Annual Report 2006

Galiform

Contents

Galiform plc came into existence in October 2006, when MFI Furniture Group plc sold its retail business and subsequently changed its name.

The change of name signifies a new beginning for a group that has, at its heart, two businesses with a unique culture – Howden Joinery and Howden Kitchens.

In this report, we want to share with you the reasons why we believe this is a business with a strong future.

Financial Highlights
From continuing operations

Revenue up 17.9% to £733.0m
– Howden Joinery revenue up 9.5% to £676.3m
– Same depot revenue up 5.9%
– External Supply revenue at £50.8m (2005: £3.1m)

Operating profit before exceptional items up 21.4% to £65.7m
– Howden Joinery operating profit up 7.5% to £132.6m
– Cost of Supply down £9.2m to £39.6m
– Corporate costs of £24.2m (2005: £18.0m)

Profit before tax and exceptional items up 34.6% to £57.2m
– Profit before tax and after exceptional items of £25m (2005: £29.8m)

Net cash inflow of £51.4m in year

Net borrowings down from £55.5m to £4.1m

	2006 £m	2005 restated £m
Continuing operations:		
Revenue	733.0	621.8
Gross profit*	362.5	322.5
Operating profit*	65.7	54.1
Profit before tax*	57.2	42.5
Net debt	(4.1)	(55.5)

* Before exceptionals

Overview of the year

A year of transformation from a period of crisis to a future of opportunity

To find out more about our management team, go to page 30

- Management team put in place to deliver strategy
- Disposal of Hygena Cuisines to Nobia in February 2006
- Disposal of peripheral activities
- Refinancing to more appropriate bank facilities in February 2006, providing up to £175m of secured, committed financing
- Resolution of the pension deficit issue reached with pension trustees and The Pensions Regulator
- Re-alignment of supply to global sourcing, resulting in two factory closures in Scunthorpe and Stockton
- Group operationally and legally restructured into three distinct businesses to create clear accountability and strategic opportunity (MFI Retail, Howden Joinery, Howden Kitchens)
- Disposal of MFI Retail to Merchant Equity Partners and Sofa Workshop to New Heights in October 2006
- Name changed to Galiform after sale of the retail business

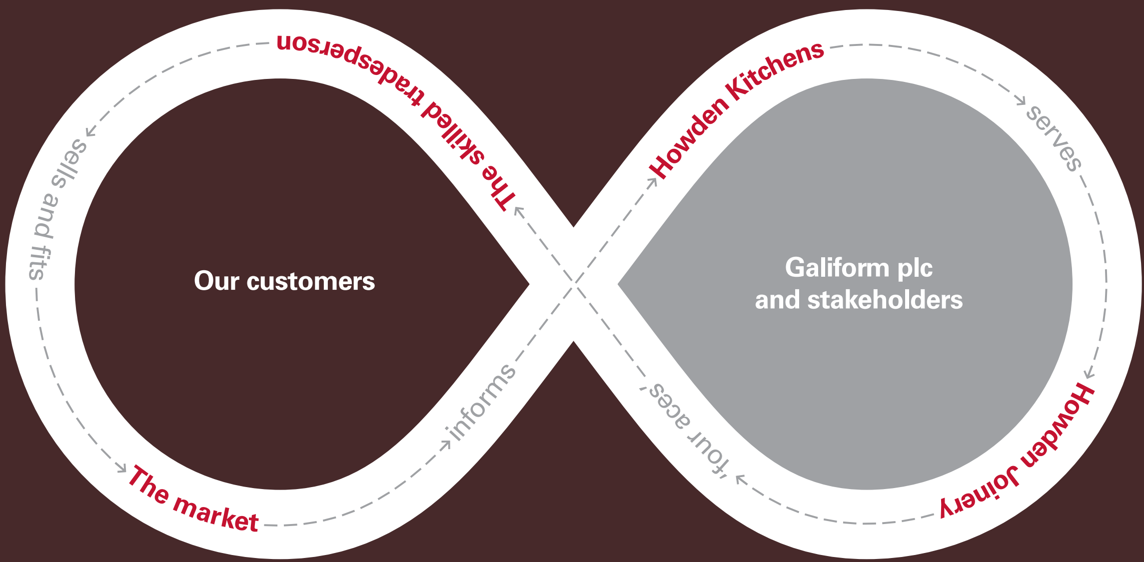
Read more about our two businesses on pages 4 to 14

- Group now entirely focused on core Howden Joinery and Howden Kitchens, a proven and resilient business model, manufacturing and selling kitchens in the UK

Our Mission

To provide, from local stock nationwide, the small builder’s routine kitchen/joinery requirements; assuring best local trade price and ‘no call back’ quality.

How does this work in practice?



The Market
Home owners, tenants and property developers

How big is the kitchen market? It's difficult to say, because it depends how you define the market. For instance: does it include bespoke, DIY, appliances, trade. There are many different ways to cut the numbers. What we can say about our market is that the ageing and inadequate housing stock in the UK means that there is market demand.

To compete in this market means meeting demand for increasingly sophisticated products and increasingly demanding legislative standards.

We also know that the installation of a kitchen with related accessories and joinery is time critical, because a home cannot function without its kitchen. It depends on a collection of pieces and different skills being brought together to meet that time critical process. All this is driving the market from DIY (Do it yourself) towards DFY (Done for you), as disposable incomes increase.

DIY → DFY

The Skilled Tradesperson
Howden Joinery's partner

The key drivers in our market are price, availability, quality and range.

How does our model meet these demands? It starts with the skilled tradesperson and their own network. We help this group of people do what they need to do – which is make a living. In return the skilled tradesperson acts as our sales force. Our model, where local knowledge, the skills to fit a kitchen, coordination of the different trades needed, all combine with the opportunity to make the sale, would be almost impossible to replicate with an employed workforce.

Howden Joinery builds relationships with the skilled tradesperson by offering what we call our 'four aces':

1
A good range of well designed products supported by excellent sales literature.

2
No call back quality, with skilled tradesperson returning to us time and time again.

3
Local commercial pricing.

4
Products that are always in stock locally.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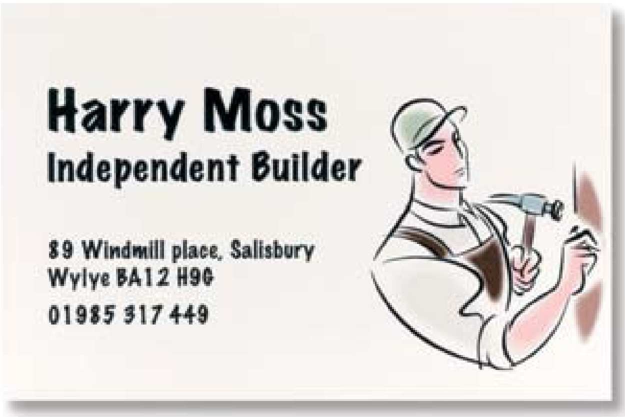
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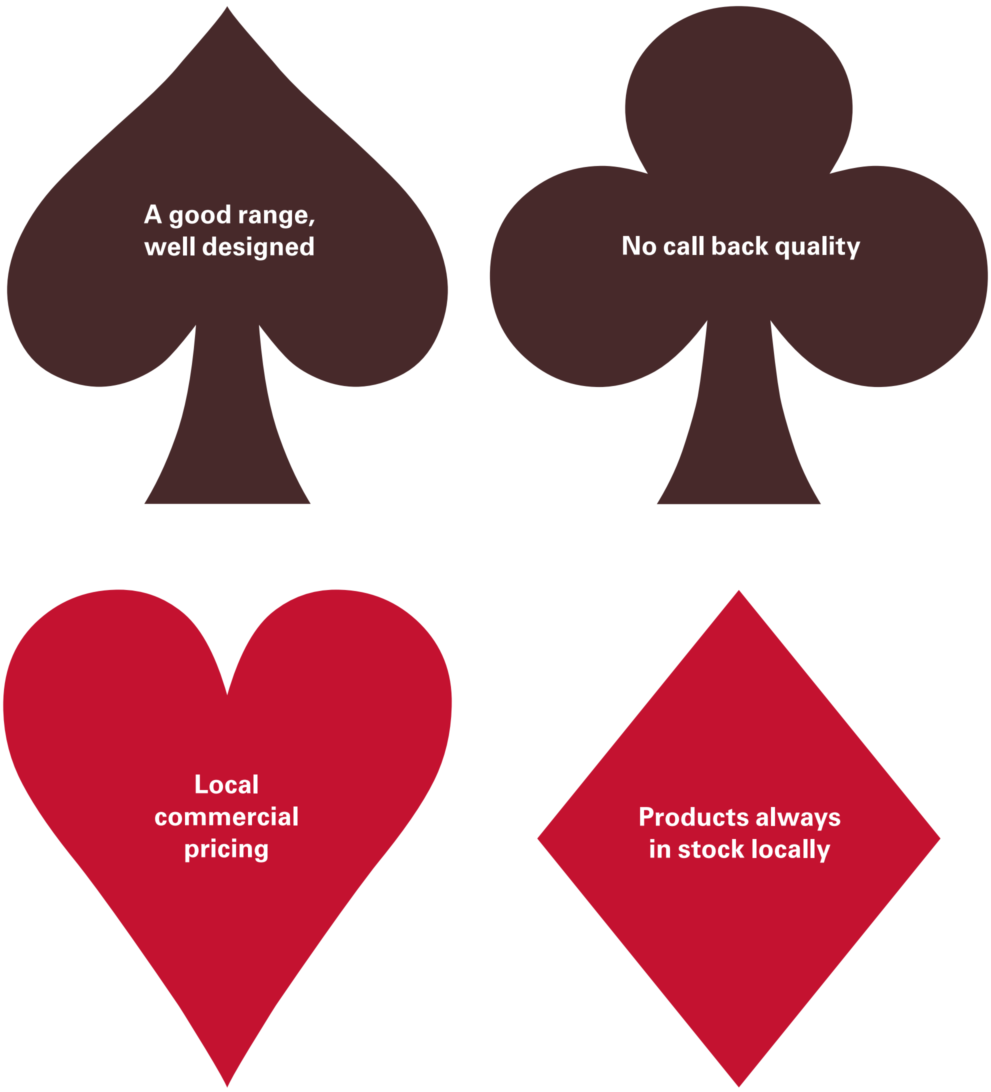

A good range, well designed
No call back quality
Local commercial pricing
Products always in stock locally

Howden Joinery depots
Howden Kitchens' customer

Howden Joinery operates like a network of small businesses. At each depot, the manager is encouraged to take responsibility for his or her operation. With clear financial targets related to individual reward, the manager is able to expand his depot in a controlled way starting from a small base.

The depot manager also takes responsibility for tailoring stock selection from the product range to meet local needs, the management of stock loss, local marketing and the motivation of an effective team.

The model relies on staff building trusted relationships with customers where they are recognised and feel welcome, and where trust is underpinned by the 'four aces'.

Howden Kitchens
Sourcing, design and manufacturing

This is where we complete the circle between market and depot. Again the key drivers are price, availability, quality and range.

In order to deliver this, Howden Kitchens brings components together as follows:

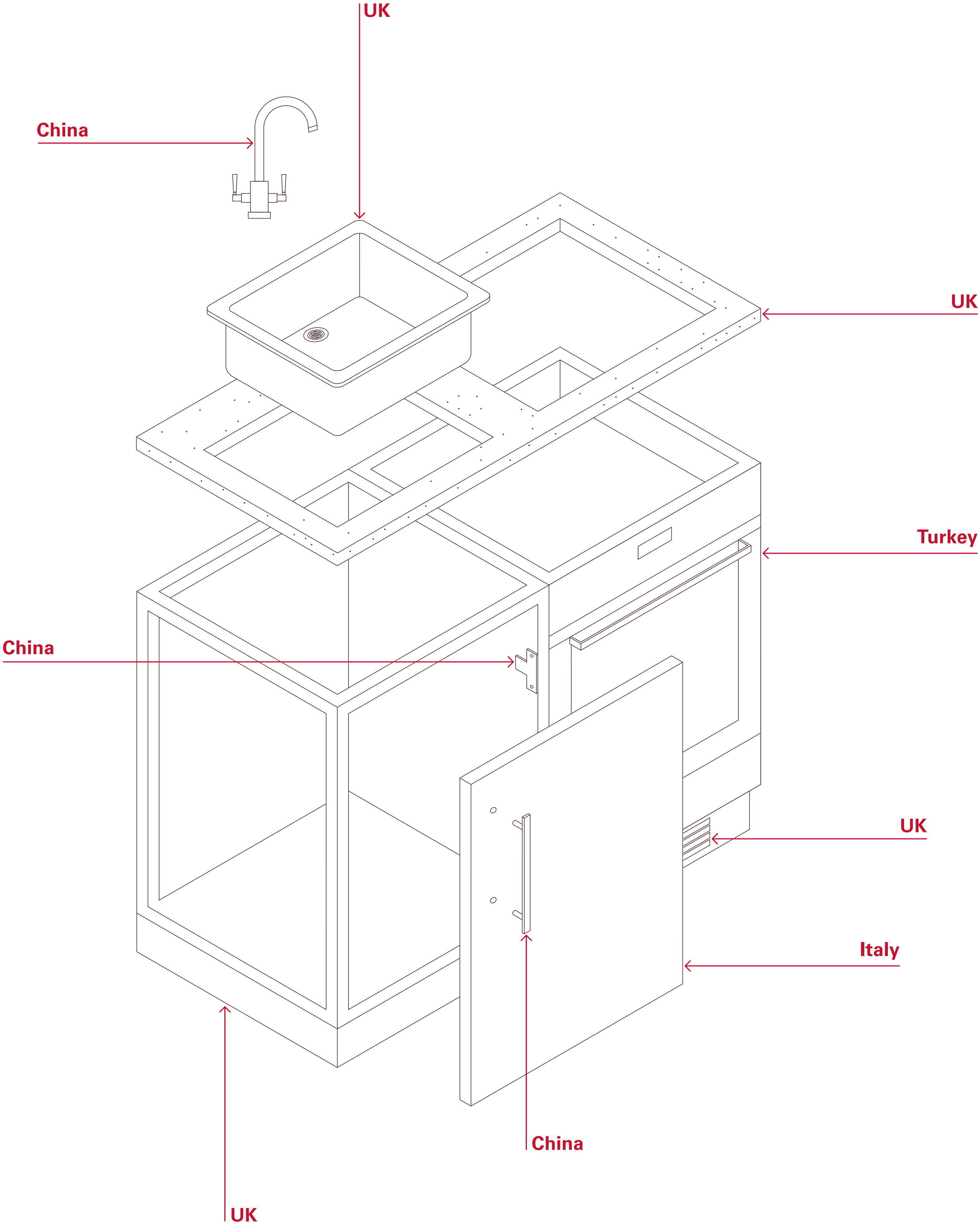
– It is able to design kitchens that meet changing fashions and ever increasing sophistication
– It is able to source products globally from the most appropriate supplier
– It can handle large volumes of inter-dependent product with good pricing, quality and availability
– It understands what needs to be made and what needs to be bought in.

Two examples: the cabinet and the frontal.
Cabinets need to be well made and available to work with a range of frontals. We need the lowest range possible to keep stock under control. Shipping boxes of air around the world and storing them is expensive and wasteful. At our factory in the UK, we can make this element of our product more effectively.

Frontals are a different story. We need greater flexibility to change product styling to meet changing fashions and suppliers that can deliver improved price and availability.

And the end result: our customers see design, speed to market and reliable service. They trust us as a business they can do business with.

Howden Kitchens



Over 200 suppliers

This is the business model that we believe will create significant value for our customers, our partners, our employees and our investors.

Chairman's Statement

In this section:
- Results
- Board changes
- Outlook

These are the results for the 53 weeks to 30 December 2006. Pre-exceptional profit before tax on continuing operations has increased from £42.5m last year to £57.2m. Net exceptional costs of £32.2m have been incurred (2005: £12.7m) and losses from discontinued operations are £179.6m (2005: £144.4m). Turnover from continuing operations was up 17.9% against last year to £733.0m (2005: £621.8m), with Howden Joinery growing its sales 9.5% to £676.3m. In the light of these results, the Board has recommended that no final dividend be paid.

The new management team, under Matthew Ingle's leadership, has focused on enhancing financial stabilisation during the year. The Group's borrowing facilities have been restructured via a 3.25 year secured facility announced in February 2006. The net debt position has improved first from the disposal of our French business and secondly from the settlement of the long-standing dispute with HM Revenue & Customs over the sale of some of our insurance products. These transactions have provided us with the finance to restructure the Group. The MFI Retail business was sold to Merchant Equity Partners in October. This has enabled us to focus on our core competencies, whilst giving MFI Retail, with new funding, a chance to be successfully turned around. We continue in the short term to provide MFI Retail with product, IT and logistics services.

Howden Joinery, with its significant small builder customer base, remains a very strong and special business. In 2007 it will build on its successful model and excellent customer relationships, with up to 60 new depots due to be opened.

Our Supply division, now re-branded Howden Kitchens, is focused on becoming much more flexible so it can respond quickly to changing consumer demand and new product development, while delivering products at the right price. We closed two factories at Stockton and Scunthorpe during the year as we concentrated on what we do well, and we outsourced other manufacturing to specialist suppliers around the world. We greatly regret the loss of jobs which these changes involved, but we believe them to be right for the business. Speed-to-market, cost and quality will all be enhanced by better sourcing and distribution.

Outsourcing doors and drawers enables us to meet rapidly changing consumer tastes, faster and more efficiently

Board changes

I joined the Board in July 2006 and was appointed Chairman in October. Angus Cockburn and Michael Wemms have joined the Board as non-executive directors and Gerard Hughes is appointed to the Board today as Group Commercial Director. They bring comprehensive experience from both executive and non-executive roles and are thoroughly familiar with retail and support services.

During the year Bob Wilson, Paul Cheng and Ian Peacock announced their retirements; and Lesley Knox and Tony de Nunzio have retired from the Board today. All have made substantial contributions to the affairs of the Group and have left with both our thanks and good wishes.

I would like to take the opportunity to thank the Board for their support, and I would like to thank staff for the skill, dedication and exceptional commitment they have put into the business throughout the year.

Outlook

In the first eight weeks of 2007, Howden Joinery has continued to trade well, in line with our expectations. Sales increased by 8.2% compared with the same period last year, 4.4% up on a same depot basis. Gross margin was similar to that seen in 2006.

8.2%
sales growth in first eight weeks of 2007

The trend from 'Do it Yourself' to 'Done for You' continues to be reflected in the favourable market conditions that Howden Joinery is experiencing. The positive effect of the maturing of depots opened since around 2000 will be constrained by the planned opening of around 60 new depots. There are also a relatively low number of depots going through the rapid growth that is typically seen in years three and four of a depot's life.

Supply should see the full-year benefit of the move to greater outsourcing in 2006, although its overall performance will be strongly influenced by the level of demand from its contract to supply MFI Retail.

Will Samuel
Chairman
6 March 2007

Chief Executive's Review

In this section:
- Crisis
- Transformation
- Growth

I believe we will come to see 2006 as a critical point in this Group's history. At the beginning of the year we faced major challenges with very serious implications for the Group, and we needed to take decisive action. We tackled the challenges head on and have now laid the foundations for a new Group with a new future.

So, what exactly was the crisis we faced, what did we do in 2006 to transform our business and what prospects do we see for strong growth in 2007 and beyond?

Crisis

First, MFI Retail was making substantial losses and grappling unsuccessfully with a range of operational problems. Retail sales and margin were both falling in 2005 and that level of performance was unsustainable and unacceptable.

Second, our employee pension scheme had a deficit of £297m, with no agreement in place as to how that deficit would be funded.

Third, we had borrowings of £150m and our existing banking arrangements were inappropriate for the way we needed to develop the business. Our IT system was defective and our retail supply chain required urgent attention, but we did not have access to the funds needed to address these and other issues.

As a fellow shareholder I am sure you know the ultimate result of the Group's problems – our share price collapsed to below 60p.

Transformation

In 2006 we took action to get the Group clear of its long-running problems and back on the road to growth. We could see that the two selling arms of the Group (MFI Retail and Howden Joinery) were joined together with few real synergies; and we had a single sourcing division trying to fulfil diverging requirements. We needed to separate these businesses if they were to prosper.

We identified numerous opportunities to improve the performance of MFI Retail but were unable to find a solution that did not involve excessive risk. At our AGM in May 2006 we reported that we had received tentative approaches from a number of potential buyers for MFI Retail. Having reviewed all options with the utmost care, we concluded that selling the business to Merchant Equity Partners (MEP) was the best decision for all, particularly our shareholders.

Selling MFI Retail enables us to focus on growing and strengthening Howden Joinery

The successful sale of MFI Retail to MEP in October created a promising future for both companies and means we can focus on what we do best – providing Howden Joinery's trade customers with the range of kitchen products they need to serve their customers.

Howden Joinery is a very strong and a very special business. It has been built from nothing to a turnover approaching £700m and 180,000 customer accounts in 11 years. The great thing about our customers is that they are repeat buyers. Now it has the potential to generate very good returns in a strong market driven by the move from DIY to DFY – Done for You.

Howdens' business model is not only sound, it is hard to copy. Each depot is a local business that creates long-term, personal relationships with local builders. Our special skill is to make sure the right products are always available to our customers – at the right price – so they can serve their customers successfully, time after time. That requires us to be expert at co-ordinating the supply, storage and sale of the many components needed to build a kitchen. Time is critical in this business, and in our customers' businesses, because no home can function for long without its kitchen.

So success for Howdens is all about meeting the needs of our customers' customers, and that means we must stay up-to-date with the way people's tastes and attitudes are changing. Right now more and more people are looking for sophisticated door and drawer frontals. Our customers must also feel confident that what we provide for them to sell and install meets increasingly onerous legal, quality, health and safety requirements. In my view, Howdens thrives because we know how to meet these challenges.

In February 2006 we said we wanted to open around 30 new Howden Joinery depots before the end of the year, and we increased our forecast to 40 in July. To put that in perspective, we opened 20 depots in 2004 and 22 in 2005. I'm very pleased to report we met our target of 40 and now have 382 depots in total in the UK. That achieved, our intention is to open 60 new depots in 2007.

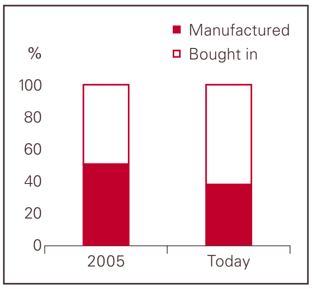
40 depots opened in the year with 382 now trading in the UK

In 2005 we launched a sales trial in France, opening two depots in February and nine more in the second half of the year, all staffed by French employees. The depots are mostly in the Paris and Lille areas and are mainly supplied from the UK, although we are now taking a small amount of product from French manufacturers. As anticipated, initial trading in these new depots has been slower than at a typical new depot in the UK, but we think there may still be good potential for growth here in the medium term. In 2007 we will provide further information on this trial.

For a limited time the Supply business will continue to both source and manufacture products for MFI Retail and Hygena Cuisines, but we will complete and exit the MEP supply contract in the first half of 2008, in accordance with our obligations, and we will exit the Hygena Cuisines contract early in 2009. Once these contracts end, Howden Kitchens will only make and source products for Howden Joinery and that will represent another major opportunity as volumes from Howdens increase and complexity reduces. To give one example of what this means in practice: supplying MFI Retail involves 7,000 product components, supplying Howden Joinery 3,000.

We must never underestimate the contribution our Supply business makes to the success of Howdens. Without the timely delivery of product to our depots, and the cost effective manufacturing of the rigid kitchen cabinets so crucial to the Howdens business model, we would be a much weaker business. In 2006 we completed a strategic review of our sourcing and manufacturing processes and that resulted in a decision to buy-in kitchen fascias and own label appliances instead of making them ourselves (see graph 1). As a result we closed our factories at Stockton and Scunthorpe and now only manufacture carcasses and worktops – one of our core competencies. This streamlined approach enables us to introduce less expensive products that are absolutely up-to-date from a design viewpoint. In short, our supply chain is now delivering products that are quicker, cheaper, better and more reliable.

Graph 1:
The shift to global sourcing



While we are talking about supply, I can report that our sourcing joint venture in Asia is proving a success, and now has 42 suppliers in five countries and 67 employees, including quality assurance experts and designers. We make a 15% cost saving on products delivered through the joint venture, and about 15% of the finished products we buy-in through this route. We are looking to increase the volume of products sourced this way.

During 2006 we established an excellent design team – based in the UK but with a global perspective – whose brief is to ensure we are sourcing, developing and offering the right products. 2006 saw us introduce new modern kitchen styles, solid wood worktops and a range of Bosch cooking appliances. In joinery, we launched a new catalogue and a more extensive range of doors. Although doors are relatively low-margin items, they generate regular visits from customers and that helps to reinforce our relationship with them.

Our show house demonstrates a great combination of entrepreneurialism and good common sense

To help our market awareness, we use a show house to demonstrate our latest products. Our house starts as a property in need of renovation; we buy the property, install our products, show customers around, sell at a profit and then reinvest in another house.

We are pleased with our relationship with the Leonard Cheshire foundation. As you may know, this is the largest voluntary body providing support to disabled people in the UK. Like Howdens, it is a national organisation that serves local people and is always very much part of the local community. We give financial support to the foundation, but we are also working to design, develop and install bespoke kitchens in a number of Leonard Cheshire homes across the country.

These kitchens will help transform lives by giving disabled people the opportunity to experience greater independence

This experience has enabled us to develop our new 'Inclusive' range, which is aimed at people who have specific physical needs. The range is available at Howden Joinery depots and has great potential, with customers eager to see better products and services. Generally builders have limited experience in this area, so we have produced a guide to help our customers meet the needs of the many thousands of people and organisations who require a bespoke approach.

Earlier, when discussing the crisis in 2005, I mentioned the financial problems faced by the Group. In February 2006, I was able to report some real progress as we had reached agreement with the pension fund trustees and The Pensions Regulator on the funding of the deficit. We had also raised a substantial amount of cash with the sale of Hygena Cuisines to Nobia AG for £92m, and we had received from HM Revenue & Customs a long-standing disputed sum of £21.8m. Our new banking arrangement was in place too, and this has given us up to £175m of secured funding.

Clearly, the disposal of MFI Retail to MEP and the disposal of Sofa Workshop to New Heights in October consolidated our much-improved position. Finding solutions to our financial problems has enabled us to concentrate on renewing the business. And with the financial fire-fighting over, we can now concentrate on going after strategic growth opportunities.

Growth

If we never opened another depot, we could look forward to (i) good like for like growth from mature depots, (ii) a seven year maturity curve from ones that have been open for a while and (iii) incremental growth from recently opened depots. And this is before taking into account the overall market dynamics, in particular the shift from DIY to DFY.

There are other ways we can grow Howdens, however.

We can develop the range of products we offer, responding faster to fashion and design trends in new products. We can target larger customers such as developers and housing associations. We can test new geographical market areas, as we are doing in France. We can work on meeting our seasonal demand. We can also find all sorts of ways to increase margin while continuing to deliver exceptional local commercial prices to our trade customers. There is enormous value waiting to be unlocked.

A critical area for Howdens as it grows is culture – the unique way we serve our customers and go about our work. No other business in our market gets close to the spirit and attitude we have in our depots.

Trust plays a vital role in this. We trust our depot managers to tailor their stock selections to local needs, to manage stock efficiently, to market effectively to customers, and to develop a motivated team whom customers know and trust. The financial incentives for our depot managers and teams are excellent, and within Howdens we all know that keeping customers happy is good for everyone.

Depot managers are free to tailor and manage stock to meet local needs, and to develop their own team

While expanding our network and enhancing our product offer we must keep tight control of the business. With Howden Kitchens, for example, it is essential we meet our obligations to MFI Retail and Hygena Cuisines while restructuring for life after these contracts.

Of course, along with these challenges, we remain conscious of the Group's financial position; in particular our obligation to make the agreed £53m payment to MEP in September 2007 and a further £12m in March 2008. We are clear about the importance of making these payments.

The outcome of all this hard work is Galiform – a special business with a unique culture and, I believe, a very exciting future in a strong market. Builders rely on us again and again to deliver the products they need to earn their living, and this special relationship is immensely valuable. Throughout 2007 we will be strengthening what I call our four aces – a good, well designed range; 'no call back' quality; commercial trade pricing; and products always in stock locally. I am confident that from this strong base we can continue to deliver shareholder value for you.

We talk about the four aces in more detail on pages 8 to 13

Matthew Ingle
Chief Executive
6 March 2007

Financial Review

In this section:
- Financial results
- Operating review
- Financial statements and accounting policies
- Managing our commercial risks
- Managing our financial risks

Financial results

Revenue rose by £111.2m to £733.0m, reflecting the increased sales of Howden Joinery (£58.5m) and third party sales of Supply (£47.7m).

Excluding exceptional items, gross profit increased by £40.0m to £362.5m. Selling & distribution costs and administrative expenses rose by £28.8m. Net interest fell by £3.1m, an increase in net finance expenses being offset by a lower pension interest charge. The net result was profit before tax and exceptional items from continuing operations of £57.2m (2005: £42.5m).

Exceptional items for continuing businesses totalled £32.2m. These included:
- Costs of restructuring the Group of £30.2m;
- Factory closure costs of £36.5m;
- Gain from lower pension liabilities of £38.0m, arising from changes to the schemes' benefits; and
- Stock provision relating to the disposal of MFI Retail of £6m.

Loss before tax from discontinued operations was £179.6m. This included:
- £44.8m loss from operations, primarily MFI Retail, which was sold in October;
- £62.5m profit on disposal of Hygena Cuisines;
- £155.7m loss on disposal of MFI Retail;
- £31.7m provision for other costs arising as a result of the disposal of MFI Retail; and
- £9.4m closure costs relating to the Sofa Workshop Direct factory.

Basic earnings per share from continuing operations were 1.0p (2005: 1.1p). Basic loss per share from continuing and discontinued operations was 28.7p (2005: 21.3p loss).

Net cash flows from operating activities were £70.0m, after taking into account a payment of £21.8m received from HMRC in relation to settlement of a VAT dispute. The sale of Hygena Cuisines generated net proceeds of £74.6m, but this was offset by cash outflow of £78.9m on the disposal of MFI Retail. Payments to acquire fixed assets totalled £30.3m (2005: £47.9m), while the sale of fixed assets generated £12.0m (2005: £57.4m). Compared with a year earlier, net borrowings fell from £55.5m to £4.1m.

The sale of Hygena Cuisines strengthened our ability to restructure and transform the business

The effective rate of tax for pre-exceptional continuing activities was 36.5% and it is expected that the Group's effective rate of tax for continuing operations will be 35% for 2007. The losses associated with discontinued activities mostly relate to losses on disposal of the MFI Retail business. No capital losses are available on this transaction.

As with the interim dividend, no final dividend for 2006 has been proposed (2005: £nil final dividend, 2p per share total dividend).

Operating review

Howden Joinery

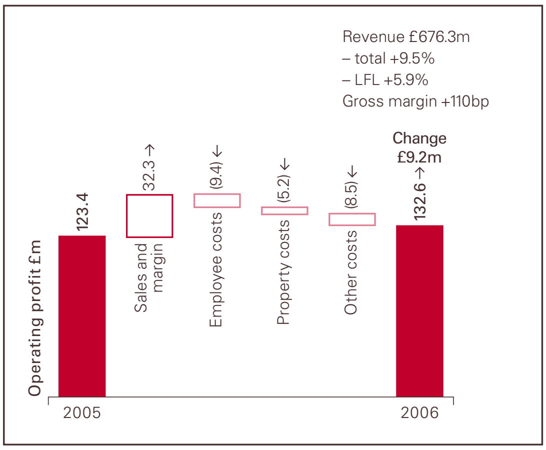
Howden Joinery sells kitchens and joinery products to the building trade, predominantly small local builders, via a nationwide network of depots.

	2006 £m	2005 £m
Revenue	676.3	617.8
Operating profit before exceptional items	132.6	123.4

Howden Joinery continued to encounter favourable market conditions. Revenue increased by 9.5% to £676.3m with same depot revenue rising by 5.9%. This reflected (i) a continuing increase of turnover of mature depots which have typically been operating for six years or more, (ii) the benefit of the maturing profile of sales from newer depots and (iii) new depot openings. Gross margin rose by 110 basis points.

Excluding the impact of costs directly associated with the higher sales, operating costs rose by £23.1m. This was primarily due to employee costs increasing by £9.4m and rent and rates rising by £5.2m; £4.2m and £2.1m respectively of these costs related to new depots openings. Accordingly, operating profit before exceptional items rose by £9.2m to £132.6m (graph 2).

Graph 2:
Howden Joinery operating performance



As planned, 40 new depots were opened during 2006, across all parts of Great Britain, bringing the total number to 382 at the end of the year. In addition, one existing depot was relocated and 11 were extended.

A more extensive range of doors was introduced during the autumn, which was showcased in a new joinery catalogue; and the introduction of a range of Bosch cooking appliances has been completed.

The business also introduced a range of 'Inclusive' kitchens for people with specific physical needs at the beginning of 2007. To help builders who may be unfamiliar with such kitchens, an assembly and installation guide has also been produced.

Supply

Supply sources products for Howden Joinery and, following the disposal of Hygena Cuisines and MFI Retail in 2006, these businesses on an interim basis. The products are either manufactured, in the case of kitchen cabinets and worktops, or sourced from third parties by Supply. External turnover of Supply was £50.8m (2005: £3.1m), reflecting sales to MFI Retail and Hygena Cuisines since their respective disposals.

Supply acts as a cost centre and its net costs before exceptional items decreased to £39.6m in 2006 (2005: £48.8m). This reflected the lower costs associated with the move in the first half of the year from manufacturing to buying-in fascias and own-brand appliances; this being the first part of the drive to bring a new commercial focus to Supply.

Cost of supply reduced from £48.8m to £39.6m

Supply continues to be focused on the development of an efficient, cost-effective and appropriately scaled business that provides critical support to Howden Joinery. The transition away from MFI Retail will remove a large degree of the complexity that currently exists within the Group.

Financial statements and accounting policies

These are our first set of consolidated financial statements under International Financial Reporting Standards (IFRS). We have chosen a transition date to IFRS of 26 December 2004, which means we have comparable data under IFRS for both 2005 and 2006 displayed in our financial statements. This has resulted in changes to the format of presentation but has had no impact on the cash resources available to the Group. A full list of IFRS accounting policies can be found in note 2 to our accounts.

There are a number of relatively minor statutory presentation and disclosure changes under IFRS which are treated consistently across our 2006 actual IFRS reported numbers and our 2005 restated comparatives. The total impact of these changes on previously reported profits can be seen in note 33 to our accounts.

Managing our commercial risks

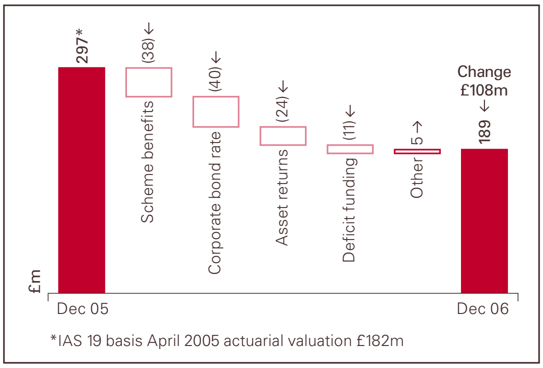
Defined benefit pension scheme

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.

The assumptions for 2006 are disclosed in note 23 to our accounts, along with the year-end deficits in our defined benefit schemes. We recognise actuarial gains and losses arising when assumptions diverge from reality through the statement of recognised income and expense (SORIE).

Our charge to profit in respect of pensions under IAS 19 amounted to £25.9m in 2006 (2005: £33.1m) of which a charge of £20.9m (2005: £23.9m) was reported in operating profit and the net finance charge of £5.0m (2005: £9.2m) was reported against interest.

Graph 3:
Pension scheme deficit



Our total gross deficit for retirement benefits was £189.2m at 31 December 2006 (2005: £297.1m), a reduction of £107.9m over the year as a result of good investment performance and the change of the final salary defined benefit scheme to a career average salary defined benefit scheme in September 2006 (see graph 3).

As part of the new 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. It is intended to clear it over a period of 10 years. The Trustees have been granted security over the Group's shares in Howden Joinery Limited. An amount of £28m per year has been included within the budgeted 2007 cash flows for ongoing pension costs and clearance of the deficit over ten years.

Disposal of MFI Retail

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

These risks include:

i. Exposure to potential claims under the warranties;
ii. Terms of supply agreement with Supply;
iii. Failure to make overhead reductions;
iv. Contingent liabilities in relation to retail leases guaranteed by the Group; and
v. Terms of transitional services provided pursuant to the ancillary agreements.

Failure to implement the Howdens' strategy

The future success of the Howdens' business depends on the successful implementation of the Company's strategy for that business. In particular, if the Group fails to expand the Howdens' business in the manner contemplated or fails to develop a streamlined supply function for Howdens', there may be an adverse effect on the Group's future financial condition and results of operations.

Our aim is to grow the Howden Joinery business and reduce the cost of supply

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.

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 to 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.

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.

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.

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 with a maturity date of May 2009. This has been negotiated with the approval of The Pensions Regulator.

Net debt reduced from £55.5m to £4.1m

At 30 December 2006 the Group had net borrowings of £7.2m (2005: net borrowings of £61.0m). This shows a reduction of net borrowings of £53.8m during the year. In addition the Group held £3.1m (2005: £5.5m) on short-term deposit, held in escrow for future insurance claims.

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 & 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
6 March 2007

Corporate and Social Responsibility (CSR)

In this section:
- Wood
- Energy
- Waste
- Employee responsibilities
- Health & Safety
- Charity and local support

2006 was a year of transformation. We concluded the sales of MFI Retail and Hygena Cuisines and closed three factories making electrical products, kitchen fascias and sofas. Our main areas of operations are now:
- 382 Howden Joinery depots nationwide across UK; 11 in France
- Four Howden Kitchens factories – one at Runcorn, one at Howden and two at Hull
- Three distribution centres – two at Northampton, one at Howden
- 155 lorries
- 6,360 employees

We set out in the report below our corporate and social responsibilities as we see them and how we have performed those responsibilities over the year.

Wood

Manufacturing

As you would expect of a company that makes and sells kitchen products for builders, wood plays a central role in what we do. Approximately 80% of the raw material we use in manufacturing is wood or wood fibre, and we always try to source wood in a way that's good for the 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 2006 we used more than 380,000 cubic metres of chipboard, 20,000 cubic metres of MDF, 59 cubic metres of solid wood and 8,500 tonnes of cardboard packaging

- In 2006, 100% of the wood and the cardboard packaging we used in our manufacturing processes came from accredited sources.

Bought-in product

We monitor all our finished goods suppliers whether in the UK, Europe or elsewhere in the world to make sure the FSC's requirements are met throughout the entire sourcing process – what is often known as the chain of custody.

- In 2006 we audited a number of key Italian suppliers and all met our chain of custody requirements.
- In 2006 we conducted our first CSR audit on our Asian suppliers, with a particular emphasis on social and environmental issues. The findings were encouraging, with controls well ahead of the minimum expectations.

We will continue to check on standards and ensure our suppliers throughout the world operate in a fair and sustainable way.

Energy

We are constantly looking for more opportunities to reduce our energy consumption and emissions. Electricity, gas and fuel consumption result in the emission of CO_2, a gas that many governments and organisations believe contributes to climate change, so our levels of emissions are an important measure.

- In 2006 our CO_2 emissions totalled 84,600 tonnes – a substantial reduction from last year's figure of 112,300 tonnes.

There are two key reasons for this improvement in emissions – first, we closed three manufacturing operations and, second, a number of our energy saving initiatives proved effective.

- In 2006 our remaining manufacturing sites were re-awarded the Institute of Energy's prestigious Energy Efficiency Accreditation, and we have now been accredited continuously for more than ten years.
- In 2006 we introduced a new transport management system that has made our fleet of vehicles more efficient.
- We achieved recognition for our environmental management this year, with our score in the Business in the Community (BITC) 'Business in the Environment' index winning us premier league status for the first time. We were also re-accredited for the respected FTSE4Good index.
- Through our relationship with BITC, we took part in the Yorkshire & Humberside Environmental Leaders Group. This has enabled us to work alongside like-minded organisations to encourage businesses throughout the region to take a more active approach to environmental issues.

Waste

This is produced from a combination of manufacturing, distribution, retail and trade operations. We keep looking for efficient ways to use or dispose of our waste.

We now use manufacturing waste to produce compost and we run eight biomass boilers that burn waste to heat our factories

- We created a total of 67,000 tonnes in 2006 and recycled more than 75% of this, a further increase on our 2005 recycling rate of 60%.

- By reducing the waste we sent to landfill we managed to avoid producing almost 40,000 tonnes of CO_2 emissions in 2006.

Employee responsibilities

CSR is about people as well as operations. We take our responsibilities as an employer very seriously and have done a great deal to strengthen the culture and management within Howden Joinery and Howden Kitchens during a time of great change in the business as a whole.

Howden Joinery

Within Howden Joinery, the 'Respect for all' programme we launched in 2004 is enabling us to gain a good understanding of our people as individuals and to develop effective ways to attract and develop great employees. Training and development is critical to this, and our job is to provide employees with plenty of opportunities to develop their skills, knowledge and experience.

- In 2006 we invested more than £3m in over 37,000 hours of training and development for employees within Howden Joinery.
- In 2007 we are introducing a new workshop to help our managers better manage difficult situations, address and avoid harassment and bullying in the workplace and find ways to avoid any unnecessary pressure being placed on employees.
- We already run forums where employees can discuss ideas and issues.

There is one fundamental theme running through all of these initiatives – how we can improve the way we serve our customers. This is vital to the success of the business and everyone in it.

We talk about how we serve our customers in more detail on page 8

Howden Kitchens

2006 was a year of major transition for Howden Kitchens with a fundamental reorganisation of the way we operate, the closure of both our Stockton and Scunthorpe manufacturing sites, and a raft of other changes taking place. We took both our statutory and moral obligations to our colleagues very seriously, and made sure that they were fully consulted and supported.

This commitment included setting up a professional outplacement programme to help our people find a new job, with on-site 'job shops' and redundancy counselling. The best measure of the quality of these colleagues – and our relationship with them – is that they responded by consistently hitting and frequently outperforming their production targets during the run up to the closures.

Health & Safety

The managers and directors in our operating companies – Howden Kitchens and Howden Joinery – are responsible and accountable for the health & safety of their employees. Each of the operating company boards reviews its own strategy, issues and performance on a regular basis.

- There were 174 reportable health and safety incidents in 2006 – 28 less than last year (on a continuing operations basis). That means we met our target of reducing incidents by at least 10%, although it is still 174 incidents more than we would like to report, and we will keep working to find ways to reduce incidents.
- In 2006 we also set a target for a 30% reduction in the hours lost due to injury, in line with government guidance. We achieved a 29% reduction and will work to better this in 2007.

– In total, we were given three improvement notices this year, no prohibition notices and had no prosecutions by the Health & Safety Executive or the Environment Agency.
– Our occupational health service is developing the services it provides to employees and in 2006 we introduced a proactive approach to the area of ergonomics. This will help employees to avoid injury and unnecessary strain, and to work in the most effective way.

Charity and local support

Howden Kitchens makes a contribution to the community. We consulted with our employees across the manufacturing and logistics sites within the UK and, as a result, supported around 50 local charities with donations in total of £26,600, together with services in kind.

Howden Joinery is a national network of local businesses and each depot is very much part of the community it serves. This year our depots made more than 1,200 donations to local good causes, with some £350,000 in cash and products given. This included donations of joinery and kitchen equipment to local schools, village halls, care homes (see below), local youth groups and sports clubs or cash donations to purchase equipment and employee fund raising initiatives.

The Leonard Cheshire mission is to change attitudes to disability and to support the needs of disabled people around the world

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 funded a volunteer recruitment programme for Leonard Cheshire, including a national road show that visited schools, colleges and community organisations. Our depots also raised money by selling their World Cup 'key huggers' and two employees gained sponsorship by running marathons. Already 15 employees have signed up to run for Leonard Cheshire in the 2007 London Marathon.

As I mentioned in my Chief Executive's business review, two years ago we recognised an opportunity to work with Leonard Cheshire to research and develop an affordable, attractive and practical kitchen product for people with physical disabilities. Since then we have created, donated and installed ten kitchen activity centres in Leonard Cheshire homes. This has become an area of research with significant potential for ongoing product development, and our new 'Inclusive' range of bespoke products has been launched in the depots.

Summary

We have shown good progress in all areas on the previous year and this demonstrates our ongoing commitment to improving all areas of corporate and social responsibility.

Matthew Ingle
Chief Executive
6 March 2007

Board of Directors

Will Samuel (age 55)

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 52)

Chief Executive

Matthew was appointed Chief Executive on 3 October 2005 and continues to be Chief Executive of Howden Joinery. 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.

Gerard Hughes (age 47)

Group Commercial Director (appointed 6 March 2007)

Gerard Hughes became Group Commercial Director on 6 March 2007. Gerard joined the Group in April 2000 as Company Secretary. Since October 2005, Gerard has played a major role in the restructuring and refinancing of the Group including the business disposals during the course of 2006. Before joining the Group he was Deputy Group Secretary at WH Smith plc.

Mark Robson (age 48)

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 and was extensively involved in the successful restructuring of that group. Previously 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.

Non-executive directors

Angus Cockburn (age 43)

Non-executive director

Angus was appointed a non-executive director in October 2006 and became Chairman of the Audit Committee on 6 March 2007. He has been Group Finance Director of Aggreko plc since 2000, having previously been Managing Director of Pringle of Scotland and Regional Finance Director Europe for PepsiCo Foods. He is a Chartered Accountant and qualified with KPMG Peat Marwick.

Tony De Nunzio (age 46)

Non-executive director (resigned 6 March 2007)

Tony joined the Board in September 2000 and also served as Deputy Chairman, Chairman of its Audit Committee and Senior Independent Director. Tony is currently Executive Chairman of Maxeda, a leading Dutch retailer. Prior to that he was President and Chief Executive Officer of Asda Stores Ltd having, in the lead up to the takeover by Wal-Mart, been Group Finance Director of Asda Group plc; his career with the company beginning in 1994 after a spell as Finance Director of Allied Maples. Prior to this he was Planning Director for Central Europe at PepsiCo in the early 1990s after having been Group Financial Controller for L'Oréal (UK). Tony started his career with Unilever plc.

Lesley Knox (age 53)

Non-executive director (resigned 6 March 2007)

Lesley was appointed non-executive director in May 2001 and also served as Chairman of the Remuneration Committee. Lesley was a founder director of British Linen Advisers, a specialist corporate finance adviser focusing on growth companies. She was previously Head of Institutional Asset Management and then Group Director at Kleinwort Benson. She joined the Corporate Finance Division of Kleinwort Benson in 1981 and has advised many domestic and international clients on strategic issues. She is also Chairman of the Alliance Trusts and a non-executive director of HMV Group plc and Hays plc.

Ian Smith (age 52)

Non-executive director

Ian was appointed non-executive director in September 2001. He was appointed Chief Executive Officer of Taylor Woodrow plc on 2 January 2007. Prior to that he had been Chief Executive Officer of the General Healthcare Group since 2004, having previously been CEO Europe for Exel, Group Commercial Director of Ocean Group plc (before its merger with NFC to form Exel) and prior to that, Managing Director of Monitor Company Europe, a strategy consulting firm. Ian began his business career with Royal Dutch Shell Group of companies, working with Shell UK Oil in various roles including Marketing Director of Shell Oman and then setting up and managing the Shell joint venture in Jordan. Ian received an MA from Oxford University and received an MBA with high distinction from Harvard Business School.

Peter Wallis (age 59)

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 67)

Non-executive director

Michael was appointed a non-executive director in November 2006 and became Chairman of the Remuneration Committee and Senior Independent Director on 6 March 2007. Michael was Chairman of House of Fraser plc from 2001 until November 2006 and is a non-executive director of Inchcape plc, Majid Al Futtaim Group and Cole Myers Limited. He was an executive director of Tesco plc from 1989 to 2000, with responsibility for Store Operations from 1991. He commenced his management career with Tesco in 1971 and held a wide range of executive positions in Supply Chain, IT, Finance and Administration before assuming his Board responsibilities. 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 53 week period ended 30 December 2006. Comparative figures relate to the 52 weeks ended 24 December 2005.

Principal Group activities, business review and results

The principal activities of Galiform plc and its subsidiaries are the manufacture, purchase, distribution and sale of kitchen cabinetry and associated products. A detailed review of the development and activities of the Group's business is contained in the Chairman's Statement, Chief Executive's Review, Financial Review and Corporate and Social Responsibility Review set out on pages 15 to 29. 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 48 to 100.

Share capital

The total number of ordinary shares of 10p each in issue at the period end stood at 631,659,746. Details of the Company's share capital are given on page 76. Details of share options granted and exercised during the period are given on pages 80 to 88.

Dividends

The Board has recommended that no final dividend be paid (2005: nil pence per share). No interim dividend was paid during the year (2005: 2 pence per share).

Substantial shareholdings

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

– Hermes UK Focus Fund	13.2%
– Standard Life Investments	11.9%
– Artisan Partners Ltd	6.4%
– Halifax Trustees	6.2%
– Coal Pension Trustees	6.0%
– Classic Fund Management	4.7%
– North Yorkshire Pension Fund	3.0%

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 £376,600 (2005: £515,000). 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 27 days (2005: 23 days) and nil (2005: nil) for the Company.

Employees

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

The Group has approximately 6,360 employees throughout the UK 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. The Group is a member of the Employers' Forum on Disability and of Opportunity NOW.

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 reappoint 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 Lincoln's Inn Fields, London WC2A 3ED on 18 May 2007.

Directors and their interests

Details of the directors in office on 30 December 2006 are shown on pages 30 to 32.

Ian Smith will retire by rotation at the Annual General Meeting and in accordance with Article 72 of the Articles of Association offer himself for reappointment. Will Samuel, Angus Cockburn, Michael Wemms and Gerard Hughes, having been appointed by the directors on, respectively, 20 July, 16 October, 22 November 2006, and 6 March 2007 will also offer themselves for reappointment at the meeting.

Bob Wilson, Paul Cheng and Ian Peacock resigned as directors on, respectively, 5 April, 19 May and 16 October 2006 and Lesley Knox and Tony De Nunzio resigned on 6 March 2007. Information on the directors' service agreements and interests of the directors and their families in the share capital of the Company, are set out in the Report on Remuneration on pages 35 to 42.

By order of the Board
Gerard Hughes
Secretary
6 March 2007

Directors' Remuneration Report

In this section:

- The Remuneration Committee
- Remuneration policy
- Components of remuneration
- Remuneration
- Shareholdings, share options
- Pensions
- Directors' Remuneration Report Regulations 2002

Part I

Introduction

This Directors' Remuneration Report sets out information about the remuneration of the directors of Galiform plc for the year ended 30 December 2006. This report has been prepared in accordance with Schedule 7A of the Companies Act 1985 and meets the relevant requirements of the UKLA Listing Rules. As required by legislation, the information in Part II of this report has been audited by Deloitte & Touche as it contains the information upon which the auditors are required to report to the Company's shareholders.

1 The Remuneration Committee ('the 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. The members of the Committee during the year were:

- Lesley Knox (Chairman of Committee until 6 March 2007)
- Michael Wemms (appointed 22 November 2006 and Chairman of Committee on 6 March 2007)
- Angus Cockburn (appointed 16 October 2006)
- Tony De Nunzio (resigned 6 March 2007)
- Ian Smith
- Peter Wallis

The Committee met four times during 2006 and all members of the Committee were present. The Chairman ensures that the Group maintains contact as necessary with its principal shareholders about remuneration.

Under its terms of reference, the duties of the Remuneration Committee are to determine and agree with the Board the broad policy for the remuneration of the executive directors, the Company Secretary and the other members of the Executive Committee, as well as their specific remuneration packages, including pension rights and, where applicable, any compensation payments. In determining such policy, the Committee shall take into account all factors which it deems necessary to ensure that members of the senior executive management of the Group are provided with appropriate incentives to encourage strong 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 composition of the Remuneration Committee and its terms of reference comply with the provisions of the Combined Code and are available on the Company's website.

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. Levels of remuneration for non-executive directors reflects the time commitment and responsibilities of their roles.

During 2006 the Committee took external advice from its appointed independent remuneration consultants, KPMG LLP. KPMG also provided services to the Company in the year in connection with the sale of certain businesses. The Committee is assisted by the Chairman, the Chief Executive Officer and the Company Secretary, where appropriate but no individual is present when their own remuneration is discussed.

2 Policy on remuneration of executive directors

Galiform's remuneration policy is designed to attract, retain and motivate the highly talented individuals needed to deliver the business strategy and maximise shareholder wealth. The Committee determines policy for current and future years, which is reviewed on an annual basis. The current policy is based around the following principles:

- to aim to position base salaries with regard to the median level of companies of similar size and complexity;
- to supplement base salaries by variable rewards and incentives, which can raise the total value of the package into the upper quartile, if superior performance and returns for shareholders are achieved;
- to align management incentives with the creation of shareholder value over both the short-term and long-term is central to the remuneration strategy;

- to ensure that a high proportion of remuneration should be 'at risk' with performance related remuneration making up at least 50% of the total potential remuneration for Executive Committee members; and
- to ensure that performance related payments should be subject to the satisfaction of demanding and stretching performance targets over the short and long term.

In following this policy the Committee will take into account the UK Listing Rules, the provisions of the Combined Code and associated guidance attached to it.

In 2006 the Committee introduced the Foundation Plan against the backdrop of a highly challenging year for the executive team. The Foundation Plan operated alongside the Annual Incentive and Deferred Incentive Plan and was designed to only deliver rewards to participants if extremely demanding share price growth was achieved in 2006. No grants or awards were made under any other previously existing long-term incentive plans during 2006. The Committee recognise that some shareholders had concerns in 2006 as to the short-term nature of the Foundation Plan and the lack of any financial performance underpin. The Committee felt that the Foundation Plan was highly motivational and fully aligned management's interests with the long-term success of the Company; this was reflected in the 70% increase in the share price in the financial year.

Following the sale of the MFI Retail business, 2007 remains a crucial and transitional year to the overall long-term recovery of the Company. With this in mind, the Remuneration Committee determined that an additional share award would be granted in 2007 under the Foundation Plan. This would be subject to stretching share price growth targets over one year but the shares could not normally be sold for a further two years. Reflecting discussions with Shareholders, the vesting of the 2007 award will also be subject to satisfying a financial hurdle over the one year period.

Having consulted with Shareholders, and in order to create a longer term incentive, the Remuneration Committee have determined that a grant of market value share options will be made in 2007 under the Company's existing Share Option Plan Portfolio. These options will be subject to satisfying stretching share price growth targets over three years and will also be subject to a financial hurdle over the same period.

The Committee believe that these arrangements in 2007 will deliver the necessary balance between focusing executives on the short-term consolidation issues which are key to the continued success of the business in 2007 and the longer-term future growth of the business and delivery of strong shareholder value.

Under the Directors' Remuneration Report Regulations 2002 ('the Regulations') the Company is required to include in this report a graph showing the Company's total shareholder return (TSR) performance over the most recent five years compared to an appropriate index. The graph on page 42 illustrates the Company's total shareholder return

(TSR) performance relative to the index of FTSE 250 constituents (excluding investment companies) of which the Company is a constituent.

3 Components of executive directors' remuneration

i. Base salary

The Company aims to position base salary for each director at the median level. This is reviewed annually and is determined by the Committee taking into account the performance of the individuals, changes in their responsibilities and information from independent remuneration consultants' sources on the levels of salary for similar jobs having regard to the size of the Company – its turnover, profits, market capitalisation and complexity. The Committee also takes account of the remuneration levels within the Group generally. As a result of the restructuring and sale of the MFI Retail business in 2006, Galiform currently is a smaller but no less challenging business. Consequently current executive director salaries are positioned towards the upper quartile for companies of a similar size. To bring salaries in line with the median policy, executives did not receive any salary increases in 2006.

ii. Annual Incentive and Deferred Incentive Plan

Executive directors and the other members of the Executive Committee are eligible to participate in the Annual Incentive Plan. The Plan sets challenging targets and provides for a bonus opportunity of up to 100% of salary for the Chief Executive Officer and 75% for the Chief Financial Officer.

The financial target under the Annual Incentive Plan in 2006 was to achieve Earnings Before Interest and Tax ('EBIT') of £20m. This target was exceeded during the year and therefore both executive directors received maximum bonuses in the year.

A stretching Group profit target has been set for performance in 2007 to support the stabilisation of the performance of the Group.

To align the executive directors' interests with those of the shareholders, one third of the annual incentive is deferred into ordinary shares of the Company and held in trust for three years before release to the executive director. There is no intention to use newly issued ordinary shares for the Deferred Incentive Plan. Any shares required for the satisfaction of deferred bonuses will be purchased in the market.

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

iii. Long-term incentives

All equity based awards are subject to an overall limitation on the number of shares issued, transferred from treasury, or that remain issuable pursuant to awards of 10% with any ten year period.

Foundation Plan

The participants in the Plan are the Chief Executive Officer, the Chief Financial Officer and a limited number of senior executives.

Conditional awards were granted on the 15 March 2006 following the announcement of the final results for 2005. The grant to each participant comprised an award of restricted shares (nil-cost options) and an award of share options with an exercise price of 92p. The restricted shares and share options were subject to stretching share price growth targets over one year, vested shares or options cannot be sold for a further two years.

The vesting of the restricted shares awarded under the Foundation Plan in 2006 required the average share price over 30 consecutive dealing days to be 95p for 15% of the shares awarded to vest and to be 125p for 100% of the shares awarded to vest. Vesting occurred on a straight-line basis between these points. For the share options awarded in 2006 under the Foundation Plan, vesting required the average share price over 30 consecutive dealing days to be 115p for 35% of the options awarded to vest and to be 160p for 100% of the options awarded to vest. Again vesting occurred on a straight-line basis between these points.

With the strong improvement in the share price performance over the year under the share price growth targets, all of the shares awarded under the Foundation Plan vested and 51.91% of the options awarded vested at the end of the year. Additionally the Remuneration Committee confirmed that there had been satisfactory improvement in the underlying financial performance of the Company over the period and therefore approved this level of vesting. The options become exercisable on 31 December 2008 at which point the vested shares will also be released to participants.

In 2007, it is intended that a further award of restricted shares will be granted under the Foundation Plan. Vesting will depend on stretching share price performance over the year and an underlying financial hurdle based on Operating profit in the year. Vesting will occur on a sliding scale basis. Shares must then be held for a further two years before participants can sell them.

Share Option Plan Portfolio

The Company operates a share option plan which has three sections. Grants were last made to executive directors in 2005.

Part 1 of the Share Option Plan is an 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 executive directors 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. Under Part 3 of the plan, the Committee has discretion to grant Performance Options to executive directors up to four times salary subject to the achievement of certain demanding and challenging performance targets, which if achieved, will demonstrate superior performance.

It is the intention of the Remuneration Committee to make an award of market value share options to executive directors under Section 3 of the Share Option Plan in 2007. Vesting will depend on the achievement of stretching share price targets over the three year period and the satisfaction of an underlying financial hurdle based on the achievement of Operating profit growth over the three years of at least 20% per annum. Vesting will occur on a sliding scale basis.

Performance Share Plan

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 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 Committee has noted that the Performance Share Plan ('PSP') award granted in 2004 has not vested as a result of this performance target not being met.

The comparator group for the 2004 award is as follows:

- Boots
- Carpetright
- Debenhams*
- DFS
- Dixons
- Galiform
- GUS
- Kingfisher
- Marks & Spencer
- Matalan
- Selfridges*
- WH Smith
- Wolseley
- Woolworth

*De-listed since the formation of these groups

The comparator group for the 2005 award is as follows:

- Boots
- Carpetright
- DFS
- Dixons
- Galiform
- GUS
- Kingfisher
- Marks & Spencer
- Matalan
- Travis Perkins
- WH Smith
- Wolseley
- Woolworth

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 are shown on page 41.

KPMG are instructed by the Committee to monitor and report on the Company's performance under the PSP 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 HMRC 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.

Under the ShareSave Plan, in 2003 all eligible employees were invited to save up to a maximum of £60 per month to invest in the Company's shares under this plan and ShareSave options over approximately 5.7 million shares were granted to participants. No grants have been made since that invitation.

iv. Pensions

Executive directors participate in the Galiform Pension Plan on a similar basis to other senior executives.

The Plan is a funded and HMRC approved scheme. With effect from the 1 September 2006 the basis changed to a hybrid defined benefit, occupational pension plan. Its main features are currently:

a. pension accrues on a Career Average Revalued Earnings (CARE) Basis at the rate of 1/50th of actual pensionable pay in each year (capped at £108,600); post-retirement increases are linked to the increase in the retail prices index with a maximum of 2.5%;
b. 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%;
c. members contribute 8% of pensionable pay to the CARE plan;
d. life assurance cover of six times pensionable pay for those members with dependants and two times for those without dependants;
e. pension payable in the event of ill health; and
f. spouse's pension on death in retirement of 2/3rds of deceased's pension.

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

A Pension supplement system has been introduced into the Pension Plan which recognises that pension entitlement in respect of service prior to 1 September 2006 was limited for those members who joined the Plan after 14 March 1989 and whose final pensionable salary exceeded the Earnings Cap (as applied by HMRC between 1989 and 2006). The supplement is based on salary above the Cap. Below age 45 the supplement is 40%. Above age 45 the supplement is 45%. The supplement is paid in two instalments, in September and March.

From the 1 September 2006, the Plan has included maximum benefit restrictions (the Plan Cap) of £108,600 (being based on the previously applied Earnings Cap) but applicable only to the CARE section of the plan. To recognise the change in the basis of the pension plan the supplement payments were amended to 15% of basic salary above the Plan Cap. 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 HMRC maximum fund value restrictions, then the supplement payment will increase to 26%.

v. Service contracts

Matthew Ingle and Mark Robson are employed under contracts of employment with the Company, dated November 1999 and February 2005 respectively, which are for fixed terms of 12 months. In setting the notice period for termination at 12 months, the Remuneration Committee has reduced the likelihood of having to pay excessive compensation in the event of poor performance. The Committee's policy on service contracts is to offer a notice period for termination by the Company or director of 12 months and liquidated damages of 12 months' base salary are applied to any payment of compensation on termination. The Company is currently reviewing all executive directors' service contracts in the light of current best practice.

vi. 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 experience and knowledge, which will benefit the Company. Executive directors may accept one non-executive appointment, unless otherwise agreed by the Remuneration Committee, provided this is not with a competing company nor likely to lead to conflicts of interest. Executive directors may retain the fees paid to them in respect of their non-executive duties. No executive director currently holds a non-executive director appointment.

4 Non-executive directors' remuneration

The remuneration of the Chairman is determined by the Remuneration Committee and the fees of the independent non-executive directors are determined by a Committee appointed by the Board comprising the Chairman and Chief Executive, in all cases after taking advice from independent external consultants, who review the fee payments of non-executive directors in similar organisations.

The fees payable to the Chairman are £170,000 per annum. Ian Peacock served as Chairman during the year until his retirement on 16 October 2006. William Samuel was appointed as a non-executive director and Chairman designate on 20 July 2006 and his fees on appointment were at the rate of £50,000 per annum. He succeeded as Chairman on 16 October 2006, from which date his fees have been £170,000 per annum.

Other non-executive directors' remuneration consists of an annual basic fee of £35,000 for their service as members of the Board and of £5,000 for their services as members of the Committees of the Board. Tony De Nunzio received an additional fee of £15,000 for his services as Deputy Chairman. The chairs of the Audit and Remuneration Committee received an additional annual fee of £8,000. Non-executive directors do not have service agreements, but instead have letters of appointment and are appointed by the Board for an initial period of three years subject to retirement by rotation and re-appointment by shareholders.

Part II

5 The table below summarises total directors' remuneration:

	2006 £000	2005 £000
Emoluments	1,716	3,458
Gains on exercise of share options	–	761
Amounts receivable under long-term incentives	–	1,400
Pension contributions	51*	63
Total	1,767	5,682

*On 1 September 2006 the basis of the pension plan was changed, further details of this are set out on page 38.
This included a change to allow employee pension contributions to be made on a salary exchange basis.

6 Directors' remuneration

The following table sets out the directors' emoluments for the 53 weeks to 30 December 2006.

	Basic salary £000	Fees £000	Benefits £000	Annual cash incentive £000	Pension supplement £000	2006 £000	2005 £000
Chairman							
Ian Peacock (Chairman up to 16 October 2006)	–	141	–	–	–	141	170
Will Samuel (appointed as non-executive on 16 July 2006 and Chairman from 16 October 2006)	–	48	–	–	–	48	–
Executive directors							
Matthew Ingle	500	–	18	333	140	991	1,012
Mark Robson	330	–	18	165	77	590	464
Bob Wilson (retired 5 April 2006)	117	–	18	–	–	135	333
Sub total	947	189	54	498	217	1,905	1,979
Non-executive directors							
Paul Cheng (resigned 19 May 2006)		20	–	–	–	10	10
Angus Cockburn (appointed 16 October 2006)	–	8	–	–	–	8	–
Tony De Nunzio (resigned 6 March 2007)	–	63	–	–	–	63	61
Lesley Knox (resigned 6 March 2007)	–	48	–	–	–	48	48
Ian Smith	–	40	–	–	–	40	35
Peter Wallis	–	40	–	–	–	40	40
Michael Wemms (appointed 22 November 2006)	–	4	–	–	–	4	–
Total	–	412	54	498	217	2,118	2,173

1 On 28 February 2007 Matthew Ingle and Mark Robson became entitled to an award under the Annual Incentive Plan of £500,000 and £247,500 respectively for the 53 weeks ended 30 December 2006. Two thirds of this award is payable in cash and is disclosed in the column for the annual cash incentive. One third of the award will be made in shares under the terms of the Deferred Incentive Plan.

2 The Benefits column incorporates benefits in kind which relate in the main to the provision of a fully expensed car or cash equivalent and private medical cover.

3 Pension supplements are paid every six months in arrears and the next payment is due in March 2007. The table above includes an accrued amount for the period from 1 October 2006 to 30 December 2006. Further details of the Pension Supplement Plan are given on page 38.

4 Bob Wilson retired as a director on 5 April 2006, when he also started to draw his pension and left employment on 31 December 2006. In addition to the remuneration in the above table, John Hancock, who resigned as a director on 2 October 2005, received during the year under the terms of his compromise agreement, £412,500 in basic pay in respect of his period of garden leave. Shaun O'Callaghan, who resigned as a director on 20 July 2005, received during the year under the terms of his compromise agreement, £207,000 in basic pay in respect of his period of garden leave.

7 Directors' shareholdings

The beneficial interests of the directors in office on 30 December 2006 and their families in the share capital of the Company are as follows:

	Ordinary shares of 10p each 30 December 2006	Ordinary shares of 10p each 24 December 2005
Angus Cockburn	3,000	–
Tony De Nunzio	23,000	23,000
Matthew Ingle	1,057,549	721,103
Lesley Knox	8,000	8,000
Will Samuel	20,000	–
Ian Smith	10,000	10,000
Michael Wemms	3,000	–
	1,124,549	762,103

There have been no changes to the directors' interests shown above since 30 December 2006 and the publication of the Company's preliminary results announcement on 6 March 2007.

8 Share options

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

Director	At 24 Dec 2005	Awarded	Lapsed/ expired unexercised	Exercised	At 30 Dec 2006	Exercise price (pence)	Earliest date of exercise	Expiry date
Matthew Ingle								
Executive Scheme	16,666	–	(16,666)	–	–	180.00	2 Jul 99	1 Jul 06
2000 Share Option Plan (Section 3)	450,902	–	–	–	450,902	124.74	30 May 04	29 May 11
Sharesave Scheme	2,067	–	–	–	2,067	184.00	1 Dec 08	30 Apr 09
2000 Share Option Plan (Section 3)	511,574	–	–	–	511,574	106.50	26 May 08	26 May 15
Foundation Plan 2006	–	2,300,000	(1,105,968)	–	1,194,032	92.00	31 Dec 08	31 Dec 09
Mark Robson								
2000 Share Option Plan (Section 3)	355,410	–	–	–	355,410	106.50	26 May 08	26 May 15
Foundation Plan 2006	–	1,380,000	(663,581)	–	716,419	92.00	31 Dec 08	31 Dec 09
Bob Wilson (retired as a director on 5 April 2006)								
Sharesave Scheme	2,067	–	–	–	2,067	184.00	1 Dec 08	30 May 09
2000 Share Option Plan (Section 3)	400,802	–	–	–	400,802	124.74	30 May 04	29 May 11
2000 Share Option Plan (Section 3)	433,553	–	–	–	433,553	68.25	19 May 03	18 May 10
	2,173,041	3,680,000	(1,786,215)	–	4,066,826			

1. The options outstanding are exercisable at prices between 68.25p and 184p. In the period the highest middle market closing price was 136.75p per share and the lowest middle market closing price was 136.75p per share. The middle market price on 23 December 2005 (the last business day before the financial year end) was 78.5p per share.
2. Options granted under Sections 1 and 2 of the 2000 Share Option Plan Portfolio are not normally exercisable unless growth in EPS, as determined under the Plan, meets or exceeds the growth in RPI by 9% over a three-year period. Options will lapse if this target is not satisfied.

8 Share options (continued)

3. Options granted under Section 3 of the 2000 Share Option Plan Portfolio are not normally exercisable unless challenging targets are met. For the Section 3 options granted in 2005, 40% of the option becomes exercisable subject to growth in EPS, calculated on an IIMR basis, being equal to RPI+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+100% over three years. Options will lapse to the extent that these targets are not satisfied. Targets are not restated.
4. Performance measurement for the Foundation Plan is as follows:

– Awards granted in the form of Nil-Cost Options
Save in the event of a change of Control before the commencement of the Deferral Period, an Award granted in the form of a Nil-Cost Option shall Vest as set out below depending on the highest Average Share Price achieved over a period of 30 consecutive Dealing Days (ignoring intervening days which are not Dealing Days) in the financial year commencing 25 December 2005:
i. 15% of the Conditional Right or Nil-Cost Option will Vest if the highest Average Share Price over 30 consecutive Dealing Days in the financial year commencing 25 December 2005 equals or exceeds 95p;
ii. 100% of the Conditional Right or Nil-Cost Option will Vest if the highest Average Share Price over 30 consecutive Dealing Days in the financial year commencing 25 December 2005 equals or exceeds 125p.
With straight line Vesting between these two points. In addition the Vesting of an Award depends on the Remuneration Committee determining in its absolute discretion that there has been a satisfactory improvement in the underlying financial performance of the Company over the financial year commencing 25 December 2005.

– Awards granted in the form of Options with an Exercise Price of 92p
Save in the event of a change of Control before the commencement of the Deferral Period, an Award granted in the form of an Option with an Exercise Price of 92p shall Vest as set out below depending on the highest Average Share Price over 30 consecutive Dealing Days (ignoring intervening days which are not Dealing Days) in the financial year commencing 25 December 2005:
i. 35% of an Award will Vest if the highest Average Share Price over 30 consecutive Dealing Days in the financial year commencing 25 December 2005 equals or exceeds 115p;
ii. 100% of an Award will Vest if the highest Average Share Price over 30 consecutive Dealing Days in the financial year commencing 25 December 2005 equals or exceeds 160p.
With straight-line Vesting between these two points. In addition the Vesting of an Award depends on the Remuneration Committee determining in its absolute discretion that there has been a satisfactory improvement in the underlying financial performance of the Company over the financial year commencing 25 December 2005.

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:

	At 24 Dec 2005	Awarded	Lapsed/ expired	Vested	**At 30 Dec 2006**	End of the period for qualifying conditions to be fulfilled
Matthew Ingle						
Foundation Plan 2006	–	900,000	–	–	900,000	31 Dec 08
Performance Share Plan	232,894	–	(232,894)	–	–	31 Dec 06
Performance Share Plan	511,574	–	–	–	511,574	31 Dec 07
Deferred Bonus*	***55,799	–	–	–	55,799	2 Mar 07
Deferred Bonus***	**170,831	–	–	–	170,831	28 Mar 08
Deferred Bonus***	**191,167	–	–	–	191,167	13 Mar 09
Mark Robson						
Foundation Plan 2006	–	575,000	–	–	575,000	31 Dec 08
Performance Share Plan	355,410	–	–	–	355,410	31 Dec 07
Deferred Bonus***	** 94,628	–	–	–	94,628	13 Mar 09
	1,612,303	1,475,000	(232,894)	–	2,854,409	–

* Shares were acquired by the Trustee on 3 March 2004 at 147.75p per share
** Includes shares granted for the purposes of National Insurance elections
*** Shares will be allocated by the Trustee from shares already held within the Trust

Performance Measurement for the performance share plan is as follows:

Vesting targets for each award are measured over three years, in terms of Earnings per Share ('EPS') and total shareholder return ('TSR'). An award will not vest unless EPS growth over the vesting period increases by a percentage amount that is equal to or greater than the percentage change in the Retail Prices Index over the period plus 9%, the extent to which an award vests depend on TSR performance. TSR is a way of calculating the return shareholders would enjoy if they held a notional number of shares, over a period of time. TSR measures the percentage growth in the Company's share price together with the value of dividends received in the period, assuming that all of those dividends are 're-invested' into new shares.

The TSR is measured against a comparator group, with the starting base period being the three months to 1 January of the year in which the awards are made. For a TSR performance that places the Company at the median of the comparator group, 40% of the award will vest. For attaining an upper quartile position, 100% of the award will vest, with straight-line vesting between the median and upper quartile positions. For below median performance the award will not vest.

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 2005 £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/(decrease) in transfer value less directors' contributions £000	Directors' contributions £000	Accrued pension at 30 Dec 2006 £000	Transfer value at 30 Dec 2006 £000
Matthew Ingle	528.0	3.0	1.7	4.7	37.2	63.3	100.5	6.8	41.8	635.3
Mark Robson	14.9	4.3	0.1	4.4	49.2	1.7	50.9	6.8	5.6	72.6
Bob Wilson (retired 5 April 2006)	2,446.2	(40.2)	(5.3)	(34.9)	(949.7)	(507.9)	(441.8)	5.6	85.7	2,010.0

1. In the cases of Matthew Ingle and Mark Robson the accruing benefits to September 2006 were limited by the earnings cap imposed by the Finance Act 1989.
2. The aggregate pension costs paid by the Company in respect of the directors' qualifying services were £49,823 (2005: £63,030). This shows a prorated increase from last year because of a change to using salary sacrifice instead of employee contributions from the 1 September 2006. The amount paid in respect of the highest paid director was £6,800 (2005: £9,900).
3. Bob Wilson retired on 5 April 2006.

Name	Date pensionable service commenced	Pensionable service (complete years and months)
Matthew Ingle	12 Apr 95	11 years 8 months
Mark Robson	12 Apr 05	1 years 8 months
Bob Wilson (retired 5 April 2006)	26 Jul 77	28 years 8 months

11 Directors' award of Freeshares – Share Incentive Plan

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

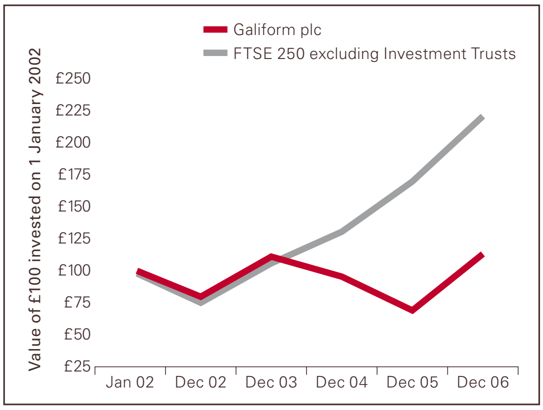
Executive	Number of shares
Matthew Ingle	311

12 Directors' Remuneration Report Regulations 2002

Under the Directors' Remuneration Report Regulations 2002 ('the Regulations') the Company is required to include in this report a graph showing the Company's total shareholder return (TSR) performance over the most recent five years compared to an appropriate index. Graph 4 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
Gerard Hughes
Secretary
6 March 2007

Graph 4:
Value of £100 invested on 1 January 2002



Corporate Governance Report

In this section:

Statement of compliance

The Board is committed to high standards of corporate governance and supports the principles of the Combined Code and complies with the provisions set out in section 1 of the Code.

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 2006, the Board held 18 formal Board meetings and held a number of other meetings and teleconferences for the purposes of reviewing progress on the many important projects and issues affecting the Company during the year.

The Board currently comprises the non-executive Chairman, Will Samuel, who succeeded Ian Peacock in October 2006, three executive directors and four independent non-executive directors. The Chief Executive Officer is Matthew Ingle who has held that position since October 2005. Mark Robson joined the Board as Chief Financial Officer in April 2005. Tony De Nunzio was the Deputy Chairman and Senior Independent Director throughout 2006. Gerard Hughes is Group Commercial Director and was appointed to the Board on 6 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.

During 2006, and having regard to the changes in the Galiform business, the Nominations Committee continued the process of refreshing the composition of the Board. Four appointments have been made during the period and it was announced on 6 March 2007 that Michael Wemms had succeeded Lesley Knox as Chairman of the Remuneration Committee and Angus Cockburn had succeeded Tony De Nunzio as Chairman of the Audit Committee. Mr De Nunzio was Senior independent director throughout the year and Michael Wemms assumed that role on 6 March 2007.

The Board has identified the following non-executive directors as independent at all relevant times in accordance with the definition of independence contained in the Combined Code (in the case of new Chairman, this test is required to be satisfied as at the date of appointment):

- 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 by rotation 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 pages 30 to 32.

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. During 2006, the programme was scheduled to concentrate on reviews of the effectiveness of the Committees of the Board. Towards the end of the year, Angus Cockburn and Michael Wemms were appointed with a view, after appropriate transition periods, to their succeeding as Chairmen of respectively the Audit and Remuneration Committees. In the course of their induction, reviews have been undertaken of the Committees' terms of reference, which remain relevant and appropriate, and of the annual programmes of meetings which have been adjusted to meet changing requirements. In addition, the performance of each director has been evaluated in accordance with the Code and feedback provided. The process of succession in relation to the role of Chairman included meetings of non-executives without the Chairman being present as described below.

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 his 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 104. 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 was chaired throughout the year by Tony De Nunzio. With effect from 6 March 2007, Angus Cockburn, who is a chartered accountant and Group finance director of Aggreko plc, was appointed Chairman of the Committee. 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, the Committee has monitored the implementation, under the supervision of the Risk Committee as described below, of continuous improvements in the Group's risk management processes. The Committee also reviews the effectiveness and independence of the Company's auditors, Deloitte & Touche 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 be reappointed.

Details of Deloitte and Touche's fees for audit and non-audit work during 2006 are on page 61. The non-audit fees for 2006 included a substantial amount of non-recurring work in connection with the disposal of MFI Retail. 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 2006.

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 pages 35 to 42. 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 and policy of 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 Remuneration report. This report includes details on remuneration policy, terms of appointment, and the remuneration of executive directors.

As reported last year, the policy of the Company had been changed so as to ensure that all executive directors' service contracts provide that compensation on termination is determined by reference to a notice period of 12 months. This had brought the Company into compliance with provision B.1.6 of the Code. All executive directors' notice and contract periods do not exceed one year.

During 2006, the Committee met four 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 reappointments.

During 2006, the Nominations Committee met six times. The Committee was responsible for the process of identifying the requirements of the Company and the Board in relation to Ian Peacock's successor, as Chairman. The Committee worked with independent search consultants to refine a shortlist of candidates who were interviewed by members of the Committee, leading to the Committee then making a recommendation to the Board in relation to the appointment of Will Samuel. Mr Peacock excluded himself, as required by the Code, from the process of identifying his successor and accordingly the Nominations Committee was chaired for that purpose, by Tony De Nunzio, deputy chairman and senior independent director.

When the candidacy of Mr Samuel was identified, Lesley Knox, who is related to him, also excluded herself from this recruitment and nominations process. The Committee and the Board was satisfied following the recruitment process that Mr Samuel was independent upon appointment, as required by the Code.

The Committee, as part of the continuing process of progressively refreshing the Board, was also responsible during the year for the appointments of Angus Cockburn and Michael Wemms, as new non-executive directors. In both cases, independent search consultants were used to identify candidates who met the specifications defined for the assignments by the Nominations Committee and the short-listed candidates were interviewed by the Committee prior to its formal recommendations to the Board.

The biographies of all the newly appointed directors, showing their background and experience, will be found on pages 30 to 32. All are experienced directors or officers of listed companies and their induction programmes have concentrated on familarising them 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 2006 in relation to developments affecting 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 20 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 mis-statement 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 Accountants in England and Wales produced further guidance on the wider aspects of internal control in September 1999 (the Turnbull Guidance). The Board has conducted reviews of the effectiveness of the system of internal controls through the processes described below.

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 2006 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 Company Secretary 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 functions' 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.

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 reviewing current performance and detailed forecasts, taking into account available bank facilities and making further enquiries as considered appropriate, the directors are satisfied that the Group has adequate resources to enable it to continue in business 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 30 December 2006 and up to the date of approval of the annual report and financial statements.

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 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; and
- 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 judgements 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 and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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	
Current directors	Possible attendance	Actual attendance	Possible attendance	Actual attendance	Possible attendance	Actual attendance	Possible attendance	Actual attendance
Will Samuel	7	7	–	–	–	–	–	–
Tony De Nunzio	18	16	3	3	4	4	6	6
Matthew Ingle	18	18	–	–	–	–	–	–
Mark Robson	18	18	–	–	–	–	–	–
Angus Cockburn	2	2	1	1	–	–	1	1
Lesley Knox	18	18	3	3	4	4	5	4
Ian Smith	18	14	3	2	4	4	6	4
Peter Wallis	18	17	3	3	4	4	6	5
Michael Wemms	1	1	–	–	–	–	–	–
Former directors								
Ian Peacock	16	16	–	–	–	–	1	1
Bob Wilson	4	4	–	–	–	–	–	–
Paul Cheng*	5	1	–	–	–	–	–	–

*resident in Hong Kong

Consolidated Income Statement

	Notes	53 weeks to 30 December 2006 Before exceptional items £m	53 weeks to 30 December 2006 Exceptional items (note 6) £m	53 weeks to 30 December 2006 Total £m	52 weeks to 24 December 2005 Before exceptional items £m	52 weeks to 24 December 2005 Exceptional items £m	52 weeks to 24 December 2005 Total £m
Continuing operations:							
Revenue	4	733.0	–	733.0	621.8	–	621.8
Cost of sales		(370.5)	(12.8)	(383.3)	(299.3)	(34.0)	(333.3)
Gross profit		362.5	(12.8)	349.7	322.5	(34.0)	288.5
Selling & distribution costs		(241.6)	(12.7)	(254.3)	(210.9)	(16.8)	(227.7)
Administrative expenses		(56.2)	7.8	(48.4)	(58.1)	38.3	(19.8)
Other operating expenses		–	(14.5)	(14.5)	–	(0.2)	(0.2)
Share of joint venture profits		1.0	–	1.0	0.6	–	0.6
Operating profit/(loss)	7	65.7	(32.2)	33.5	54.1	(12.7)	41.4
Finance income	9	3.5	–	3.5	3.9	–	3.9
Finance expense	10	(7.0)	–	(7.0)	(6.3)	–	(6.3)
Other finance charges – pensions	10	(5.0)	–	(5.0)	(9.2)	–	(9.2)
Profit/(loss) before tax		57.2	(32.2)	25.0	42.5	(12.7)	29.8
Tax on profit/(loss)	11	(20.9)	2.0	(18.9)	(14.6)	(8.9)	(23.5)
Profit/(loss) after tax from continuing operations		36.3	(30.2)	6.1	27.9	(21.6)	6.3
Discontinued operations:							
Loss from discontinued operations	12	(44.8)	(134.8)	(179.6)	(67.4)	(77.0)	(144.4)
Tax on loss from discontinued operations	11	5.1	(2.3)	2.8	10.6	2.1	12.7
Loss after tax from discontinued operations	12	(39.7)	(137.1)	(176.8)	(56.8)	(74.9)	(131.7)
Loss for the period		(3.4)	(167.3)	(170.7)	(28.9)	(96.5)	(125.4)
Earnings per share:							
From continuing operations							
Basic earnings per 10p share	13			1.0p			1.1p
Diluted earnings per 10p share	13			1.0p			1.1p
From continuing and discontinued operations							
Basic earnings per 10p share	13			(28.7)p			(21.3)p
Diluted earnings per 10p share	13			(28.7)p			(21.3)p

Consolidated Balance Sheet

	Notes	30 Dec 2006 £m	24 Dec 2005 £m
Non current assets			
Intangible assets	15	1.9	4.2
Property, plant and equipment	16	97.1	247.5
Investments	17	9.7	8.8
Deferred tax asset	18	60.6	96.7
		169.3	357.2
Current assets			
Inventories	19	126.1	173.5
Trade and other receivables	20	102.4	134.5
Other assets	20	3.1	5.5
Cash at bank and in hand	20	53.2	89.0
		284.8	402.5
Total assets		454.1	759.7
Current liabilities			
Trade and other payables	21	(249.6)	(259.0)
Non current liabilities			
Borrowings	22	(58.2)	(150.0)
Other payables due in more than one year	21	(10.8)	–
Pension liability	23	(189.2)	(297.1)
Provisions	24	(23.8)	(12.4)
		(282.0)	(459.5)
Total liabilities		(531.6)	(718.5)
Net (liabilities)/assets		(77.5)	41.2
Equity			
Called up share capital	25	63.2	62.7
Share premium account	26	83.7	81.3
ESOP reserve	26	(43.2)	(48.6)
Other reserves	26	28.1	28.1
Retained earnings	26	(209.3)	(82.3)
Total equity		(77.5)	41.2

These financial statements were approved by the Board on 6 March 2007 and were signed on its behalf by Mark Robson, director.

Consolidated Cash Flow Statement

	Notes	2006 £m	2005 £m
Net cash flows from operating activities	27	70.0	19.6
Cash flows from investing activities			
Interest received		3.5	4.1
Sale of subsidiary undertakings	12	(2.1)	–
Payments to acquire property, plant and equipment and intangible assets		(30.3)	(47.9)
Investment in joint ventures		–	(1.2)
Receipts from sale of property, plant and equipment and intangible assets		12.0	57.4
Net cash (used in)/from investing activities		(16.9)	12.4
Cash flows from financing activities			
Interest paid		(6.3)	(6.4)
Receipts from issue of share capital		2.9	3.7
Receipts from release of shares from share trust		1.6	1.0
(Decrease)/increase in loans		(89.6)	50.0
Decrease in other assets		2.4	3.9
Dividends paid to Group shareholders		–	(23.4)
Net cash (used in)/from financing activities		(89.0)	28.8
Net (decrease)/increase in cash and cash equivalents		(35.9)	60.8
Cash and cash equivalents at beginning of period		89.0	28.4
Currency translation differences		0.1	(0.2)
Cash and cash equivalents at end of period	27	53.2	89.0

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

	2006 £m	2005 £m
Actuarial gains/(losses) on defined benefit schemes	64.2	(43.7)
Deferred tax on actuarial (gain)/loss on pension schemes	(19.2)	13.1
Currency translation differences	(0.3)	0.1
Revaluation reserve	–	8.2
Impact of adoption of IAS 39	–	(0.9)
Net income/(loss) recognised directly in equity	44.7	(23.2)
Loss for the financial period	(170.7)	(125.4)
Total recognised income and expense for the period	(126.0)	(148.6)

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 on page 104. The nature of the Group's operations and principal activities are set out in note 5, and in the financial review on pages 21 to 25.

2 Significant accounting policies

Basis of presentation

The Group's accounting period covers the 53 weeks to 30 December 2006. The comparative period covered the 52 weeks ended 24 December 2005.

Statement of compliance and basis of accounting

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') for the first time in the current period. The 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.

These are the Group's first consolidated financial statements prepared under IFRS and therefore IFRS 1 'First time adoption of International Financial Reporting Standards' has been applied. The last consolidated financial statements under UK GAAP were for the 52 weeks to 24 December 2005. An explanation of the transition to IFRS is provided in note 33.

The Group has elected to apply the exemption available within IFRS 1 that permits the hedge accounting applied under the previous GAAP to be used as a comparative for IAS 39 'Financial Instruments: Recognition and Measurement'. Hence the change in the accounting policy has had no impact on the results or the financial position of the prior period. The impact on the opening balance sheet is set out in note 33.

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:

- IFRS 6 'Exploration for and Evaluation of Mineral Resources'
- IFRS 7 'Financial Instruments: Disclosures', and the relevant amendment to IAS 1 on capital disclosures
- IFRIC 4 'Determining whether an arrangement contains a lease'
- IFRIC 5 'Rights to Interests Arising from Decommissioning, Restoration, and Environmental Rehabilitation Funds'
- IFRIC 6 'Liabilities arising from Participating in a specific market – Waste Electrical and Electronic Equipment'
- IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies'
- IFRIC 8 'Scope of IFRS 2'
- IFRIC 9 'Reassessment of Embedded Derivatives'
- IFRIC 10 'Interim reporting and impairments'
- IFRIC 11 'IFRS 2 – Group and Treasury Share transactions'

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

2 Significant accounting policies

Basis of presentation (continued)

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, reorganisation 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 dealt with in equity.

Leased assets

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the Income Statement on a straight-line basis over 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 has adopted the transitional provisions of IFRS 1 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
Long leasehold property	– over period of lease
Short leasehold property	– over period of lease
Fixtures and fitting	– 2 to 10 years
Plant and machinery	– 3 to 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.

2 Significant accounting policies

Basis of presentation (continued)

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 profit or loss. Gains or losses on subsequent re-measurements are also included in profit or loss.

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.

Adoption of IAS 32 and IAS 39

As permitted by IFRS 1, the Group has elected to apply IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively from 25 December 2005. Consequently, the relevant comparative information for the 52 weeks ended 24 December 2005 does not reflect the impact of these standards.

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. Under UK GAAP, as used for the 2005 comparatives, such derivative contracts are not recognised as assets and liabilities on the balance sheet and gains and losses arising on them are not recognised until the hedged item is itself recognised in the financial statements.

From 25 December 2005 onwards, 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

2 Significant accounting policies

Basis of presentation (continued)

asset, will be recognised as adjustments to its initial carrying amount.

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 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 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 will be 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.

4 Revenue

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

	2006 £m	2005 £m
Continuing operations		
Sales of goods	733.0	621.8
Finance income	3.5	3.9
	736.5	625.7
Discontinued operations		
Sales of goods	546.8	930.4
Total revenue	1,283.3	1,556.1

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:

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
Operating profit	132.6	(82.1)	(4.1)	(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)

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

5 Segmental reporting (continued)

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)

Prior period:

52 weeks to 24 December 2005	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	617.8	3.1	0.9	–	621.8	930.4	–	1,552.2
– inter-segment sales	–	399.8	–	–	399.8	–	(399.8)	–
Total revenue	617.8	402.9	0.9	–	1,021.6	930.4	(399.8)	1,552.2
Result:								
– segment result before exceptional items	123.4	(48.8)	(3.1)	(18.0)	53.5	(67.4)	–	(13.9)
– exceptional items	–	–	–	(12.7)	(12.7)	(77.0)	–	(89.7)
	123.4	(48.8)	(3.1)	(30.7)	40.8	(144.4)	–	(103.6)
Share of joint venture	–	–	–	0.6	0.6	–	–	0.6
Operating profit/(loss)	123.4	(48.8)	(3.1)	(30.1)	41.4	(144.4)	–	(103.0)
Finance income								3.9
Finance costs (including pension finance cost)								(15.5)
Loss before tax								(114.6)
Tax								(10.8)
Loss for the period								(125.4)

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

52 weeks to 24 December 2005	Howden Joinery £m	Supply £m	Other £m	Corporate £m	Discontinued operations £m	Consolidated £m
Other information:						
Capital additions	9.1	7.8	2.0	7.1	22.0	48.0
Depreciation and amortisation	(4.6)	(10.3)	(0.2)	(11.2)	(40.4)	(66.7)
Impairment losses recognised in income	–	–	–	(21.0)	(33.9)	(54.9)

During the 53 weeks to 30 December 2006 the Group went through a major reorganisation, as well as selling off some of its previously-held operating units.

5 Segmental reporting (continued)

These events meant that the continuing Group was significantly different in structure, and that management information was collected in new, different, ways and in relation to new, different segments. The main changes in the new reporting structure related to the way in which balance sheet information is now gathered. The result of this is that, whilst it has been possible to restate the income statement and cash flow segmental data from the 52 weeks to 24 December 2005 according to the segments used for the 53 week period to 30 December 2006, it is not practicable to restate the 2005 balance sheet information according to the 2006 basis of segmentation. In accordance with IAS 14: Segment Reporting, the Group has instead presented the balance sheet segment data for the 53 weeks to 30 December 2006 on both the old and the new bases of segmentation. The 2006 balance sheet information under the new basis of segmentation is shown above, at the end of the section headed 'Current period'. The 2006 and 2005 balance sheet information under the old basis of segmentation is shown in the table below.

	30 December 2006 on the old basis of segmentation		24 December 2005 on the old basis of segmentation	
	Segment assets £m	Segment liabilities £m	Segment assets £m	Segment liabilities £m
Howden Joinery	337.1	(224.2)	208.1	(105.0)
UK Retail	–	–	454.6	(284.2)
France Retail	–	–	54.9	(24.9)
Howden Millwork	–	–	2.0	(6.2)
Other operations	5.8	(1.5)	5.8	(1.2)
Joint venture operations	1.7	–	0.8	–
	344.6	(225.7)	726.2	(421.5)
Unallocated net assets/(liabilities):				
Pension deficit	–	(189.2)	–	(208.0)
Cash and current asset investments	53.2	–	94.5	–
Loans	–	(60.4)	–	(150.0)
Eliminations	56.3	(56.3)	(61.0)	61.0
Total	454.1	(531.6)	759.7	(718.5)

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.

	2006 £m	2005 £m
UK	1,262.8	1,408.7
France	17.0	134.2
Other (not including joint ventures)	–	9.3
	1,279.8	1,552.2

Revenue from the Group's discontinued operations was derived principally from the UK (2006: £535.7m, 2005: £787.8m), France (2006: £11.1m, 2005: £133.3m), and the USA (2006: £nil, 2005: £9.3m). It is shown in more detail at note 12.

5 Segmental reporting (continued)

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	
	30 Dec 2006 £m	25 Dec 2005 £m
UK	390.3	757.2
France	5.8	60.7
Other (not including joint ventures)	–	2.0
Eliminations	56.3	(61.0)
	452.4	758.9

	Additions to property, plant and equipment and intangible assets	
	2006 £m	2005 £m
UK	27.8	40.9
France	0.3	6.0
Other (not including joint ventures)	–	1.1
	28.1	48.0

6 Exceptional items

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

	Cost of sales £m	Other operating income £m	Administration expenses £m	Selling and distribution costs £m	Total £m
Continuing operations:					
Restructuring (note 6a)	–	–	(30.2)	–	(30.2)
Factory closures (note 6b)	(6.8)	(17.0)	–	(12.7)	(36.5)
Retirement benefit exceptional gain (note 6c)	–	–	38.0	–	38.0
Exceptional stock provision (note 6d)	(6.0)	–	–	–	(6.0)
Other profit on disposal (note 6e)	–	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 (note 6a)					0.2
Factory closures (note 6b)					(9.4)
Profit on disposal of Hygena Cuisines (note 12a)					62.5
Loss on disposal of MFI Retail (note 12a)					(155.7)
Exceptional provisions on disposal of MFI Retail (note 12a)					(31.7)
Profit on disposal of Sofa Workshop Limited (note 12a)					0.2
Other loss on disposal (note 6e)					(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)

6 Exceptional items (continued)

a. Restructuring

As announced in our press release of 28 February 2006, the Group undertook a review of the store portfolio during the period and prior to the disposal of the MFI Retail business. Between the start of the period and the disposal of the MFI Retail business, MFI Retail had ceased trading in 13 locations and three 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 MFI Retail business.

The costs of restructuring comprise the following items:

	£m	£m
MFI 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)

b. Factory closures

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 form part of discontinued operations. The closures are now completed.

It was mentioned in the Interim Report that a closure programme was in place at the Group's sofa manufacturing facility at Llantrisant. This operation forms part of discontinued operations. The closure is now completed.

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)

6 Exceptional items (continued)

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.

c. Retirement benefit exceptional gain

During the 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.

d. Exceptional stock provision

This relates to continuing operations.

e. Other profit and loss on disposal

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	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Net foreign exchange gains/(losses)	4.8	0.4	(0.1)	0.2	4.7	0.6
Depreciation of property, plant and equipment	(22.1)	(25.0)	(11.0)	(40.4)	(33.1)	(65.4)
Amortisation of intangible assets (included in administrative expenses)	(1.5)	(1.3)	–	–	(1.5)	(1.3)
Impairment of property, plant and equipment	–	(21.0)	(5.3)	(33.9)	(5.3)	(54.9)
Impairment of intangible assets	–	–	(1.0)	–	(1.0)	–
Cost of inventories recognised as an expense	(362.1)	(276.4)	(320.4)	(474.0)	(682.5)	(750.4)
Staff costs (see note 8)	(286.9)	(214.6)	(50.9)	(161.1)	(337.8)	(375.7)
Minimum lease payments under operating leases	(77.8)	(59.6)	(126.7)	(163.6)	(204.5)	(223.2)
Auditors' remuneration for audit services (see below)	(0.3)	(0.3)	(0.1)	(0.1)	(0.4)	(0.4)

7 Profit for the period (continued)

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

	2006 £m	2005 £m
Audit services:		
Fees paid to the Company's auditors for the audit of the company's annual accounts	0.4	0.4
Fees paid to the Company's auditors and their associates for other services to the Group	–	–
Total audit fees	0.4	0.4
Other services:		
Other services pursuant to legislation	0.1	0.1
Tax services	0.4	0.3
Corporate finance services	1.0	–
Other services	0.1	–
Total non-audit fees	1.6	0.4

8 Staff costs

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

	2006 £m	2005 £m
Wages and salaries	296.1	326.8
Social security costs	20.8	25.0
Pension operating costs (note 23)	20.9	23.9
	337.8	375.7

Wages and salaries includes a charge in respect of share-based payment of £3.8m (2005: credit of £1.0m).

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

	2006 Number	2005 Number
Howden Joinery	3,795	3,422
Houdan France	94	42
Howden Kitchens	1,941	2,068
Other	151	13
Continuing operations	5,981	5,545
UK Retail	4,541	6,287
Howden Millwork	12	142
France Retail	194	905
Discontinued operations	4,747	7,334
Total	10,728	12,879

9 Finance income

	2006 £m	2005 £m
Bank interest receivable	3.5	3.9

10 Finance expense and other finance charges

	2006 £m	2005 £m
Interest payable on bank loans	6.0	6.3
Interest charge on remeasuring creditors to fair value	1.0	–
Total finance expenses	7.0	6.3

Further details of the interest charge on remeasuring creditors to fair value is given in note 21.

	2006 £m	2005 £m
Pensions finance charge	5.0	9.2

11 Tax

a. Tax in the income statement

	Continuing operations		Discontinued operations		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Current tax:						
Current year	11.2	17.2	(8.1)	(15.7)	3.1	1.5
Overprovided in previous years	(1.1)	(1.7)	–	–	(1.1)	(1.7)
Total current tax	10.1	15.5	(8.1)	(15.7)	2.0	(0.2)
Deferred tax:						
Current year	12.5	8.0	5.7	–	18.2	8.0
Overprovided in previous years	(3.7)	–	(0.4)	3.0	(4.1)	3.0
Total deferred tax	8.8	8.0	5.3	3.0	14.1	11.0
Total tax charged/(credited) in the income statement	18.9	23.5	(2.8)	(12.7)	16.1	10.8

UK Corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profit for the period.

b. Tax relating to items taken to equity

	2006 £m	2005 £m
Deferred tax:		
Actuarial gain/(loss) on pension schemes	19.2	(13.1)
Total tax charged/(credited) to statement of recognised income and expense	19.2	(13.1)

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

11 Tax (continued)

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:

	2006 £m	2005 £m
Profit before tax:		
Continuing operations	25.0	29.8
Discontinued operations	(179.6)	(144.4)
	(154.6)	(114.6)
Tax at the UK Corporation tax rate of 30%	(46.4)	(34.4)
Tax (over)/underprovided in previous years	(5.2)	1.3
Expenses not deductible for tax purposes	58.0	25.4
Non-qualifying depreciation	3.8	4.5
UK losses not utilised	2.1	24.9
Overseas losses not utilised	2.4	0.6
Capital losses utilised	–	(6.9)
Non-assessable income	–	(3.6)
Other	1.4	(1.0)
Total tax charged in the income statement	16.1	10.8

Further details of deferred tax are given in note 18.

12 Discontinued operations and disposal of subsidiaries

a. Discontinued exceptional items

Closures and disposals – analysed further below

	Before tax £m	Tax £m	After tax £m
Loss on sale of MFI Retail	(155.7)	(5.9)	(161.6)
Exceptional provision on disposal of MFI Retail	(31.7)	–	(31.7)
	(187.4)	(5.9)	(193.3)
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)
	(134.1)	(4.1)	(138.2)

Other discontinued exceptional items – analysed further in note 6.

	£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

Total discontinued exceptional items before tax	(134.8)
Total tax on discontinued exceptional items	(2.3)
Total discontinued exceptional items after tax	(137.1)

12 Discontinued operations and disposal of subsidiaries (continued)

i. Sale of MFI Retail

	£m
Net assets disposed of:	
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)
Cash paid	(75.8)
Cash sold with business	(3.1)
Net cash flow on disposal	(78.9)
Amounts paid and payable on disposal:	
Cash paid to purchaser, and fees of disposal paid	(75.8)
Accrued expenses of disposal	(1.3)
Deferred consideration	(62.3)
Amounts paid and payable on disposal	(139.4)
Loss on disposal	(155.7)
Exceptional provision on disposal	(31.7)
Total costs recognised on disposal	(187.4)

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

12 Discontinued operations and disposal of subsidiaries (continued)

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:

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

12 Discontinued operations and disposal of subsidiaries (continued)

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. 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 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)

12 Discontinued operations and disposal of subsidiaries (continued)

	52 weeks to 24 December 2005								
	Hygena Cuisines £m	Ethan Allen joint venture £m	Taiwan joint venture £m	Sofa Workshop Direct £m	Sofa Workshop £m	Howden Millworks £m	Hygena at Currys £m	MFI Retail £m	Total £m
Revenue	133.3			24.9	2.3	9.3	18.7	741.9	930.4
Cost of sales	(69.6)			(13.1)	(1.7)	(5.7)	(10.9)	(375.7)	(476.7)
Gross profit	63.7	–	–	11.8	0.6	3.6	7.8	366.2	453.7
Expenses	(59.4)	(2.0)	(1.4)	(12.6)	(0.7)	(23.6)	(17.8)	(403.6)	(521.1)
Loss before tax	4.3	(2.0)	(1.4)	(0.8)	(0.1)	(20.0)	(10.0)	(37.4)	(67.4)
Attributable tax (charge)/credit	(2.2)	–	–	–	–	3.9	–	8.9	10.6
Loss after tax	2.1	(2.0)	(1.4)	(0.8)	(0.1)	(16.1)	(10.0)	(28.5)	(56.8)
Exceptional items:									
Other exceptional items									(77.0)
Attributable tax credit									2.1
Net loss attributable to discontinued operations									(131.7)
Cash flows:									
Contribution to Group net operating cash flows	13.2	–	–	(1.5)	0.1	(10.1)	–	(18.0)	(16.3)
Payments in respect of investing activities	(3.9)	–	(1.0)	(1.0)	(0.3)	(1.0)	–	(17.1)	(24.3)

13 Earnings per share

	53 weeks to 30 December 2006			52 weeks to 24 December 2005		
	Earnings £m	Weighted average number of shares m	Earnings per share p	Earnings £m	Weighted average number of shares m	Earnings per share p
Earnings per share						
From continuing operations:						
Basic earnings per share	6.1	594.4	1.0	6.3	588.4	1.1
Effect of dilutive share options	–	7.2	–	–	11.4	–
Diluted earnings per share	6.1	601.6	1.0	6.3	599.8	1.1
From continuing and discontinued operations:						
Basic earnings per share	(170.7)	594.4	(28.7)	(125.4)	588.4	(21.3)
Effect of dilutive share options	–	–	–	–	–	–
Diluted earnings per share	(170.7)	594.4	(28.7)	(125.4)	588.4	(21.3)
From discontinued operations:						
Basic earnings per share	(176.8)	594.4	(29.7)	(131.7)	588.4	(22.4)
Effect of dilutive share options	–	–	–	–	–	–
Diluted earnings per share	(176.8)	594.4	(29.7)	(131.7)	588.4	(22.4)

13 Earnings per share (continued)

In accordance with IAS 33 'Earnings per share', potential ordinary shares are only treated as dilutive if their conversion to ordinary shares would decrease earnings per share or increase loss per share. Therefore, where there is a loss, no adjustment is made in respect of potential ordinary shares, and diluted earnings per share is equal to basic earnings per share.

	53 weeks to 30 December 2006			52 weeks to 24 December 2005		
	Earnings £m	Weighted average number of shares m	Earnings per share p	Earnings £m	Weighted average number of shares m	Earnings per share p
Continuing profit before exceptionals	36.3	594.4	6.1	27.9	588.4	4.7

14 Dividends

Amounts recognised as distributions to equity holders in the period:

	2006 £m	2005 £m
Final dividend for the 52 weeks to 24 December 2005 – nil (52 weeks to 25 December 2004 – 2.0p per share)	–	11.6
Interim dividend for the 53 weeks to 30 December 2006 – nil (52 weeks to 24 December 2005 – 2.0p per share)	–	11.8
	–	23.4

	53 weeks to 30 Dec 2006 £m	52 weeks to 24 Dec 2005 £m
Proposed final dividend for the 53 weeks to 30 December 2006 – nil (52 weeks to 24 December 2005 – nil)	–	–

15 Intangible assets

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

	£m
Cost	
At 25 December 2004	5.2
Additions	0.6
Transfers in	0.7
Disposals	–
At 24 December 2005	6.5
Additions	0.4
Disposals	(0.3)
At 30 December 2006	6.6
Amortisation	
At 25 December 2004	(1.0)
Charge for the period	(1.3)
At 24 December 2005	(2.3)
Charge for the period	(1.5)
Impairment	(1.0)
Disposals	0.1
At 30 December 2006	(4.7)
Net book value at 30 December 2006	1.9
Net book value at 24 December 2005	4.2

16 Property, plant and equipment

Cost	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
At 25 December 2004	95.0	25.7	73.8	242.7	231.7	17.8	686.7
Exchange adjustments	(0.3)	(0.2)	–	(0.1)	(1.6)	–	(2.2)
Additions	1.4	0.2	7.8	11.4	24.3	2.2	47.3
Disposals	(34.5)	(7.4)	(6.0)	(3.8)	(9.5)	–	(61.2)
Reclassifications within property, plant and equipment	1.0	0.1	0.3	17.8	(4.7)	(14.5)	–
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
Depreciation							
At 25 December 2004	5.8	5.1	26.6	159.5	123.3	–	320.3
Exchange adjustments	(0.1)	–	–	–	(0.8)	–	(0.9)
Charge for the period	1.3	0.5	4.0	23.1	36.5	–	65.4
Disposals	(3.6)	(0.4)	(2.6)	(3.4)	(6.6)	–	(16.6)
Impairment charge	–	–	–	14.9	40.0	–	54.9
Reclassifications	–	–	–	4.3	(4.3)	–	–
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
Net book value at 30 December 2006	23.7	1.4	13.3	35.0	18.6	5.1	97.1
Net book value at 24 December 2005	59.2	13.2	47.9	69.6	52.1	5.5	247.5

The impairment charge in 2005 on plant, machinery and vehicles relates to a write down of elements of the supply chain computer system capitalised in prior years. The impairment in 2005 on fixtures and fittings was as a result of the underperformance of the UK Retail business, and relates to assets of that business.

The Group has no assets held under finance leases.

The Group has pledged its property, plant and equipment to secure bank borrowings in 2006. More details are given in note 22.

At 30 December 2006, the Group had entered into contractual commitments to acquire property, plant and equipment amounting to £1.5m (2005: £3.6m).

17 Investments

	Other unlisted investments £m	Share of joint ventures £m	Total £m
At 26 December 2004	8.0	0.1	8.1
Additions	–	1.2	1.2
Losses for the period	–	(1.5)	(1.5)
Exceptional gain on disposal of joint ventures	–	1.0	1.0
At 24 December 2005	8.0	0.8	8.8
Additions	–	–	–
Profit for the period	–	0.9	0.9
At 30 December 2006	8.0	1.7	9.7

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 26 December 2004	88.4	(18.4)	7.7	–	5.5	83.2
(Charge)/release to income	(12.4)	7.2	(3.0)	–	(2.6)	(10.8)
Release to equity	13.1	–	–	–	–	13.1
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

The presentation in the balance sheet is as follows:

	30 Dec 2006 £m	24 Dec 2005 £m
Deferred tax assets	60.6	96.7
Deferred tax liabilities	(4.0)	(11.2)
	56.6	85.5

Deferred tax assets of £26.7m (2005: £15.6m) have not been recognised. The deferred tax liabilities are included in provisions. See note 24.

19 Inventories

	30 Dec 2006 £m	24 Dec 2005 £m
Raw materials	7.1	15.4
Work in progress	5.0	7.7
Finished goods and goods for resale	139.5	206.9
Stock provision	(25.5)	(56.5)
	126.1	173.5

The Group has pledged its inventories to secure bank borrowings in 2006. More details are given in note 22.

20 Other financial assets

Trade and other receivables

	30 Dec 2006 £m	24 Dec 2005 £m
Trade receivables	86.8	78.9
Prepayments and accrued income	15.6	32.5
Other receivables	–	23.1
	102.4	134.5

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 £3.1m (2005: £5.5m) 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 six 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 in 2006. 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 £12.0m (2005: £16.1m). 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

	30 Dec 2006 £m	24 Dec 2005 £m
Current liabilities		
Trade payables	77.3	73.4
Corporation tax	3.0	0.9
Other tax and social security	30.7	33.2
Other payables	73.6	19.7
Current portion of long-term debt (see note 22)	2.2	–
Accruals and deferred income	62.8	131.8
	249.6	259.0

Non-current liabilities		
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 two payments due under the terms of the sale of the Group's MFI Retail operations. There is one cash payment of £53.1m due in September 2007 and included in other payables, which has been recorded at its discounted fair value of £50.0m, and another cash payment of £12.0m, due in April 2008, which has been recorded at its discounted fair value of £10.8m.

21 Other financial liabilities (continued)

The average credit taken for trade purchases during the period was 27 days (2005: 23 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.

Other payables due in more than one year relate to amounts due to the purchasers of the Group's former MFI Retail business which was sold in the current year. These amounts are due under the terms of the sale agreement. Further details of the sale are given in note 12.

22 Borrowings

	30 Dec 2006 £m	24 Dec 2005 £m
The borrowings are repayable as follows:		
Current liabilities:		
On demand or within one year	2.2	–
Non-current liabilities:		
In the second year	2.2	–
In the third to fifth years inclusive	57.7	150.0
Less: prepaid issue fees set against cost of loan	(1.7)	–
	58.2	150.0
Total borrowings	60.4	150.0

All borrowings are in sterling.

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

	2006 %	2005 %
Weighted average interest rate	6.4	5.3

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

	30 Dec 2006 £m	24 Dec 2005 £m
Total borrowings	60.4	150.0

Until February 2006, the Group had an unsecured revolving facility of £185m, which was repayable in one payment on 31 March 2009. Under the terms of the facility, the Group could draw down various tranches against the facility for periods of one, two, three, or six months. Floating rate interest was payable on the each tranche of the facility at the LIBOR rate for the relevant drawdown period, plus a margin of 65 basis points.

In February 2006, this loan was replaced by a £150m secured lending facility for a period of three years and three months to May 2009. In October 2006, the overall facility limit was increased to £175m, comprising two elements:

i. 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;
ii. 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 30 December 2006, the Group had available £63.4m of undrawn committed borrowing facilities, in respect of which all conditions precedent had been met (2005: £35.0m).

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.

23 Retirement benefit obligations

Defined contribution plan

During the 53 weeks to 30 December 2006, the Group began to operate 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.

The total cost charged to income in respect of this scheme in the current period of £0.2m (2005: £nil) 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 final 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 30 December 2006 and restated the results onto a basis consistent with market conditions at that date.

The MFI 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 will now revalue in line with inflation up to a maximum of 5% p.a. instead of in line with salary growth. This, therefore, reduces the past service liability in respect of the active members. The MFI 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

	2006 £m	2005 £m
Charged/(credited) to the income statement:		
Defined benefit schemes – total operating credit	(17.1)	(21.1)
Defined benefit schemes – net finance charge	5.0	9.2
Defined contribution scheme – total operating charge	0.2	–
Total net amount credited to profit before tax	(11.9)	(11.9)
Charged/(credited) to equity:		
Defined benefit schemes – net actuarial (gains)/losses net of deferred tax	(44.9)	30.9
Total pension (credit)/charge	(56.8)	19.0

Key assumptions used in the valuation of the schemes

	2006	2005
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%	2.90%	3.00%
– pensions with increases capped at the lower of LPI and 2.5%	2.50%	n/a
Rate of increase in salaries	4.00%	3.90%
Inflation assumption	3.00%	2.90%
Expected return on scheme assets	7.06%	6.77%
Discount rate	5.10%	4.80%

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

23 Retirement benefit obligations (continued)

Analysis of scheme assets and the expected rates of return

	Expected rate of return		Fair value of scheme assets	
	2006 %	2005 %	30 Dec 2006 £m	24 Dec 2005 £m
Equities	7.6	7.3	399.7	330.1
Government bonds	4.5	4.6	81.9	77.1
Cash	5.0	4.5	–	3.3
			481.6	410.5

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:

	30 Dec 2006 £m	24 Dec 2005 £m
Present value of defined benefit obligations	(670.8)	(707.6)
Fair value of scheme assets	481.6	410.5
Deficit in the scheme, recognised in the balance sheet	(189.2)	(297.1)

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

	2006 £m	2005 £m
Present value at start of period	707.6	610.1
Current service cost	20.9	23.9
Interest cost	33.6	32.5
Contributions from scheme members	6.4	9.7
Actuarial (gains)/losses	(40.0)	82.9
Curtailment gain	(38.0)	–
Past service credit	–	(45.0)
Benefits paid	(19.7)	(6.5)
Present value at end of period	670.8	707.6

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

	2006 £m	2005 £m
Fair value at start of period	410.5	315.6
Expected return on assets	28.6	23.3
Contributions from scheme members	6.4	9.7
Contributions from the Group	31.6	29.6
Actuarial gains	24.2	38.8
Benefits paid	(19.7)	(6.5)
Fair value at end of period	481.6	410.5

23 Retirement benefit obligations (continued)

Movements in the deficit during the period are as follows:

	2006 £m	2005 £m
Deficit at start of period	(297.1)	(294.5)
Current service cost	(20.9)	(23.9)
Curtailment gain	38.0	–
Past service credit	–	45.0
Employer contributions	31.6	29.6
Other finance expense	(5.0)	(9.2)
Actuarial gains/(losses)	64.2	(44.1)
Deficit at end of period	(189.2)	(297.1)

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:

	2006 £m	2005 £m
Current service cost	20.9	23.9
Curtailment gain	(38.0)	–
Past service credit	–	(45.0)
Net credit	(17.1)	(21.1)

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:

	2006 £m	2005 £m
Expected return on pension scheme assets	(28.6)	(23.3)
Expected charge on pension scheme liabilities	33.6	32.5
Net charge	5.0	9.2

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.

	2006 £m	2005 £m
Actuarial gain on scheme assets	24.2	38.8
Actuarial gain/(loss) on scheme liabilities	40.0	(82.9)
Net actuarial gain/(loss)	64.2	(44.1)

History of experience adjustments

	30 Dec 2006 £m	24 Dec 2005 £m	25 Dec 2004 £m
Present value of defined benefit obligations	(670.8)	(707.6)	(610.1)
Fair value of schemes' assets	481.6	410.5	315.6
Deficit in the schemes	(189.2)	(297.1)	(294.5)

23 Retirement benefit obligations (continued)

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

	30 Dec 2006	24 Dec 2005
Amount of experience gain/(loss) on scheme liabilities (£m)	–	–
Percentage of scheme liabilities (%)	–	–

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

	30 Dec 2006	24 Dec 2005
Amount of experience gain on scheme assets (£m)	24.2	38.8
Percentage of scheme assets (%)	5.0%	9.5%

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 29 December 2007 are £28.5m.

24 Provisions

	Deferred tax liability (see note 18) £m	Property provision £m	Total £m
At 25 December 2005	11.2	1.2	12.4
Additional provision in the period	0.3	18.6	18.9
Transferred on disposal of subsidiary	(1.8)	–	(1.8)
Utilisation of provision	(5.7)	–	(5.7)
At 30 December 2006	4.0	19.8	23.8

The property provision 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 deferred tax liability is analysed in greater detail in note 18.

25 Share capital

Ordinary shares of 10p each	30 Dec 2006 Number	24 Dec 2005 Number	30 Dec 2006 £m	24 Dec 2005 £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	627,298,881	623,170,181	62.7	62.3
Issued during the period	4,360,865	4,128,700	0.5	0.4
Balance at the end of the period	631,659,746	627,298,881	63.2	62.7

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 26 December 2004	62.3	77.2	(49.1)	28.1	98.8	217.3
Net actuarial loss on defined benefit scheme	–	–	–	–	(30.6)	(30.6)
Foreign exchange	–	–	–	–	0.1	0.1
Accumulated loss for the period	–	–	–	–	(125.4)	(125.4)
Issue of new shares	0.4	4.1	–	–	(1.8)	2.7
Net movement in ESOP	–	–	0.5	–		0.5
Dividends declared and paid	–	–	–	–	(23.4)	(23.4)
As 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, 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
At 30 December 2006	63.2	83.7	(43.2)	28.1	(209.3)	(77.5)

The ESOP Reserve includes shares in Galiform plc with a market value on the balance sheet date of £54.9m (2005: £33.1m), 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.

27 Notes to the cash flow statement

a. Net cash flows from operating activities

	2006 £m	2005 £m
Group operating profit before tax and interest – continuing operations	33.5	41.4
Group operating loss before tax and interest – discontinued operations	(179.6)	(144.4)
Group operating loss before tax and interest	(146.1)	(103.0)
Adjustments for:		
Depreciation and amortisation	40.9	65.4
Share based payments charge/(credit)	3.8	(1.0)
Share of joint venture (profits)/losses	(1.0)	1.5
Loss/(profit) on disposal of property, plant and equipment and intangible assets	14.5	(17.4)
Other exceptional items (before tax)	152.5	128.2
Operating cash flows before movements in working capital	64.6	73.7
Movements in working capital and exceptional items		
(Increase)/decrease in stock	(18.6)	21.3
(Increase)/decrease in trade and other receivables	(59.6)	43.7
Increase/(decrease) in trade and other payables	115.4	(91.4)
Difference between pensions operating charge and cash paid	(10.7)	(5.1)
HMRC refund re structural guarantee	21.8	–
Net cash flow – exceptional items	(44.5)	(19.2)
	3.8	(50.7)
Cash generated from operations	68.4	23.0
Tax received/(paid)	1.6	(3.4)
Net cash flows from operating activities	70.0	19.6
Net cash flow from operating activities comprises:		
Continuing operating activities	154.5	60.2
Discontinued operating activities	(84.5)	(40.6)
	70.0	19.6

b. Reconciliation of net debt

	30 Dec 2006 £m	25 Dec 2005 £m
Net debt at start of period	(55.5)	(62.2)
Net (decrease)/increase in cash and cash equivalents	(35.9)	56.9
Decrease in investments	(2.4)	–
Decrease/(increase) in debt financing	89.6	(50.0)
Currency translation differences	0.1	(0.2)
Net debt at end of period	(4.1)	(55.5)
Represented by:		
Cash and cash equivalents	53.2	89.0
Investments	3.1	5.5
Borrowings	(60.4)	(150.0)
	(4.1)	(55.5)

27 Notes to the cash flow statement (continued)

c. Analysis of net funds

	Cash and cash equivalents £m	Current asset investment £m	Bank loans £m	Net borrowings £m
As at 24 December 2005	89.0	5.5	(150.0)	(55.5)
Cash flow	(35.9)	(2.4)	89.6	51.3
Exchange difference	0.1	–	–	0.1
As at 30 December 2006	53.2	3.1	(60.4)	(4.1)

28 Contingent liabilities

a. Relating to the disposal of the MFI Retail operations

As disclosed at the time of the transaction with MEP Mayflower Limited ('MEP'), the Group is the ultimate guarantor on leases in relation to 56 properties which are occupied by the MFI Retail operations. If MEP suffers financial distress and defaults on its obligations under the relevant leases the Group's guarantees are triggered. For the period ended 25 December 2005 the net rentals payable by the Group in respect of these properties totalled £15.8m. Remaining lease terms range between six months and 15 years from 30 December 2006.

The Group is not aware of any signs which indicate that the purchaser is in financial distress. There is uncertainty whether the purchaser will ever suffer financial distress and thereby trigger the guarantee, and as to whether there would be any actual net liability if the Group ever did have to meet the lease obligations, given that the Group could 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 in relation to the disposal agreement in favour of the purchaser. The Group has made such provision as is considered necessary in this respect.

b. Other guarantees

The Group has guaranteed a US$10.0m (2005: US$10.0m) letter of credit facility from Standard Chartered Bank in favour of MFI 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.

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 £19.0m (2005: £19.0m).

c. Other

Aon have made a claim of £11.5m against the Group in respect of termination of an extended warranty agreement. On the basis of information available, the Group has been advised that there is little merit in the claim.

29 Financial commitments

Capital commitments

	30 Dec 2006 £m	24 Dec 2005 £m
Contracted for, but not provided for in the accounts	1.5	3.6

29 Financial commitments (continued)

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	
	30 Dec 2006 £m	24 Dec 2005 £m	30 Dec 2006 £m	24 Dec 2005 £m	30 Dec 2006 £m	24 Dec 2005 £m
Payments falling due:						
Within one year	41.1	110.8	9.9	15.8	51.0	126.6
In the second to fifth year inclusive	141.5	424.2	15.0	28.7	156.5	452.9
After five years	219.5	963.6	1.2	4.5	220.7	968.1
	402.1	1,498.6	26.1	49.0	428.2	1,547.6

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 receipts:

	30 Dec 2006 £m	24 Dec 2005 £m
Payments receivable:		
Within one year	6.1	10.0
In the second to fifth year inclusive	8.0	26.9
After five years	2.3	33.1
	16.4	70.0

30 Share-based payments

i. Details of each scheme

The Group recognised a charge of £3.8m (2005: credit of £1.0m) 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. 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.

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.

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.

This plan vests three years from the date of grant. It 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 award vests 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.

30 Share-based payments (continued)

d. Executive Co-investment Plan

This is a co-investment plan whereby employees can defer their cash bonus into shares ('commitment shares'). The employee receives dividends on these shares.

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.

e. Foundation Plan

This plan awards nil-cost options, and also options with an exercise price equal to the market price at the date of grant.

Both awards vested on the last day of the 2006 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.

Vesting 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 95p and 100% of the award vests for the achievement of 125p. 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 115p over thirty consecutive dealing days, and 100% of the award vests if the share price achieves 160p 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 via 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+40%, rising to 100% vesting for EPS growth of RPI+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 +9%. If this is achieved there will be full vesting. If this is not achieved there will be no vesting.

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.

30 Share-based payments (continued)

ii. Movements in the period

The following tables show the number and weighted average exercise prices ('WAEP') of each category of share options and share awards during the period, and the movements in each category. The significance of options and awards granted before 7 November 2002 is that they have been excluded from the IFRS 2 share-based payment charge on the basis of their date of grant, as allowed on adoption of IFRS and as further explained in note 33.

a. Performance Share Plan Award

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	4,338,525	nil	4,490,279	nil
Granted in period	–	–	3,281,476	nil
Lapsed in period	(2,250,608)	nil	(3,093,635)	nil
Exercised in period	–	–	(339,595)	nil
In issue at end of period	2,087,917	nil	4,338,525	nil
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		N/A		1.12
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.04		2.14	
Weighted average fair value of options granted during the period (£)	N/A		0.60	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

b. Deferred Bonus Plan Award

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	577,077	nil	618,825	nil
Granted in period	285,795	nil	170,831	nil
Lapsed in period	(49,769)	nil	–	–
Exercised in period	(300,678)	nil	(212,579)	nil
In issue at end of period	512,425	nil	577,077	nil
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		0.99		0.93
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.66		0.89	
Weighted average fair value of options granted during the period (£)	1.00		1.05	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

30 Share-based payments (continued)

c. Senior Management Co-investment Plan Award

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	1,899,629	nil	1,554,978	nil
Granted in period	–	–	659,779	nil
Lapsed in period	(1,349,956)	nil	(315,128)	nil
Exercised in period	(46,925)	nil	–	–
In issue at end of period	502,748	nil	1,899,629	nil
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		0.67		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.99		1.00	
Weighted average fair value of options granted during the period (£)	N/A		0.98	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

d. Executive Co-investment Plan Award

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	10,632,204	nil	18,832,856	nil
Granted in period	–	–	–	–
Lapsed in period	(10,632,204)	nil	(8,200,652)	nil
Exercised in period	–	–	–	–
In issue at end of period	–	–	10,632,204	nil
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		10,632,204	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	N/A		0.59	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	N/A		nil	
– to	N/A		nil	

30 Share-based payments (continued)

e. Foundation Plan

i. Nil-Cost Option Award

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	4,445,000	nil	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	4,445,000	nil	–	–
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		N/A	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		N/A	
Weighted average fair value of options granted during the period (£)	0.52		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		N/A	
– to	nil		N/A	

e. Foundation Plan

ii. Market-value Options

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	–	–	–	–
Granted in period	11,270,000	0.92	–	–
Lapsed in period	–	–	–	–
Exercised in period	–	–	–	–
In issue at end of period	11,270,000	0.92	–	–
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		N/A	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		N/A	
Weighted average fair value of options granted during the period (£)	0.16		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.92		N/A	
– to	0.92		N/A	

30 Share-based payments (continued)

f. Executive Share Options

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

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	3,299,563	1.47	3,425,733	1.48
Granted in period	–	–	–	–
Lapsed in period	(1,005,031)	1.30	(126,170)	1.60
Exercised in period	–	–	–	–
In issue at end of period	2,294,532	1.55	3,299,563	1.47
Exercisable at end of period	802,097	1.46	666,666	1.14
Number of options in the closing balance that were granted before 7 November 2002	–		666,666	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.29		1.04	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.46		1.14	
– to	1.60		1.60	

f. Executive Share Options

ii. 40% vesting if EPS growth = RPI+40% rising to 100% vesting if EPS growth = RPI+100%

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	4,157,087	1.07	–	–
Granted in period	–	–	4,157,087	1.07
Lapsed in period	(1,558,969)	1.07	–	–
Exercised in period	(126,170)	1.07	–	–
In issue at end of period	2,471,948	1.07	4,157,087	1.07
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		1.23		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	1.42		2.44	
Weighted average fair value of options granted during the period (£)	N/A		0.35	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.07		1.07	
– to	1.14		1.14	

30 Share-based payments (continued)

f. Executive Share Options

iii. 50% vesting if EPS growth is 60% and 100% vesting if EPS is 120%

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	8,659,456	1.05	12,209,270	1.03
Granted in period	–	–	–	–
Lapsed in period	(738,689)	1.31	(1,524,895)	1.28
Exercised in period	(2,731,488)	0.86	(2,024,919)	0.73
In issue at end of period	5,189,279	1.11	8,659,456	1.05
Exercisable at end of period	5,189,279	1.11	8,659,456	1.05
Number of options in the closing balance that were granted before 7 November 2002	5,189,279		8,659,456	
Weighted average share price for options exercised during the period		1.22		1.09
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.68		0.68	
– to	1.32		1.32	

f. Executive Share Options

iv. No other performance conditions except continued employment

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	488,184	0.42	1,675,152	0.54
Granted in period	–	–	–	–
Lapsed in period	(73,884)	0.42	(276,800)	1.15
Exercised in period	(214,700)	0.42	(910,168)	0.42
In issue at end of period	199,600	0.42	488,184	0.42
Exercisable at end of period	199,600	0.42	488,184	0.42
Number of options in the closing balance that were granted before 7 November 2002	199,600		488,184	
Weighted average share price for options exercised during the period		1.24		1.07
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		–	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.42		0.42	
– to	0.42		0.42	

30 Share-based payments (continued)

f. Executive Share Options

v. Full vesting if EPS increases by RPI + 9%

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	19,229,072	1.13	18,044,784	1.12
Granted in period	–	–	3,833,612	1.00
Lapsed in period	(7,097,646)	1.37	(478,361)	1.03
Exercised in period	(2,788,994)	0.68	(2,170,963)	0.87
In issue at end of period	9,342,432	1.08	19,229,072	1.13
Exercisable at end of period	4,692,705	1.07	7,412,660	0.53
Number of options in the closing balance that were granted before 7 November 2002	4,692,705		7,412,660	
Weighted average share price for options exercised during the period		1.01		1.12
Weighted average contractual life remaining for share options outstanding at the period end (years)	0.57		0.81	
Weighted average fair value of options granted during the period (£)	N/A		0.30	
Range of exercise prices for options outstanding at the period end (£):				
– from	0.56		0.39	
– to	1.60		1.81	

g. Share Incentive Scheme (Freeshares) Award

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	1,271,859	nil	2,249,234	nil
Granted in period	–	–	–	–
Lapsed in period	(30,809)	nil	(526,627)	nil
Exercised in period	(299,108)	nil	(450,748)	nil
In issue at end of period	941,942	nil	1,271,859	nil
Exercisable at end of period	941,942	nil	398,392	nil
Number of options in the closing balance that were granted before 7 November 2002	941,942		398,392	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	–		0.22	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	nil		nil	
– to	nil		nil	

30 Share-based payments (continued)

h. SAYE (Sharesave)

	2006 Number	2006 WAEP (£)	2005 Number	2005 WAEP (£)
In issue at beginning of period	3,164,167	1.84	4,519,219	1.84
Granted in period	–	–	–	–
Lapsed in period	(1,224,104)	1.84	(1,355,052)	1.84
Exercised in period	–	–	–	–
In issue at end of period	1,940,063	1.84	3,164,167	1.84
Exercisable at end of period	–	N/A	–	N/A
Number of options in the closing balance that were granted before 7 November 2002	–		–	
Weighted average share price for options exercised during the period		N/A		N/A
Weighted average contractual life remaining for share options outstanding at the period end (years)	2.01		3.02	
Weighted average fair value of options granted during the period (£)	N/A		N/A	
Range of exercise prices for options outstanding at the period end (£):				
– from	1.84		1.84	
– to	1.84		1.84	

iii. 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:

	2006	2005
Dividend yield (%)	1.75 to 4.0	3.75 to 4.0
Expected share price volatility (%)	38.7 to 41.0	32.0 to 36.1
Historical volatility (%)	38.7 to 41.0	32.0 to 36.1
Risk-free interest rate (%)	3.8 to 5.3	4.3 to 4.4
Expected life of options (years)	1.0 to 6.5	2.4 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:

	MFI Asia Limited 2006 £m	MFI Asia Limited 2005 £m
Sale of goods and services during the period	0.1	–
Purchases of goods and services during the period	27.6	15.1
Amounts owed to related party at period end	3.2	1.2
Amounts owed by related party at period end	0.1	–

MFI Asia Limited is a related party because it is a joint venture.

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. 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:

	2006 £m	2005 £m
Short-term employment benefits	3.3	3.2
Share-based payments	–	0.9
	3.3	4.1

Other transactions with key management personnel

There were no other transactions with key management personnel.

32 Structural guarantee

MFI reached a settlement with HM Revenue & Customs in January 2006 over its VAT dispute on structural guarantee. The resource required, and associated litigation risk, was deemed to be a distraction to achieving a successful business turnaround. Both parties to settle, with HM Revenue & Customs refunding £21.8m to MFI.

33 Explanation of transition to IFRS

This is the first period that the Group has presented its financial statements under IFRS. The following disclosures are required in the period of transition. The last financial statements under UK GAAP were for the 52 weeks ended 24 December 2005 and the date of transition to IFRS was 26 December 2004.

IFRS 1 exemptions

IFRS 1 First Time Adoption of International Financial Reporting Standards sets out the procedures that the Group must follow when it adopts IFRS for the first time. The Group is required to establish its IFRS accounting policies for the period ended 24 December 2006 as at 24 December 2005 and apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 26 December 2004.

33 Explanation of transition to IFRS (continued)

The standard permits a number of optional exemptions to this general principle. The Group has adopted the following approach to the key exemptions:

- Financial instruments; the Group has taken the exemption not to restate comparatives for IAS 32 and IAS 39. Comparative information for 2005 in the 2006 financial statements will be presented on the existing UK GAAP basis.
- Share-based payments; the Group has adopted the exemption to apply IFRS2 Shared-based Payment only to awards made after 7 November 2002.
- Cumulative translation differences; Under IAS 21 Foreign Exchange, the Group is required to classify all cumulative translation differences as a separate component of equity. As permitted by IFRS 1 the Group has elected to set the cumulative translation differences reserve to nil at the date of transition.
- Goodwill; the Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred prior to the transition date. As a result the goodwill recognised on the acquisition of Sofa Workshop remains at book value as stated under UK GAAP at the transition date and the amortisation for the first half of 2005 has been reversed.
- Fair value or revaluation as deemed costs; Under IAS 16 Property, Plant and Equipment (PPE), a Company must adopt either a cost or revaluation model for revaluing its PPE. The Group has elected under IFRS 1 to reflect previously re-valued items of property, plant and equipment at their December 2004 valuations under UK GAAP, as deemed cost on transition.

Reconciliation of equity as at 26 December 2004 (date of transition to IFRS)

	25 Dec 2004 under UK GAAP £m	IFRS 2 Share schemes £m	IAS 17 Lease premiums £m	IAS 38 Intangible assets £m	IAS 10 Dividends £m	IAS 12 Deferred tax £m	IAS 16 Revaluation reserves and reclassification of long leaseholds £m	IAS 1 Deferred tax gross up £m	**25 Dec 2004 restated for IFRS £m**
Non-current assets									
Goodwill and intangible assets	13.7	–	–	4.3	–	–	–	–	18.0
Property, plant and equipment	381.6	–	–	(4.3)	–	–	(10.9)	–	366.4
Investments	8.1	–	–	–	–	–	–	–	8.1
Deferred tax asset	–	–	–	–	–	–	–	102.4	102.4
Total non-current assets	403.4	–	–	–	–	–	(10.9)	102.4	494.9
Current assets									
Inventories	238.4	–	–	–	–	–	–	–	238.4
Trade and other receivables	217.9	–	–	–	–	–	–	–	217.9
Other assets	9.4	–	–	–	–	–	–	–	9.4
Cash at bank and in hand	28.4	–	–	–	–	–	–	–	28.4
	494.1	–	–	–	–	–	–	–	494.1
Total assets	897.5	–	–	–	–	–	(10.9)	102.4	989.0
Current liabilities									
Trade and other payables	(359.3)	–	(9.6)	–	11.6	–	–	–	(357.3)
Non current liabilities									
Borrowings	(100.0)	–	–	–	–	–	–	–	(100.0)
Pension liability	(206.2)	–	–	–	–	–	–	(88.4)	(294.6)
Provisions	(13.5)	–	–	–	–	7.7	–	(14.0)	(19.8)
	(319.7)	–	–	–	–	7.7	–	(102.4)	(414.4)
Total liabilities	(679.0)	–	(9.6)	–	11.6	7.7	–	(102.4)	(771.7)
Net assets	218.5	–	(9.6)	–	11.6	7.7	(10.9)	–	217.3
Called up share capital	62.3	–	–	–	–	–	–	–	62.3
Share premium account	77.2	–	–	–	–	–	–	–	77.2
Revaluation reserve	21.8	–	–	–	–	–	(10.9)	–	10.9
ESOP reserve	(52.1)	3.0	–	–	–	–	–	–	(49.1)
Other reserves	28.1	–	–	–	–	–	–	–	28.1
Retained earnings	81.2	(3.0)	(9.6)	–	11.6	7.7	–	–	87.9
Total equity	218.5	–	(9.6)	–	11.6	7.7	(10.9)	–	217.3

33 Explanation of transition to IFRS (continued)

Reconciliation of equity as at 24 December 2005

	24 Dec 2005 under UK GAAP £m	IFRS 2 Share schemes £m	IAS 17 Stepped rents £m	IAS 17 Lease premiums £m	IAS 38 Intangible assets £m	IAS 12 Deferred tax £m	IAS 17 Revaluation reserves and reclassification of long leaseholds £m	IAS 1 Deferred tax gross up £m	IAS 19 Pensions deficit £m	**24 Dec 2005 restated for IFRS £m**
Non-current assets										
Goodwill and intangible assets	–	–	–	–	4.2	–	–	–	–	4.2
Property, plant and equipment	262.3	–	–	–	(4.2)	–	(10.6)	–	–	247.5
Investments	8.8	–	–	–	–	–	–	–	–	8.8
Deferred tax asset	–	–	–	–	–	–	–	96.7	–	96.7
	271.1	–	–	–	–	–	(10.6)	96.7	–	357.2
Current assets										
Inventories	173.5	–	–	–	–	–	–	–	–	173.5
Trade and other receivables	134.5	–	–	–	–	–	–	–	–	134.5
Other assets	5.5	–	–	–	–	–	–	–	–	5.5
Cash at bank and in hand	89.0	–	–	–	–	–	–	–	–	89.0
	402.5	–	–	–	–	–	–	–	–	402.5
Total assets	673.6	–	–	–	–	–	(10.6)	96.7	–	759.7
Current liabilities										
Trade and other payables	(246.0)	–	(1.2)	(11.7)	–	–	–	–	–	(259.0)
Non-current liabilities										
Borrowings	(150.0)	–	–	–	–	–	–	–	–	(150.0)
Pension liability	(207.2)	–	–	–	–	–	–	(89.2)	(0.8)	(297.1)
Provisions	(9.6)	–	–	–	–	4.7	–	(7.5)	–	(12.4)
	(366.8)	–	–	–	–	4.7	–	(96.7)	(0.8)	(459.5)
Total liabilities	(612.8)	–	(1.2)	(11.7)	–	4.7	–	(96.7)	(0.8)	(718.5)
Net assets	60.8	–	(1.2)	(11.7)	–	4.7	(10.6)	–	(0.8)	41.2
Called up share capital	62.7	–	–	–	–	–	–	–	–	62.7
Share premium account	81.3	–	–	–	–	–	–	–	–	81.3
Revaluation reserve	13.3	–	–	–	–	–	(10.6)	–	–	2.7
ESOP reserve	(52.0)	3.4	–	–	–	–	–	–	–	(48.6)
Other reserves	28.1	–	–	–	–	–	–	–	–	28.1
Retained earnings	(72.6)	(3.4)	(1.2)	(11.7)	–	4.7	–	–	(0.8)	(85.0)
Total equity	60.8	–	(1.2)	(11.7)	–	4.7	(10.6)	–	(0.8)	41.2

33 Explanation of transition to IFRS (continued)

Reconciliation of profit for the period ended 24 December 2005

	As reported IFRS format £m	*IFRS 5 Reclass discontinued operations £m	2005 UK GAAP in IFRS format £m	IFRS 2 Share schemes £m	IAS 17 Stepped rents £m	IAS 17 Lease premiums £m	IAS 12 Deferred tax £m	IAS 19 Pensions charge £m	**IFRS Restated balance £m**
Continuing operations:									
Revenue	1,552.2	(169.8)	1,382.4	–	–	–	–	–	1,382.4
Cost of sales	(810.4)	90.1	(720.3)	–	–	–	–	–	(720.3)
Gross profit	741.8	(79.7)	662.1	–	–	–	–	–	662.1
Other operating income	17.4	–	17.4	–	–	–	–	–	17.4
Selling and distribution costs	(740.8)	76.4	(664.4)	–	(1.2)	(2.1)	–	–	(667.7)
Administrative expenses	(116.6)	21.3	(95.3)	(0.4)	–	–	–	0.3	(95.4)
Share of joint ventures	(1.5)	2.1	0.6	–	–	–	–	–	0.6
Operating loss	(99.7)	20.1	(79.6)	(0.4)	(1.2)	(2.1)	–	0.3	(83.0)
Finance income	4.0	(0.1)	3.9	–	–	–	–	–	3.9
Finance expenses	(6.3)	–	(6.3)	–	–	–	–	–	(6.3)
Other finance charges – pensions	(8.8)	–	(8.8)	–	–	–	–	(0.4)	(9.2)
Loss before tax	(110.8)	20.0	(90.8)	(0.4)	(1.2)	(2.1)	–	(0.1)	(94.6)
Tax on loss	(7.8)	(1.7)	(9.5)	–	–	–	(3.0)	–	(12.5)
Loss after tax	(118.6)	18.3	(100.3)	(0.4)	(1.2)	(2.1)	(3.0)	(0.1)	(107.1)
Discontinued operations:									
Loss from discontinued operations	–	(20.0)	(20.0)	–	–	–	–	–	(20.0)
Tax on loss from discontinued operations	–	1.7	1.7	–	–	–	–	–	1.7
Loss for the period from discontinued operations	–	(18.3)	(18.3)	–	–	–	–	–	(18.3)
Loss for the period	(118.6)	–	(118.6)	(0.4)	(1.2)	(2.1)	(3.0)	(0.1)	(125.4)

*Included in the reclassification are the results of operations that meet the definition of discontinued operations in accordance with IFRS 5 at 10 June 2006 and which have been disclosed as discontinued in the comparatives included in the interim financial information. Three of these operations (Hygena Cuisines SA, Sofa Workshop Limited and Sofa Workshop Direct) do not meet the definition of discontinued at 24 December 2005 under IFRS but in order to aid comparability with the comparatives shown as discontinued in the interim financial statements their results are included in the reclassification adjustment as shown above.

Key areas of impact on adopting IFRS

Further details on the most significant areas of impact on the above balance sheets and income statement are explained below.

Employee benefits

a. Share-based payments (IFRS 2)

The Group operates a range of share-based incentive schemes. IFRS 2 requires that all shares or options awarded to employees as remuneration should be measured at fair value at grant date, using an option pricing model, and charged against profits over the vesting period. This treatment has been applied to all awards granted after 7 November 2002 and not fully vested at the date of transition. The additional pre-tax charge arising from the adoption of IFRS 2 for the period ended 24 December 2005 was £0.4m, resulting in a corresponding reduction in net assets.

33 Explanation of transition to IFRS (continued)

b. Pensions (IAS 19)

In 2005 the Group adopted FRS 17 under UK GAAP. This is broadly similar to the accounting treatment under IAS 19. Minor adjustments have been made to the pension deficit in the 2005 balance sheet, resulting in an increase in the gross deficit of £1.1m and an increase in the associated deferred tax asset of £0.3m. This has the effect of reducing the net assets in the 2005 balance sheet by £0.8m.

Property leases

c. Lease incentives (IAS 17)

Under UK GAAP, lease incentives received on entering into property leases were recognised as deferred income on the balance sheet and were amortised to the profit and loss account over the period to the first rent review where rentals are expected to reach a market rate. Under IAS 17, these incentives are amortised over the entire term of the lease. As the term of the lease is longer than the period to the first rent review, amounts amortised to the profit and loss account have been restated on the balance sheet as deferred income and released over the term of the lease. The impact on the balance sheet at date of transition is a reduction in net assets by £9.6m. The impact on the 2005 income statement was an increased charge to the income statement of £2.1m with a corresponding reduction in net assets.

d. Stepped rents (IAS 17)

Under UK GAAP, lease costs on entering into a lease were charged to the income statement at the rate agreed in the current rent review period. Under IAS 17 where a property lease agreement includes fixed rental uplifts ('fixed rent'), then the total cost of the lease must be spread over the term of the lease on a straight line basis. At the date of transition there was no impact on the net assets of the Company as no such lease agreements were in place. In 2005 the impact was an increased charge to the income statement of £1.2m and a corresponding increase in creditors.

e. Revaluation of long leaseholds (IAS 17)

Revaluation of long leaseholds were derecognised at the date of transition resulting in a reduction in net assets of £10.9m. The corresponding adjustment at 24 December 2005 was a reduction in net assets of £10.6m.

f. Dividends (IAS 10)

Under IAS 10 *Events after the Balance Sheet Date*, dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date, as the liability does not represent a present obligation as defined by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Consequently the final dividend creditor for 2004 (£11.6m) was derecognised in the transition balance sheet and charged against equity in the 52 weeks to 24 December 2005. There was no final proposed dividend for 2005 and therefore there is no impact of adopting IAS 10 on the balance sheet as at 24 December 2005.

g. Taxation (IAS 12)

IAS 12 requires deferred tax to be provided on all temporary differences rather than just timing differences as under UK GAAP. In addition the adoption of IAS 12 results in the Group recognising deferred tax on revaluations and rolled over property gains on disposal. This has the effect of increasing the tax charge by £3.0m in the 2005 Income Statement and the net assets in the transition balance sheet by £4.4m. For the Group there were two areas of significance where the difference between tax written down value and book value gave rise to additional deferred tax adjustments under IFRS. These were:

- Deferred tax must be provided on re-valued land, this resulted in a deferred tax liability of £0.8m at the end of 2005; and
- Deferred tax must also be provided on gains on disposal rolled over into land, and this gave rise to a deferred tax liability of £0.4m at the end of 2005.

The effective overall tax rate on the 2005 loss before tax is 387% (817% UK GAAP). The decrease is a result of deferred tax being provided on all temporary timing differences as described above.

33 Explanation of transition to IFRS (continued)

Reclassifications

In addition, IFRS introduces a number of balance reclassifications that have no direct impact on profit for the period or net assets.

a. Intangible assets (IAS 38)

Capitalised software costs are currently charged to plant and equipment on the balance sheet. Under IAS 38 Intangible Assets only software that is an integral part of the related hardware should be included in plant and equipment, all other software should be reclassified as an intangible asset. This has resulted in capitalised software costs of £4.3m being reclassified as intangible fixed assets as at 26 December 2004. There is no income statement impact.

b. Pensions (IAS 1)

The net of tax presentation is not permitted under IFRS 1. The deferred tax asset that relates to the pension liability is no longer netted off against the pension creditor but is shown separately as a deferred tax asset.

c. Discontinued operations (IFRS 5)

IFRS 5 requires separate disclosure of the profit or loss from discontinued operations net of tax in a single line on the face of the income statement. The impact of reporting discontinued operations in accordance with IFRS 5 is shown in the appendix.

d. Cash flow (IAS 7)

The format of the cash flow statement will change with cash flow being categorised under the headings of operating, investing and financing.

e. Non operating exceptionals (IAS 1)

IFRS does not recognise 'non operating exceptionals'. This contrasts to UK GAAP which required certain items to be separately disclosed on the face of the profit and loss account below the operating profit line. Items which do not relate to underlying business performance, such profit or loss on disposal of fixed assets will now be reported in operating profit. In the interests of clarity the Group will highlight individual items contained in operating profit where necessary to ensure that there is a full understanding of performance in any period. The definition of items to be separately highlighted on the face of the income statement will be consistently applied in future years.

Independent Auditors’ Report to the Members of Galiform plc

We have audited the Group financial statements of Galiform plc for the 53 weeks ended 30 December 2006 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 33. 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 53 weeks ended 30 December 2006.

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 2003 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 judgments 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 30 December 2006 and of its loss for the 53 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 2007

Company Balance Sheet

At 30 December 2006

	Notes	30 Dec 2006 £m	24 Dec 2005 £m
Fixed assets			
Investments	3	701.5	669.1
Current assets			
Debtors	4	9.0	109.7
Cash at bank and in hand		1.5	57.7
		10.5	167.4
Current liabilities			
Creditors: amounts falling due within one year	5	(92.7)	(5.4)
Net current assets		(82.2)	162.0
Total assets less current liabilities		619.3	831.1
Non current liabilities			
Creditors: amounts falling due after more than one year	6	(69.0)	(150.0)
Net assets		550.3	681.1
Equity			
Called up share capital	7	63.2	62.7
Share premium account	8	83.7	81.3
Special reserves	8	482.6	482.6
Profit and loss reserve	8	(79.2)	54.5
Total equity		550.3	681.1

These financial statements were approved by the Board on 6 March 2007 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 53 weeks ended 30 December 2006. The comparative period covered the 52 weeks ended 24 December 2005.

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, except where changes have been made to previous policies on the adoption of new accounting standards during the period.

There has been no impact of the adoption of any new accounting standards in the period. FRS 21 has no effect as there was no dividend payable creditor at 24 December 2005. FRS 20 had no effect in the current or prior period as the Company has no employees. FRS 17 'Retirement Benefits', FRS 21 'Events After the Balance Sheet Date', FRS 22 'Earnings per share', FRS 23 'The Effects of Changes in Foreign Exchange Rates', FRS 25 'Financial Instruments: Disclosure and Presentation', FRS 26 'Financial Instruments: Measurement' and FRS 28 'Corresponding Amounts' have also been adopted with no impact.

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 permitted 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 53 weeks to 30 December 2006 was a loss of £133.7m (52 weeks to 2005: loss after tax for the period of £152.4m).

The Company has no employees (2005: none), did not pay directors' emoluments (2005: £nil), and the audit fees were borne by a fellow Group undertaking in both the current and prior periods.

3 Investments

	Shares in subsidiary undertakings £m	Long-term loans to subsidiary undertakings £m	Other unlisted investments £m	Total £m
At 24 December 2005	2.5	666.5	0.1	669.1
Additions	–	32.4	–	32.4
At 30 December 2006	2.5	698.9	0.1	701.5

Details of principal subsidiary undertakings are given on page 101.

4 Debtors

	30 Dec 2006 £m	24 Dec 2005 £m
Trade debtors	4.1	4.1
Amounts owed by subsidiary undertakings	–	98.6
Corporation tax	4.9	7.0
	9.0	109.7

5 Creditors: amounts falling due within one year

	30 Dec 2006 £m	24 Dec 2005 £m
Other tax and social security	1.2	2.0
Current portion of long-term bank loan	2.2	–
Owed to subsidiaries	12.4	–
Other creditors	67.0	–
Accruals and deferred income	9.9	3.4
	92.7	5.4

Other creditors includes an amount of £50.0m in respect of deferred consideration following the disposal of the Group's MFI Retail arm.

6 Creditors: amounts falling due after more than one year

	30 Dec 2006 £m	24 Dec 2005 £m
Long-term portion of bank loan	58.2	150.0
Other long term creditor	10.8	–
	69.0	150.0

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

	30 Dec 2006 £m	24 Dec 2005 £m
The borrowings are repayable as follows:		
Current liabilities:		
On demand or within one year	2.2	–
Non-current liabilities:		
In the second year	2.2	–
In the third to fifth years inclusive	57.7	150.0
Less: prepaid issue fees set against cost of loan	(1.7)	–
	58.2	150.0
Total borrowings	60.4	150.0

All borrowings are in sterling.

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

	2006 %	2005 %
Weighted average interest rate	6.4	5.3

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

	30 Dec 2006 £m	24 Dec 2005 £m
Total borrowings	60.4	150.0

7 Share capital

	2006 Number	2005 Number	2006 £m	2005 £m
Ordinary shares of 10p each				
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	627,298,881	623,170,181	62.7	62.3
Issued during the period	4,360,865	4,128,700	0.5	0.4
Balance at the end of the period	631,659,746	627,298,881	63.2	62.7

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 24 December 2005	62.7	81.3	482.6	54.5	681.1
Retained loss for the period	–	–	–	(133.7)	(133.7)
Shares issued	0.5	2.4	–	–	2.9
At 30 December 2006	63.2	83.7	482.6	(79.2)	550.3

The special reserve was created as a result of a capital reduction in November 1993. It is now distributable.

9 Contingent liabilities

a. Relating to the disposal of the MFI Retail operations

As disclosed at the time of the transaction with MEP Mayflower Limited ('MEP'), the Company is the ultimate guarantor on leases in relation to 56 properties which are occupied by the MFI Retail operations. If MEP suffers financial distress and defaults on its obligations under the relevant leases the Company's guarantees are triggered. For the period ended 25 December 2005 the net rentals payable by the Company in respect of these properties totalled £15.8m. Remaining lease terms range between 6 months and 15 years from 30 December 2006.

The Company is not aware of any signs which indicate that the purchaser is in financial distress. There is uncertainty whether the purchaser will ever suffer financial distress and thereby trigger the guarantee, and as to whether there would be any actual net liability if the Company ever did have to meet the lease obligations, given that the Company could 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 Company is unable to give an estimate of the financial effect of this contingent liability.

The Company is also exposed to potential costs in respect of certain warranties and indemnities in relation to the disposal agreement in favour of the purchaser. The Company has made such provision as is considered necessary in this respect.

b. Other guarantees

The Company has guaranteed a US$10.0m (2005: US$10.0m) letter of credit facility from Standard Chartered Bank in favour of MFI 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.

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 £19.0m (2005: £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.

The Company has guaranteed payments due by certain Group subsidiaries to one of their suppliers. In the unlikely event that the subsidiaries do not meet their own payments, the liability under this guarantee is capped at £10m and €5m.

c. Other

Aon have made a claim of £11.5m against the Company in respect of termination of an extended warranty agreement. On the basis of information available, the Company has been advised that there is little merit in the claim.

Independent Auditors' Report to the Members of Galiform plc

We have audited the parent company financial statements of Galiform plc for the 53 weeks ended 30 December 2006 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 53 weeks ended 30 December 2006 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 and the part of the Directors' Remuneration Report to be audited 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 30 December 2006;
– the parent Company financial 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 2007

Parent Company and Principal Subsidiary Undertakings

	Country of registration or incorporation
Parent company	
Galiform plc	England and Wales
Principal subsidiary undertakings	
Intermediate holding company:	
*Orchardlight Limited	England and Wales
Trading:	
Howden Joinery Limited	England and Wales
Houdan Menuiseries Limited	France
Supply:	
White Space Furniture Limited (renamed Howden Kitchens Limited on 22 January 2007)	England and Wales
Property management:	
Howden Joinery Properties Limited	England and Wales
Norse Properties Limited (renamed Howden Kitchens Properties Limited on 22 January 2007)	England and Wales
Finance:	
*Southon Insurance Company Limited	Guernsey
Administration:	
Galiform Corporate Services Limited	England and Wales
Group People Services Limited	England and Wales
Joint venture:	
MFI Asia Limited (renamed Howden Kitchens Asia Limited on 9 February 2007)	Hong Kong

*The Company ultimately owns 100% of the ordinary share capital of all of the above mentioned companies except the joint venture, which it owns 50% of. 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 position do not principally affect figures in the Company's individual accounts or the Group accounts.

Five Year Record

	Reported under IFRS		Reported under UK GAAP		
	Dec 2006 53 weeks £m	Dec 2005 52 weeks £m	Dec 2004* 52 weeks £m	Dec 2003* 52 weeks £m	Dec 2002 * 52 weeks £m
Summarised income statement					
Revenue – continuing operations	733.0	621.8	1,395.2	1,367.3	1,193.2
Revenue – discontinuing operations	546.8	930.4	119.4	114.2	94.2
	1,279.8	1,552.2	1,514.6	1,481.5	1,287.4
Operating profit – continuing operations	32.5	40.8	30.8	105.3	77.5
Operating profit – discontinuing operations	(179.6)	(144.4)	1.6	0.3	2.3
Share of joint venture operating loss	1.0	0.6	(2.1)	(2.1)	(2.0)
	(146.1)	(103.0)	30.3	103.5	77.8
Profit on continuing ordinary activities before tax	57.2	42.5	20.6	117.9	80.8
Dividend per share (pence)	–	2.0	4.0	3.8	3.1
Basic EPS – (pence)	1.0	1.1	1.3	15.4	10.2
Summarised balance sheet					
Total non-current assets	169.3	357.2	403.4	410.6	381.5
Inventories	126.1	173.5	238.4	195.7	177.1
Receivables	102.4	134.5	217.9	187.9	124.0
Payables and provisions	(282.0)	(271.4)	(372.8)	(357.6)	(339.4)
Pension liability	(189.2)	(297.1)	(206.2)	–	–
	(242.7)	(260.5)	(122.7)	26.0	(38.3)
Net (borrowings)/cash	(4.1)	(55.5)	(62.2)	10.6	38.9
Total net assets	(77.5)	41.2	218.5	447.2	382.1

*Not restated for FRS 17, or for the disposal of UK Retail.

Number of outlets at end of year					
Howden Joinery	382	342	320	300	269
Houdan France	11	11	–	–	–
Capital expenditure (£m)	28	48	83	127	98

Shareholder Information

At 30 December 2006

	Number of holders	Percentage of holders	Number of shares	Percentage of shares
Corporate holders				
0 to 1,000	101	0.9	43,390	0.0
1,001 to 5,000	177	1.6	506,208	0.1
5,001 to 10,000	79	0.7	601,622	0.1
10,001 to 50,000	179	1.6	4,615,066	0.7
50,001 to 100,000	50	0.5	3,642,310	0.6
100,001 to 250,000	73	0.7	11,909,900	1.9
250,001 to max	180	1.7	585,187,764	92.6
	839	7.7	606,506,260	96.0
Individual holders				
0 to 1,000	7,217	66.3	3,182,813	0.5
1,001 to 5,000	2,303	21.1	5,602,980	0.9
5,001 to 10,000	341	3.1	2,507,494	0.4
10,001 to 50,000	162	1.5	3,047,262	0.5
50,001 to 100,000	10	0.1	804,579	0.1
100,001 to 250,000	6	0.1	1,047,207	0.2
250,001 to max	6	0.1	8,961,151	1.4
	10,045	92.3	25,153,486	4.0
Total	10,884	100.0	631,659,746	100.0

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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
Michael Wemms
Peter Wallis

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