GALIFORM Plc

PRELIMINARY RESULTS FOR THE 52 WEEKS ENDED 29 DECEMBER 2007

KEY RESULTS

£m unless stated	**2007**	2006	
Continuing operations (before exceptional items):			
Revenue	**976.5**	733.0	
- Howdens Joinery	**768.4**	676.3	+13.6%
Operating profit	**88.1**	65.7	+34.1%
Profit before tax	**79.8**	57.2	+39.5%
Profit after tax	**54.3**	36.3	+49.6%
Basic earnings per share	**9.1p**	6.1p	+49.2%
Net debt at end of period	**3.3**	4.1	
Final dividend per share (proposed)	**0.5p**	-	

HIGHLIGHTS

Financial highlights

- Howden Joinery revenue increased by 13.6% to £768.4m (up 8.9% on same depot basis).
- Group operating profit before exceptional items from continuing operations increased by 34.1% to £88.1m, reflecting:
  - depot contribution up £23.3m; £13.0m purchasing gain, including currency effects; offset by £12.3m obsolete depot and warehouse stock provisions.
- Profit before tax and exceptional items from continuing operations rose 39.5% to £79.8m (£44.4m after exceptional items (2006: £25.0m)).
- Basic earnings per share before exceptional items from continuing operations up 49.2% to 9.1p.
- Basic earnings per share from continuing and discontinued operations 7.3p (2006: (28.7)p).
- Net debt fell by £0.8m, resulting in the Group having net debt of £3.3m at 29 December 2007.
- Final dividend of 0.5p per share proposed (2006: nil).

Operating highlights

- 54 new Howden Joinery depots opened in 2007, bringing total to 436 - opportunity for network of over 600 depots identified.
- Supply of products and logistics services to MFI successfully concluded on 21 December 2007.
- Restructuring and realignment with Howden Joinery of factory and logistics operations proceeding to plan.

Current trading

- Trading has been satisfactory in the first part of 2008.

Galiform's Chief Executive, Matthew Ingle, said:

"2007 was a very pleasing year, both in terms of our financial performance and operational and strategic developments. Building on the transformation of the Group begun in 2006, when we refinanced the business, put our supply operations on a commercial footing and sold MFI, it demonstrates the significant opportunities we have ahead of us and our continuing ability to take the business forward.

"Across the Group, there is a renewed vigour and focus.

"Howdens traded well throughout the year, particularly in the second half as it reaped the benefits of new products, better design and closer relationships with our supply operations. It continued to grow, opening 54 depots, and a number of new initiatives were pursued.

"Our supply operations not only delivered the benefits from changing our sourcing of appliances and fascias, they successfully managed and exited the product supply and logistic services relationship with MFI. This has enabled a restructuring of the supply operations that further aligns them with Howdens' operations and its future requirements.

"We have made a positive start to the new financial year and will continue to take the Group forward, both growing the business and strengthening our competitive position."

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SUMMARY OF GROUP RESULTS

The information presented below relates to the 52 weeks to 29 December 2007 and the 53 weeks to 30 December 2006, unless otherwise stated.

£m unless stated	**2007**	2006
Continuing operations (before exceptional items unless stated):		
Revenue	**976.5**	733.0
Gross profit	**456.2**	362.5
Operating profit	**88.1**	65.7
Profit before tax		
- excluding exceptional items	**79.8**	57.2
- including exceptional items[1]	**44.4**	25.0
Earnings per share from continuing operations		
- basic excluding exceptional items	**9.1p**	6.1p
- basic including exceptional items	**8.8p**	1.0p
Loss before tax from discontinued operations		
- excluding exceptional items	**-**	44.8
- including exceptional items	**11.1**	179.6
Earnings per share from continuing and discontinued operations		
- basic excluding exceptional items	**9.1p**	(0.6)p
- basic including exceptional items	**7.3p**	(28.7)p
Net debt at end of period	**3.3**	4.1

1 Details of exceptional items for the 52 weeks to 29 December 2007 are shown in note 3.

2 The Group currently operates two distinct businesses, Howden Joinery and Supply, which form the basis on which the Group reports its primary segment information for the 52 weeks to 29 December 2007. As previously advised, for 2008, with the ending of the supply arrangements with MFI, the Group intends to report its results as a single entity.

FINANCIAL REVIEW

The following discussion relates to continuing operations unless otherwise stated.

2007 FINANCIAL RESULTS

Revenue rose by £243.5m to £976.5m, reflecting the increased sales of Howden Joinery depots (£92.1m) and higher sales to MFI and Hygena Cuisines (£149.3m), mostly to the former which is no longer being supplied.

Revenue £m	**2007**	2006
Group	**976.5**	733.0
including:		
Howden Joinery depots	**768.4**	676.3
MFI/Hygena Cuisines	**200.1**	50.8

Howden Joinery depots traded well throughout the year, with the higher rate of sales growth seen in the summer sustained to the end of the year. Depot 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 trading for more than six years), the benefit of the maturing profile of sales from newer depots and new depot openings. Of particular note was 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 improvements to the product range, 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. In addition, a number of depots saw sales increase as a result of flood damage to properties.

The growth in sales to MFI and Hygena Cuisines reflected MFI being an external customer throughout 2007, having been part of the Group until October 2006.

The underlying gross margin on depot sales was similar to that seen in 2006. However, the recorded margin was lower because of the impact of an increase in the provision for obsolete depot stock at the end of the year (see below).

Excluding exceptional items, Group 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).

Operating profit before exceptional items £m	**2007**	2006
Group	**88.1**	65.7
including:		
Howden Joinery	**145.1**	132.6
Supply	**(26.6)**	(39.6)
Corporate	**(27.4)**	(24.2)

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-sales related Howden Joinery costs of £4.9m and an increase of £5.9m in the provision for obsolete depot stock, primarily arising from a decision to conclude the bedroom test and the discontinuation of certain slow-selling kitchen ranges and joinery doors.

The decision to end the bedroom test was taken in light of the lower than hoped for level of take-up by our customers and the fact that storage space being utilised was constraining space availability for better selling core products. The slow down of sales of certain products arose from the revitalisation of our product range, with a number of market leading products, over the last 12 months or so.

The main elements of the increase in non-sales related Howden Joinery costs were increased expenditure on promotional material, and expenditure incurred in relation to a major new product design initiative to address the issue of the kitchens that will be required to 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.

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 purchasing, thereby significantly reduced supply costs. In addition, there was a currency gain of a similar size, arising from the strengthening of the pound against the euro and the US dollar. Together, these contributed £13m to the increase in operating profit. Other savings in supply operations costs were offset by an increase in the provision for obsolete warehouse stock that was of the same magnitude as that for depot stock. This also primarily arose from the decision to conclude the bedroom test and the discontinuation of certain slow-selling kitchen ranges and joinery doors.

Costs of other areas of the Group increased by £3.1m, mainly reflecting provisions made in respect of surplus property.

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 arose from the restructuring of supply operations announced in June 2007.

The tax charge on profit before tax excluding exceptional items was £25.5m, an effective tax rate of 32.0%. In relation to exceptional charges, there was a tax credit of £10.1m. In addition, the Group has recognised deferred tax assets in certain of its subsidiaries (£23.9m) that were previously unrecognised. Given their size and one-off nature, they have been treated as exceptional items (see note 5).

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

There was an exceptional loss from discontinued operations before tax of £11.1m.

Basic earnings per share from continuing and discontinued operations was 7.3p (2006: (28.7p)).

Net cash flows from operating activities were £25.7m. Within this, cash expenditure on exceptional items totalled £11.9m, mainly in relation to the Supply restructuring. Payments to acquire fixed and intangible assets totalled £21.2m (2006: £30.3m). In 2007, net debt fell by £0.8m (2006: £51.4m), such that as at 29 December 2007, the Group had net borrowings of £3.3m, compared with net borrowings of £4.1m at the start of the year.

Compared with the previous year end, the pension liability shown on the balance sheet at 29 December 2007 was over £100m lower at £83.5m (30 December 2006: £189.2m). The major contributors to this fall were a reduction of the schemes' liabilities arising from an increase in the liability discount rate and the Company's contribution to clear the actuarial deficit (over a 10-year period) that was agreed in 2006.

A new triennial actuarial review of the pension schemes will be undertaken on behalf of the trustees in 2008.

DIVIDEND

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.

2008

The sale of MFI has transformed the prospects of Galiform, allowing us to access efficiencies across the business and liberating us to focus on pursuing the opportunities to grow and develop Howden Joinery. This can be seen in the development of profit before tax and exceptional items from a loss of £4.9m in 2005 (under UK GAAP), including MFI, to a profit of £79.8m in 2007 (under IFRS), and is clearly reflected in the progress of earnings per share.

The loss of revenue from no longer supplying products to MFI will not have an impact on profit in 2008. However, because elements of logistics costs are only semi-variable, the loss of revenue arising from the ending of the supply of logistics services to MFI means that the cost to the on-going business has increased. This 'stranded cost' is the major component of an expected £15m increase in logistics costs in 2008.

We are actively pursuing opportunities to deal with these challenges.

BANKING ARRANGEMENTS

The Group's bank facility was due to expire in May 2009. This has now been extended until May 2011.

OPERATIONAL REVIEW

The overriding strategic goal of Galiform was first set out in the original Howden Joinery business plan and remains unaltered. It is "To supply from local stock nationwide the small builder's routine kitchen and joinery requirements, assuring no call back quality and best local price".

DEPOT NETWORK

In 2007, 54 new Howden Joinery depots were opened. In addition, 2 existing depots were relocated and 5 were extended. Of the 436 depots open at the start of 2008, just under 40% were in their sixth year of trading or less and continue to mature.

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 can be increased to more than 600. Some of these will be in places where we have no presence; others will be in conurbations that warrant additional depots.

This year, we are planning to open around 50 depots.

PRODUCT SUPPLY AND LOGISTICS SERVICES

The product supply and logistics services arrangements with MFI were successfully concluded on 21 December 2007, although Galiform will continue to provide certain IT and financial services to MFI until 18 October 2008.

MANUFACTURING AND LOGISTICS OPERATIONS

In response to the ending of product supply and logistics services arrangements with MFI, the restructuring of manufacturing and logistics operations has proceeded to plan.

By the year end, various facilities had been closed and activities had been transferred to other locations, as a result of which 340 employees had left the operations by the end of December. Further rationalisation has taken place since then 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 the Group.

POSITIONING FOR GROWTH

As well as rationalising the scale of product supply and logistics operations, 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 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.

TRADE EXPO CENTRE

Since the autumn, the work of Howden Joinery's Trade Expo Centre has been augmented by two mobile display vehicles. One of these focuses on products aimed at the local authority/housing association sector of the market, the other showcasing new products.

These initiatives have given us a focal point through which to engage with builders and their customers on their thoughts about various aspects of the business, including new products and their specific requirements.

RELATIONSHIP WITH MEP

CLOSING CASH ADJUSTMENTS

Under the terms of the sale by Galiform of MFI Retail (Holdings) Limited and its subsidiaries ("MFI") to MEP Mayflower Limited ("MEP"), MEP acquired economic control of MFI from 5 August 2006 (the "effective date"), including all cashflows generated by MFI between the effective date and completion of the sale on 18 October 2006. Galiform made a payment of approximately £7.7m in respect of this period at completion of the sale. This amount was subject to adjustment.

Galiform has agreed to pay MEP a further £4.9m by way of an adjustment but MEP believes that a further adjustment of approximately £8.3m should also be paid by Galiform. Whether this additional amount will be payable is to be determined by an independent expert who has recently been appointed by the parties for this purpose. The expert determination process is expected to last approximately eight weeks.

NET ASSET VALUE CLAIM

Separately, under the terms of the sale, Galiform gave a warranty relating to the net value of some of the assets and liabilities of MFI on the effective date, against which MEP could claim for up to two years after it acquired MFI. Over the course of the past year, MEP has made a number of notifications to Galiform alleging breach of this warranty. Each notification has been thoroughly investigated by Galiform's external lawyers and forensic accountants.

Galiform 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 considers that MEP's total claim (the "net asset value claim") is grossly inflated, principally because the majority of the claim is entirely 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 the 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.

ACCOUNTING

Galiform has made provision for amounts which may become payable in respect of both 'closing cash adjustments' and the 'net asset value claim' referred to above. In the light of the advice it has received, the Board believes that such provision is adequate.

CURRENT TRADING

Howden Joinery has made a satisfactory start to 2008, as it continued to trade well. Sales in the first two periods (to 24 February) increased by 11.8% compared with the comparative period last year, up 7.1% on a same depot basis.

Although the economic outlook for 2008 may be uncertain, over the last two years we have taken a number of major steps to improve our already strong position in the market. This year, we will continue to grow the business and strengthen our competitive position. Along with the growth inherent in our Howden Joinery depot portfolio, the Board is confident that the Group is well positioned to face the current year and to deal with any challenges and opportunities that the market will present.

Consolidated income statement

	Notes	52 weeks to 29 December 2007 Before exceptional items £m	 Exceptional items (note 3) £m	 Total £m	53 weeks to 30 December 2006 Before exceptional items £m	 Exceptional items £m	 Total £m
Continuing operations:							
Revenue	2	**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
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)
Other operating expenses		**-**	**(6.3)**	**(6.3)**	-	(14.5)	(14.5)
Share of joint venture profits		**0.9**	**-**	**0.9**	1.0	-	1.0
Operating profit	2	**88.1**	**(35.4)**	**52.7**	65.7	(32.2)	33.5
Finance income		**1.3**	**-**	**1.3**	3.5	-	3.5
Finance expense		**(9.9)**	**-**	**(9.9)**	(7.0)	-	(7.0)
Other finance charges - pensions		**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	4	**(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 before tax		**-**	**(11.1)**	**(11.1)**	(44.8)	(134.8)	(179.6)
Tax on loss		**-**	**2.1**	**2.1**	5.1	(2.3)	2.8
Loss after tax from discontinued operations		**-**	**(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:	5			**pence**			pence
From continuing operations							
Basic earnings per 10p share				**8.8**			1.0
Diluted earnings per 10p share				**8.6**			1.0
From continuing and discontinued operations							
Basic earnings per 10p share				**7.3**			(28.7)
Diluted earnings per 10p share				**7.2**			(28.4)

Consolidated balance sheet

	Notes	At 29 December 2007 £m	At 30 December 2006 £m
Non current assets			
Intangible assets		**2.5**	1.9
Property, plant and equipment		**91.2**	97.1
Investments		**10.1**	9.7
Deferred tax asset		**45.6**	60.6
		149.4	169.3
Current assets			
Inventories		**101.0**	126.1
Trade and other receivables		**122.3**	102.4
Other assets		**2.4**	3.1
Cash at bank and in hand		**33.6**	53.2
		259.3	284.8
Total assets classified as held for sale		**3.1**	-
Total assets		**411.8**	454.1
Current liabilities			
Trade and other payables		**(201.1)**	(244.4)
Current tax liability		**(8.5)**	(3.0)
Current borrowings		**(3.3)**	(2.2)
		(212.9)	(249.6)
Non current liabilities			
Borrowings		**(36.0)**	(58.2)
Other payables due in more than one year		**-**	(10.8)
Pension liability		**(83.5)**	(189.2)
Deferred tax liability		**(2.9)**	(4.0)
Provisions	7	**(39.4)**	(19.8)
		(161.8)	(282.0)
Total liabilities		**(374.7)**	(531.6)
Net assets/(liabilities)		**37.1**	(77.5)
Equity/(deficit)			
Called up share capital	8	**63.4**	63.2
Share premium account	8	**85.0**	83.7
ESOP reserve	8	**(32.6)**	(43.2)
Other reserves	8	**28.1**	28.1
Retained earnings	8	**(106.8)**	(209.3)
Total equity/(deficit)		**37.1**	(77.5)

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	9	**25.7**	70.0
Cash flows from investing activities			
Interest received		**1.3**	3.5
Sale of subsidiary undertakings		**-**	(2.1)
Payments to acquire property, plant and equipment and intangible assets		**(21.2)**	(30.3)
Dividend received from joint venture investment		**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 own 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	9	**33.6**	53.2

For the purposes 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.

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 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)

1 Basis of preparation

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

The preliminary results for the year ended 29 December 2007 have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") adopted for use in the European Union and International Financial Reporting Interpretations Committee interpretations, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The accounting policies followed are the same as those detailed within the 2006 Annual Report and Accounts, which are available on the Group's website (www.galiform.com). Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the 53 weeks to 30 December 2006 have been filed with the Registrar of Companies. The statutory accounts for the 52 weeks ended 29 December 2007 will be filed in due course. The auditors' reports on these accounts were unqualified and did not contain any statement under sections 237(2) or (3) of the Companies Act 1985.

2 Segmental analysis

The following tables show the segmental analysis of external turnover and operating profit by business segment. This is based on the commercial and legal structure of the Group, in which Howden Joinery, Supply and Corporate are separate entities.

External revenue	**52 weeks to 29 December 2007 £m**	53 weeks to 30 December 2006 £m
Continuing operations		
Howden Joinery	**768.4**	676.3
Supply	**200.1**	50.8
Other	**8.0**	5.9
	976.5	733.0
Retail and other discontinued operations	**-**	546.8
Total revenue	**976.5**	1,279.8

Operating profit/(loss)

	Before exceptional items		**Exceptional items**		**After exceptional items**	
	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
Continuing operations						
Howden Joinery	**145.1**	132.6	**(0.1)**	-	**145.0**	132.6
Supply	**(26.6)**	(39.6)	**(33.3)**	**(42.5)**	**(60.0)**	(82.1)
Corporate	**(27.4)**	(24.2)	**-**	-	**(3.9)**	(4.1)
Other	**(3.9)**	(4.1)	**(2.0)**	**10.3**	**(29.4)**	(13.9)
Share of joint venture	**0.9**	1.0	**-**	-	**0.9**	1.0
	88.1	65.7	**(35.4)**	**(32.2)**	**52.7**	33.5
Retail and other discontinued operations	**-**	(44.8)	**(11.1)**	**(134.8)**	**(11.1)**	(179.6)
Total operating profit	**88.1**	20.9	**(46.5)**	**(167.0)**	**41.6**	(147.1)

3 Exceptional items

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

	Notes	Cost of sales	Other operating income	Administration expenses	Selling and distribution costs	**Total £m**
Continuing operations:						
Group restructuring	3(a)	6.9	7.4	6.6	15.6	**36.5**
Other profit and 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	3(b)					**(23.9)**
Net exceptional items in continuing operations						**1.4**
Discontinued operations:	3(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**
Continuing and discontinued operations:						
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) 2007 restructurings

In June 2007, the Group announced that it was restructuring the Supply business, 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 comprised the followings items:

	£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 admin	**0.2**
- release of exceptional stock provision made in 2006	**(1.5)**
	33.3
IT restructuring:	
- redundancies and other staff costs	**1.2**
- asset write offs	**1.6**
- systems separation	**0.4**
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

This is explained in note 5.

(c) Discontinued operations

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, but after that time companies now have to pay business rates at 100% for all properties.

The amount provided in the period related 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. Of the total £7.1m provided in the period, £5.6m relates to business rates, while the balance relates to other related property expenses. Discontinued exceptional items also include a £4m charge in relation to professional fees. There is an associated tax credit of £2.1m in respect of discontinued exceptional items.

4 Tax

UK Corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the period. The effective rate of tax for pre-exceptional continuing operations of 32.0% reflects the high level of disallowable depreciation on assets not qualifying for capital allowances, offset by a £1.8m deferred tax credit reflecting the change in the rate of corporation tax from 30% to 28%. The effective rate of tax would have been 34.2% without this deferred tax adjustment.

It is expected that the Group's effective rate of tax for continuing operations will be around 32% for 2008.

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.

5 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)

6 Dividends

No distributions to equity holders were made in 2006 and 2007. The Board is recommending a final dividend for 2007 of 0.5p per share, to be paid on 13 June 2008.

7 Provisions

	Property provision £m	Other provisions £m	Total £m
At 25 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.

8 Reconciliation of movement 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.

The Other Reserve was created in the year to 30 April 1994, following a Group reconstruction. It is distributable.

9 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/(loss) before tax and interest		
Continuing operations	**52.7**	33.5
Discontinued operations	**(11.1)**	(179.6)
	41.6	(146.1)
Adjustments for:		
Depreciation and amortisation	**17.4**	40.9
Share-based payments charge	**5.7**	3.8
Share of joint venture profits	**(0.9)**	(1.0)
Loss/(profit) 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	**(19.9)**	(59.6)
(Decrease)/increase in trade and other payables	**(60.0)**	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 flows from operating activities	**25.7**	70.0

Net cash flow from operating activities comprises:		
Continuing operations	**25.7**	154.5
Discontinued operations	**-**	(84.5)
	25.7	70.0

(b) Reconciliation of movement in 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)
Net 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)**	-
	(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
At 30 December 2006	53.2	3.1	(60.4)	-	**(4.1)**
New finance leases	-	-	-	(3.2)	**(3.2)**
Cash flow	(19.6)	(0.7)	24.3	-	**4.0**
At 29 December 2007	**33.6**	**2.4**	**(36.1)**	**(3.2)**	**(3.3)**

10 Contingent liabilities

Relating to the disposal of the MFI Retail operations

As disclosed at the time of the transaction 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 which MFI Properties subleases on leases from Galiform Corporate Services Limited and Retail occupies. 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. The current annual net rentals payable by the Group 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 £49.6m (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 are 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 exception, and therefore we are restricting our disclosure accordingly.

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 MFI 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.

Appendix 1

FINANCIAL CALENDAR

2008

Interim Management Statement	1 May 2008
AGM	16 May 2008
Record date for proposed 2007 final divided	30 May 2008
Payment of proposed 2007 final dividend	13 June 2008
2008 Half Yearly Report	23 July 2008
Interim Management Statement	13 November 2008
End of financial year	27 December 2008