden Joinery's key October trading period, when demand can be more than twice that seen in other periods, and the capacity to handle the expected growth of demand in coming years.

Taxation

The tax charge on profit before tax from continuing operations, excluding exceptional items, was £25.5m, a tax rate of 32%. In the 2007 Budget, the Chancellor announced his intention to reduce the rate of Corporation tax from 30% to 28% with effect from 1 April 2008. The change in rate has been reflected in our deferred tax balances in these accounts and will be reflected in our current tax balances after 1 April 2008. The effective rate of tax would have been 34.2% without this adjustment.

In addition, the Group has recognised deferred tax assets in certain of its subsidiaries (£23.9m) that were previously unrecognised. This has been treated as an exceptional tax credit (see note 6).

The Group seeks to minimise its tax burden in a manner which is consistent with its commercial objectives and meets its legal

HOW the year went

Review of operations and finance

continued

obligations and ethical standards. While every effort is made to maximise the tax efficiency of its business transactions, the Group does not look to use artificial structures in its tax planning. The Group is committed to building open relationships with tax authorities and to follow a policy of full disclosure in order to effect the timely settlement of its tax affairs and to remove uncertainty in its business transactions.

Dividend and dividend policy

The Board is recommending a final dividend of 0.5p per share (2006: nil) to be paid on 13 June 2008 to shareholders registered at close of business on 30 May 2008.

The Board is assessing an appropriate ongoing dividend policy and will provide details at a later date.

Cash

Good management of costs resulted in the Group generating a positive cash flow from operating activities. The net borrowing at the end of the year was £3.3m (2006: £4.1m), including monies held on escrow for future insurance claims of £2.4m (2006: £3.1m). This has been struck after taking into account the £53.1m dowry payment to MEP in September 2007 as part of the terms of disposal of the Retail business back in 2006. Positive cash flow is expected again in 2008.

Key financial performance indicators

The Group uses a number of financial performance indicators to measure operational and financial activity in the business. These are shown on the front cover and first page of this Annual Report.

Sales growth

Growth in sales is obviously key to enhancing shareholder value in any company. This measure, along with monitoring our programme of depot openings, tracks the ability of the Group to grow the business.

Operating profit

This is a key measure of the Group's ability to generate profits. The Group targets steady growth in operating profit before exceptional items over the medium-term.

Earnings per share (EPS)

We believe that EPS, while not perfect, is an accessible measure of the returns we are generating as a Group for our shareholders, and also has the merit of being auditable and well understood. The key measure of short-term financial performance is basic earnings per share before exceptional items.

Depot openings

The business model is based on individual depots providing kitchens to small builders within a local community. As such, the continuing drive to open new depots in new localities is key to the Group's growth prospects. We currently believe the maximum number of good quality depots which can be opened in any year is between 50 and 60.

Managing our commercial risks

Defined benefit pension scheme

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events, including estimated retirement dates, salary levels, mortality rates, rates of return on scheme assets and determination of discount rates for measuring plan obligations. The assumptions used from year to year may vary, which will affect future results of operations. Any difference between these assumptions and the actual outcome also affect future results of operations. Pension assumptions are discussed and agreed with the independent actuaries in December each year. These assumptions are used to determine the projected benefit obligation at the year end and hence the liability or asset recorded on the Group's balance sheet.

Details of the pensions charge and the defined benefit schemes' assets and liabilities are shown in note 23 to the financial statements. This shows a net deficit, after taking into account deferred taxation, of £60.1m (2006: £132.4m). Changes in this deficit are affected by the assumptions made in valuing the liabilities and the market performance of the assets. Most importantly, the discount rate used for measuring the defined benefit liabilities has increased from 5.1% in 2006 to 5.9% in 2007. Together with the better than expected returns on the scheme assets during the year, these factors have resulted in a reduction of the net deficit.

As part of the secured lending facilities announced on 17 February 2006, the Company and the Trustees together with The Pensions Regulator reached agreement with regard to the funding of the remaining deficit. The Trustees have been granted security over the Group's shares in Howden Joinery Limited. An amount of £30.5m per year has been included within the budgeted 2008 cash flows for ongoing pension costs and clearance of the deficit over the next few years.

Disposal of MFI Retail (MFI)
The Board has reviewed the risks relating to the disposal of MFI described in the circular sent to shareholders prior to completion of the transaction in 2006, and has agreed that these remain appropriate. These risks include:

- exposure to potential claims under the warranties
- contingent liabilities in relation to retail leases guaranteed by the Group
- terms of transitional services provided pursuant to the ancillary agreements

Further detail on warranty claims and contingent liabilities are shown in note 28 to the consolidated financial statements.

Failure to implement the Howdens' strategy
The future success of the Howdens' business depends on the successful implementation of the Company's strategy and culture for that business. In particular, if the Group fails to expand the Howdens' business in the locally enabled decentralised manner contemplated, there may be an adverse affect on the Group's future financial condition and results of operations.

Single manufacturing facility
The Group manufactures rigid cabinets and other products, comprising a significant proportion of its annual sales value, at a single manufacturing facility. If manufacturing at this facility is interrupted or terminated, the Group might not be able to locate alternative manufacturing sources on a timely basis or on satisfactory terms. The Group currently has insurance cover at levels which the Group believes are appropriate to mitigate this risk. A second rigid assembly line at Howden has helped mitigate this risk.

Product design leadership
If there was a misalignment between the products we offer and the requirements of our customers and the current trends in the market, there may be an adverse change on the Group's future financial condition and results of operations. Active engagement with suppliers, independent research and, critically, depot managers and their designers encourages and enables product development activity. During the year the Trade Expo Centre has opened near Orpington and this has further enhanced our capability of consistently providing inspirational new product and designs.

Loss of key personnel
The Group's success depends largely on the skills, experience and performance of some key members of its management. The loss of any key members of the Group's management may adversely affect the Group's financial condition and result of operations. The Group utilises the Remuneration Committee to ensure that team members are appropriately compensated for their roles.

Information systems
The Group is undertaking multiple business change initiatives to support and enable future growth. In particular our legacy system infrastructure is being migrated from Colindale, which was sold as part of the MFI Retail disposal, to alternative locations and a new front-end system is being installed. These initiatives are actively and carefully planned with defined governance procedures in place. An important component of this planning process is to ensure that the risks of disruption to the business are monitored and controlled.

Market conditions
The Group's products are distributed to professional fitters in connection with residential housing projects. The results are consequently dependent on levels of activity in this market which in turn is impacted by many factors including general economic conditions, mortgage and other interest rates, inflation, unemployment, demographic trends, weather, the price of fuel and consumer confidence. The Group understands lead and lag indicators in order to take timely actions to address issues affecting trading.

Managing our financial risks
The Group holds financial instruments for two principal purposes: to finance its operations and to manage the interest rate and currency risks arising from its operations and its sources of finance. The Group finances its operations by a mixture of cash flows from operations and longer-term loans from banks. Treasury operations are managed within policies and procedures approved by the Board.

Review of operations and finance

continued

The main risks arising from the Group's financial instruments are funding and liquidity risk, interest rate risk, counterparty risk and foreign currency risk. Where appropriate, the Group uses financial instruments to manage these risks. No speculative use of derivatives, currency or other instruments is permitted. The Treasury function does not operate as a profit centre and transacts only in relation to the underlying business requirements.

Funding and liquidity

The Group's objective is to procure continuity of funding at a reasonable cost. To do this it seeks to arrange committed funding. The Group has a £175m secured facility. Since the year-end, the maturity of this facility has been extended from May 2009 to May 2011.

Interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings is managed when necessary by borrowings on a fixed rate basis by entering into rate swaps, rate caps and forward rate agreements. The Group's policy objective has been to only undertake transactions of this nature when net debt exceeds £150m. Net debt has not exceeded £150m during the year.

Counterparty risk

Group Treasury policy on investment restricts counterparties to those with a minimum Standard and Poor's/ Moody's long-term credit rating of AA and a short-term credit rating of A1/P1. Investments mainly consist of bank deposits and certificates of deposit. The Group continuously reviews the credit quality of counterparties, the limits placed on individual credit exposures and categories of investments.

Foreign currency risk

The most significant currencies for the Group are the US dollar and the Euro. It has become very difficult to pass the prescribed tests under IAS 39 'Financial Instruments: Recognition and Measurement' to ensure the ability to hedge account for derivative currency transactions through the profit and loss account. As the resultant volatility cannot be avoided in the profit and loss account, it is the view of the Board that routine transactional conversions between currencies are completed at the relevant spot exchange rate. This policy is reviewed on a regular basis.

Mark Robson
Chief Financial Officer

5 March 2008

HOW we govern the business

Corporate social responsibility report

Our mission is to supply, from local stock, the small builder's routine kitchen and joinery requirements, with no call back quality and at best local trade price. However, as a business which is part of a local community, we know that this cannot come at any cost.

We have a nationwide business comprising:

- 436 depots
- 2 Howden Kitchens manufacturing facilities in Howden and Runcorn
- 3 distribution and warehousing centres in Howden, Runcorn and Northampton

We are a market leader in our field and with that position comes responsibility.

Our business is built on relationships; relationships with customers, suppliers, employees and other stakeholders, and, as a socially responsible business, we recognise that, in addition to complying with our legal requirements, we have a wider responsibility to society which we must marry with our commercial interests. This report shows the actions we have taken over the past year to ensure that this wider commitment to our stakeholders is real and sustainable and continues to progress along with our business. Unless otherwise stated, the report covers the entirety of our business.

Although the sale of MFI Retail was completed in the final quarter of 2006, our obligations to support MFI continued throughout the year, with our obligation to supply products to that business only ending on 21 December 2007. Other areas of support continue into 2008. The transformation, about which we spoke in our 2006 report, has therefore continued throughout 2007 – a year where we had to ensure sustainable growth for Howden Joinery whilst flexing our business model sufficiently in order to support MFI.

Whilst this has not impacted our efforts to progress our CSR activity, the large scale change in the business does mean that any specific targets, which use this or prior years as a baseline, will be of little value in the future. As stated above, we want our commitment to CSR activity to be real and sustainable and therefore we intend to use this year as a period of consolidation and reflection in this area, with an aim to introducing targets where appropriate for the following year.

During the year we have reviewed our CSR policy and the statements which underpin it relating to the environment, ethical sourcing and health & safety. Like other organisations, our policies are approved at the most senior level and we recognise that management commitment in areas such as CSR is key if progress is to be achieved.

However, most importantly, we recognise that Howdens is a local business; a local business which is part of a local community. As such, as well as ensuring management commitment to our policies, we are keen to demonstrate that we enact our policies at a local level making them not only meaningful to staff but to the local trades people whom we serve.

Wood

Manufacturing

As stated in previous reports, as a supplier of kitchen and joinery products for builders, wood plays a central role in what we do. As such, we always try to source wood in a way that's good for business and for the environment.

Our preferred option is to buy wood which is accredited by either the UK Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC) schemes. These respected independent schemes enable us to source wood and paper products from suppliers that use sustainable methods to manage their forests.

- In 2007, we used more than 330,000 cubic metres of chipboard and 8,000 cubic metres of MDF in our manufacturing process. We also used 5,600 tonnes of cardboard packaging for our manufactured products. All of this – both the wood products and cardboard packaging – came from accredited sources (2006: 100%)
- It is our intention to aim for a similar high standard in the future

HOW we govern the business

Corporate social responsibility report

continued

Bought-in product

Many of our joinery products and kitchen fascias are now sourced from a range of suppliers in the UK, Europe and elsewhere in the world.

Ethical and environmental sourcing is an important part of the global supply chain, and we expect all our suppliers to comply with high standards in this area. In terms of wood based kitchen and joinery products, suppliers should either possess or be working toward FSC/PEFC accreditation where possible. With the development of new products and the introduction of new technologies, our aim is to increase the percentage of bought-in products which are from accredited sources if possible.

Annual audits and continuous improvement programmes have become an integral part of supplier selection and development and we continue to audit a sample of our suppliers on an annual basis to verify their compliance with our requirements. Our team in Asia have developed a supplier grading system against which audits are undertaken, and we are pleased to say that the number of "A" grade suppliers in Asia has improved over the last year.

By the end of February 2008, our business had achieved both FSC and PEFC certification, with independent verification of our depots, primary warehousing facilities and chain of custody processes.

Energy

In terms of energy, two key areas where we have specifically concentrated our efforts at measuring and reducing energy consumption are at our manufacturing sites and also across our fleet of trucks. We are also working to increase the number of energy efficient products which we supply to our customers.

Manufacturing

- In 2007 our remaining manufacturing sites were re-awarded the Institute of Energy's prestigious Energy Efficiency Accreditation. We have now been accredited continuously for more than ten years

- Web-based reporting tools have been installed at our largest manufacturing site at Howden which will improve energy data collection and monitoring. We are studying a plan to roll this out across the manufacturing sites, warehouse and distribution centres in 2008

- One of our measurements for energy consumed, is the energy required to manufacture one rigid cabinet. In 2007, this reduced 15% year on year but, as stated above, we will baseline again in 2008 once the full extent of the restructuring has been taken into account

- Our manufacturing site at Runcorn and our warehouse site in Howden have been re-accredited during the year in respect of the environmental standard, ISO14001. We are in the process of extending this accreditation to our manufacturing site at Howden and our warehousing facilities in Northampton

Truck fleet

- The Company operates a fleet of 160 trucks

- All trucks are as a minimum, Euro3 compliant, and the Company aims to improve the standard of its fleet of trucks as part of its ongoing fleet management program

- The number of loads moved by rail rather than road has increased. In 2007, 64% of inbound containers from Asia (2006: 49%) and 11% of containers from Europe (2006: nil) were moved ex-port by rail. It is our intention to increase rail usage further in the medium-term where commercially viable

Products

- In line with EC regulations, all kitchen appliances must be rated and labelled in respect of energy efficiency. Ratings range from A-G with A being the most energy efficient. Some appliances qualify for A+ and A++ ratings. We are pleased to say that 90% of our products are A rated and above and it is our intention to ensure this percentage is maintained or improved upon over the medium-term

- The Group is working towards gaining the Energy Savings Trust Awards for certain product categories and hopes to achieve this certification in 2008

- All products manufactured and sourced by Howdens are tested for compliance to relevant British (BS) or International (BS EN ISO) safety standards specific to the product/industry. We have extensive in-house testing facilities in order that testing can take place in-house as well as at third party test facilities

Waste

Our employees are encouraged to consider how we can improve our environmental performance in all areas by reducing consumption, re-using materials and recycling wherever possible.

- In 2007, more than 89% of the 67,000 tonnes of waste produced in our manufacturing operations was recycled
- Cardboard, plastic and timber waste from the manufacturing process are segregated from general waste
- One element of "waste" from the manufacturing process is sawdust. In 2007, we converted over 25,000 tonnes of sawdust into energy, with the sawdust fuelling eight biomass boilers that burn this waste to heat our factories
- Through an employee initiative, we recovered 98,000 pallets in 2007 which would otherwise have been scrapped by setting up a pallet repair operation and ensuring a more efficient sorting process
- A new high volume shredder was introduced at the Howden site to further improve levels of re-cycling as well as improving the load density of the waste removal vehicles thus reducing the number of vehicle movements
- All of our waste removal companies have been audited during the year to ensure compliance with legislation

Employee responsibilities

We take our responsibilities as an employer very seriously. We recognise that employees are one of the key stakeholders in the Company and aim to provide a positive work environment for all our staff in whatever capacity. A vibrant culture has been vital to the rapid expansion of the business since its inception in 1995 and we continue to re-emphasise our unique decentralised culture across all areas of our business as much as we can. This culture is re-enforced by our commitment to certain core principles:

- Recognising by reward, the hard work of all employees
- Investing in training and development across the business
- Ensuring that recruitment, career success and progression are solely determined by an employee's abilities and achievements

As announced earlier in the year, further restructuring within our Supply business resulted in a number of redundancies at our operations in Yorkshire, Runcorn and Northampton. We are conscious of our need to meet not only our statutory obligations to our staff, but also our moral obligations. Consequently, we made sure that all affected staff were fully consulted and supported. That support included setting up a professional outplacement programme, on-site 'job shops' and redundancy counselling.

Health & Safety

The managers and directors in our operating divisions – Howden Kitchens and Howden Joinery – are personally responsible and accountable for the health & safety of their employees. The health & safety requirements of these two divisions necessarily differ somewhat and as such, each of the operating division boards reviews its own strategy, issues and performance on a regular basis.

- In the depots, there were 49 reportable health & safety incidents in 2007 – 12 fewer than last year. Whilst this is still 49 incidents more than we would like to report, it did mean that we met our target of reducing incidents by at least 10%. We will keep working to find ways to reduce incidents
- In 2007, in line with Government guidance, we also set a target across our depots of a 30% reduction in the hours lost due to injury. We achieved a 38% reduction during the year (2006: 29% reductions)
- In our manufacturing, warehouse and distribution sites, a complete review of health & safety was undertaken. Further to this review, our manufacturing site at Runcorn has been awarded the ISO18001 accreditation. We are in the process of extending this accreditation to our warehousing and manufacturing facilities at Howden and our warehousing facilities in Northampton

HOW we govern the business

Corporate social responsibility report

continued

- No improvement or prohibition notices were served on us this year, and we had no prosecutions by the Health & Safety Executive or the Environment Agency. A caution from the Environment Agency was received during the year in relation to waste disposal at an MFI store which was owned by the Group in 2006

Charity and local support

Howden Joinery is a national network of local businesses. Each depot, manufacturing site and distribution centre is very much part of the community it serves and all our staff are encouraged to make a contribution to the local community.

This year, our staff made more than 1,400 donations to local good causes. This amounted to some £410,000 across the Group and as well as cash donations and employee fund raising initiatives, included donations of joinery and kitchen equipment to local schools, village halls, care homes (see below), local youth groups and sports clubs.

Leonard Cheshire is a key community partner for us. The foundation is heavily reliant on volunteers to provide services to disabled people in the UK and needs to recruit more than 1,000 volunteers a year from local communities to maintain this support. With this in mind, we decided to repeat our 2006 funding of Leonard Cheshire's volunteer recruitment programme. In addition, our depots also raised money through a fundraising awareness week – Tea 4 Ability – where customers were asked to make a donation to the charity for their normally free cup of tea/coffee and 22 staff took part in the three major UK long distance events (the London Marathon, the Great North Run and the Great South Run) in order to fundraise.

We have also continued our research partnership with the Leonard Cheshire Foundation which aims to develop an affordable, attractive and practical kitchen product for people with physical disabilities. In 2007, we created, donated and installed six further kitchen activity centres in Leonard Cheshire homes across the UK. This remains an area of research with significant potential for ongoing product development, and we continue to sell our 'Inclusive' range of bespoke products within the depots.

In September, the partnership between our company and the foundation was recognised at the Third Sector Awards for Excellence when it was voted best UK Charity/Corporate Partnership. Both parties are proud of this achievement and we will continue to build on our relationship in order to further benefit the communities within which we work.

Matthew Ingle
Chief Executive

5 March 2008

Board of directors

Will Samuel (age 56)
Non-executive Chairman
Will was appointed a non-executive director and Chairman designate in July 2006 and became Chairman in October 2006. He is a Vice Chairman of Lazard & Co Ltd, Deputy Chairman of Inchcape plc and is a non-executive director of the Edinburgh Investment Trust plc and of Ecclesiastical Insurance Group plc. Prior to this he was a director of Schroders plc, Co-Chief Executive Officer at Schroder Salomon Smith Barney (a division of Citigroup Inc) and Vice Chairman, European Investment Bank of Citigroup Inc and Chairman of H P Bulmer plc. He is a Chartered Accountant.

Matthew Ingle (age 53)
Chief Executive
Matthew was appointed Chief Executive on 3 October 2005. He set up Howden Joinery in 1995 and has been responsible for its growth into a successful business today. Prior to joining the Company he had been Managing Director of the Magnet Trade operation. He was elected to the Board of the Company in 1998.

Mark Robson (age 50)
Chief Financial Officer
Mark joined the Board in April 2005 as Chief Financial Officer. Mark spent the previous six years as Group Finance Director at Delta plc. Prior to this, he had held a number of senior financial positions with ICI between 1985 and 1998. He is a Chartered Accountant and qualified with Price Waterhouse.

Gerard Hughes (age 48)
Group Commercial Director
Gerard Hughes joined the Group in April 2000 as Company Secretary and became Group Commercial Director in March 2007. Gerard is a key member of the Executive team and during the course of 2006 and 2007, played a major role in the restructuring and refinancing of the Group including the disposal of MFI and management of the transitionary services and legacy issues.

Non-executive directors

Angus Cockburn (age 44)
Non-executive director
Angus was appointed a non-executive director in October 2006. He has been Group Finance Director of Aggreko plc since 2000, having previously been Managing Director of Pringle of Scotland and Regional Finance Director Central Europe for Pepsico Foods. He is a Chartered Accountant and qualified with KPMG Peat Marwick.

Ian Smith (age 53)
Non-executive director
Ian was appointed non-executive director in September 2001. He was Chief Executive Officer of Taylor Woodrow plc until the Summer of 2007. Prior to that he was Chief Executive Officer of the General Healthcare Group, having previously been CEO Europe for Exel, and prior to that, Managing Director of Monitor Company Europe Ltd, a strategy consulting firm. Ian began his business career with Royal Dutch/Shell Group of companies, where he worked for nearly ten years, mostly in the Middle East. Ian received an MA from Oxford University and received an MBA with high distinction from Harvard Business School.

Peter Wallis (age 60)
Non-executive director
Peter was appointed a non-executive director in January 2001. Peter is Senior Partner and founder of the respected SRU strategy and market research consultancy. His speciality is advice to CEOs on strategic direction.

Michael Wemms (age 68)
Non-executive director
Michael was appointed a non-executive director in November 2006. Michael was Chairman of House of Fraser plc from 2001 until November 2006 and is a non-executive director of Inchcape plc, A and D Pharma NV, Moneysupermarket.com plc and Majid Al Futtam LLC. He was an executive director of Tesco plc from 1989 to 2000. He was Chairman of the British Retail Consortium from 2004 until 2006.

Directors' report

The directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 29 December 2007. Comparative figures relate to the 53 weeks ended 30 December 2006.

Principal Group activities, business review and results

The principal activity of Galiform plc and its subsidiaries is the sale of kitchen cabinetry and related products, along with the associated procurement, manufacture and distribution of such. The Company is required by the Companies Act to include a business review in this report. A detailed review of the development and activities of the Group's business and expected future developments is contained in the Chairman's Statement, Chief Executive's Statement, Review of Operations and Finance and Corporate Social Responsibility Report set out on pages 6 to 20. This information fulfils the requirements of the Business Review and is incorporated in this report by reference.

The full results for the period are shown in the Financial Statements on pages 38 to 98.

Information about the use of financial instruments by the Company and its subsidiaries is given in notes 20 and 21 to the financial statements.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in the table of Parent Company and Principal Subsidiary Undertakings on page 99.

Dividends

The Board is recommending that a final dividend of 0.5p per ordinary share (2006: nil) be paid on 13 June 2008 to ordinary shareholders on the register on 30 May 2008. No interim dividend was paid during the year (2006: nil).

Share capital

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 25. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 30.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles may be amended by special resolution of the shareholders. The business of the Company is managed by the Board who may exercise all the powers of the Company subject to the provision of the Articles of Association, the Companies Acts and any special resolution of the Company.

Under its Articles of Association, the Company has authority to issue 775,152,000 ordinary shares.

There are a number of agreements that take effect, alter or terminate upon a change of control such as commercial contracts, bank loan agreements, and employee share plans. The only one of these, which is considered to be significant in terms of likely impact on the business of the Group as a whole, is the £175m bank facility (as described in note 22) which requires majority lender consent for any change of control. Should such consent not be forthcoming, a change of control would trigger mandatory prepayment of the entire facility.

Substantial shareholdings

The following substantial interests (3% or more) in the Company's share capital had been notified to the Company:

Standard Life Investments	19.10%
Hermes Focus Asset Management	15.06%
IFG Corporate Services (as trustee of Galiform Employee Share Trust)	5.59%
Artisan Partners	5.22%
Legal & General	4.01%

The percentage interest is as stated by the shareholder at the time of notification and current interests may vary.

Charitable and political contributions

In addition to furniture products and services donated to various charities, the Group made charitable donations during the period amounting to £410,000 (2006: £376,000). The Group made no political donations during the current and previous period.

Fixed assets

There is no material difference between the book value and the current open market value of the Group's interest in land and buildings.

Suppliers' payment terms

The Group and Company's policy, in relation to all its suppliers, is to settle its terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The number of days' purchases outstanding for payment by the Group at the period end was 37 days (2006: 27 days) and nil (2006: nil) for the Company.

Acquisition of the Company's own shares

At the end of the year, the directors had authority under the shareholders' resolutions of 18 May 2007 to purchase through the market 63,346,521 of the Company's ordinary shares at prices ranging between 10p and 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased. The authority expires at the conclusion of the next AGM or 15 months from the date of passing.

Employees

The average number of employees and their remuneration are shown in note 8 to the Financial Statements.

The Group has approximately 6,546 employees throughout the United Kingdom and overseas and strives to engage its employees wherever possible in its business goals by means of regular regional and local meetings and staff briefings.

The Board remains committed to linking reward to business budgets and targets thereby giving employees the opportunity to share in the financial success of the Group. The Board recognises employees for their contribution in this regard and includes employee incentive plans and share plans within remuneration overall.

The Group promotes the importance of diversity and adopts an Equal Opportunities Policy under which training and career development opportunities are available to all employees, regardless of gender, religion or race. The Group is committed to meeting the code of practice on the employment of disabled people and full and fair consideration is given to disabled applicants for employment. It aims to do all that is practicable to meet its responsibility towards the employment and training of disabled people and welcomes and considers fully, applications by disabled persons, having regard to their particular aptitudes and abilities. It is also the Group's policy to retain employees who may become disabled while in service and to provide appropriate training.

Audit information and auditors

The directors at the date of approval of this report confirm that:

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware

- the directors have taken all the steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

The confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting is to be held at The Lincoln Centre, 18 Lincolns Inn Fields, London WC2A 3ED on 16 May 2008.

Directors and their interests

Details of the directors in office on 29 December 2007 are shown on page 21.

Mark Robson will retire by rotation at the Annual General Meeting and in accordance with Article 76 of the Articles of Association offers himself for reappointment.

Information on the directors' service agreements, options and interests of the directors and their families in the share capital of the Company, are set out in the separate Report on Remuneration on pages 24 to 33. Details of indemnity provisions made for the benefit of directors are given in the Corporate Governance Report on pages 34 to 37.

By order of the Board

Caroline Bishop
Secretary

5 March 2008

Directors' remuneration report

This Directors' remuneration report sets out information about the remuneration of the Directors of Galiform plc for the year ended 29 December 2007. This report has been prepared in accordance with Schedule 7A of the Companies Act 1985 and meets the relevant requirements of the Listing Rules of the Financial Services Authority. We consider that we have complied with the disclosure recommendations contained in the:

- Directors' Remuneration Report Regulations 2002
- Guidelines of the Association of British Insurers on Executive Remuneration Policies and Practices (issued December 2007)
- 2006 Combined Code

As required by legislation, the information in Part B of this report has been audited by Deloitte & Touche LLP as it contains the information upon which the auditors are required to report to the Company's shareholders.

We have structured the remuneration report in the following way:

- Summary of the key changes to executive remuneration in the year
- The Remuneration Committee
- Remuneration policy for executive directors
- Components of executive directors' remuneration
- Non-executive remuneration
- Part B information subject to audit

Part A

Summary of key changes to executive remuneration in the year

Following the sale of the MFI Retail business, 2007 was a crucial and transitional year in the overall long-term recovery of the Group. The Committee recognised that some shareholders had concerns regarding the 2006 Foundation Plan, in particular the one-year performance period and the lack of any financial performance underpin to the stretching share price targets. However, the Committee felt that the 2006 Foundation Plan had proved to be highly motivational and effective at retaining executives during this difficult and highly challenging period and therefore determined that a similar award should be granted in 2007 but with a financial underpin. The Committee also implemented new incentives, which they believe will help retain and motivate executives over the next phase in the Group's development.

The key changes in the year were:

- a new Profit Share Plan was implemented, which rewards executives with an annual cash bonus based on a percentage of the profits achieved in the financial year (up to a maximum of 200% of salary). The Profit Share Plan replaces the Annual Incentive Plan
- a new Co-Investment Plan was implemented following shareholder approval at the EGM in October 2007. The Co-Investment Plan is a long-term incentive plan that encourages executives to invest their own shares and receive free matching shares subject to achieving significant growth in profits and relative Total Shareholder Return ("TSR") over a three year period. No awards under other share-based incentives will be made to executive directors in the same year that they participate in the Co-Investment Plan
- the salary supplement for executive directors in lieu of pension in excess of the earnings cap was increased from 15% of salary to 30% of salary. This increase brings the current policy more into line with competitive market practice

More details about these changes are summarised later in the report.

The Remuneration Committee

The Remuneration Committee is comprised exclusively of independent non-executive directors who have no personal financial interest, other than as shareholders, in the matters to be decided. During the year, the members of the Committee were:

- Michael Wemms (appointed Chairman of the Committee on 6 March 2007)
- Angus Cockburn
- Ian Smith
- Peter Wallis

Additionally, the following people are no longer members of the Committee:

- Lesley Knox (retired as Chairman of the Committee and a member of the Board on 6 March 2007)
- Tony De Nunzio (retired as a member of the Committee and a member of the Board on 6 March 2007)

Under its term of reference (published in the Corporate Governance section of the Company website at www.galiform.com and reviewed on an annual basis) the Committee is responsible for determining the broad policy and specific remuneration packages for executive directors, the company secretary and other members of the executive committee, including pension rights and, where applicable, any compensation payments.

The Committee met five times during 2007 and attendance of the Committee is shown in the table provided in the Corporate Governance Report. The meetings covered the following key areas:

- review of the external competitiveness of executives' total reward package including salary increases
- review of entitlements under the 2006 Annual Incentive Plan
- review and agreement of the vesting levels for the 2004 share awards under the Performance Share Plan and the 2006 Foundation Plan
- review and agreement of pension arrangements including salary

supplements in lieu of pension provided to executive directors

- agreement of the structure and implementation of the new Profit Share Plan and Co-Investment Plan including determination of the appropriate quantum of awards and establishment of performance conditions
- review and agreement of executive directors' service contracts
- review and agreement of the remuneration report to shareholders; and
- review and agreement of the Chairman's fees

The Committee's Chairman ensures that the Group maintains timely dialogue with its principal shareholders on executive remuneration.

The Committee regularly consults with the Chief Executive on matters concerning remuneration, although he is never present when his own reward is under discussion. The Company Chairman attends the Remuneration Committee by invitation except when his own remuneration is determined. The Company Secretary acts as secretary to the Committee but is never present when her own reward is determined. The Committee appointed Pricewaterhouse Coopers LLP ("PwC") as independent advisers during the year and also received advice during the year from KPMG LLP ("KPMG"). PwC provided no other material services to the Company during the year. KPMG provided other material services in respect of employee tax and group structuring advice.

Remuneration policy for executive directors

In determining the executive remuneration policy, the Committee takes into account all factors which it deems necessary to ensure that the senior executives of the Group are provided with appropriate incentives to encourage stronger performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company and the creation of shareholder value.

The Committee determines policy for current and future years, which is reviewed on an annual basis. Their remuneration policy is:

- the remuneration package should be simple and support the transition of Galiform to maturity while continuing to encourage an entrepreneurial culture
- where possible, there should be a common and consistent remuneration policy throughout the business from the CEO down to the depot managers
- to position base salaries at the median level against companies of a similar size and complexity
- upper quartile levels of total remuneration should be available for truly superior performance with at least two-thirds of the executive directors' total reward being performance-related
- cash-based incentives that reward short-term performance are considered to be the most effective incentive but the overall reward policy should encourage executives to own and invest in Galiform shares and drive longer-term performance
- over the next three years, profit growth (which is well understood by the management team and very much within their control and influence) will be the key performance driver of shareholder value
- the Company's strategic plans and profit growth targets are achievable, but still considered to be at the top-end of stretching performance
- additional reward should be provided for delivering superior relative TSR. TSR on its own is not considered to be an effective incentive measure. However, it is recognised that relative TSR is aligned with superior shareholder returns and may also help drive longer-term strategic decisions that may not otherwise be reflected in underlying profit performance over the short-term
- executives are encouraged to invest in shares in the Company and build and maintain a shareholding of at least one times salary over a reasonable time frame

Components of executive director remuneration

The reward package that Galiform plc provides to its executives has a number of elements. Base salaries and benefits are determined with reference to the remuneration policy and through benchmarking against its chosen group of peer companies, of a similar industry, size and complexity. In order to align an individual's reward with the Company's performance, annual bonuses and long-term incentives, are linked to the Company's strategy and determined by the levels of performance achieved against stretching performance objectives.

1. Base salary

The Committee's policy is to position base salary for each director at the median level compared to market practice. Base salaries are reviewed annually and are determined by the Committee taking into account the performance of the individuals, changes in their responsibilities and information from independent remuneration consultants on the levels of salary for similar jobs having regard to the size of the Company – its turnover, market capitalisation and complexity. The Committee also takes into account the remuneration levels within the Group generally and the total remuneration of the executives compared to the market.

The Committee recognises that given changes in the market capitalisation of the Company over the last two years, salaries for the CEO and CFO are currently at the upper quartile of market practice and therefore outside the stated policy. It is our intention to bring these salaries into line with the policy over time. As a result it is envisaged that future salary increases will be below the market competitive level of increases for the time being subject to any changes to an individual's role or responsibilities.

Directors' remuneration report continued

The salary increases in 2007 and the proposed increases for 2008 are below the level of the market for similar posts except in the case of Gerard Hughes and in line with increases received by the wider Galiform workforce.

Gerard Hughes was a new appointment to the Board in 2007 and therefore his base salary in 2007 was set below the median market position to reflect this. It was intended at the time to bring his salary in line with the median in 2008.

2. Incentive arrangements in 2007

Annual Incentive and Deferred Incentive Plan

Executive directors and other members of the Executive Committee were eligible during 2007 to participate in the Annual Incentive Plan. The Plan provides for a bonus opportunity of up to 100% of salary for the Chief Executive Officer and 75% for the Chief Financial Officer and Commercial Director, if challenging targets are met. The financial target for achieving maximum bonus under the Annual Incentive Plan 2007 was to achieve a Group profit target before exceptional items of £77.6m. This target was exceeded during the year and therefore all of the executive directors received maximum bonuses in the year.

To align the executive directors' interests with those of shareholders, one third of the annual incentive must be deferred into ordinary shares of the Company. These were formerly deferred under the Deferred Incentive Plan and held in trust for three years before release to the executive director. The Annual Incentive and Deferred Incentive Plan will no longer operate and will be replaced with the Profit Share Plan for 2008 onwards. In 2008, any annual bonus for 2007 which has been deferred into shares will be counted toward an executives' investment in the 2007 Co-Investment Plan award.

There is no intention to use newly issued ordinary shares for the Deferred Incentive Plan.

All bonuses are paid with the approval of the Remuneration Committee; additional bonuses may also be paid in exceptional circumstances, for example for recruitment or retention of key executives and/or for outstanding performance. Bonuses are non-pensionable.

Foundation Plan 2007

During 2007, a conditional award of shares was granted under the Foundation Plan. The participants in the Plan were the Chief Executive Officer, the Chief Financial Officer, the Commercial Director and selected senior executives. The shares were subject to achieving stretching share price growth targets over the financial year and vested shares must be retained for a further two years.

The vesting of the restricted shares awarded under the Foundation Plan in 2007 required the average share price over thirty consecutive dealing days to be 150p for 20% of the shares awarded to vest and to be 185p for 100% of the shares awarded to vest. Vesting occurred on a straight-line basis between these points. In addition to this share price target, no shares would vest unless the Group Operating Profit before exceptional items for the 2007 financial year was £65m.

Group Operating Profit and share price performance over the year resulted in approximately 45% of the shares awarded being vested. Shares must be held for a further two years before participants can sell them. Awards will no longer be granted under the Foundation Plan.

Share Option Plan Portfolio

During 2007, an award of market value options was granted under Part 3 of the Share Option Plan Portfolio. Under Part 3 of the plan, the Committee has discretion to grant Performance Options to executive directors of up to four times salary subject to the achievement of demanding and challenging performance targets. During the year awards were made under the plan to the Chief Executive Officer, the Chief Financial Officer, the Commercial Director and selected senior executives.

The grant to each participant comprised an award of market value options with an exercise price of 158.50p. Vesting of the share options is dependent on share price performance over a three year vesting period. For threshold vesting, the average share price over 30 consecutive dealing days during the three year vesting period must be 185p for 20% of the options to vest; for maximum vesting the average share price over 30 consecutive dealing days during the three year vesting period must be 265p for 100% of the options awarded to vest. Vesting is on a straight line basis between these points. In addition to this share price target, no options will become exercisable unless the compound annual growth in the Group Operating Profit before exceptional items over the three year period is at least 20%.

3. Incentive arrangements for 2008

In 2007, the Committee completed a strategic review of Galiform's remuneration policy. The outcome of this review resulted in the implementation of two new incentive plans. These plans have been developed within the framework of the Company's remuneration policy and are intended to provide upper quartile levels of annual and long-term rewards linked to the achievement of stretching performance conditions.

Executive director	2007 Salary	Increase on prior year	2008 Salary	Increase on prior year
Matthew Ingle	£525,000	5%	£538,000	2.5%
Mark Robson	£345,000	4.5%	£360,000	4.3%
Gerard Hughes	£225,000	(new appointment to the Board)	£260,000	15.6%

Profit Share Plan

The Profit Share Plan for executive directors and senior executives is a cash-based annual plan and will replace the current Annual Incentive and Deferred Incentive Plan. The first awards for executive directors and senior executives will be made in respect of the Group's Profit before tax ("PBT") performance for the financial year ended 27 December 2008.

Under the Profit Share Plan, executives are rewarded with a fixed percentage of the PBT achieved in the year subject to a minimum threshold level of profit performance and the achievement of Return on Assets in excess of the Company's weighted average cost of capital.

The following table shows the first awards for the main board executive directors:

Bonus as a percentage of PBT		
Year end Dec 2008	**CEO**	**Executive director**
≥£87.6m	0.60%	0.45%
£68.2m – £87.6m	0.20%	0.15%
<£68.2m	0%	0%

Maximum Profit Share bonuses for any individual for the financial year ended 27 December 2008 will be capped at 200% of salary. The Committee will have the discretion to determine the plan targets for each award from year to year.

Co-investment Plan ("CIP")

Under the CIP, participants are eligible to invest up to a predetermined number of their own shares into the plan for a period of three years. In return for their commitment, each invested share can be matched with up to five additional shares subject to the achievement of stretching performance targets over the three year vesting period.

It is intended that annual awards under the CIP will be granted and executives can invest up to their maximum investment for each award.

Executive director	Maximum investment per CIP award (number of shares)
Matthew Ingle	650,000
Mark Robson	520,000
Gerard Hughes	520,000

For the first award under the plan running until the end of the financial year ending 25 December 2010, the following performance targets have been set:

- Each invested share can be matched with up to three free matching shares subject to the achievement of stretching PBT targets (before exceptional items)

PBT target (year ending December 2010)	Number of matching shares for each invested share
<£110m	0
£110m	0.75
Straight-line vesting between these two points	
≥£135m	3

- Each invested share can be additionally matched with up to two free matching shares subject to Galiform's Total Shareholder Return ("TSR") being at least upper quartile relative to the FTSE 250 (excluding investment trusts)

No matching shares in respect of the TSR element will vest for below upper quartile TSR performance.

The matching shares under the two performance measures vest independently of each other. The Committee have discretion to determine the performance targets for each award from year to year.

4. Other existing incentive arrangements

The following incentive plans (discretionary and all-employee) are also at the Committee's disposal. However, at present, the Committee does not envisage granting awards under the discretionary plans to executive directors in the same year that they participate in the Profit Share Plan and Co-Investment Plan.

Share Option Plan portfolio

The company operates a share option plan which has three sections. Grants were last made to executive directors in 2007 as described earlier.

Part 1 of the Share Option Plan is an Her Majesty's Revenue & Customs ("HMRC") approved Plan under which £30,000 of options can be granted to any one individual participant. Under Part 2 of the plan, the Committee has discretion to grant performance options to executives of up to two times salary subject to the achievement of performance conditions. Under the plan rules awards may not be made under Part 2 and Part 3 in any one year.

Performance Share Plan ("PSP")

No awards have been made to directors under this plan since 2005. Conditional awards of shares equivalent to one year's salary have previously been made to executive directors annually at the discretion of the Committee and are released subject to the achievement of company performance targets. Company performance is measured over three years, in terms of TSR relative to a comparator group of companies. The comparator companies are selected on the basis of relative sector, size and complexity before each performance award cycle. In addition, no award will vest unless the Earnings per share ("EPS") of the Company increases over the performance period by a percentage amount that is equal to or greater than the percentage change in the retail prices index ("RPI") plus 9% over the same period.

The number of shares released depends upon the Company's comparative performance against its peer group. If the Company's TSR is at the median level, 40% of the shares, which are the subject of the award, will vest. If the Company is ranked in the top quartile of the list, 100% of the shares will vest. Proportional vesting on a straight-line basis will take place for performance between the median and the top quartile positions. Full details of how TSR is calculated and measured and of the Company's performance relative to the peer group for each award are shown on page 32.

Directors' remuneration report continued

The comparator group for the 2005 award is as follows:

Allliance Boots*	Carpetright
DSG International	**Galiform**
Home Retail Group	Kingfisher
Marks and Spencer	Matalan*
Travis Perkins	WH Smith
Wolseley	Woolworths

*de-listed since the formation of these groups

The PSP award granted in 2005 has not vested as a result of the performance target not being met.

PwC are instructed by the Committee to monitor and report on the Company's performance under the PSP (and the new Co-Investment Plan) with regards to TSR.

FreeShare Plan

The FreeShare Plan was introduced in 2002. Executive directors may participate in the Plan on the same terms as all other eligible employees. The plan is Inland Revenue approved and is not subject to performance conditions other than continued employment. Under the FreeShare Plan all eligible employees were invited to accept an allocation of up to £200 of the Company's shares in September 2002 and again in May 2003. No further allocations have been made since those dates.

The shares are held in a Trust for a holding period being between three and five years after which the award of shares will vest and participants may withdraw their shares.

ShareSave Plan

Executive directors may participate in the ShareSave Plan, if offered, on the same terms as all other eligible employees. At the discretion of the Board, the Plan is offered to all employees contracted to work a minimum of eight hours per week. The plan is HMRC approved and under the Plan, participants make regular savings (up to a maximum of £250 per month) and at the end of the savings period participants may use all or part of their savings and bonus to purchase shares at the option price which is set at the start of the savings plan. The last invitation to participate in this plan was made in 2003 when employees were invited to save up to a maximum of £60 per month.

Pensions

Executive directors can participate in the Galiform Pension Plan ("The Plan"). The Plan is funded and HMRC approved. With effect from the 1st September 2006 the basis changed to a hybrid defined benefit, occupational pension plan. Its main features are currently:

- pension accrues on a Career Average Revalued Earnings (CARE) Basis at the rate of 1/50th of actual pensionable pay in each year (currently capped at £112,800); post-retirement increases are linked to the increase in the retail prices index with a maximum of 2.5%
- in addition to the defined benefit section the Company will match any voluntary member contribution made to the defined contribution top-up section to a maximum of 8%
- members contribute 8% of pensionable pay to the CARE plan
- life assurance cover of six times pensionable pay for those members with dependents and two times for those without dependents
- pension payable in the event of ill health
- spouse's pension on death in retirement of 2/3 of deceased's pension

Pensionable pay is limited to the member's basic salary. All plan benefits are subject to HMRC limits.

A pension supplement system operates concurrently with the Plan which recognises that pension entitlement in respect of the CARE part of the Plan has included maximum benefit restrictions (the Plan Cap) which is currently £112,800 (being based on the previously applied Earnings Cap). In September 2006 this supplement was initially set at 15% of basic salary above the Plan Cap. This supplement was later increased to 30% of basic salary above the Plan Cap to bring it into better alignment with competitive market practice.

If a director chooses to opt out of membership of the pension plan because their total fund value from all their pension sources exceeds the new Inland Revenue maximum fund value restrictions, then the supplement payment will be 30% (previously 26% of salary) of total Basic Salary. The CEO had a fully funded pension position in 2006 and hence has chosen to opt out of membership of the Plan and consequently receives this supplement. The other executive directors continue to participate in the Plan.

Service contracts

In 2007/2008, the Company reviewed the executive service contracts. All executive directors' employment contracts have twelve months' notice of termination on both sides. In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or resignation. In other circumstances, executive directors may be entitled to receive compensation for loss of office which will be paid monthly for a maximum of twelve months. Such payments will be equivalent to the monthly salary and value of benefits that the executive would have received if still in employment with the Company. Executive directors will be expected to mitigate their loss if they contract to take on alternative employment within a twelve month period within their departure from the Company.

External appointments

It is recognised that executive directors may be invited to become non-executive directors of other companies and that exposure to such duties can broaden their experience and skills, which will benefit the Company.

Galiform allows executive directors and other appropriate senior employees to accept a maximum of one non-executive appointment outside the Company, subject to permission from the Committee, provided this is not with a competing company nor likely to lead to conflicts of interest. No such appointments are currently in place. Executive directors may retain the fees paid to them in respect of their non-executive duties.

Non-executive directors' remuneration

Non-executive director appointments are for an initial period of three years. They are subject to re-appointment every three years, and annually after nine years. Non-executive directors do not have contracts of service or notice periods and are not entitled to any form of compensation in the event of early termination for whatever reason.

The remuneration of non-executive directors, other than the Chairman is considered by the Chairman and the Chief Executive. The Chairman's remuneration is determined by the Remuneration Committee while the Chairman is absent. During the year a review of non-executive and Chairman's fee levels was conducted, although it was felt that no increases for 2008 were necessary. It is intended that a further review will be conducted in 2008 to ensure that remuneration for non-executive directors reflects the time commitment and responsibilities of their roles.

Name	Basic non-executive fee	Chairman of Audit Committee	Member of Audit Committee	Chairman of Remuneration Committee	Member of Remuneration Committee	Total annual fees
William Samuel	£170,000	–	–	–	–	£170,000
Michael Wemms	£35,000	–	£2,500	£8,000	£2,500	£48,000
Angus Cockburn	£35,000	£8,000	£2,500	–	£2,500	£48,000
Ian Smith	£35,000	–	£2,500	–	£2,500	£40,000
Peter Wallis	£35,000	–	£2,500	–	£2,500	£40,000

Part B

5. The table below summarises total directors' remuneration:

	2007 £000	2006 £000
Emoluments	1,649	1,716
Gains on exercise of share options	9	–
Amounts receivable under long-term incentives	–	–
Pension contributions	–*	51*
Total	1,658	1,767

* On 1 September 2006, the basis of the pension plan was changed and allowed employee pension contributions to be made on a salary sacrifice basis. Therefore, the Basic Salary figures noted below are lower for Mark Robson and Gerard Hughes to take account of that.

Directors' remuneration report continued

6. Directors' remuneration

The following table sets out the directors' emoluments for the 52 weeks to 29 December 2007.

	Basic salary £000	Fees £000	Benefits (note 2) £000	Annual cash incentive (note 1) £000	Pension supplement (note 3) £000	52 weeks to 29 Dec 2007 £000	53 weeks to 24 Dec 2006 £000
Chairman							
Will Samuel	–	170	–	–	–	170	48
Executive directors							
Matthew Ingle	525	–	18	350	157	1,050	1,022
Mark Robson	306	–	28	–	70	404	594
Gerard Hughes (appointed 6 March 2007)	148	–	22	–	25	195	–
Sub-total	979	170	68	350	252	1,819	1,664
Non-executive directors							
Angus Cockburn	–	46	–	–	–	46	8
Michael Wemms	–	46	–	–	–	46	4
Ian Smith	–	40	–	–	–	40	40
Peter Wallis	–	40	–	–	–	40	40
Tony De Nunzio (resigned 6 March 2007)	–	11	–	–	–	11	63
Lesley Knox (resigned 6 March 2007)	–	8	–	–	–	8	48
Total	979	361	68	350	252	2,010	1,867

1. On 27 February 2008, Matthew Ingle, Mark Robson and Gerard Hughes became entitled to an award under the Annual Incentive Plan of £525,000, £258,750 and £168,750 respectively for the 52 weeks ended 29 December 2007. Under the terms of the Co-Investment Plan 2007 these awards can be deferred into that Plan. Matthew Ingle has elected to defer 1/3rd and Mark Robson and Gerard Hughes have elected to defer 100% of their award.
2. The Benefits column incorporates benefits in kind which relate in the main to the provision of a fully expensed car or cash equivalent, private medical cover and use of a company driver.
3. Pension supplements are paid every six months in arrears and the next payment is due in March 2008. The table above includes an accrued amount for the period from 1 October 2007 to 29 December 2007. Further details of the Pension Supplement Plan are given on page 28.

7. Directors' shareholdings

The beneficial interests of the directors in office on 29 December 2007 and their families in the share capital of the Company are as follows:

	Ordinary shares of 10p each 29 December 2007	Ordinary shares of 10p each 30 December 2006
Matthew Ingle	1,077,549	1,057,549
Will Samuel	40,000	20,000
Gerard Hughes	191,852	191,852
Michael Wemms	7,000	3,000
Ian Smith	10,000	10,000
Angus Cockburn	3,000	3,000
Total	1,329,401	1,285,401

There have been no changes to the directors' interests shown above since 29 December 2007 and the publication of the Company's preliminary results announcement on 6 March 2008.

8. Share options

Details of share options of those directors who served during the year are as follows:

Director	At 30 December 2006	Awarded	Lapsed / Expired	Exercised	At 29 December 2007	Exercise price (pence)	Earliest date of exercise	Expiry date
Matthew Ingle								
2000 Share Option Plan (Section 3)	450,902	–	–	–	450,902	124.74	30 May 2004	29 May 2011
Sharesave Scheme	2,067	–	–	–	2,067	184.00	1 Dec 2008	30 April 2009
2000 Share Option Plan (Section 3)	511,574	–	(236,091)	–	275,483	106.50	26 May 2008	26 May 2015
Foundation Plan 2006	1,194,032	–	–	–	1,194,032	92.00	31 Dec 2008	31 Dec 2009
2000 Share Option Plan (Section 3)	–	1,324,921	–	–	1,324,921	158.5	18 May 2010	18 May 2017
Mark Robson								
2000 Share Option Plan (Section 3)	355,410	–	(164,022)	–	191,388	106.50	26 May 2008	26 May 2015
Foundation Plan 2006	716,419	–	–	–	716,419	92.00	31 Dec 2008	31 Dec 2009
2000 Share Option Plan (Section 3)	–	870,662	–	–	870,662	158.5	18 May 2010	18 May 2017
Gerard Hughes (appointed as a director on 6 March 2007)								
2000 Share Option Plan (Section 3)	136,882	–	–	–	136,882	131.5	12 June 2004	12 June 2011
Sharesave Scheme	2,067	–	–	–	2,067	184.00	1 Dec 2008	30 May 2009
2000 Share Option Plan (Section 3)	86,025	–	(39,701)	–	46,324	106.50	26 May 2008	26 May 2015
Foundation Plan 2006	477,613	–	–	–	477,613	92.00	31 Dec 2008	31 Dec 2009
2000 Share Option Plan (Section 3)	–	567,823	–	–	567,823	158.5	18 May 2010	18 May 2017
Total	3,932,991	2,763,406	(439,814)	–	6,256,583			

1. The options outstanding are exercisable at prices between 92 pence and 184 pence. In the period the highest middle market closing price was 170.38 pence per share and the lowest middle market closing price was 66.8 pence per share. The middle market price on 28 December 2007 (the last business day before the financial year end) was 91.5 pence per share.
2. Options granted under Section 3 of the 2000 Share Option Plan Portfolio are not normally exercisable unless challenging targets are met. These options have been divided into the following performance conditions:
   - for the options granted in 2005 40% of the option becomes exercisable subject to growth in EPS, calculated on an IIMR basis, being equal to RPI plus 40% over three years; increasing on a straight line basis up to 100% of an option becoming exercisable where EPS growth equals or exceeds RPI plus 100% over three years. Options will lapse to the extent that these targets are not satisfied. Targets are not restated
   - for the options granted in 2007, 20% of the options will vest if the share price over 30 consecutive dealing days is 185 pence rising on a straight line basis to 100% vesting if the share price over thirty consecutive days reaches 265 pence. Underpinning this is a requirement to achieve 20% annual compound growth over the performance period
3. Performance measurement for the Foundation Plan is as follows:
   - awards granted in 2006 have vested. The 2007 awards were granted in the form of nil cost options and vest on the last day of the 2006/7 financial year to the degree that the performance conditions have been met. There is a further deferral period of two years before the vested awards are made available to the participants
   - vesting is dependant upon the achievement of a share price hurdle over thirty consecutive dealing days and an underlying profit target of £65m for the year being met. 20% of the award vests if the share price achieves 150 pence over thirty consecutive dealing days and 100% of the award vests if the share price achieves 185 pence over thirty consecutive dealing days. The award vests on a straight line basis between these two points

Directors' remuneration report continued

9. Details of the Company's ordinary shares over which those directors who served during the year have conditional rights under the LTIP are as follows:

Director	Scheme interest at 30 December 2006	Awarded	End of the period for qualifying conditions to be fulfilled	Lapsed / Expired	Vested	Scheme interest at 29 December 2007
Matthew Ingle						
Foundation Plan 2006 **	900,000	–	31 Dec 08	–	–	900,000
Foundation Plan 2006 **	–	900,000	31 Dec 09	(492,857)	–	407,143
Performance Share Plan	511,574	–	31 Dec 07	(511,574)	–	–
Deferred Bonus **	55,799	–	2 Mar 07	–	(55,799)	–
Deferred Bonus **	* 170,831	–	28 Mar 08	–	–	170,831
Deferred Bonus **	* 191,167	–	13 Mar 09	–	–	191,167
Deferred Bonus **	–	* 125,151	26 Mar 10	–	–	125,151
2007 Co-investment Plan	–	3,250,000	12 Oct 10	–	–	3,250,000
Mark Robson						
Foundation Plan 2006 **	575,000	–	31 Dec 08	–	–	575,000
Foundation Plan 2006 **	–	575,000	31 Dec 09	(314,881)	–	260,119
Performance Share Plan	355,410	–	31 Dec 07	(355,410)	–	–
Deferred Bonus **	* 94,628	–	13 Mar 09	–	–	94,628
Deferred Bonus **	–	* 61,950	26 Mar 10	–	–	61,950
2007 Co-investment Plan	–	2,600,000	12 Oct 10	–	–	2,600,000
Gerard Hughes						
Foundation Plan 2006 **	360,000	–	31 Dec 08	–	–	360,000
Foundation Plan 2006 **	–	575,000	31 Dec 09	(314,881)	–	260,119
Senior Manager Co-investment Plan	38,082	–	14 Mar 08	(38,082)	–	–
2007 Co-investment Plan	–	2,600,000	12 Oct 10	–	–	2,600,000
Total	3,252,491	10,687,101		(2,027,685)	(55,799)	11,856,108

* Includes shares granted for the purposes of National Insurance elections

** Shares allocated by the Trustee from shares already held within the Trust

The Performance Share Plan is a discretionary free share plan. In the majority of awards, participants have a contingent right to receive free shares with performance conditions attached, based on the Company's EPS. The performance period is measured from the start of the financial period in which the awards are granted. The performance period is three years. Vesting occurs at the end of the performance period. The performance conditions are measured relative to a Comparator Group of 12 companies. 40% of the award vests if Total Shareholder Return ("TSR") is at median level compared to the Comparator Group over the performance period, subject to a condition that EPS must also grow by at least 9%. 100% of the award vests if TSR is at upper quartile level and the EPS growth condition is also satisfied. The award vests on a straight-line basis between these maximum and minimum points.

The Senior Manager Co-investment Plan has stretching targets that vests at 50% if there is an EPS growth of RPI plus 80% over the performance period, and at 100% if there is an EPS growth of RPI plus 100% over the performance period. The awards vest on a straight-line basis between these maximum and minimum points.

The 2007 Co-investment Plan is a plan where each participant is permitted to invest a limited amount of shares on an annual basis for the purposes of the Plan. At the end of a three year performance period, each invested share will be matched by an award of up to three matching shares if 2010 PBT of £135m is achieved; 25 percent of the maximum match (i.e. 0.75: 1) will be earned for achieving 2010 PBT of £110m and the awards will vest on a sliding scale between these two points. A further match of up to two shares will be made for achieving upper quartile Total Shareholder Return (TSR), measured against the FTSE 250 Index (excluding investment trusts).

10. Executive directors' pensions

The table below shows the accrued pension should the director leave employment as at the financial period end.

	Transfer value at 30 Dec 2006 £000	Real increase in accrued pension £000	Inflation £000	Increase in accrued pension £000	Transfer value of real increase in accrued pension (less directors' contributions) £000	Other changes to transfer value £000	Increase in transfer value (less directors' contributions) £000	Directors' contributions £000	Accrued pension at 29 Dec 2007 £000	Transfer value at 29 Dec 2007 £000
Matthew Ingle	587.6	–	1.5	1.5	–	73.6	73.6	–	39.9	661.2
Mark Robson	72.6	2.3	0.2	2.5	26.3	8.7	35.0	–	8.0	107.60
Gerard Hughes	201.10	2.3	0.6	2.9	24.3	27.4	51.7	–	18.9	252.80

1. The accruing benefits to September 2006 were limited by the earnings cap imposed by the Finance Act 1989. As a result of this Matthew Ingle opted out of the pension plan on the 5th April 2006 and consequently receives a 30% salary supplement from this date. Both Mark Robson and Gerard Hughes receive a salary supplement of 30% on earnings over and above the cap.
2. The aggregate pension costs paid by the Company in respect of the directors' qualifying services were £126,822 (2006: £49,823). This shows a pro-rated increase from last year because of a change to using salary sacrifice instead of employee contributions from the 1st September 2006. The amount paid in respect of the highest paid director was £75,411 (2006: £6,800).

Name	Date pensionable service commenced	Pensionable service (complete years and months)
Matthew Ingle	12 April 1995	10 years 11 months
Mark Robson	12 April 2005	2 years 8 months
Gerard Hughes	1 May 2000	7 years 7 months

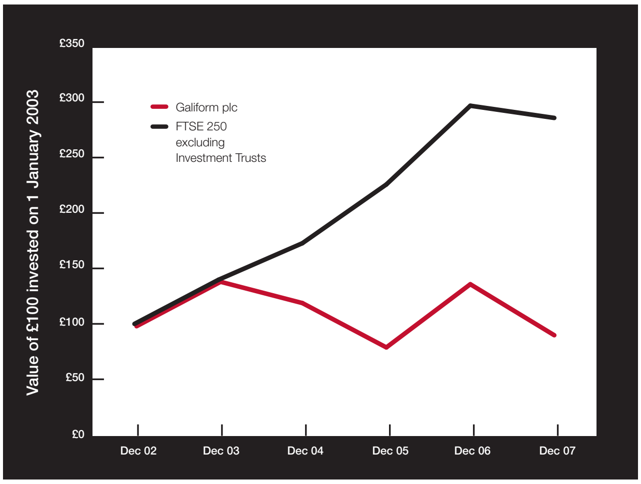
11. Directors' award of Freeshares – Share Incentive Plan

The aggregate awards of Freeshares made to the executive directors under the Share Incentive Plan are as follows:

Executive	No of Shares
Matthew Ingle	311
Gerard Hughes	311

12. Directors' Remuneration Report Regulations 2002

Under the Directors' Remuneration Report Regulations 2002 ("the Regulators") the Company is required to include in this report a graph showing the Company's Total Shareholder Return ("TSR") performance over the most recent 5 years compared to an appropriate index. The graph below illustrates the Company's TSR performance relative to the constituents of the FTSE 250 index (excluding investment companies) of which the Company is a constituent.



By order of the Board

Caroline Bishop
Secretary

5 March 2008

Corporate Governance Report

Statement of Compliance

The Board is committed to high standards of corporate governance and supports the principles of the Combined Code on Corporate Governance that was issued in 2006 by the Financial Reporting Council ("The Combined Code" or "Code"). Throughout the year ended 29 December 2007, the Company has complied with the provisions set out in section 1 of the Code, including both the main and supporting principles. Further explanations of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report.

Organisational structure

The Board reviews as part of its continuing evaluation procedures the appropriateness of its organisational structure. The structure is required for planning, executing, controlling and monitoring the business in a manner, which seeks to achieve the Group's objectives taking into account the interests of all stakeholders.

The primary purpose of the Board is to ensure that the needs and aspirations of all stakeholders are satisfied. The Board seeks to achieve this through the development of a balanced strategy which serves the interests of the stakeholders. The Board's role is then to set the context for the businesses, to create suitable structures for implementing the strategies and to ensure the coordination, alignment and motivation of resource. The Board then assesses the results of these actions and sets revised priorities where appropriate to service the needs of the stakeholders. The Board reviews annually the schedule of matters reserved for its decision. During 2007, the Board held 7 formal Board meetings and a number of other meetings and teleconferences to review progress on issues affecting the Company during the year.

The Board currently comprises the non-executive Chairman, Will Samuel, three executive directors and four independent non-executive directors. The Chief Executive Officer is Matthew Ingle who has held that position since October 2005. The other executive directors are Mark Robson, who joined the Board as Chief Financial Officer in April 2005 and Gerard Hughes who was appointed Group Commercial Director in March 2007. Will Samuel's other commitments include his positions as Vice Chairman of Lazard Bros & Co Ltd., Deputy Chairman of Inchcape Plc and non-executive director of Edinburgh Investment Trust plc and Ecclesiastical Insurance Group plc. Michael Wemms holds the position of Senior Independent Director.

The only change to the composition of the Board was the appointment of Gerard Hughes as Commercial Director in March. There was no change to the composition of the Board Committees.

The Board has identified the following non-executive directors as independent in accordance with the definition of independence contained in the Combined Code:

- Will Samuel (Chairman)
- Angus Cockburn
- Ian Smith
- Peter Wallis
- Michael Wemms

Non-executive directors are appointed for an initial term of three years, subject to reappointment by shareholders. Their letters of appointment are available for inspection at the Annual General Meeting and on request. A Committee appointed by the Board comprising the Chairman and Chief Executive Officer agrees the fees of the non-executive directors. The Remuneration Committee determines the Chairman's fee. All directors are subject to reappointment by shareholders at the first annual general meeting following their appointment by the Board and thereafter at intervals of no more than every three years under the articles of association.

The separate roles of the Chairman and Chief Executive Officer are clearly defined. The Chairman is responsible for leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda, and the Chief Executive Officer for the satisfactory execution of the strategy agreed by the Board working with his fellow executive directors and other executives. Appropriate induction (as described below in the section on the Nominations Committee) and training is available to all directors. Biographical details of the directors are given on page 21.

The Board holds regular meetings and receives accurate and timely information.

The Board conducts its procedures for evaluation of its performance, including its Committees, through a continuing programme that extends over more than one period. Given the review in 2006 of the effectiveness of the Committees of the Board and the subsequent appointments of Angus Cockburn and Michael Wemms as Chairmen of the Audit and Remuneration Committees respectively, the programme for 2007 was scheduled to concentrate on the performance of individual directors and of the Board as a whole. This evaluation has been conducted in accordance with the Code and feedback provided to individuals.

There is a procedure for all directors to take independent external advice, at the Company's expense, in the course of their duties via the Company Secretary. Working with the Chairman, the Company Secretary is responsible for ensuring that board procedures are followed and all directors have access to her advice and services.

The Board has established Audit, Remuneration and Nominations Committees, each with defined terms of reference. The terms of reference of these committees are reviewed regularly. Membership of these Committees, which is reviewed annually, is shown on page 102. The terms of reference for each Committee are available on request from the Company Secretary and on the Company's website www.galiform.com.

Audit committee

The Audit Committee currently consists of four independent non-executive directors and has been chaired since 6 March 2007 by Angus Cockburn, Group Finance Director of Aggreko plc and a qualified accountant. The Audit Committee assists the Board in ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position and that the Group's published financial statements represent a true and fair reflection of this position.

It also assists the Board in ensuring that appropriate accounting policies, internal controls and compliance procedures are in place and monitors the management of risk and the effectiveness of the internal audit function by reviewing its work schedule and reports. In particular, it undertakes regular reviews of internal controls to enable reports to be made to the Board to enable it to review the effectiveness of the group's system of internal controls, as described below.

During the year, as well as fulfilling the duties described above, the Committee commissioned third party specialists to undertake a review of the effectiveness of the internal audit function and report upon their findings. The report verified that the internal audit function was effective in providing the necessary assurances to the Audit Committee. Recommendations in the report have been reviewed and, where appropriate, they are in the process of being implemented.

The Committee also reviews the effectiveness and independence of the Company's auditors, Deloitte & Touche LLP and is responsible for approving their remuneration and terms of engagement. The Committee has recommended to the Board that a proposal be put to the shareholders at the Annual General Meeting that Deloitte & Touche LLP be re-appointed.

Details of Deloitte & Touche LLP's fees for audit and non-audit work during 2007 are on page 52. The Committee reviews the appropriateness of all non-audit work with a view to ensuring that it is necessary and not inconsistent with auditor objectivity and independence.

The Audit Committee met three times in 2007.

Remuneration committee

The Remuneration Committee currently consists of four independent non-executive directors and is chaired by Michael Wemms. Its composition during the year was as described in the Remuneration Report on page 24. It is responsible for advising on the remuneration packages needed to attract, retain and motivate executive directors of the required quality. The Remuneration Committee is responsible for developing strategy and policy on executive remuneration, deciding on the remuneration packages of individual executive directors and reviewing the remuneration policy for certain other senior executives who are not on the Board. The Committee is regularly assisted in its work by its appointed firm of professional advisers, the Chairman, the Chief Executive Officer, the Company Secretary and the Company's internal Human Resources function. Full details on the Committee's work are contained in the Directors' Remuneration report. This report includes details on remuneration policy, terms of appointment, and the remuneration of executive directors.

All executive directors' notice and contract periods do not exceed one year. Executive directors' service contracts also provide that compensation on termination is determined by reference to a notice period of 12 months.

During 2007, the Committee met five times.

Nominations committee

The Nominations Committee consists of the Chairman of the Board, who chairs the Committee and the independent non-executive directors. The committee keeps under review the composition of the Board, including succession, and makes recommendations to the Board for all new appointments and re-appointments.

During 2007, the Nominations Committee met once to review the composition of the Board and formally promote Gerard Hughes to the position of Group Commercial Director.

The Group's induction programme for newly appointed directors concentrates on familiarisation with the businesses of the Group, including meeting directors and executives individually, visiting operational locations, discussions with the Company's external advisers and the provision of introductory materials.

Relations with shareholders

The Company considers its relationship with both institutional and private investors to be important and readily enters into dialogue with investors. The Company has consulted extensively with its principal shareholders in the course of 2007 in relation to the ongoing progress of the Company and also in relation to identifying appropriate executive incentive arrangements to reflect the changing business profile of the Company. The Senior Independent Director makes himself available for meetings with shareholders as required. An investor relations website, (www.galiform.com) provides an ideal channel for communication with existing and potential investors. The Annual General Meeting provides an opportunity for shareholders to put their questions to the directors.

The Board receives regular reports on relations with the major shareholders and developments and changes in their shareholdings. At the Annual General Meeting the Company proposes separate resolutions on each substantially separate issue and the numbers of proxy votes cast for and against each resolution are made available to shareholders when voting has been completed. The notice of the Annual General Meeting is sent to shareholders at least twenty working days before the meeting.

Risk and internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. Such a system is, however, designed to manage rather than eliminate the risks of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable assurance against misstatement or loss. The Combined Code recommends that the Board at least annually reviews the effectiveness of the Group's system of internal controls, including financial, operational and compliance controls and risk management. Subsequently the Institute of Chartered

Corporate Governance Report continued

Accountants in England and Wales produced guidance on the wider aspects of internal control in September 1999 which was further revised in October 2006 (the Turnbull Guidance). The Board has conducted reviews of the effectiveness of the system of internal controls through the processes described below. During the course of its review of the system of internal control, the Board has not identified or been advised of any failings or weaknesses which it has determined to be significant, therefore a confirmation in respect of necesssary actions has not been considered appropriate.

i. Risk

Following the introduction of the Turnbull Guidance, the Board enhanced the Group's existing risk management procedures. The Board can confirm that, for the 2007 financial year and up to the date of approval of the annual report and financial statements, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that is reviewed regularly by the Board and accords with the Turnbull Guidance. The Commercial Director chairs the executive team with regards to Group Risk which is comprised of senior executives from the key operating entities and service areas of the business. It is the responsibility of the executive team to review the effectiveness of the risk management process and internal controls, on behalf of the Board. The executive team regularly reports to the Board on how risks are being managed. In addition, there is a mechanism in place to report significant control breakdowns or risk occurrences to the Executive Committee.

An ongoing process for the effective management of risk has been defined by the Board and is operated in the following stages:

- each operating entity and central function identifies key risks through the adoption of both a 'bottom-up' and 'top-down' process. These key risks are regularly reviewed by each executive team. The key risks to each business area's objectives are identified and scored for probability and impact. The key controls to manage the risks to the desired level are identified
- a local database of risks and controls is maintained within each operating entity and central service function, which is consolidated into a central register to become the key risk register for the Group. The Group Risk department facilitates the identification of these risks and provides an independent appraisal of the interpretation of the scoring mechanism, to ensure that the key risks are brought forward to the executive team. The Risk Committee then reviews the key risks to assess the effectiveness of the risk management strategies
- the senior executive team within each business entity and central service area are responsible for the ongoing review of their function's risk register. Regular reporting on internal and external changes that affect the risks or their importance to the business, and any risk occurrences, are reported upwards through their register, to the Group executive team
- key generic risks and their management are regularly reported to and discussed at the Executive Committee
- a review of the risk process and key risks arising, are formally discussed by the Group Board every 6 months

ii. Internal Control

The Group has an established framework of internal controls, which includes the following key elements:

- members of the Board have responsibility for monitoring the conduct and operations of individual businesses within the Group. The Group reviews the strategies of the individual businesses and the executive management of each business is accountable for their conduct and performance within the agreed strategies
- the Group and its subsidiaries operate control procedures designed to ensure complete and accurate accounting of financial transactions, and to limit exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties in key areas and periodic Internal Audit reviews
- the Audit Committee meets regularly and its responsibilities are set out above. It receives reports from the Internal Audit function on the results of work carried out under a semi-annually agreed audit programme. The Audit Committee has independent access to the internal and external auditors
- Internal Audit facilitates a process whereby operating entities provide certified statements of compliance with internal financial controls, which are supported by the operation of key controls during the period

Going concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Board believes it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Compliance with the Combined Code

The Group has complied with the requirements of the Financial Services Authority relating to the provisions of the Combined Code and with the Turnbull Guidance throughout the period ended on 29 December 2007 and up to the date of approval of the annual report and financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, Directors' Remuneration 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. The directors are required by the IAS Regulation to prepare the Group financial statements under IFRSs (IFRSs) as adopted by the European

Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, 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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of the directors' report and the directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' indemnity and insurance

In accordance with the Articles of Association, the Company has provided indemnities to the directors (to the extent permitted by the Companies Acts) in respect of liabilities incurred as a result of their office and the Company has taken out an insurance policy in respect of those liabilities for which directors may not be indemnified. Neither the indemnity nor insurance provides cover in the event that the director is proved to have acted dishonestly or fraudulently.

Attendance at meetings

The following table shows the number of meetings individual directors could have attended (taking account of eligibility, appointment and retirement dates during the year) and their actual attendance. For the Committees, only the attendance of members of that committee is shown, although other directors, where appropriate, have often also attended at the invitation of the Chairman of the Committee:

	Main Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominations Committee meetings	
	Possible attendance	Actual attendance	Possible attendance	Actual attendance	Possible attendance	Actual attendance	Possible attendance	Actual attendance
Current directors								
Will Samuel	7	7	–	–	–	–	1	1
Angus Cockburn	7	7	3	3	5	4	1	1
Gerard Hughes	5	5	–	–	–	–	–	–
Matthew Ingle	7	7	–	–	–	–	–	–
Mark Robson	7	7	–	–	–	–	–	–
Ian Smith	7	6	3	3	5	3	1	–
Peter Wallis	7	7	3	2	5	4	1	–
Michael Wemms	7	6	3	2	5	5	1	1
Former directors								
Tony De Nunzio	2	2	1	1	1	1	1	1
Lesley Knox	2	1	1	1	1	1	1	1

Consolidated income statement

	Notes	52 weeks to 29 December 2007 Before exceptional items £m	Exceptional items (note 6) £m	Total £m	53 weeks to 30 December 2006 Before exceptional items £m	Exceptional items £m	Total £m
Continuing operations:							
Revenue	4	976.5	–	976.5	733.0	–	733.0
Cost of sales		(520.3)	(6.9)	(527.2)	(370.5)	(12.8)	(383.3)
Gross profit		456.2	(6.9)	449.3	362.5	(12.8)	349.7
Other operating expenses		–	(6.3)	(6.3)	–	(14.5)	(14.5)
Selling & distribution costs		(307.5)	(15.6)	(323.1)	(241.6)	(12.7)	(254.3)
Administrative expenses		(61.5)	(6.6)	(68.1)	(56.2)	7.8	(48.4)
Share of joint venture profits		0.9	–	0.9	1.0	–	1.0
Operating profit	7	88.1	(35.4)	52.7	65.7	(32.2)	33.5
Finance income	9	1.3	–	1.3	3.5	–	3.5
Finance expense	10	(9.9)	–	(9.9)	(7.0)	–	(7.0)
Other finance charges – pensions	10	0.3	–	0.3	(5.0)	–	(5.0)
Profit before tax		79.8	(35.4)	44.4	57.2	(32.2)	25.0
Tax on profit	11	(25.5)	34.0	8.5	(20.9)	2.0	(18.9)
Profit after tax from continuing operations		54.3	(1.4)	52.9	36.3	(30.2)	6.1
Discontinued operations:							
Loss from discontinued operations	12	–	(11.1)	(11.1)	(44.8)	(134.8)	(179.6)
Tax on loss from discontinued operations	11	–	2.1	2.1	5.1	(2.3)	2.8
Loss from discontinued operations	12	–	(9.0)	(9.0)	(39.7)	(137.1)	(176.8)
Profit/(loss) for the period		54.3	(10.4)	43.9	(3.4)	(167.3)	(170.7)
Earnings per share:							
From continuing operations							
Basic earnings per 10p share	13			8.8p			1.0p
Diluted earnings per 10p share	13			8.6p			1.0p
From continuing and discontinued operations							
Basic earnings per 10p share	13			7.3p			(28.7)p
Diluted earnings per 10p share	13			7.2p			(28.4)p

Consolidated balance sheet

	Notes	29 December 2007 £m	30 December 2006 £m
Non-current assets			
Intangible assets	15	2.5	1.9
Property, plant and equipment	16	91.2	97.1
Investments	17	10.1	9.7
Deferred tax asset	18	45.6	60.6
		149.4	169.3
Current assets			
Inventories	19	101.0	126.1
Trade and other receivables	20	122.3	102.4
Other assets	20	2.4	3.1
Cash at bank and in hand	20	33.6	53.2
		259.3	284.8
Total assets classified as held for sale	16 (a)	3.1	–
Total assets		411.8	454.1
Current liabilities			
Trade and other payables	21	(201.1)	(244.4)
Current tax liability		(8.5)	(3.0)
Current borrowings	22	(3.3)	(2.2)
		(212.9)	(249.6)
Non-current liabilities			
Non-current borrowings	22	(36.0)	(58.2)
Other payables due in more than one year	21	–	(10.8)
Pension liability	23	(83.5)	(189.2)
Deferred tax liability	18	(2.9)	(4.0)
Provisions	24	(39.4)	(19.8)
		(161.8)	(282.0)
Total liabilities		(374.7)	(531.6)
Net assets/(liabilities)		37.1	(77.5)
Equity			
Called up share capital	25	63.4	63.2
Share premium account	26	85.0	83.7
ESOP reserve	26	(32.6)	(43.2)
Other reserves	26	28.1	28.1
Retained loss	26	(106.8)	(209.3)
Total equity/(deficit)		37.1	(77.5)

These financial statements were approved by the Board on 5 March 2008 and were signed on its behalf by Mark Robson, director.

Consolidated cash flow statement

	Notes	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Net cash flows from operating activities	27	25.7	70.0
Cash flows used in investing activities			
Interest received		1.3	3.5
Sale of subsidiary undertakings	12	–	(2.1)
Payments to acquire property, plant and equipment and intangible assets		(21.2)	(30.3)
Dividend received from joint ventures		0.5	–
Receipts from sale of property, plant and equipment and intangible assets		–	12.0
Net cash used in investing activities		(19.4)	(16.9)
Cash flows from financing activities			
Interest paid		(8.4)	(6.3)
Receipts from issue of share capital		1.5	2.9
Receipts from release of shares from share trust		4.9	1.6
Decrease in loans		(24.3)	(89.6)
Repayment of capital element of obligations under finance leases		(0.3)	–
Decrease in other assets		0.7	2.4
Net cash used in financing activities		(25.9)	(89.0)
Net decrease in cash and cash equivalents		(19.6)	(35.9)
Cash and cash equivalents at beginning of period		53.2	89.0
Currency translation differences		–	0.1
Cash and cash equivalents at end of period	27	33.6	53.2

For the purpose of the cash flow statement, cash and cash equivalents are included net of overdrafts payable on demand.
These overdrafts are excluded from the definition of cash and cash equivalents disclosed on the balance sheet.
Cash flows from discontinued operations are detailed in note 12.

Consolidated statement of recognised income and expense

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Actuarial gains on defined benefit pension schemes	87.2	64.2
Deferred tax on actuarial gain on defined benefit pension schemes	(26.1)	(19.2)
Effect of change in tax rate on deferred tax on actuarial gains/losses	(3.6)	–
Currency translation differences	1.1	(0.3)
Net income recognised directly in equity	58.6	44.7
Profit/(loss) for the financial period	43.9	(170.7)
Total recognised income and expense for the period	102.5	(126.0)

Notes to the consolidated financial statements

1. General information

Galiform plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given in the information on page 102.The nature of the Group's operations and principal activities are set out in note 5, and in the review of operations and finance on pages 12 to 16.

2. Significant accounting policies

Basis of presentation

The Group's accounting period covers the 52 weeks to 29 December 2007. The comparative period covered the 53 weeks to 30 December 2006.

Statement of compliance and basis of accounting

The Group's financial statements have been prepared in accordance with the IFRSs adopted for use in the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. They therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies are set out below.

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective for the Group:

- IFRS 7 "Financial Instruments: Disclosures", and the relevant amendment to IAS 1 on capital disclosures
- IFRS 8 "Operating segments" and IAS 1 "Presentation of Financial Statements (revised)"
- IFRS 3 "Business Combinations" and amendments to IAS 27 "Consolidated and Separate Financial Statements" and amendments to IAS 23 "Borrowing Costs"
- IFRIC 10 "Interim reporting and impairments"
- IFRIC 11 "IFRS2 - Group and Treasury Share transactions"
- IFRIC 12 "Service concession agreements"
- IFRIC 13 "Customer Loyalty Programmes"
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the Group's financial statements except for the additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred until the date that control ceases.

The purchase method of accounting is used to account for acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Joint ventures

Joint ventures are accounted for in the financial statements of the Group under the equity method of accounting. Any losses in joint ventures in excess of the Group's interest in those joint ventures are not recognised.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired company, plus any costs directly attributable to the business combination. The acquired company's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is immediately recognised in the income statement.

Foreign currencies

Foreign currency transactions

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at the date. Foreign exchange gains and losses are recognised in the income statement.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at foreign exchange rates ruling at the balance sheet date. The results and cash flows of overseas subsidiaries and the results of joint ventures are translated into sterling on an average exchange rate basis, weighted by the actual results of each month.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries are taken to equity via the Statement of recognised income and expense.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, based on despatch of goods or services provided to customers outside the Group, excluding sales taxes and discounts. Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income from investments is recognised when the right to receive payment has been established.

Exceptional items

Certain items do not reflect the Group's underlying trading performance and, due to their significance in terms of size or nature, have been classified as exceptional. The gains and losses on these discrete items, such as profits on disposal of businesses, property interests, restructuring costs and other non-operating items can have a material impact on the absolute amount of and trend in profit from operations and the result for the period. Therefore any gains and losses on such items are analysed as exceptional on the face of the income statement.

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the financial period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Deferred tax

Deferred tax is provided in full using the balance sheet liability method. It is the tax expected to be payable or recoverable on the temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets and liabilities other than in a business combination that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited to the Income Statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.
For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Finance leases

Assets funded through finance leases are capitalised as property plant and equipment, and depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement.

Operating leases

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement.

Lease incentives

Lease incentives primarily include up-front cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

Leases with predetermined fixed rental increases

The Group has a number of leases with predetermined fixed rental increases. These rental increases are accounted for on a straight-line basis over the period of the lease term.

Investments

Investments are stated at cost less any provision for impairment.

Intangible assets – software

Where computer software is not an integral part of a related item of computer hardware, the software is classified as an intangible asset. The capitalised costs of software for internal use include external direct costs of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalisation of these costs ceases no later than the point at which the software is substantially complete and ready for its intended internal use. These costs are amortised over their expected useful lives, which are reviewed annually. The expected useful life is four years.

Property, plant and equipment

The Group adopted the transitional provisions of IFRS1 to use previous revaluations of freehold properties as the new deemed cost at the date of transition to IFRSs.

All property, plant and equipment is stated at cost (or deemed cost, as applicable) less accumulated depreciation, and less any provision for impairment.

Depreciation of property, plant and equipment, excluding freehold land, is provided to write off the difference between the cost and their residual value over their estimated lives on a straight-line basis. The current range of useful lives is as follows:

Freehold property	50 years or period of the lease
Long leasehold property	over period of lease
Short leasehold property	over period of lease
Fixtures and fitting	2-10 years
Plant and machinery	3-10 years

Residual values, remaining useful economic lives and depreciation periods and methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Impairment of assets

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

For goodwill assets that have an indefinite life and intangible assets not yet available for use, the recoverable amounts are estimated at each balance sheet date.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes an attributable proportion of manufacturing overheads based on budgeted levels of activity. Cost is calculated using a standard cost which is regularly updated to reflect average actual costs. Provision is made for obsolete, slow-moving or defective items where appropriate.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of fair value, less costs to sell, and carrying amount.

Impairment losses on initial classification as held for sale are included in the income statement. Gains or losses on subsequent re-measurements are also included in the income statement.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Pensions

Payments to defined contribution retirement benefit schemes are charged to the income statement as they fall due. The Group operates two defined benefit pension schemes. The Group's net obligation in respect of the defined benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in operating profit and net financing costs include interest on pension scheme liabilities and expected return on assets.

All actuarial gains and losses as at 25 December 2004, the date of transition to IFRSs, were recognised. Actuarial gains and losses that arise subsequent to 25 December 2004 in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of recognised income and expense.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Derivative financial instruments

The Group does not currently use derivative financial instruments to reduce its exposure to interest or exchange rate movements. The Group does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the income statement and this is likely to cause volatility in situations where the carrying value of the hedged item is either not adjusted to reflect the fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognised in this income statement. Provided the conditions specified by IAS 39 are met, hedge accounting may be used to mitigate this income statement volatility.

The Company expects that hedge accounting will not generally be applied to transactional hedging relationships, such as hedges of forecast or committed transactions.

Where the hedging relationship is classified as a cash flow hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in equity rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity will be either recycled to the income statement or, if the hedged item results in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Other payables
Other payables are stated at their fair value.

Share-based payments
The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 26 December 2004 (the date of the Group's transition to IFRS).

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a binomial model or a Black-Scholes model, according to the relative complexity of the type of share-based payment to be measured. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

3. Judgements and estimates
The Group makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

Impairment of assets
Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance.

Post-employment benefits
The Group operates various defined benefit schemes for its employees. The present value of the schemes' liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds and an expectation of the weighted average returns on the assets within the schemes. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 23.

Provisions
Provisions have been estimated for onerous leases, dilapidations, and restructuring costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability is accounted for in the period when such determination is made.

Income taxes
The Group recognises expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax provisions in the period when such determination is made.

Allowances against the carrying value of inventories
The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with the current or committed inventory levels. Factors that could impact estimated demand and selling prices are the timing and success of product ranges.

Allowances against the carrying value of trade receivables
Using information available at the balance sheet date, the Group reviews its accounts receivable balances and makes judgements based on experience as to the appropriate level of allowance required to account for potential uncollectable trade receivables.

4. Revenue
An analysis of the Group's revenue is as follows:

	52 weeks to 29 Dec 2007 £m	53 weeks to 30 Dec 2006 £m
Continuing operations		
Sales of goods	976.5	733.0
Finance income	1.3	3.5
	977.8	736.5
Discontinued operations		
Sales of goods	–	546.8
Total revenue	977.8	1,283.3

5. Segmental reporting

(a) Primary segmental reporting: business segments

The Group currently operates within two distinct industries trade ("Howden Joinery") and manufacturing ("Supply"). These divisions are the basis on which the Group reports its primary segment information. This is shown below:

Current period:

52 weeks to 29 December 2007	Howden Joinery £m	Supply £m	Other £m	Corporate expenses £m	Continuing operations £m	Discontinued operations £m	Eliminations £m	Consolidated £m
Revenue:								
– sales to third parties	768.4	200.1	8.0	–	976.5	–	–	976.5
– inter–segment sales	–	313.4	–	–	313.4	–	(313.4)	–
Total revenue	768.4	513.5	8.0	–	1,289.9	–	(313.4)	976.5
Result:								
– segment result before exceptional items	145.1	(26.6)	(3.9)	(27.4)	87.2	–	–	87.2
– exceptional items	(0.1)	(33.3)	–	(2.0)	(35.4)	(11.1)	–	(46.5)
	145.0	(59.9)	(3.9)	(29.4)	51.8	(11.1)	–	40.7
Share of joint venture	–	–	0.9	–	0.9	–	–	0.9
Operating profit/(loss)	145.0	(59.9)	(3.0)	(29.4)	52.7	(11.1)	–	41.6
Finance income								1.3
Finance costs (including pension finance cost)								(9.6)
Profit before tax								33.3
Tax								10.6
Profit for the period								43.9

Unallocated corporate expenses includes consolidation adjustments. The discontinued operations are analysed further in note 12. Inter-segment sales are charged on the basis of standard cost set at the start of the year.

52 weeks to 29 December 2007	Howden Joinery £m	Supply £m	Other £m	Corporate £m	Joint venture £m	Discontinued operations £m	Consolidated £m
Other information:							
Capital additions	13.2	4.2	0.2	8.7	–	–	26.3
Depreciation and amortisation	(6.3)	(5.9)	(0.5)	(6.0)	–	–	(18.7)
Impairment losses recognised in income	–	(7.4)	–	–	–	–	(7.4)

As at 29 December 2007	Howden Joinery £m	Supply £m	Other £m	Corporate £m	Joint venture £m	Discontinued operations £m	Eliminations £m	Consolidated £m
Balance sheet:								
Segment assets	179.7	109.3	5.8	68.1	2.1	–	46.8	411.8
Segment liabilities	(61.9)	(94.9)	(1.2)	(169.9)	–	–	(46.8)	(374.7)

As well as specific assets and liabilities of the Corporate segment, Corporate assets also include the total Group cash balances, and Corporate liabilities include the total Group loans, pension deficit, current tax and deferred tax balances.

Prior period:

53 weeks to 30 December 2006	Howden Joinery £m	Supply £m	Other £m	Corporate expenses £m	Continuing operations £m	Discontinued operations £m	Eliminations £m	Consolidated £m
Revenue:								
– sales to third parties	676.3	50.8	5.9	–	733.0	546.8	–	1,279.8
– inter-segment sales	–	386.5	–	–	386.5	–	(386.5)	–
Total revenue	676.3	437.3	5.9	–	1,119.5	546.8	(386.5)	1,279.8
Result:								
– segment result before exceptional items	132.6	(39.6)	(4.1)	(24.2)	64.7	(44.8)	–	19.9
– exceptional items	–	(42.5)	–	10.3	(32.2)	(134.8)	–	(167.0)
	132.6	(82.1)	(4.1)	(13.9)	32.5	(179.6)		(147.1)
Share of joint venture	–	–	1.0	–	1.0	–	–	1.0
Operating profit/(loss)	132.6	(82.1)	(3.1)	(13.9)	33.5	(179.6)	–	(146.1)
Finance income								3.5
Finance costs (including pension finance cost)								(12.0)
Loss before tax								(154.6)
Tax								(16.1)
Loss for the period								(170.7)

Corporate expenses includes consolidation adjustments. The discontinued operations are analysed further in note 12.

53 weeks to 30 December 2006	Howden Joinery £m	Supply £m	Other £m	Corporate £m	Joint venture £m	Discontinued operations £m	Consolidated £m
Other information:							
Capital additions	6.9	2.9	0.3	3.3	–	14.7	28.1
Depreciation and amortisation	(5.1)	(8.7)	(0.5)	(9.3)	–	(11.0)	(34.6)
Impairment losses recognised in income	–	–	–	–	–	(6.3)	(6.3)

As at 30 December 2006	Howden Joinery £m	Supply £m	Other £m	Corporate £m	Joint venture £m	Discontinued operations £m	Eliminations £m	Consolidated £m
Balance sheet:								
Segment assets	150.4	148.8	5.8	91.1	1.7	–	56.3	454.1
Segment liabilities	(89.0)	(70.1)	(1.5)	(314.7)	–	–	(56.3)	(531.6)

(b) Secondary segmental reporting: geographical segments

The Group's operations are located in the UK and France. The trade division has branches located in both the UK and France. The manufacturing division is located in the UK.

The following tables analyse the Group's sales by geographical market, irrespective of the origin of the goods.

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
UK	946.7	1,262.8
France	29.8	17.0
	976.5	1,279.8

Revenue from the Group's discontinued operations in 2006 was derived principally from the UK (2006: £535.7m), and France (2006: £11.1m). It is shown in more detail at note 12.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets (excluding joint venture assets)	
	29 December 2007 £m	30 December 2006 £m
UK	357.1	390.3
France	5.8	5.8
Eliminations	46.8	56.3
	409.7	452.4

Additions to property, plant and equipment and intangible assets.

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
UK	26.1	27.8
France	0.2	0.3
	26.3	28.1

6. Exceptional items

Exceptional items charged to the income statement in the 52 weeks to 29 December 2007 are analysed as follows:

	Note	Cost of sales £m	Other operating expenses £m	Administration expenses £m	Selling and distribution costs £m	Total £m
Continuing operations:						
Group restructuring	6(a)	6.9	7.4	6.6	15.6	36.5
Other loss on disposal		–	(1.1)	–	–	(1.1)
Total charged to operating profit		6.9	6.3	6.6	15.6	35.4
Tax credit on exceptional items in continuing operations						(10.1)
Total operating exceptional items after tax						25.3
Exceptional tax credit	6(b)					(23.9)
Net exceptional items in continuing operations						1.4
Discontinued operations:	6(c)					
Business rates and other property costs						7.1
Professional fees associated with discontinued operations						4.0
Total discontinued exceptional items before tax						11.1
Tax on discontinued exceptional items						(2.1)
Net exceptional items in discontinued operations						9.0
Total exceptional items before tax						46.5
Tax on exceptional items						(12.2)
Exceptional tax credit						(23.9)
Total exceptional items after tax						10.4

(a) Restructuring – 2007

In June 2007, the Group announced that it was restructuring the Supply division, decreasing the scale and complexity of supply's manufacturing, warehousing and transport operations.

The IT restructuring involves relocating and restructuring the IT department, in response to the new business structure of the continuing group.

The costs of restructuring comprise the following items:

	£m	£m
Supply restructuring:		
– site closure/relocation costs	6.7	
– provision for future rent payable on vacated sites	10.1	
– redundancies and other staff costs	10.4	
– asset write offs/impairments	7.4	
– other administrative costs	0.2	
– release of exceptional stock provision made in 2006 (see note 6g below)	(1.5)	33.3
IT restructuring:		
– redundancies and other staff costs	1.2	
– asset write offs	1.6	
– systems separation	0.4	3.2
Total restructuring costs before tax		36.5
Tax credit on restructuring costs		(10.1)
Total restructuring costs after tax		26.4

(b) Exceptional tax credit – 2007

This is explained at note 18.

(c) Discontinued operations – 2007

A change to the law regarding business rates on vacant properties has been substantially enacted during the period. Prior to the change, there were no business rates to pay for the first three months that a property was empty, and then there was a business rates exemption of 50% for retail properties and 100% for warehouses. Following the change, there is still an exemption for the first three months, and six months for industrial and warehouse properties, but after that time companies now have to pay business rates at 100% for all properties. The amount provided in this period relates primarily to business rates on properties which were part of the Group's former MFI Retail operations, which were discontinued in 2006. On the disposal of the MFI Retail operations, the continuing Group remained the ultimate guarantor for these properties and made such provision for rent payable in empty periods as was considered necessary at the time. That provision was included in the £31.7m item "Exceptional provisions on disposal of MFI Retail Limited" included in the 2006 accounts and shown in the 2006 comparative figures below. Of the total £7.1m charged in the period, £5.6m relates to business rates, while the balance relates to other related property expenses.

Discontinued exceptional items also include a £4.0m charge in relation to professional fees. There is an associated tax credit of £2.1m in respect of discontinued exceptional items.

Exceptional items charged to the income statement in the 53 weeks to 30 December 2006 are analysed as follows:

	Note	Cost of sales £m	Other operating income £m	Administration expenses £m	Selling and distribution costs £m	Total £m
Continuing operations:						
Restructuring	6(d)	–	–	(30.2)	–	(30.2)
Factory closures	6(e)	(6.8)	(17.0)	–	(12.7)	(36.5)
Retirement benefit exceptional gain	6(f)	–	–	38.0	–	38.0
Exceptional stock provision	6(g)	(6.0)	–	–	–	(6.0)
Other profit/(loss) on disposal	6(h)	–	2.5	–	–	2.5
Total charged to operating profit		(12.8)	(14.5)	7.8	(12.7)	(32.2)
Tax credit on exceptional items in continuing operations						2.0
Net exceptional items in continuing operations						(30.2)
Discontinued operations:						
Restructuring						0.2
Factory closures						(9.4)
Profit on disposal of Hygena Cuisines						62.5
Loss on disposal of MFI UK Retail						(155.7)
Exceptional provisions on disposal of MFI UK Retail						(31.7)
Profit on disposal of Sofa Workshop Limited						0.2
Other loss on disposal						(0.9)
Total discontinuing exceptional items before tax						(134.8)
Tax charge on exceptional items in discontinued operations						(2.3)
Net exceptional items in discontinued operations						(137.1)
Total exceptional items before tax						(167.0)
Total tax on exceptional items						(0.3)
Total exceptional items net of tax						(167.3)

(d) Restructuring – 2006

As announced in our press release of 28 February 2006, the Group undertook a review of the store portfolio during the 2006 period and prior to the disposal of the UK Retail business. Between the start of the 2006 period and the disposal of the UK Retail business, Retail had ceased trading in 13 locations and 3 regional home delivery centres had closed.

In the same statement, the Group announced its intention to reorganise the Group into three distinct trading businesses. This process was completed before the disposal of the UK Retail business.

The costs of restructuring comprise the following items:

	£m	£m
UK Retail restructuring:		
– redundancies	(3.8)	
– other restructuring costs	(2.2)	
– profit on disposal of properties	6.2	0.2
Group restructuring:		
– business separation	(18.8)	
– redundancy costs	(5.4)	
– property costs	(2.9)	
– refinancing costs	(3.1)	(30.2)
Total restructuring costs before tax		(30.0)
Tax credit on restructuring costs		10.0
Total restructuring costs after tax		(20.0)

The restructuring costs before tax are allocated between continuing and discontinued operations as follows:

	£m
Continuing operations	(30.2)
Discontinued operations	0.2
	(30.0)

(e) Factory closures – 2006
As announced in our preliminary results on 28 February 2006, the Group announced the closure of two of its factories, Stockton and Scunthorpe. These factories formed part of continuing operations. The closures were completed before the end of the 2006 period.

It was mentioned in the 2006 Interim Report that a closure programme was in place at the Group's sofa manufacturing facility at Llantrisant. This operation formed part of discontinued operations. The closure was completed before the end of the 2006 period.

The costs of closure comprise the following items:

	£m
Redundancy costs	(11.4)
Inventory write-offs	(9.1)
Loss on disposal of assets	(20.3)
Provisions	(2.2)
Other costs of exit	(2.9)
Total factory closure costs before tax	(45.9)
Tax credit on factory closure costs	7.0
Total factory closure costs after tax	(38.9)

The closure costs before tax are allocated between continuing and discontinued operations as follows:

	£m
Continuing operations	(36.5)
Discontinued operations	(9.4)
	(45.9)

The tax credit associated with the exceptional costs is lower than 30% as:

i. some costs are not tax deductible

ii. no deferred tax assets have been recognised on the write-down of factories within MFI UK Limited

(f) Retirement benefit exceptional gain – 2006
During the 2006 period, the Group's defined benefit retirement benefit plan was altered so that the benefits payable were changed from a final salary basis to a career average revalued earnings basis. This change gave rise to a reduction in the past service liability in respect of active members, which has been treated as an exceptional gain during the period, as set out in IAS 19 "Employee Benefits".

The amount of the exceptional gain was £38.0m, and it all relates to continuing operations. There is related deferred tax of £11.4m. Further details of the gain are given in note 23.

(g) Exceptional stock provision – 2006
This relates to continuing operations in the Supply business. Further developments in 2007 meant that £1.5m of this provision became surplus to requirements. This amount was released in 2007 and was treated as an exceptional credit and is shown in note 6(a) above.

(h) Other profit and loss on disposal – 2006
The other profits and losses on disposal relate to small sales of stores and land which are unrelated to any of the other exceptional items. The profits and losses before tax are allocated between continuing and discontinued operations as follows:

	£m
Continuing operations	2.5
Discontinued operations	(0.9)
	1.6

7. Profit for the period

Profit for the period has been arrived at after (charging)/crediting:

	Continuing operations		Discontinued operations		Total	
	52 weeks to 29 Dec 2007 £m	53 weeks to 30 Dec 2006 £m	52 weeks to 29 Dec 2007 £m	53 weeks to 30 Dec 2006 £m	52 weeks to 29 Dec 2007 £m	53 weeks to 30 Dec 2006 £m
Net foreign exchange gains/(losses)	9.7	4.8	–	(0.1)	9.7	4.7
Depreciation of property plant and equipment:						
– on owned assets	(17.9)	(22.1)	–	(11.0)	(17.9)	(33.1)
Amortisation of intangible assets (included in administrative expenses)	(0.8)	(1.5)	–	–	(0.8)	(1.5)
Impairment of property plant and equipment	(7.4)	–	–	(5.3)	(7.4)	(5.3)
Impairment of intangible assets	(1.5)	–	–	(1.0)	(1.5)	(1.0)
Cost of inventories recognised as an expense	(497.1)	(354.2)	–	(320.4)	(497.1)	(674.6)
Write downs of inventories	(13.9)	(8.9)	–	–	(13.9)	(8.9)
Reversal of write downs of inventories in the period	1.5	–	–	–	1.5	–
Staff costs (see note 8)	(219.2)	(286.9)	–	(51.1)	(219.2)	(338.0)
Minimum lease payments under operating leases	(55.9)	(49.9)	–	(91.0)	(55.9)	(140.9)
Auditors' remuneration for audit services (see below)	(0.3)	(0.3)	–	(0.1)	(0.3)	(0.4)

A more detailed analysis of auditors' total remuneration is given below:

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Audit services:		
Fees paid to the company's auditors for the audit of the company's annual accounts	(0.1)	(0.2)
Fees paid to the Company's auditors and their associates for other services to the Group:		
– the audit of the subsidiary companies pursuant to legislation	(0.2)	(0.2)
Total audit fees	(0.3)	(0.4)
Other services:		
Other services pursuant to legislation	–	(0.1)
Tax services	(0.2)	(0.4)
Corporate finance services	–	(1.0)
Other services	–	(0.1)
Total non-audit fees	(0.2)	(1.6)

8. Staff costs

The aggregate payroll costs of employees, including executive directors, was:

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Wages and salaries	195.2	296.1
Social security costs	14.7	20.8
Pension operating costs (note 23)	9.3	21.1
	219.2	338.0

Wages and salaries includes a charge in respect of share-based payment of £5.7m (2006: £3.8m).

The average monthly number of persons (full time equivalent, including executive directors) employed by the Group during the period was as follows:

	52 weeks to 29 December 2007 Number	53 weeks to 30 December 2006 Number
Howden Joinery	4,294	3,795
Houdan France	89	94
Howden Kitchens	1,797	1,941
Other	215	151
Continuing operations	6,395	5,981
UK Retail	–	4,541
Howden Millwork	–	12
France Retail	–	194
Discontinued operations	–	4,747
Total	6,395	10,728

9. Finance income

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Bank interest receivable	1.3	3.5

10. Finance expense and other finance charges

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Interest payable on bank loans	5.7	6.0
Other interest	1.1	–
Interest charge on remeasuring creditors to fair value	3.1	1.0
Total finance expenses	9.9	7.0

The Group had no finance leases in 2006. The Group acquired assets via finance lease at the end of 2007, but the amount of finance lease interest paid in 2007 was less than £0.1m. Further details of the interest charge on remeasuring creditors to fair value is given in note 21.

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Pensions finance (credit)/charge	(0.3)	5.0

11. Tax

(a) Tax in the income statement

	Continuing operations		Discontinued operations		Total	
	52 weeks to 29 Dec 2007 £m	53 weeks to 30 Dec 2006 £m	52 weeks to 29 Dec 2007 £m	53 weeks to 30 Dec 2006 £m	52 weeks to 29 Dec 2007 £m	53 weeks to 30 Dec 2006 £m
Current tax:						
Current year	10.3	11.2	(2.1)	(8.1)	8.2	3.1
Adjustments in respect of previous years	(3.0)	(1.1)	–	–	(3.0)	(1.1)
Total current tax	7.3	10.1	(2.1)	(8.1)	5.2	2.0
Deferred tax:						
Current year	9.9*	12.5	–	5.7	9.9	18.2
Adjustments in respect of previous years	(25.7)**	(3.7)	–	(0.4)	(25.7)	(4.1)
Total deferred tax	(15.8)	8.8	–	5.3	(15.8)	14.1
Total tax (credited)/charged in the income statement	(8.5)	18.9	(2.1)	(2.8)	(10.6)	16.1

UK Corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the period.

* On 26 June 2007 the House of Commons approved the Finance Bill which reduces the UK standard rate of Corporation tax from 30% to 28% with effect from 1 April 2008. This reduction in rate results in a decreased deferred tax charge of £1.8m in the current year charge.

** As the financial condition of the Group has improved significantly over the period, the Group has recognised £23.9m of deferred tax assets in certain of its subsidiaries. The relevant subsidiaries were loss making in 2006 and therefore no deferred tax asset was booked on the balance sheet. Given the size and one-off nature, this deferred tax credit has been treated as an exceptional item.

(b) Tax relating to items credited to equity

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Deferred tax:		
Actuarial gain on pension schemes	26.1	19.2
Charge to equity re tax rate change*	3.6	–
Total tax credited to statement of recognised income and expense	29.7	19.2

* On 26 June 2007 the House of Commons approved the Finance Bill which reduces the UK standard rate of Corporation tax from 30% to 28% with effect from 1 April 2008. This reduction in rate results in a deferred tax charge relating to actuarial gains and losses on the Group's pension liability of £3.6m in the Statement of Recognised Income and Expense.

The tax relating to items credited to equity all relates to continuing operations.

(c) Reconciliation of the total tax charge

The total tax charge for the year can be reconciled to the profit per the income statement as follows:

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Profit before tax:		
Continuing operations	44.4	25.0
Discontinued operations	(11.1)	(179.6)
	33.3	(154.6)
Tax at the UK Corporation tax rate of 30%	10.0	(46.4)
Tax adjustments in respect of previous years	(28.7)	(5.2)
Expenses not deductible for tax purposes	2.9	58.0
Non-qualifying depreciation	4.2	3.8
UK losses not utilised	–	2.1
Overseas losses not utilised	–	2.4
Change in tax rate	(1.8)	–
Other	2.8	1.4
Total tax (credited)/charged in the income statement	(10.6)	16.1

Further details of deferred tax are given in note 18.

12. Discontinued operations and disposal of subsidiaries

The items in the current period relating to discontinued operations are all exceptional items, and are all explained in the exceptional items note (note 6). There is no cash flow associated with the discontinued items in the current period.

The items relating to discontinued operations in the prior period are analysed below:

a) Discontinued exceptional items – 2006

Closures and disposals – analysed further below	Before tax £m	Tax £m	After tax £m
Loss on sale of MFI UK Retail	(155.6)	(5.9)	(161.5)
Exceptional provision on disposal of MFI UK Retail	(31.7)	–	(31.7)
	(187.3)	(5.9)	(193.2)
Profit on sale of Hygena Cuisines SA	62.5	–	62.5
Profit on sale of Sofa Workshop Limited	0.2	–	0.2
Closure of Sofa Workshop Direct	(9.4)	1.8	(7.6)
	(134.0)	(4.1)	(138.1)

Other discontinued exceptional items – analysed further in note 6 – 2006

	£m
Restructuring	0.2
Other profit and loss on disposal	(0.9)
	(0.7)
Associated tax	1.8
After tax	1.1

Summary of all discontinued exceptional items – 2006

	£m
Total discontinued exceptional items before tax	(134.7)
Total tax on discontinued exceptional items	(2.3)
Total discontinued exceptional items after tax	(137.0)

i) Sale of MFI UK Retail

Net assets disposed of:

	£m
Property, plant and equipment	77.9
Inventories	36.4
Cash	3.1
Receivables	60.8
Payables and provisions	(161.9)
Total net assets	16.3
Loss on disposal	(155.7)
Amounts paid and payable on disposal	(139.4)

Amounts paid and payable on disposal:

	£m
Cash paid to purchaser, and fees of disposal paid	(75.8)
Accrued expenses of disposal	(1.3)
Deferred consideration	(62.3)
Amount paid and payable on disposal	(139.4)

	£m
Loss on disposal	(155.7)
Exceptional provision on disposal	(31.7)
Total costs recognised on disposal	(187.4)

	£m
Cash paid	(75.8)
Cash sold with business	(3.1)
Net cash flow on disposal	(78.9)

The deferred consideration is payable in two instalments, one was paid in September 2007 and one will be paid in April 2008. More details are given in note 21.

ii) Sale of Hygena Cuisines SA

On 14 February 2006 the Group completed the sale of its French retail business, Hygena Cuisines SA, to Nobia AB for total gross cash proceeds (before expenses) of €135m (approximately £92m).

As part of the agreement reached with Nobia, the Group will continue to supply Hygena Cuisines with kitchen furniture product for a term of three years after completion. The Group has also agreed to provide certain information technology services to Hygena Cuisines for a limited period until the transition in ownership and systems has been assured.

A profit arose on the disposal of Hygena Cuisines. An analysis of the disposal is shown below:

Net assets disposed of:

	£m
Property, plant and equipment	29.8
Inventories	12.7
Receivables	5.5
Payables	(35.9)
Total net assets	12.1
Profit on disposal	62.5
Net proceeds	74.6

	£m
Cash received (net of expenses)	87.9
Cash sold with business	(13.3)
Net cash flow on disposal	74.6

Substantial Shareholding Exemption was obtained from HM Revenue & Customs before the disposal, resulting in no tax being payable on the sale of the company.

iii) Sale of Sofa Workshop Limited

On 5 October 2006, the Group announced that it had completed the sale of Sofa Workshop Limited, to New Heights Limited, for gross cash proceeds (before expenses) of £1.8m.

A profit arose on the disposal of Sofa Workshop Limited. An analysis of the disposal is shown below:

Net assets disposed of:

	£m
Property plant and equipment	1.9
Inventories	1.8
Receivables	2.6
Payables	(7.3)
Total net assets	(1.0)
Profit on disposal	0.2
Net proceeds	(0.8)

	£m
Cash received (net of expenses)	0.2
Cash sold with business	(1.0)
Net cash flow on disposal	(0.8)

iv) Closure of Sofa Workshop Direct

The Group's sofa manufacturing facility at Llantrisant in South Wales ceased production on 22 August 2006 and the factory was decommissioned at the end of November 2006. The costs associated with the closure are shown below:

	£m
Redundancy costs	(1.6)
Inventory	(2.3)
Property plant, and equipment	(3.3)
Other costs of exit	(2.2)
Total factory closure costs before tax	(9.4)
Tax credit on factory closure costs	1.8
Total closure costs after tax	(7.6)

b) Analysis of discontinued operations

The results of the discontinued operations which have been included in the consolidated income statement, and the associated cash flows, were as follows:

	53 weeks to 30 December 2006				
	Hygena Cuisines £m	Sofa Workshop Direct £m	Sofa Workshop £m	MFI UK Retail £m	Total £m
Revenue	11.1	0.7	15.9	519.1	546.8
Cost of sales	(6.2)	(6.3)	(8.8)	(248.5)	(269.8)
Gross profit	4.9	(5.6)	7.1	270.6	277.0
Expenses	(9.5)	(0.1)	(9.0)	(303.2)	(321.8)
Loss before tax	(4.6)	(5.7)	(1.9)	(32.6)	(44.8)
Attributable tax (charge)/credit	–	–	(3.6)	8.7	5.1
Loss after tax	(4.6)	(5.7)	(5.5)	(23.9)	(39.7)
Exceptional items:					
Loss on disposal of discontinued operations					(134.8)
Attributable tax					(2.3)
Net loss attributable to discontinued operations					(176.8)
Cash flows:					
Contribution to Group net operating cash flows	(10.7)	(2.1)	(2.8)	(51.9)	(67.5)
Payments in respect of investing activities	–	(0.3)	–	(13.0)	(13.3)

13. Earnings per share

	52 weeks to 29 December 2007			53 weeks to 30 December 2006		
	Earnings £m	Weighted average number of shares m	Earnings per share p	Earnings £m	Weighted average number of shares m	Earnings per share p
From continuing operations:						
Basic earnings per share	52.9	598.6	8.8	6.1	594.4	1.0
Effect of dilutive share options	–	13.8	(0.2)	–	7.2	–
Diluted earnings per share	52.9	612.4	8.6	6.1	601.6	1.0
From discontinued operations:						
Basic earnings per share	(9.0)	598.6	(1.5)	(176.8)	594.4	(29.7)
Effect of dilutive share options	–	13.8	–	–	7.2	0.3
Diluted earnings per share	(9.0)	612.4	(1.5)	(176.8)	601.6	(29.4)
From continuing and discontinued operations:						
Basic earnings per share	43.9	598.6	7.3	(170.7)	594.4	(28.7)
Effect of dilutive share options	–	13.8	(0.2)	–	7.2	0.3
Diluted earnings per share	43.9	612.4	7.2	(170.7)	601.6	(28.4)
From continuing operations excluding exceptional items:						
Basic earnings per share	54.3	598.6	9.1	36.3	594.4	6.1
Effect of dilutive share options	–	13.8	(0.2)	–	7.2	(0.1)
Diluted earnings per share	54.3	612.4	8.9	36.3	601.6	6.0
From continuing and discontinued operations excluding exceptional items:						
Basic earnings per share	54.3	598.6	9.1	(3.4)	594.4	(0.6)
Effect of dilutive share options	–	13.8	(0.2)	–	7.2	–
Diluted earnings per share	54.3	612.4	8.9	(3.4)	601.6	(0.6)

14. Dividends

Amounts recognised as distributions to equity holders in the period:

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Final dividend for the 53 weeks to 30 December 2006 – nil (52 weeks to 25 December 2005 – nil)	–	–
Interim dividend for the 52 weeks to 29 December 2007 – nil (53 weeks to 30 December 2006 – nil)	–	–
	–	–

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Proposed final dividend for the 52 weeks to 29 December 2007 – 0.5p (53 weeks to 30 December 2006 – nil)	3.2	–

The directors propose a dividend in respect of the 52 weeks to 29 December 2007 of 0.5 p per share, payable to ordinary shareholders who are on the register of shareholders at 30 May 2008, and payable on 13 June 2008.

15. Intangible assets

The intangible assets shown below all relate to software, as detailed further in the accounting policies note.

	£m
Cost	
At 24 December 2005	6.5
Additions	0.4
Disposals	(0.3)
At 30 December 2006	6.6
Additions	1.4
At 29 December 2007	8.0
Amortisation	
At 24 December 2005	(2.3)
Impairment	(1.5)
Charge for the period	(1.0)
Disposals	0.1
At 30 December 2006	(4.7)
Charge for the period	(0.8)
At 29 December 2007	(5.5)
Net book value at 29 December 2007	2.5
Net book value at 30 December 2006	1.9

The impairment charge in 2006 related to software which was recognised as no longer in productive use in the period.

16. Property plant and equipment

	Freehold property £m	Leasehold property Long-term £m	Leasehold property Short-term £m	Plant, machinery & vehicles £m	Fixtures & fittings £m	Capital WIP £m	Total £m
Cost							
At 24 December 2005	62.6	18.4	75.9	268.0	240.2	5.5	670.6
Additions	0.3	0.1	3.1	3.4	15.8	5.0	27.7
Disposals	(5.0)	(10.3)	(4.7)	(68.2)	(10.0)	(0.1)	(98.3)
Disposed with subsidiary	(34.3)	(6.8)	(55.4)	(26.9)	(189.2)	(3.1)	(315.7)
Reclassifications within property, plant and equipment	0.1	–	–	1.9	0.2	(2.2)	–
At 30 December 2006	23.7	1.4	18.9	178.2	57.0	5.1	284.3
Exchange adjustments	–	–	–	0.1	0.1	–	0.2
Additions	0.2	–	5.0	5.1	9.0	5.6	24.9
Disposals	–	–	(0.2)	(16.2)	(1.8)	–	(18.2)
Transferred to assets held for resale	(3.5)	(1.4)	(3.7)	–	–	–	(8.6)
Reclassifications within property, plant and equipment	–	–	–	4.9	–	(4.9)	–
At 29 December 2007	20.4	–	20.0	172.1	64.3	5.8	282.6
Depreciation							
At 24 December 2005	3.4	5.2	28.0	198.4	188.1	–	423.1
Charge for the period	0.7	0.3	3.1	17.8	11.2	–	33.1
Impairment charge	–	–	1.6	3.7	–	–	5.3
Disposals	–	(2.3)	(3.3)	(56.5)	(8.4)	–	(70.5)
Disposed with subsidiary	(5.9)	(3.2)	(22.0)	(20.2)	(152.5)	–	(203.8)
Reclassifications within property, plant and equipment	1.8	–	(1.8)	–	–	–	–
At 30 December 2006	–	–	5.6	143.2	38.4	–	187.2
Charge for the period	0.5	0.1	1.0	10.6	5.7	–	17.9
Impairment charge	0.6	–	3.6	3.2	–	–	7.4
Disposals	–	–	0.1	(14.0)	(1.7)	–	(15.6)
Transferred to assets held for resale	(1.4)	(0.4)	(3.7)	–	–	–	(5.5)
Reclassifications within property, plant and equipment	0.7	0.3	(1.0)	–	–	–	–
At 29 December 2007	0.4	–	5.6	143.0	42.4	–	191.4
Net book value at 29 December 2007	20.0	–	14.4	29.1	21.9	5.8	91.2
Net book value at 30 December 2006	23.7	1.4	13.3	35.0	18.6	5.1	97.1

The impairment charge in 2007 relates to assets which were assessed as being impaired as a result of the Supply segment restructuring which took place during the year (see note 6 for further details of the restructuring). Some of these assets were then transferred to assets held for resale after being impaired, and are shown in note 16 (a) below.

The impairment charge in 2006 on plant, machinery and vehicles relates to a write down of elements of the supply chain computer system capitalised in prior years.

The Group has pledged its property plant and equipment to secure bank borrowings. More details are given in note 22.

At 29 December 2007, the Group had entered into contractual commitments to acquire property, plant and equipment amounting to £1.3m (2006: £1.5m).

Analysis of assets held under finance leases

	29 December 2007 Capital WIP £m	30 December 2006 Capital WIP £m
Cost	3.1	–
Accumulated depreciation	–	–
Net book value	3.1	–

16a. Assets classified as held for sale

	Freehold property £m	Long-term leasehold £m	Total £m
Assets held for sale	2.1	1.0	3.1

These assets have been impaired in the period, and the period end carrying value shown above represents management's best assessment of their resale value, based on research as to likely resale values, and on any indicative offers received to date.

There are no liabilities associated with these assets held for sale.

17. Investments

	Other unlisted investments £m	Share of joint ventures £m	Total £m
At 24 December 2005	8.0	0.8	8.8
Profit for the period	–	0.9	0.9
At 30 December 2006	8.0	1.7	9.7
Profit for the period	–	0.9	0.9
Dividend received	–	(0.5)	(0.5)
At 29 December 2007	8.0	2.1	10.1

In the opinion of the directors, the fair value of the unlisted investment, which relates to a loan to another company, is materially equal to its carrying value.

18. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group, and the movements on them during the current and prior reporting periods:

	Retirement benefit obligations £m	Accelerated capital allowances £m	Property differences £m	Controlled foreign company differences £m	Other timing differences £m	Total £m	
At 24 December 2005	89.1	(11.2)	4.7	–	2.9	85.5	
(Charge)/release to income	(13.1)	1.8	(4.7)	(0.3)	2.2	(14.1)	
Charge to equity	(19.2)	–	–	–	–	(19.2)	
Disposal of subsidiary	–	5.7	–	–	(1.3)	4.4	
At 30 December 2006	56.8	(3.7)	–	(0.3)	3.8	56.6	
(Charge)/release to income	(5.6)	(4.5)	–	(0.4)	0.6	(9.9)	
Tax rate change	1.9	0.1	–	–	(0.2)	1.8	*
Exceptional credit to income	–	17.7	–	–	6.2	23.9	**
Charge to equity	(26.1)	–	–	–	–	(26.1)	
Charge to equity re tax rate change	(3.6)	–	–	–	–	(3.6)	*
At 29 December 2007	23.4	9.6	–	(0.7)	10.4	42.7	

Deferred tax arising from accelerated capital allowances can be further analysed as £11.8m asset and £2.2m liability.

* On 26 June 2007 the House of Commons approved the Finance Bill which reduces the UK standard rate of Corporation tax from 30% to 28% with effect from 1 April 2008. This reduction in rate results in a decrease in the Group's net deferred tax assets of £1.8m, principally in relation to deferred tax on retirement benefit obligations.

** As the financial condition of the Group has improved significantly over the period, the Group has recognised £23.9m of deferred tax assets in certain of its subsidiaries.The relevant subsidiaries were loss making in 2006 and therefore no deferred tax asset was booked on the balance sheet. Given the size and one-off nature, this deferred tax credit has been treated as an exceptional item.

The presentation in the balance sheet is as follows:

	29 December 2007 £m	30 December 2006 £m
Deferred tax assets	45.6	60.6
Deferred tax liabilities	(2.9)	(4.0)
	42.7	56.6

There are potential deferred tax assets in relation to trading tax losses totalling £14.8m (2006: £15.9m) that have not been recognised on the basis that their future economic benefit is uncertain. All of these losses may be carried forward indefinitely.

The Group also has carried forward capital losses and the potential deferred tax asset of £23.9m (2006: £25.6m) has not been booked. These capital losses may be carried forward indefinitely.

Deferred tax assets of £nil (2006: £26.7m) have not been recognised.

19. Inventories

	29 December 2007 £m	30 December 2006 £m
Raw materials	5.4	7.1
Work in progress	4.2	5.0
Finished goods and goods for resale	116.5	139.5
Allowance against carrying value of inventories	(25.1)	(25.5)
	101.0	126.1

The Group has pledged its inventories to secure bank borrowings. More details are given in note 22.

20. Other financial assets

Trade and other receivables

	29 December 2007 £m	30 December 2006 £m
Trade receivables	103.7	86.8
Prepayments and accrued income	18.6	15.6
	122.3	102.4

Trade and other receivables are not interest-bearing and are on commercial terms. Their carrying value approximates to their fair value.

Other assets

Other assets are disclosed separately in the balance sheet and are funds held in escrow to meet future insurance claims from furniture insurance policies written on behalf of the Group's customers. The balance at the period end was £2.4m (2006: £3.1m) and the monies are held with AA-rated financial institutions, and have maturities of up to one year. Interest is paid at both fixed and floating rates based on LIBOR. The carrying amount of these assets approximates to their fair value.

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and in hand. Cash at bank is either in current accounts, or is placed on short-term deposit with maturity periods of less than three months. Interest on short-term deposits is paid at prevailing money market rates. The carrying amount of these assets approximates to their fair value.

Assets pledged as security

The Group has pledged its other financial assets to secure bank borrowings. More details are given in note 22.

Credit risk

The Group's principal financial assets are cash and cash equivalents, other assets, and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts in the balance sheet are net of allowance for doubtful receivables of £10.0m (2006: £12.0m). An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on cash and cash equivalents and other assets is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

21. Other financial liabilities

Trade and other payables

Current liabilities	29 December 2007 £m	30 December 2006 £m
Trade payables	73.0	77.3
Other tax and social security	30.5	30.7
Other payables	29.4	73.6
Accruals and deferred income	68.2	62.8
	201.1	244.4

Non-current liabilities	29 December 2007 £m	30 December 2006 £m
Other payables due in more than one year	–	10.8

Trade payables, other payables, and accruals principally comprise amounts due in respect of trade purchases and ongoing costs. Their carrying value approximates to their fair value, apart from in the case of one payment due under the terms of the sale of the Group's UK Retail operations (2006: two payments due under the same terms of sale). This one cash payment of £12.0m, due in April 2008 and included in Other Payables, has been recorded at its discounted fair value of £11.8m (2006: two cash payments, one of £53.1m paid in September 2007 and one of £12.0m due in April 2008, which were recorded at their discounted fair value at 30 December 2006 of £51.0m and £10.8m).

The average credit taken for trade purchases during the period, based on total operations, was 37 days (2006: 27 days).

The Group's policy on payment of creditors is to agree terms of payment prior to commencing trade with a supplier, and to abide by those terms on the timely submission of satisfactory invoices.

22. Borrowings

Total borrowings

	29 December 2007 £m	30 December 2006 £m
Current borrowings		
Bank borrowings	2.2	2.2
Current portion of finance lease obligations	1.1	–
	3.3	2.2
Non-current borrowings		
Bank borrowings	33.9	58.2
Non-current portion of finance lease obligations	2.1	–
	36.0	58.2
Total borrowings	39.3	60.4

Bank borrowings are repayable as follows:	29 December 2007 £m	30 December 2006 £m
Current liabilities		
On demand or within one year	2.2	2.2
Non-current liabilities		
In the second year	2.2	2.2
In the third to fifth years inclusive	32.7	57.7
Less: prepaid issue fees set against cost of loan	(1.0)	(1.7)
	33.9	58.2
Total bank borrowings	36.1	60.4

All bank borrowings are in sterling.

The £175m bank facility was due to expire in May 2009. In February 2008, the facility expiry date was extended to May 2011. The facility comprises of 2 elements:

- a term loan of £17.4m, secured on the Group's freehold and long leasehold properties, amortising at the rate of 1/96th each month commencing February 2006
- revolving credit equal to the balance of the available facility, secured on the Group's UK assets and investments

The available facility limit is calculated every week, based on the asset backing at the time and can never exceed £175m. As at 29 December 2007, the Group had available £93.5m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (2006: £63.4m).

The loan carries interest at a rate of LIBOR plus a margin. The margin varies between 175 and 250 basis points and is determined by the minimum headroom against the Group's lending covenants in the prior month.

Finance lease obligations are repayable as follows:	29 December 2007 £m	30 December 2006 £m
Current liabilities		
Within one year	1.1	–
Non-current liabilities		
In the second year	1.2	–
In the third to fifth years inclusive	0.9	–
Total finance lease obligations	3.2	–

All finance lease obligations are in sterling. They are at a fixed interest rate of 4.5%. The finance lease obligations are unsecured. The average remaining lease term is 3 years and 3 months.

Reconciliation of total future minimum lease payments to their present value

	Minimum lease payments		Present value of minimum lease payments	
Amounts payable under finance leases:	29 December 2007 £m	30 December 2006 £m	29 December 2007 £m	30 December 2006 £m
Within one year	1.2	–	1.1	–
In the second year	1.2	–	1.2	–
In the third to fifth years inclusive	1.0	–	0.9	–
	3.4	–	3.2	–
Less: future finance charges	(0.2)	–		
Present value of lease obligations	3.2	–		
Disclosed as:				
Current	1.1	–		
Non-current	2.1	–		
	3.2	–		

Interest rate and fair value information for bank borrowings and lease obligations

The weighted average interest rates paid were as follows:

	52 weeks to 29 December 2007 %	53 weeks to 30 December 2006 %
Finance lease obligations	4.5	–
Bank borrowings	7.9	6.4

The directors estimate the fair value of the Group's borrowings as follows:

	29 December 2007 £m	30 December 2006 £m
Finance lease obligations	3.2	–
Bank borrowings	36.1	60.4

23. Retirement benefit obligations

Defined contribution plan

The Group operates a defined contribution scheme for its employees. The assets of this scheme are held separately from those of the Group, and are under the control of the scheme trustees. This scheme began operation during 2006.

The total cost charged to income in respect of this scheme in the current period of £0.6m (2006: £0.2m) represents the Group's contributions due and paid in respect of the period.

Defined benefit plans

The Group operates two funded pension schemes which provide benefits based on the pensionable pay of participating employees. The assets of the schemes are held separately from those of the Group, being invested with independent fund managers. Contributions are charged to the consolidated income statement so as to spread the cost of pensions over the employees' working lives with the Group. The present value of the defined benefit obligation, the related current service cost, and past service cost are determined separately for each scheme by a qualified actuary using the projected unit method. The most recent actuarial valuation was carried out at 6 April 2005 by the scheme actuary. The actuary advising the Group has subsequently rolled forward this valuation to 29 December 2007 and restated the results onto a basis consistent with market conditions at that date.

The UK Retail arm of the Group's operations was sold in 2006 (see note 12 for further details of the sale). The sale took place after the benefits of the Plan were changed from a final salary to a career average revalued earnings basis. Benefits earned prior to the change now revalue in line with inflation up to a maximum of 5% p.a. instead of in line with salary growth. This, therefore, reduced the past service liability in respect of the active members. The UK Retail employees became deferred members of the Plan after the benefit changes occurred and the sale did not, therefore, affect the past service liability. The pensionable salary roll in the Plan, and hence the ongoing cost of future accruals, both reduced as a result of the sale.

Total amounts charged in respect of pensions in the period were as follows:

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Charged/(credited) to the income statement:		
Defined benefit schemes – total operating charge/(credit)	8.7	(17.1)
Defined benefit schemes – net finance (credit)/charge	(0.3)	5.0
Defined contribution scheme – total operating charge	0.6	0.2
Total net amount charged/(credited) to profit before tax	9.0	(11.9)
Credited to equity:		
Defined benefit schemes – net actuarial gains net of deferred tax	(61.1)	(45.0)
Total pension credit	(52.1)	(56.9)

Key assumptions used in the valuation of the schemes

	52 weeks to 29 December 2007	53 weeks to 30 December 2006
Rate of increase of pensions in payment:		
– pensions with guaranteed increases (i.e. most of the pre-1997 pensions)	3.00%	3.00%
– pensions with increases capped at the lower of LPI and 5%	3.50%	2.90%
– pensions with increases capped at the lower of LPI and 2.5%	2.50%	2.50%
Rate of increase in salaries	4.50%	4.00%
Inflation assumption	3.50%	3.00%
Expected return on scheme assets (weighted average)	7.39%	7.06%
Discount rate	5.90%	5.10%

The following mortality tables were used in both years:

Mortality before retirement:	Males AM92	Females AF92
Mortality in retirement (i.e. current pensioners):	Males PMA92 short cohort, projected to 2015	Females PFA92 short cohort, projected to 2015
Mortality in retirement (i.e. pensions not yet in payment):	Males PMA92 short cohort, projected to 2025	Females PFA92 short cohort, projected to 2025

The mortality assumption adopted by the Group is equivalent to the following life expectancies (from age 65):

	Male (yrs)	Female (yrs)
Non-pensioner	21.6	24.4
Pensioner	20.9	23.7

Sensitivity to changes in assumptions

If there was an increase/decrease in the net discount rate (i.e. the difference between the discount rate and the assumed rates of increase in salaries, deferred pension revaluation or pensions in payment) of 0.1%, there would be a corresponding decrease/increase in the scheme liabilities of around 2.6%, or £16.0m, and a decrease/increase in the current service cost of around 3% or £0.2m.

The effect of changing the assumption regarding life expectancy by one year longer than shown above would be to increase the assessed value of liabilities by around 3% or £18.0m, and to increase the assessed value of the current service cost by around 3% or £0.2m.

Analysis of scheme assets and the expected rates of return

	Expected rate of return		Fair value of scheme assets	
	52 weeks to 29 December 2007 %	53 weeks to 30 December 2006 %	29 December 2007 £m	30 December 2006 £m
Equities	8.4	7.6	396.4	399.7
Government bonds	4.5	4.5	135.5	81.9
Cash	5.5	5.0	1.6	–
			533.5	481.6

The Group establishes the long-term expected rate of return on scheme assets by developing a forward-looking long-term return assumption for each asset class, taking into account factors such as market yield on bond investments of appropriate duration, and the expected outperformance for other asset classes based on analysis of long-term historical trends. A single long-term assumption is then calculated as the weighted average of the actual asset allocation and the long-term assumption for each asset class.

Balance sheet

The amount included in the balance sheet arising from the Group's obligations in respect of defined benefit retirement benefit schemes is as follows:

	29 December 2007 £m	30 December 2006 £m
Present value of defined benefit obligations	(617.0)	(670.8)
Fair value of scheme assets	533.5	481.6
Deficit in the scheme, recognised in the balance sheet	(83.5)	(189.2)

Movements in the present value of defined benefit obligations are as follows:

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Present value at start of period	670.8	707.6
Current service cost	8.7	20.9
Interest cost	34.3	33.6
Contributions from scheme members	0.4	6.4
Actuarial gains	(79.0)	(40.0)
Curtailment gain	–	(38.0)
Benefits paid	(18.2)	(19.7)
Present value at end of period	617.0	670.8

Movements in the fair value of the schemes' assets are as follows:

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Fair value at start of period	481.6	410.5
Expected return on assets	34.6	28.6
Contributions from scheme members	0.4	6.4
Contributions from the Group	26.9	31.6
Actuarial gains	8.2	24.2
Benefits paid	(18.2)	(19.7)
Fair value at end of period	533.5	481.6

Movements in the deficit during the period are as follows:

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Deficit at start of period	(189.2)	(297.1)
Current service cost	(8.7)	(20.9)
Curtailment gain	–	38.0
Employer contributions	26.9	31.6
Other finance expense	0.3	(5.0)
Actuarial gains	87.2	64.2
Deficit at end of period	(83.5)	(189.2)

Income statement

Amounts recognised in the income statement arising from the Group's obligations in respect of defined benefit schemes are shown below:

Amount charged/(credited) to profit	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Current service cost	8.7	20.9
Curtailment gain	–	(38.0)
Net cost/(credit)	8.7	(17.1)

The current service cost is included in the statutory accounts heading Staff Costs. The past service credit is included under exceptional items.

Amount charged to other finance charges	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Expected return on pension scheme assets	(34.6)	(28.6)
Expected charge on pension scheme liabilities	34.3	33.6
Net (credit)/charge	(0.3)	5.0

The actual return on scheme assets was £39.3m (53 weeks to 30 December 2006, £52.8m).

Statement of recognised income and expense

Amounts taken to equity via the statement of recognised income and expense in respect of the Group's defined benefit schemes are shown below:

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Actuarial gain on scheme assets	8.2	24.2
Actuarial gain on scheme liabilities	79.0	40.0
Net actuarial gain	87.2	64.2

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense is a cumulataive net gain of £103.8m (2006: £20.1m).

History of scheme deficit and experience adjustments

	29 December 2007 £m	30 December 2006 £m	24 December 2005 £m	25 December 2004 £m
Present value of defined benefit obligations	(617.0)	(670.8)	(707.6)	(610.1)
Fair value of scheme assets	533.5	481.6	410.5	315.6
Deficit in the schemes	(83.5)	(189.2)	(297.1)	(294.5)

Experience adjustments on scheme liabilities – difference between actual and expected returns:

	29 December 2007	30 December 2006	24 December 2005	Cumulative since adoption of IFRS
Amount of experience gain/(loss) on scheme liabilities (£m)	79.0	40.0	(82.9)	36.1
Percentage of scheme liabilities (%)	12.8%	6.0%	(11.7)%	

Experience adjustments on scheme assets – difference between actual and expected returns:

	29 December 2007	30 December 2006	24 December 2005	Cumulative since adoption of IFRS
Amount of experience gain/(loss) on scheme assets (£m)	8.2	24.2	38.8	71.2
Percentage of scheme assets (%)	1.5%	5.0%	9.5%	
Total cumulative actuarial gain since adoption of IFRS (£m)	107.3			

In accordance with the transitional provisions for adopting the amendments to IAS 19 issued in December 2004, the disclosures above relating to experience adjustments are shown prospectively from the period ended 24 December 2005, being the first annual period in which the Group adopted the IAS 19 amendments.

Expected future contributions
The Group's estimated contributions to the defined benefit schemes in the 52 weeks ending 27 December 2008 are £30.5m.

24. Provisions

	Property provision £m	Other provisions £m	Total £m
At 24 December 2005	1.2	–	1.2
Additional provision in the period	18.6	–	18.6
At 30 December 2006	19.8	–	19.8
Additional provision in the period	22.0	1.0	23.0
Provision released in the period	(0.3)	–	(0.3)
Utilisation of provision in the period	(3.1)	–	(3.1)
At 29 December 2007	38.4	1.0	39.4

The property provision mainly covers onerous leases. For any such leases, the Group provides for any shortfall between rent payable and rent receivable on any non-trading leased properties. The provision is based on the period until the end of the lease, or until the Group can cover the shortfall by subletting, assigning or surrendering the lease. None of the provisions are short-term. The property provision also includes amounts for any related shortfalls in business rates on these properties, and for dilapidations.

Other provisions relate to amounts due in respect of a contractual termination.

25. Share capital

Ordinary shares of 10p each	52 weeks to 29 December 2007 Number	53 weeks to 30 December 2006 Number	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Authorised				
At the beginning and end of the period	775,152,000	775,152,000	77.5	77.5
Allotted, called up and fully paid				
Balance at the beginning of the period	631,659,746	627,298,881	63.2	62.7
Issued during the period	2,123,464	4,360,865	0.2	0.5
Balance at the end of the period	633,783,210	631,659,746	63.4	63.2

26. Reconciliation of movements in reserves

	Called up share capital £m	Share premium account £m	ESOP reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 24 December 2005	62.7	81.3	(48.6)	28.1	(82.3)	41.2
First time adoption of IAS 32 and 39	–	–	–	–	(0.9)	(0.9)
Opening equity at 24 December 2005, restated	62.7	81.3	(48.6)	28.1	(83.2)	40.3
Net actuarial gain on defined benefit scheme	–	–	–	–	44.9	44.9
Foreign exchange	–	–	–	–	(0.3)	(0.3)
Accumulated loss for the period	–	–	–	–	(170.7)	(170.7)
Issue of new shares	0.5	2.4	–	–	–	2.9
Net movement in ESOP	–	–	5.4	–	–	5.4
As at 30 December 2006	63.2	83.7	(43.2)	28.1	(209.3)	(77.5)
Net actuarial gain on defined benefit scheme	–	–	–	–	61.1	61.1
Effect of change in tax rate, taken through reserves	–	–	–	–	(3.6)	(3.6)
Foreign exchange	–	–	–	–	1.1	1.1
Accumulated profit for the period	–	–	–	–	43.9	43.9
Issue of new shares	0.2	1.3	–	–	–	1.5
Net movement in ESOP	–	–	10.6	–	–	10.6
At 29 December 2007	63.4	85.0	(32.6)	28.1	(106.8)	37.1

The ESOP reserve includes shares in Galiform plc with a market value on the balance sheet date of £33.9m (2006: £54.9m), which have been purchased in the open market and which are held by the Group's Employee Share Trusts in order to satisfy share options and awards made under the Group's various share-based payment schemes.

Other reserves were created in the year to 30 April 1994, following a Group reconstruction.

27. Notes to the cash flow statement

(a) Net cash flows from operating activities

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Group operating profit before tax and interest – continuing operations	52.7	33.5
Group operating loss before tax and interest – discontinued operations	(11.1)	(179.6)
Group operating profit/(loss) before tax and interest	41.6	(146.1)
Adjustments for:		
Depreciation and amortisation included in operating profit	17.4	40.9
Share-based payments charge	5.7	3.8
Share of joint venture profits	(0.9)	(1.0)
(Profit)/loss on disposal of property, plant and equipment and intangible assets	(1.1)	14.5
Other exceptional items (before tax)	47.6	152.5
Operating cash flows before movements in working capital	110.3	64.6
Movements in working capital and exceptional items		
Decrease/(increase) in stock	25.1	(18.6)
Increase in trade and other receivables	(19.8)	(59.6)
(Decrease)/increase in trade and other payables	(60.1)	115.4
Difference between pensions operating charge and cash paid	(18.2)	(10.7)
HMRC refund re structural guarantee	–	21.8
Net cash flow – exceptional items	(11.9)	(44.5)
	(84.9)	3.8
Cash generated from operations	25.4	68.4
Tax reclaimed	0.3	1.6
Net cash flow from operating activities	25.7	70.0
Net cash flow from operating activities comprises:		
Continuing operating activities	25.7	154.5
Discontinued operating activities	–	(84.5)
	25.7	70.0

Additions to fixtures and equipment amounting to £3.5m (2006: £nil) were financed by finance leases.

(b) Reconciliation of net debt

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Net debt at start of period	(4.1)	(55.5)
Net decrease in cash and cash equivalents	(19.6)	(35.9)
Decrease in current asset investments	(0.7)	(2.4)
Decrease in bank borrowings	24.3	89.6
Increase in finance leases	(3.2)	–
Currency translation differences	–	0.1
Net debt at end of period	(3.3)	(4.1)
Represented by:		
Cash and cash equivalents	33.6	53.2
Investments	2.4	3.1
Bank loans	(36.1)	(60.4)
Finance leases	(3.2)	–
Net debt at end of period	(3.3)	(4.1)

(c) Analysis of net debt

	Cash and cash equivalents £m	Current asset investment £m	Bank loans £m	Finance leases £m	Net debt £m
As at 30 December 2006	53.2	3.1	(60.4)	–	(4.1)
Cash flow	(19.6)	(0.7)	24.3	(3.2)	0.8
As at 29 December 2007	33.6	2.4	(36.1)	(3.2)	(3.3)

28. Contingent liabilities

(a) Relating to the disposal of the UK Retail operations

As disclosed at the time of the transactions with MEP Mayflower Limited (“MEP”), the Group was the guarantor on leases in relation to 56 properties which were held by MFI Properties Limited (“MFI Properties”) and occupied by the MFI UK Retail operations (“Retail”) with “rentals” being paid by Retail to MFI Properties. By 29 December 2007, this number had reduced to 50 properties. The Group’s guarantees are triggered if MFI Properties Limited defaults on its obligations under the relevant leases for example because it suffers financial distress. However, under the terms of the sale of Retail to MEP, MEP have given the Group an indemnity for any costs incurred by the Group in relation to any non-payment by MFI Properties Limited. The current annual net rentals in respect of these remaining properties total £16.2m, with associated business rates of £7.1m. Remaining lease terms range between 9 months and 17.9 years from 29 December 2007, with the average lease term being 8.75 years from 29 December 2007.

The Group is not aware that the purchaser or its subsidiaries is in financial distress. There is uncertainty whether the purchaser or its subsidiaries will ever suffer financial distress and thereby trigger the guarantee, and as to the actual net liability if the Group ever did have to meet the lease obligations, given that the Group would seek to mitigate any liabilities by surrendering or assigning the leases, or by subletting them to third parties.

Because of the nature of the uncertainties, as described above, the Group is unable to give an estimate of the financial effect of this contingent liability.

The Group is also exposed to potential costs in respect of certain warranties and indemnities given by Galiform plc (“Galiform”) in favour of MEP in the sale and purchase agreement (“the SPA”) relating to the sale of Retail. One of the warranties given by Galiform relates to the net value of some of the assets and liabilities of MFI on the effective date of the sale (5 August 2006). Over the course of 2007, MEP has made a number of notifications to Galiform alleging breach of this warranty. Each notification has been thoroughly investigated by external forensic accountants engaged by the Group.

The Group has strongly rejected MEP's allegations and MEP recently began legal proceedings against Galiform formally claiming breach of the warranty. Having taken extensive advice from external lawyers and forensic accountants, the Board of Galiform considers that the majority of MEP's total claim is without merit, and MEP has chosen, incorrectly, to ignore a substantial number of offsetting items.

To date, MEP's total gross claim amounts to approximately £57m. However, in light of the advice it has received, the Board is confident of the strength of its case and is firmly of the view that only a small fraction of this amount (if any) will ultimately be payable. The Group has made such provision as is considered necessary for the claim. Because of the uncertainties as to how this matter will progress, the Group is currently unable to give any details as to the expected timing of any resulting payments to MEP, if any.

Under the SPA, MEP may make claims against Galiform for breach of non-tax warranties in the SPA until 18 October 2008 (and for breach of tax warranties or any claim under the tax covenant until the sixth anniversary of the end of the accounting period of Retail in which completion of the sale of Retail occurred). The aggregate liability of Galiform in respect of the warranties that Galiform has given in the SPA and in respect of the tax covenant is capped at £49.6 million (other than in the case of fraud or in the case any claims under the warranties relating to title, capacity and authority or claims for secondary tax liabilities, for which, in each case, Galiform's liability is uncapped). In addition, under the SPA, Galiform agreed to indemnify MEP in respect of certain potential liabilities in relation to pensions, employee transfers, tax, property, and part of the pre-sale reorganisation relating to Retail. These indemnities and unlimited.

Under IAS 37: *Provisions, Contingent Liabilities, and Contingent Assets*, there is an obligation to disclose information about the amount of any provision made. However, IAS 37 allows a company to omit this disclosure in cases where disclosure would be expected to seriously prejudice the position of the company in a dispute with other parties on the subject matter of the provision or contingent liability, The Group considers that the provision made by the Group in respect of the claim brought by MEP for breach of the warranty referred to above falls within this expectation, and therefore we are restricting our disclosure accordingly.

(b) Other guarantees

The Group has guaranteed a US$10.0m (2006: US$10.0m) letter of credit facility from Standard Chartered Bank in favour of Howden Kitchens (Asia) Limited's suppliers. This contingency would only trigger in the event that Howden Kitchens (Asia) Limited fails to honour its obligations under the terms of the facility.

Members of the Group have assigned UK property leases in the normal course of business. Should the assignees fail to fulfil any obligations in respect of these leases, members of the Group will be liable for those defaults. The number of claims arising to date has been small and the cost, which is charged to income as it arises, has not been material.

29. Financial commitments

Capital commitments

	29 December 2007	30 December 2006
	£m	£m
Contracted for, but not provided for in the accounts	1.3	1.5

Operating lease commitments

The Group as lessee

Payments under operating leases during the period are shown at note 7. At the balance sheet date, the Group had outstanding lease commitments for future minimum lease payments under non-cancellable operating leases which fall due as shown below:

	Properties		Other leases		Total	
	29 Dec 2007	30 Dec 2006	29 Dec 2007	30 Dec 2006	29 Dec 2007	30 Dec 2006
	£m	£m	£m	£m	£m	£m
Payments falling due:						
Within one year	43.8	41.1	9.0	9.9	52.8	51.0
In the second to fifth year inclusive	154.9	141.5	14.0	15.0	168.9	156.5
After five years	220.5	219.5	1.0	1.2	221.5	220.7
	419.2	402.1	24.0	26.1	443.2	428.2

The Group as lessor

The Group sublets certain leased properties to third parties.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	29 December 2007 £m	30 December 2006 £m
Payments receivable:		
Within one year	3.0	6.1
In the second to fifth year inclusive	4.1	8.0
After five years	2.0	2.3
	9.1	16.4

Finance lease commitments

These are analysed in note 22.

30. Share-based payments

1) Details of each scheme

The Group recognised a charge of £5.7m (2006: charge of £3.8m) in respect of share-based payments during the period. The Group has various share-based payment schemes, which are all equity-settled. The main details of all schemes which existed during the period are given below.

a) Performance Share Plan

This is a discretionary free share plan. In the majority of awards, participants have a contingent right to receive free shares with performance conditions attached, based on the company's EPS.

The performance period is measured from the start of the financial period in which the awards are granted. The performance period is three years. Vesting occurs at the end of the performance period. The different subdivisions and performance conditions are as follows:

i. Performance is measured relative to a Comparator Group of 12-14 companies. 40% of the award vests if Total Shareholder Return ("TSR") is at median level compared to the Comparator Group over the performance period, subject to a condition that EPS must also grow by at least 9%. 100% of the award vests if TSR is at upper quartile level and the EPS growth condition is also satisfied. The award vests on a straight-line basis between these maximum and minimum points.

ii. No other condition other than continued employment.

iii. 50% of the Options shall be exercisable if the compound annual growth in the Group's Operating Profit over the performance period is at least 10% rising to 100% if compound annual growth over the same period is at least 20%.

iv. 25% of the award will vest if 2010 PBT of £110m is achieved. 100% will vest if 2010 PBT of £135m is achieved. The awards will vest on a sliding scale between these two points.

b) Deferred Bonus Plan

Participants defer their cash bonus into shares for a period of three years. Participants have no entitlement to dividends during the deferral period. There are no performance conditions attached. The shares vest at the end of the three year holding period.

c) Senior Management Co-investment Plan

This is a co-investment plan whereby employees can defer their cash bonus into shares ("commitment shares") or pay cash to the company to buy shares at market value ("top-up shares"). The employee receives dividends on these shares.

The plan awards a number of matching shares, equal to 1.5 times the number of commitment and top-up shares. Participants are not entitled to dividends on the matching shares. The plan vests three years from the date of grant.

There are two subdivisions. The first vests at 40% if there is an EPS growth of RPI plus 10% over the performance period, and at 100% if there is an EPS growth of RPI plus 20% over the performance period. The second vests at 50% if there is an EPS growth of RPI plus 80% over the performance period, and at 100% if there is an EPS growth of RPI plus 100% over the performance period. Both awards vest on a straight-line basis between these maximum and minimum points.

EPS growth performance is measured from the start of the financial year in which the awards were granted. The performance period is three years.

d) Executive Co-investment Plan

This is a co-investment plan where each participant is permitted to invest a limited amount of shares on an annual basis for the purposes of the Plan.

i. Pre-2007 awards

The plan grants a number of matching shares, equal to twice the number of commitment shares. The plan also grants a number of matching options, with an option price equal to the market price on the day of grant equal to twice the number of commitment shares.

The performance conditions are measured over a three year period. Vesting is as follows:

- 20% of the Matching Award will vest if the Company's Total Shareholder Return ("TSR") is at the median level against the FTSE-250 constituents (the "Comparator Group") rising on a straight line basis to 50% of the Matching Award vesting for upper quartile performance, and in addition
- 20% of the Matching Award will vest if average Earnings Per Share ("EPS") is equal to the Retail Price Index plus 10% per annum over the Performance Period, rising on a straight line basis to 50% of the Matching Award vesting when average EPS growth is equal to or greater than RPI plus 20% per annum

ii. 2007 award

- PBT targets. At the end of a three year performance period, each invested share will be matched by an award of up to three matching shares if 2010 PBT of £135m is achieved; 25 percent of the maximum match (i.e. 0.75:1) will be earned for achieving 2010 PBT of £110m and the awards will vest on a sliding scale between these two points
- TSR target. A further match of up to two shares will be made for achieving upper quartile Total Shareholder Return (TSR), measured against the FTSE 250 Index (excluding investment trusts)

e) Foundation Plan

i. 2006 award

These vested on the last day of the 2005/06 financial year, as the performance conditions were met. There is a further deferral period of two years before the awards are made available to the participants.

Vestings of awards granted in the form of nil-cost options depended on the achievement of a share price hurdle over thirty consecutive dealing days. 15% of the award vests for the achievement of 95 pence and 100% of the award vests for the achievement of 125 pence. The award vests on a straight line basis between these two points.

Vesting of awards granted in the form of options with an exercise price equal to the market price at the date of grant vest depended on the achievement of a share price hurdle over thirty consecutive dealing days. The exercise price of the options granted in 2006 was 92p. 35% of this award vests if the share price achieves 115 pence over thirty consecutive dealing days, and 100% of the award vests if the share price achieves 160 pence over thirty consecutive dealing days. The award vests on a straight line basis between these two points.

ii. 2007 award

These awards were granted in the form of nil-cost options and vested on the last day of the 2006/7 financial year to the degree that the performance conditions had been met. There is a further deferral period of two years before the vested awards are made available to the participants.

Vesting was dependent upon the achievement of a share price hurdle over thirty consecutive dealing days and an underlying profit target of £65m for the year being met. 20% of the award vests if the share price achieves 150 pence over thirty consecutive dealing days and 100% of the award vests if the share price achieves 185 pence over thirty consecutive dealing days. The award vests on a straight-line basis between these two points.

f) Executive Share Options

This is a discretionary share option plan. These options are granted with an exercise price equal to market value.

The vesting period is three years from the date of grant with an exercise period of seven years (i.e. a total life of ten years). In the information below, these options have been further subdivided according to their different performance conditions, in order to give more meaningful information. The different subdivisions and performance conditions are as follows:

i. 20% of the Options will vest if the Company's Total Shareholder Return ("TSR") over the Performance Period is at the median level against the FTSE-250 constituents (the "Comparator Group") rising on a straight line basis to 50% of the Options vesting for upper quartile performance; and in addition 20% of the Options will vest if average growth in Earnings Per Share ("EPS") is equal to the Retail Price Index plus 10% per annum over the Performance Period, rising on a straight line basis to 50% of the Options vesting when average EPS growth is equal to or greater than RPI plus 20% per annum

ii. 40% vesting if EPS growth equals RPI plus 40%, rising to 100% vesting for EPS growth of RPI plus 100%

iii. 50% vesting if there is EPS growth of 60% over the performance period, and 100% vesting if there is EPS growth of 120% over the performance period

iv. No other condition except for continued employment with the Group

v. EPS growth must equal RPI plus 9%. If this is achieved there will be full vesting. If this is not achieved there will be no vesting

vi. 20% of the Options will vest if the share price over thirty consecutive dealing days is 185 pence rising on a straight line basis to 100% vesting if the share price over thirty consecutive days reaches 265 pence. Underpinning this is a requirement to achieve 20% annual compound growth in Group operating profit over the performance period

g) Share Incentive Scheme (Freeshares)

This is an 'all-employee' share incentive plan whereby participants receive a grant of free shares in the Company. If the employees are still employed by the Group three years after the grant, then the shares vest. Dividends are paid out on the shares between award date and vesting date. There are no other performance conditions attached to these awards.

h) SAYE (Sharesave)

This is a save as you earn scheme for all employees whereby participants receive an option to purchase shares at a later date at a price equal to the market price at grant date. The term of these schemes is five years.

2) Movements in the period

The following tables show the number and weighted average exercise prices ("WAEP") of each category of share options during the period, and the movements in each category. The significance of options granted before 7 November 2002 is that they have been excluded from the IFRS2 share-based payment charge on the basis of their date of grant as allowed on adoption of IFRS.

a) Performance Share Plan

i) EPS must grow at >9% 40% of awards vests for median TSR, 100% vests on upper quartile TSR.

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	2,087,917	nil	4,338,525	nil
Granted in period	–	–	–	–
Lapsed in period	(848,290)	nil	(2,250,608)	nil
Exercised in period	–	–	–	–
In issue at end of period	1,239,627	nil	2,087,917	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.04		1.04	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

a) Performance Share Plan
ii) No conditions except continued employment

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	338,500	nil	–	–
Lapsed in period	(17,500)	nil	–	–
Exercised in period	(5,500)	nil	–	–
In issue at end of period	315,500	nil	–	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		1.15		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.42		–	
Weighted average fair value of options granted during the period (£)	1.50		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		–	
– to	nil		–	

a) Performance Share Plan
iii) 50% of award vests if compound annual operating profit growth is >10%, rising to 100% vesting if growth is >20%

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	1,273,861	nil	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	1,273,861	nil	–	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.42		–	
Weighted average fair value of options granted during the period (£)	1.51		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		–	
– to	nil		–	

a) Performance Share Plan

iv) 25% vests if PBT in 2010 is £110m, rising to 100% vesting if PBT in 2010 is £135m

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	1,232,658	nil	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	–	–	–	–
Exercisable at end of period	1,232,658	nil	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	3.00		–	
Weighted average fair value of options granted during the period (£)	1.08		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		–	
– to	nil		–	

b) Deferred Bonus Plan

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	512,425	nil	577,077	nil
Granted in period	187,181	nil	285,795	nil
Lapsed in period	–	–	(49,769)	nil
Exercised in period	(55,799)	nil	(300,678)	nil
In issue at end of period	643,807	nil	512,425	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		1.64		0.99
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.28		1.66	
Weighted average fair value of options granted during the period (£)	1.42		1.00	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

c) Senior Management Co-investment Plan

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	502,748	nil	1,899,629	nil
Granted in period	–	–	–	–
Lapsed in period	(336,062)	nil	(1,349,956)	nil
Exercised in period	(13,441)	nil	(46,925)	nil
In issue at end of period	153,245	nil	502,748	nil
Exercisable at end of period	–	–	–	-
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		1.17		0.67
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.25		0.99	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

d) Executive Co-investment Plan

i) Pre-2007 awards

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	–	–	10,632,204	nil
Granted in period	–	–	–	–
Lapsed in period	–	–	(10,632,204)	nil
Exercised in period	–	–	–	–
In issue at end of period	–	–	–	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	–		–	
– to	–		–	

d) Executive Co-investment Plan
ii) 2007 award: PBT target

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	7,710,000	nil	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	7,710,000	nil	–	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	3.00		–	
Weighted average fair value of options granted during the period (£)	1.08		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		–	
– to	nil		–	

d) Executive Co-investment Plan
iii) 2007 award: TSR target

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	5,140,000	nil	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	5,140,000	nil	–	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	3.00		–	
Weighted average fair value of options granted during the period (£)	0.55		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		–	
– to	nil		–	

e) Foundation Plan
i) 2006 award: Nil-cost options

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	4,445,000	nil	–	–
Granted in period	–	–	4,445,000	nil
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	4,445,000	nil	4,445,000	nil
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		0.52	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

e) Foundation Plan
ii) 2006 award: Market-value options

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	11,270,000	0.92	–	–
Granted in period	–	–	11,270,000	0.92
Lapsed in period	(5,419,240)	0.92	–	–
Exercised in period	–	–	–	–
In issue at end of period	5,850,760	0.92	11,270,000	0.92
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		0.16	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.92		0.92	
– to	0.92		0.92	

e) Foundation Plan

iii) 2007 award: Nil-cost options

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	3,930,000	nil	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	3,930,000	nil	–	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	1.01		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		–	
– to	nil		–	

f) Executive Share Options

i) 20% vesting for median TSR, rising to 50% for upper quartile TSR; and in addition a further 20% vesting if EPS growth of RPI plus 10% pa, rising to 50% for EPS growth RPI plus 20% pa.

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	2,294,532	1.55	3,299,563	1.47
Granted in period	–	–	–	–
Lapsed in period	(2,294,532)	1.55	(1,005,031)	1.30
Exercised in period	–	–	–	–
In issue at end of period	–	–	2,294,532	1.55
Exercisable at end of period	–	–	802,097	1.46
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		0.29	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	–		1.46	
– to	–		1.60	

f) Executive Share Options
ii) 40% vesting if EPS growth is RPI plus 40% rising to 100% vesting if EPS growth is RPI plus100%.

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	2,471,948	1.07	4,157,087	1.07
Granted in period	–	–	–	–
Lapsed in period	–	–	(1,558,969)	1.07
Exercised in period	(807,931)	1.07	(126,170)	1.07
In issue at end of period	1,664,017	1.07	2,471,948	1.07
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		1.45		1.23
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.25		1.42	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.07		1.07	
– to	1.07		1.14	

f) Executive Share Options
iii) 50% vesting if EPS growth is 60% and 100% vesting if EPS growth is 120%

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	5,189,279	1.11	8,659,456	1.05
Granted in period	–	–	–	–
Lapsed in period	(1,581,713)	1.20	(738,689)	1.31
Exercised in period	(2,279,557)	1.42	(2,731,488)	0.86
In issue at end of period	1,328,009	1.27	5,189,279	1.11
Exercisable at end of period	1,328,009	1.27	5,189,279	1.11
Number of options in the closing balance that were granted before 7 November 2002	1,328,009		5,189,279	
Weighted average share price for options exercised during the period		0.98		1.22
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.03		0.68	
– to	1.32		1.32	

f) Executive Share Options
iv) No performance conditions except continued employment

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	199,600	0.42	488,184	0.42
Granted in period	–	–	–	–
Lapsed in period	–	–	(73,884)	0.42
Exercised in period	(149,700)	0.42	(214,700)	0.42
In issue at end of period	49,900	0.42	199,600	0.42
Exercisable at end of period	49,900	0.42	199,600	0.42
Number of options in the closing balance that were granted before 7 November 2002	49,900		199,600	
Weighted average share price for options exercised during the period		1.43		1.24
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.42		0.42	
– to	0.42		0.42	

f) Executive Share Options
v) Full vesting if EPS increases by RPI plus 9%

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	9,342,432	1.08	19,299,072	1.13
Granted in period	–	–	–	–
Lapsed in period	(2,770,517)	1.19	(7,097,646)	1.37
Exercised in period	(3,316,439)	1.47	(2,788,994)	0.68
In issue at end of period	3,255,476	1.03	9,342,432	1.08
Exercisable at end of period	1,711,434	1.05	4,692,705	1.07
Number of options in the closing balance that were granted before 7 November 2002	1,711,434		4,692,705	
Weighted average share price for options exercised during the period		0.92		1.01
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.16		0.57	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.56		0.56	
– to	1.60		1.60	

f) Executive Share Options

vi) 20% annual growth in Group operating profit over the performance period, and then 20% vesting if share price is over 185p for 30 consecutive days up to 100% vesting if share price reaches 265p over 30 consecutive days.

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	5,570,978	1.59	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	5,570,978	1.59	–	–
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.42		–	
Weighted average fair value of options granted during the period (£)	0.43		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.59		–	
– to	1.59		–	

g) Share Incentive Scheme (Freeshares)

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	941,942	nil	1,271,859	nil
Granted in period	–	–	–	–
Lapsed in period	(288,481)	nil	(30,809)	nil
Exercised in period	(79,055)	nil	(299,108)	nil
In issue at end of period	574,406	nil	941,942	nil
Exercisable at end of period	574,406	nil	941,942	nil
Number of options in the closing balance that were granted before 7 November 2002	574,406		941,942	
Weighted average share price for options exercised during the period		0.92		n/a
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

h) SAYE (Sharesave)

	52 weeks to 29 December 2007 Number	52 weeks to 29 December 2007 WAEP (£)	53 weeks to 30 December 2006 Number	53 weeks to 30 December 2006 WAEP (£)
In issue at beginning of period	1,940,063	1.84	3,164,167	1.84
Granted in period	–	–	–	–
Lapsed in period	(1,012,883)	1.84	(1,224,104)	1.84
Exercised in period	–	–	–	–
In issue at end of period	927,180	1.84	1,940,063	1.84
Exercisable at end of period	–	–	–	–
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		–		–
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.01		2.01	
Weighted average fair value of options granted during the period (£)	–		–	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.84		1.84	
– to	1.84		1.84	

3) Fair value of options granted

The fair value of all options granted except Sharesave is estimated on the date of grant using a binomial option valuation model. Sharesave schemes are valued using a Black Scholes model as they are not considered to be of such complexity that they require a binomial model.

The key assumptions used in the models were:

	52 weeks to 29 December 2007	53 weeks to 30 December 2006
Dividend yield (%)	2.0	1.75 to 4.0
Expected share price volatility (%)	36.0 to 39.0	38.7 to 41.0
Historical volatility (%)	36.0 to 39.0	38.7 to 41.0
Risk-free interest rate (%)	5.0 to 5.8	3.8 to 5.3
Expected life of options (years)	2.5 to 3.2	1.0 to 6.5

Historical volatility is measured for each scheme over the period equal to the vesting period of the scheme. The figure arrived at is then used as the best estimate of expected future volatility.

31. Related party transactions

Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Trading transactions

During the period, Group companies entered into the following transactions with related parties who are not members of the Group:

	Howden Kitchens Asia Limited (formerly MFI Asia Limited)	
	2007 £m	2006 £m
Sale of goods and services during the period	0.1	0.1
Purchases of goods and services during the period	31.6	27.6
Amounts owed to related party at period end	–	3.2
Amounts owed by related party at period end	0.6	0.1

Howden Kitchens Asia Limited is a related party because it is a joint venture. It was formerly known as MFI Asia Limited, and has changed its name in the current period.

Purchases from the related party are on the basis of cost plus a commission based on benefits achieved and throughput.

There was a one-off sale of some machinery by the Group to the Joint Venture in 2006. This was on an arm's length basis.

The amounts outstanding are unsecured and will be settled in cash, except for the £0.6m shown as owing from the joint venture at the end of the current period, which represents a prepayment for purchases and which will be settled by the delivery of the purchased goods. No guarantees have been given or received.

No provisions have been made for doubtful debts in respect of amounts owed by the related party.

Remuneration of key management personnel

Key management personnel comprise the Board of directors (including non-executive directors). Details of the aggregate remuneration to these personnel is set out below:

	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Short-term employment benefits	3.1	3.3
Post-employment benefits	–	–
Other long-term benefits	–	–
Termination benefits	–	–
Share-based payments	–	–
	3.1	3.3

Other transactions with key management personnel

There were no other transactions with key management personnel.

Independent auditors' report on the consolidated Group accounts

We have audited the group financial statements of Galiform plc for the 52 weeks ended 29 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes 1 to 31. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of Galiform plc for the 52 weeks ended 29 December 2007.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 29 December 2007 and of its profit for the 52 weeks then ended
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the group financial statements

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

6 March 2008

Company balance sheet

	Notes	29 December 2007 £m	30 December 2006 £m
Fixed assets			
Investments	3	701.5	701.5
Current assets			
Debtors	4	15.1	9.0
Cash at bank and in hand		5.0	1.5
		20.1	10.5
Current liabilities			
Creditors: amounts falling due within one year	5	(203.9)	(92.7)
Net current assets		(183.8)	(82.2)
Total assets less current liabilities		517.7	619.3
Non-current liabilities			
Creditors: amounts falling due after more than one year	6	(33.9)	(69.0)
Provisions		(1.0)	–
Net assets		482.8	550.3
Equity			
Called up share capital	7	63.4	63.2
Share premium account	8	85.0	83.7
Special reserves	8	–	482.6
Profit and loss reserve	8	334.4	(79.2)
Total equity		482.8	550.3

These financial statements were approved by the Board on 5 March 2008 and were signed on its behalf by Mark Robson, director.

Notes to the company balance sheet

1. Significant company accounting policies

Basis of presentation

The Company's accounting period covers the 52 weeks to 29 December 2007. The comparative period covered the 53 weeks to 30 December 2006.

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Standards. The principal accounting policies are presented below and have been applied consistently throughout current and prior periods.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Cash flow statement

The Company is exempt from the requirement of FRS 1 (revised) to include a cash flow statement as part of its Company financial statements because it prepares a consolidated cash flow statement which is shown as part of the consolidated Group accounts.

2. Profit and loss account

As ermitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented for the Company. The Company result after tax for the 52 weeks to 29 December 2007 was a loss of £69.0m (53 weeks to 30 December 2006: loss after tax for the period of £152.4m).

The Company has no employees (2006: none), did not pay directors' emoluments (2006: £nil), and the Company's audit fees (£10,000 in both current and prior periods) were borne by a fellow Group undertaking.

3. Investments

	Shares in subsidiary undertakings £m	Long-term loans to subsidiary undertakings £m	Other unlisted investments £m	Total £m
At 29 December 2007 and 30 December 2006	2.5	698.9	0.1	701.5

Details of principal subsidiary undertakings are given on page 99.

4. Debtors

	29 December 2007 £m	30 December 2006 £m
Other debtors	3.9	4.1
Corporation tax	11.2	4.9
	15.1	9.0

5. Creditors: amounts falling due within one year

	29 December 2007 £m	30 December 2006 £m
Other tax and social security	0.3	1.2
Current portion of long-term bank loan	2.2	2.2
Owed to subsidiaries	160.1	12.4
Other creditors	22.8	67.0
Accruals and deferred income	18.5	9.9
	203.9	92.7

Other creditors includes an amount of £50.0m in respect of deferred consideration following the disposal of the Group's UK Retail arm. This was paid in 2007.

6. Creditors: amounts falling due after more than one year

	29 December 2007 £m	30 December 2006 £m
Long-term portion of bank loan	33.9	58.2
Other long-term creditor	–	10.8
	33.9	69.0

The other long-term creditor of £10.8m in 2006 is an amount due under the sale agreement for the Group's UK Retail arm, which was sold during 2006. More details are given in note 21 of the consolidated Group accounts.

	29 December 2007 £m	30 December 2006 £m
The borrowings are repayable as follows:		
Current liabilities:		
On demand or within one year	2.2	2.2
Non-current liabilities:		
In the second year	2.2	2.2
In the third to fifth years inclusive	32.7	57.7
Less: prepaid issue fees set against cost of loan	(1.0)	(1.7)
	33.9	58.2
Total borrowings	36.1	60.4

All borrowings are in sterling.

The weighted average interest rates paid on the borrowings were as follows:

52 weeks to 29 December 2007 %	53 weeks to 30 December 2006 %
7.9	6.4

The directors estimate the fair value of the Group's borrowings are as follows:

29 December 2007 £m	30 December 2006 £m
36.1	60.4

7. Share capital

Ordinary shares of 10p each	52 weeks to 29 December 2007 Number	53 weeks to 30 December 2006 Number	52 weeks to 29 December 2007 £m	53 weeks to 30 December 2006 £m
Authorised				
At the beginning and end of the period	775,152,000	775,152,000	77.5	77.5
Allotted, called up and fully paid				
Balance at the beginning of the period	631,659,746	627,298,881	63.2	62.7
Issued during the period	2,123,464	4,360,865	0.2	0.5
Balance at the end of the period	633,783,210	631,659,746	63.4	63.2

8. Reconciliation of movements in equity shareholders' funds

	Called up share capital £m	Share premium account £m	Special reserve £m	Retained earnings £m	Total £m
As at 30 December 2006	63.2	83.7	482.6	(79.2)	550.3
Retained loss for the period	–	–	–	(69.0)	(69.0)
Transfer of special reserve to retained earnings	–	–	(482.6)	482.6	–
Shares issued	0.2	1.3	–	–	1.5
At 29 December 2007	63.4	85.0	–	334.4	482.8

The special reserve is a distributable reserve. The Company has no reason to keep this reserve separate from the Retained earnings reserve, and so has transferred the Special reserve to the Retained earnings reserve in the current period.

9. Contingent liabilities

(a) Relating to the disposal of the UK Retail operations

As disclosed at the time of the transactions with MEP Mayflower Limited ("MEP"), the Group was the guarantor on leases in relation to 56 properties which were held by MFI Properties Limited ("MFI Properties") and occupied by the MFI UK Retail operations ("Retail) with "rentals" being paid by Retail to MFI Properties. By 29 December 2007, this number had reduced to 50 properties. The Group's guarantees are triggered if MFI Properties Limited defaults on its obligations under the relevant leases for example because it suffers financial distress. However, under the terms of the sale of Retail to MEP, MEP have given the Group an indemnity for any costs incurred by the Group in relation to any non-payment by MFI Properties Limited. The current annual net rentals in respect of these remaining properties total £16.2m, with associated business rates of £7.1m. Remaining lease terms range between 9 months and 17.9 years from 29 December 2007, with the average lease term being 8.75 years from 29 December 2007.

The Group is not aware that the purchaser or its subsidiaries is in financial distress. There is uncertainty whether the purchaser or its subsidiaries will ever suffer financial distress and thereby trigger the guarantee, and as to the actual net liability if the Group ever did have to meet the lease obligations, given that the Group would seek to mitigate any liabilities by surrendering or assigning the leases, or by subletting them to third parties.

Because of the nature of the uncertainties, as described above, the Group is unable to give an estimate of the financial effect of this contingent liability.

The Group is also exposed to potential costs in respect of certain warranties and indemnities given by Galiform plc ("Galiform") in favour of MEP in the sale and purchase agreement ("the SPA") relating to the sale of Retail. One of the warranties given by Galiform relates to the net value of some of the assets and liabilities of MFI on the effective date of the sale (5 August 2006). Over the course of 2007, MEP has made a number of notifications to Galiform alleging breach of this warranty. Each notification has been thoroughly investigated by external forensic accountants engaged by the Group.

The Group has strongly rejected MEP's allegations and MEP recently began legal proceedings against Galiform formally claiming breach of the warranty. Having taken extensive advice from external lawyers and forensic accountants, the Board of Galiform considers that the majority of MEP's total claim is without merit, and MEP has chosen, incorrectly, to ignore a substantial number of offsetting items.

To date, MEP's total gross claim amounts to approximately £57m. However, in light of the advice it has received, the Board is confident of the strength of its case and is firmly of the view that only a small fraction of this amount (if any) will ultimately be payable. The Group has made such provision as is considered necessary for the claim. Because of the uncertainties as to how this matter will progress, the Group is currently unable to give any details as to the expected timing of any resulting payments to MEP, it any.

Under the SPA, MEP may make claims against Galiform for breach of non-tax warranties in the SPA until 18 October 2008 (and for breach of tax warranties or any claim under the tax covenant until the sixth anniversary of the end of the accounting period of Retail in which completion of the sale of Retail occurred). The aggregate liability of Galiform in respect of the warranties that Galiform has given in the SPA and in respect of the tax covenant is capped at £49.6 million (other than in the case of fraud or in the case any claims under the warranties relating to title, capacity and authority or claims for secondary tax liabilities, for which, in each case, Galiform's liability is uncapped). In addition, under the SPA, Galiform agreed to indemnify MEP in respect of certain potential liabilities in relation to pensions, employee transfers, tax, property, and part of the pre-sale reorganisation relating to Retail. These indemnities and unlimited.

Under IAS 37: *Provisions, Contingent Liabilities, and Contingent Assets*, there is an obligation to disclose information about the amount of any provision made. However, IAS 37 allows a company to omit this disclosure in cases where disclosure would be expected to seriously prejudice the position of the Company in a dispute with other parties on the subject matter of the provision or contingent liability, The Group considers that the provision made by the Group in respect of the claim brought by MEP for breach of the warranty referred to above falls within this expectation, and therefore we are restricting our disclosure accordingly.

(b) Other guarantees

The Group has guaranteed a US$10.0m (2006: US$10.0m) letter of credit facility from Standard Chartered Bank in favour of Howden Kitchens (Asia) Limited's suppliers. This contingency would only trigger in the event that Howden Kitchens (Asia) Limited fails to honour its obligations under the terms of the facility.

Members of the Group have assigned UK property leases in the normal course of business. Should the assignees fail to fulfil any obligations in respect of these leases, members of the Group will be liable for those defaults. The number of claims arising to date has been small and the cost, which is charged to income as it arises, has not been material.

There is a Group VAT registration cross-guarantee under which if one Group company fails to pay its VAT then the other Group companies are jointly and severally liable. The amount outstanding on this guarantee at the period end is £11.3m (2006: £19.0m).

In February 2006, the Group refinanced its medium-term debt. The Company, together with other Group companies, has guaranteed the obligations under the new bank facility.

Independent auditors' report on the Company

We have audited the parent company financial statements of Galiform plc for the 52 weeks ended 29 December 2007 which comprise the Balance Sheet and the related notes 1 to 9. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Galiform plc for the 52 weeks ended 29 December 2007 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 29 December 2007
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

6 March 2008

Parent company and principal subsidiary undertakings at 29 December 2007

	Country of registration or incorporation
Parent company	
Galiform plc	England and Wales
Principal subsidiary undertakings	
Intermediate holding company:	
*Galiform Holdings Limited (formerly Orchardlight Limited)	England and Wales
Trading:	
Howden Joinery Limited	England and Wales
Houdan Menuiseries SA	France
Supply:	
Howden Kitchens Limited	England and Wales
Property management:	
Howden Joinery Properties Limited	England and Wales
Howden Kitchens Properties Limited	England and Wales
Finance:	
*Southon Insurance Company Limited	Guernsey
Administration and employee services:	
Galiform Corporate Services Limited	England and Wales
Group People Services Limited	England and Wales
Joint venture	
*Howden Kitchens (Asia) Limited	Hong Kong

The Company ultimately owns 100% of the ordinary share capital of all of the above mentioned companies except the joint venture, of which it owns 50%.

* The investment in the companies marked with an asterisk are owned directly by the Company.

We have taken advantage of the exemption provided in section 231(5)(a) of the Companies Act 1985 for those undertakings whose financial positions do not principally affect figures in the Company's individual accounts or the Group accounts.

Five year record

	Dec 2007 52 weeks £m	Reported under IFRS Dec 2006 53 weeks £m	 Dec 2005 52 weeks £m	Reported under UK GAAP Dec 2004* 52 weeks £m	 Dec 2003* 52 weeks £m
Summarised Income Statement					
Revenue – continuing operations	976.5	733.0	621.8	1,395.2	1,367.3
Revenue – discontinued operations	–	546.8	930.4	119.4	114.2
	976.5	1,279.8	1,552.2	1,514.6	1,481.5
Operating profit – continuing operations	51.8	32.5	40.8	30.8	105.3
Operating profit – discontinued operations	(11.1)	(179.6)	(144.4)	1.6	0.3
Share of joint venture operating profit/(loss)	0.9	1.0	0.6	(2.1)	(2.1)
	41.6	(146.1)	(103.0)	30.3	103.5
Profit on continuing ordinary activities before tax	79.8	57.2	42.5	20.6	117.9
Dividend per share (pence)	–	–	2.0	4.0	3.8
Basic EPS – (pence)	8.8	1.0	1.1	1.3	15.4
Summarised balance sheet					
Total non-current assets**	152.5	169.3	357.2	403.4	410.6
Inventories	101.0	126.1	173.5	238.4	195.7
Receivables	122.3	102.4	134.5	217.9	187.9
Payables and provisions	(251.9)	(282.0)	(271.4)	(372.8)	(357.6)
Pension liability	(83.5)	(189.2)	(297.1)	(206.2)	–
	(112.1)	(242.7)	(260.5)	(122.7)	26.0
Net (borrowings)/cash	(3.3)	(4.1)	(55.5)	(62.2)	10.6
Total net assets	37.1	(77.5)	41.2	218.5	447.2

* Not restated for FRS17, or for the disposal of UK Retail.
** Includes assets held for resale, which are held in the Balance Sheet as part of current assets.

Number of outlets at end of year					
Howden Joinery	436	382	342	320	300
Houdan Menuiseries	11	11	11	–	–
Capital expenditure (£m)	21	28	48	83	127

Shareholder information

As at 29 December 2007	Holders Number	Holders %	Shares Number	Shares %
Corporate holders				
0 to 1,000	96	0.9	44,869	–
1,001 to 5,000	149	1.5	428,977	0.1
5,001 to 10,000	69	0.7	543,218	0.1
10,001 to 50,000	141	1.4	3,587,670	0.6
50,001 to 100,000	48	0.5	3,570,311	0.5
100,001 to 250,000	76	0.7	12,456,853	2.0
250,001 to max	160	1.6	597,085,814	94.2
	739	7.3	617,717,712	97.5
Individual holders				
0 to 1,000	6,909	68.1	2,997,635	0.5
1,001 to 5,000	2,043	20.2	4,926,287	0.8
5,001 to 10,000	299	2.9	2,196,292	0.3
10,001 to 50,000	131	1.3	2,403,401	0.3
50,001 to 100,000	8	0.1	568,882	0.1
100,001 to 250,000	6	0.1	1,036,652	0.2
250,001 to max	3	–	1,936,349	0.3
	9,399	92.7	16,065,498	2.5
Total	10,138	100.0	633,783,210	100.0

For information about the management of shareholdings, Galiform's website www.galiform.com has an 'Investor Information – FAQs' section that provides answers to commonly asked questions. Assistance can also be obtained from our registrar, Computershare, as follows:

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS13 8AG
Telephone: 0870 707 1148

Computershare's investor centre website www-uk.computershare.com/investor/default.asp can be used to find out how many shares you own, make changes to certain personal details and download a variety of forms that are required to change personal details.

Galiform can, at shareholders' request, send shareholders an email notification each time a new shareholder report or other shareholder communication is put on the website. Shareholders will then be able to read and/or download the information at their leisure, but will still be able to request paper copies of the documents should they so wish.

To encourage more shareholders to convert to e-communications, Galiform will arrange for a tree to be planted in the UK for each shareholder who chooses to receive all future communications electronically.

Annual reports, half year reports and information on corporate responsibility are all available on the Galiform website. The half year results and preliminary results announcements will be available on the Company's website following their release. Share price information is available on the Company's website and in the financial press.

For investor relations enquiries please contact:

Gary Rawlinson
Head of Investor Relations
International House
66 Chiltern Street
London
W1U 4JT
Email: gary.rawlinson@galiform.com.

Unsolicited mail

As a public company the Group is legally required to make its register of members available to the public on request. As a consequence from time to time some shareholders may receive unsolicited mail. Shareholders who wish to limit this are advised to write to the Mailing Preference Service, FREEPOST 22, London W1E 7EZ. The Mailing Preference Service will then notify those bodies which support its aims that you do not wish to receive unsolicited mail. Alternatively you can register online at www.mpsonline.org.uk or call 0845 7034599.

Advisers and committees

Principal Banker
Lloyds TSB
10 Gresham Street
London
EC2V 7AE

Joint Financial Advisers and Stockbrokers
Dresdner Kleinwort Ltd
30 Gresham Street
London
EC2P 2XY

UBS Ltd
1 Finsbury Avenue
London
EC2M 2PP

Solicitors
Freshfields Bruckhaus Deringer
65 Fleet Street
London
EC4Y 1HS

Auditor
Deloitte & Touche LLP
Chartered Accountants
1 Little New Street
London
EC4A 3TR

Registrar
Computershare Investor Services Plc
The Pavilions
Bridgwater Road
Bristol
BS13 8AG

Registered Office
International House
1st Floor,
66 Chiltern Street
London
W1U 4JT

Remuneration Committee
Michael Wemms (Chairman)
Angus Cockburn
Ian Smith
Peter Wallis

Nominations Committee
Will Samuel (Chairman)
Angus Cockburn
Ian Smith
Michael Wemms
Peter Wallis

Audit Committee
Angus Cockburn (Chairman)
Ian Smith
Peter Wallis
Michael Wemms

Corporate timetable

1 May 2008*	Interim Management Statement
16 May 2008	Annual General Meeting
13 June 2008	Proposed final dividend of 0.5 pence per share to be paid to shareholders who are on the register of members on 30 May 2008
23 July 2008*	Half year Results for the 24 weeks ended 14 June 2008 announced
Early September 2008*	Half year Statement posted to shareholders
13 November 2008*	Interim Management Statement
27 December 2008	End of 2008 financial year
February/March 2009*	Preliminary Results for the 52 weeks ended 27 December 2008 announced

* dates are based on current expectations

designed and produced by the annual report company